

Registered number 575108

# **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**COMPANY INFORMATION**

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**DIRECTORS**

A S McEwan  
C Springett  
N Stocks  
R Wheeler

**COMPANY SECRETARY**

H J Martin

**COMPANY NUMBER**

575108

**REGISTERED OFFICE**

Broadwater Park  
Denham  
Buckinghamshire  
UB9 5HR

**AUDITORS**

Ernst & Young LLP  
One Colmore Square  
Birmingham  
B4 6HQ

**BANKERS**

HSBC Bank plc  
22 Victoria Street  
Westminster  
London SW1H 0NJ

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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## **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

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The directors present their report and the financial statements for the year ended 31 December 2010

#### **PRINCIPAL ACTIVITIES**

InterContinental Hotels Group Services Company's (the "Company") principal activity is the provision of an administrative support function to fellow revenue generating subsidiary undertakings of the InterContinental Hotels group (consisting of InterContinental Hotels Group PLC and its subsidiaries) (the "Group") It is the intention of the directors that the Company will continue operating in the above capacity

#### **BUSINESS REVIEW**

##### **Review of 2010**

The Company makes charges in respect of the services provided by its employees to certain Group undertakings at a price equal to its cost base plus a mark up, and accordingly the results of the Company largely depend upon the level of its cost base During the year, turnover increased from £54,698,000 in 2009 to £88,949,000 in 2010 and the operating loss increased from £3,462,000 in 2009 to £4,055,000 in 2010 The loss increased due to an increase in costs that are not recharged to Group undertakings including special pension contributions paid of £9,212,000 (2009 £7,010,000)

The Company incurred charges from Group undertakings of £19,859,000 (2009 £nil) that were subsequently charged on to a fellow Group undertaking with no mark up The income and expense are shown net within administrative expenses

The directors view the results as satisfactory as are future prospects of the Company The cost base of the administrative support function is not monitored on an individual legal entity basis but is measured on a Group-wide basis as part of the overall overhead structure of the Group As a consequence key performance indicators are not used at this level to monitor business performance

##### **Principal risks**

Primarily the Company's revenues are generated from fellow Group undertakings and as such there are not considered to be any significant risks and uncertainties impacting the Company Any uncertainties impacting the Company would arise from internal decisions taken within the Group

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

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to £2,627,000 (2009 £2,873,000)

The directors do not propose a dividend for the year ended 31 December 2010 (2009 £nil)

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## **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

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#### **DIRECTORS**

The directors during 2010 and since the year end were as follows

A S McEwan  
C Springett  
N Stocks  
R Wheeler

#### **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. At the end of 2010, the Group was trading comfortably within its banking covenants and debt facilities. Furthermore, the Group's fee-based model and wide geographic spread means that it is well placed to manage through uncertain times and 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.

Information on the Group's banking 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 credit risk and liquidity risk are disclosed in the Annual Report and Financial Statements of the Group.

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. Accordingly, they continue to adopt the going concern basis in preparing the Directors' Report and financial statements 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.

#### **COMPANY'S POLICY FOR PAYMENT OF CREDITORS**

It is the Company's policy to adhere to the payment terms agreed with suppliers. Payments are contingent on the suppliers providing goods or services to the required standard. The Company co-ordinates its purchasing with certain other Group undertakings. Collectively these undertakings have creditor days outstanding of 44 (2009: 44) at the year end.

#### **EMPLOYMENT POLICIES**

The employment policies of the Company embody the principles of equal opportunity and are tailored to meet the needs of the Company and the areas in which it operates. This includes suitable procedures to support the Company's policy that individuals should not be discriminated against on the basis of race, disability, age, gender, sexuality or religion and that they should be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

The Company recognises the value of employee involvement in effective communications and the need for their contribution to decision making on matters affecting their jobs. To achieve employee involvement at the most relevant level, the Company has its own framework for consultation and information, having regard to the mix and location of its employee population. Management and employees have a joint responsibility for maintaining a regular dialogue on matters of local significance and on those issues that affect them. It is the Company's policy to communicate information on corporate issues, including financial information, at least twice a year via the management of the Company and through employee reports and the corporate intranet site which provides continuous access to information about people, policies and news across all hotels, corporate offices and reservations centres in the Group.

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 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 AUDITORS

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

- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he or she has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

#### AUDITORS

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

By order of the Board

Signed by

*Helen Martin*

*Helen Martin*  
Secretary/~~Director~~

Date

*15 April 2011*

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## **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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### **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2010**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments 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.

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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We have audited the financial statements of InterContinental Hotels Group Services Company for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 23. 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).

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 Statement of Directors' Responsibilities set out on page 4, 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 Directors' Report to identify material inconsistencies with the audited financial statements. 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 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

*Ernst & Young LLP*

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

Date 15 April 2011



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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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	Note	2010 £000	2009 £000
<b>TURNOVER</b>	1,2	88,949	54,698
Administrative expenses		<u>(93,004)</u>	<u>(58,160)</u>
<b>OPERATING LOSS</b>	3	(4,055)	(3,462)
Interest receivable	6	850	671
Interest payable	7	<u>(48)</u>	<u>(804)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(3,253)	(3,595)
Tax on loss on ordinary activities	8	<u>626</u>	<u>722</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>	15,16	<u><u>(2,627)</u></u>	<u><u>(2,873)</u></u>

All amounts relate to continuing operations

There were no recognised gains and losses for 2010 or 2009 other than those included in the profit and loss account

The notes on pages 8 to 23 form part of these financial statements

**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**  
**REGISTERED NUMBER: 575108**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2010**

	Note	£000	2010 £000	£000	2009 £000
<b>FIXED ASSETS</b>					
Tangible fixed assets	9		8,874		10,279
<b>CURRENT ASSETS</b>					
Debtors	10	102,882		92,236	
Cash at bank		11,095		4,812	
		<u>113,977</u>		<u>97,048</u>	
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(30,766)</u>		<u>(13,341)</u>	
<b>NET CURRENT ASSETS</b>			<u>83,211</u>		<u>83,707</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>92,085</u>		<u>93,986</u>
<b>CREDITORS: amounts falling due after more than one year</b>	13		<u>(43)</u>		<u>(113)</u>
<b>NET ASSETS</b>			<u>92,042</u>		<u>93,873</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14		482		482
Share premium account	15		81,469		81,469
Profit and loss account	15		10,091		11,922
<b>SHAREHOLDERS' FUNDS</b>	16		<u>92,042</u>		<u>93,873</u>

Approved by the Board

Signed by

Date

The notes on pages 8 to 23 form part of these financial statements

Catherine  
, Director Sprungett

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## **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

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#### **1. ACCOUNTING POLICIES**

##### **1.1 BASIS OF PREPARATION**

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with applicable UK accounting standards

##### **1.2 TURNOVER**

Turnover comprises revenue recognised by the Company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts, provided in the normal course of business and recognised when services have been rendered

Turnover also comprises amounts recharged to fellow Group undertakings for the provision of management services and is recorded exclusive of Value Added Tax. The amount recharged is equal to the cost of the goods and services transacted by the Company plus a mark-up

The Company also acts as an agent for the recharge of other management services incurred by other Group undertakings. No mark-up is applied by the Company on these transactions and the related income and expense are reported net within operating profit

##### **1.3 TANGIBLE FIXED ASSETS AND DEPRECIATION**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Fixtures, fittings and equipment      -      between 3 and 15 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

##### **1.4 FOREIGN CURRENCIES**

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of transactions, adjusted for the effects of any hedging arrangements. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account

##### **1.5 TAXATION**

Corporation tax payable is provided on taxable profits at the current rate

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

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.6 DEFERRED TAXATION

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances, unrelieved tax losses and short term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets rolled into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

##### 1.7 PENSIONS

The Company is a participating employer of a Group defined benefit scheme which is a multi-employer scheme that in the Company is accounted for as a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Further information is given in note 18.

For the Company's defined contribution arrangements, the charge against profit is equal to the amount of contributions payable.

##### 1.8 SHARE-BASED PAYMENT CHARGES

The Company rewards certain employees of the Company by awarding InterContinental Hotels Group PLC shares as part of their remuneration.

The cost of equity-settled transactions with employees is measured by reference to fair value at the date at which the right to the shares is granted. Fair value is determined by an external valuer using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The profit and loss account charge for a period represents the movement in cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Company has taken advantage of the transitional provisions of Financial Reporting Standard ("FRS") 20 "Share-based Payment" in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

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## **INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **1.9 LEASING COMMITMENTS**

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease

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 fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

##### **1.10 CASH FLOW**

Under the provisions of FRS 1 "Cash Flow Statements" (Revised 1996) the Company has not prepared a statement of cash flows because its ultimate parent undertaking, InterContinental Hotels Group PLC, which is incorporated within the European Union, has prepared consolidated financial statements which include the financial statements of the Company for the year and which contain an appropriate statement of cash flows of the Group.

##### **1.11 USE OF ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions that 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.

On an ongoing basis, management evaluates its estimates and judgments, including those relating to income taxes, employee benefits and contingencies and litigation.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 2. TURNOVER

Turnover comprises fees arising from the provision of administrative services to a number of Group undertakings and third party hotels (excluding VAT and similar taxes and trade discounts) and the recharge of goods and services in the normal course of business

Turnover and the result before taxation is attributable to the principal activity of the Company and primarily arose in the United Kingdom, except for certain management fees which arose from outside the United Kingdom

A geographical analysis of turnover by origin is as follows

	2010 £000	2009 £000
United Kingdom	88,727	54,509
Rest of World	222	189
	<u>88,949</u>	<u>54,698</u>

#### 3. OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2010 £000	2009 £000
Depreciation of tangible fixed assets		
- owned by the Company	1,803	2,337
Auditor's remuneration	149	140
Operating lease rentals		
- plant and machinery	412	307
- other operating leases	2,910	2,973
Foreign exchange gain	(794)	(76)
Recharges from other Group undertakings - expense	19,859	-
Recharge of above to other Group undertakings - income	(19,859)	-
	<u></u>	<u></u>

The Company incurred additional auditor's remuneration of £10,000 (2009 £10,000) 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

#### 4 DIRECTORS' REMUNERATION

The directors are also directors of other subsidiary undertakings within the Group and their remuneration, including share-based payment charges, for the year was paid by other undertakings. The directors received total remuneration for the year of £1,198,000 (2009 £698,000). The directors do not believe that it is practical to apportion this amount between their services as directors of the Company and their services as directors of other Group undertakings

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 5 STAFF COSTS

Staff costs were as follows

	2010 £000	2009 £000
Wages and salaries	27,510	19,603
Social security costs	3,203	2,799
Other pension costs	11,768	9,446
	<u>42,481</u>	<u>31,848</u>

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

	2010 No	2009 No
Administration	<u>460</u>	<u>458</u>

#### 6 INTEREST RECEIVABLE

	2010 £000	2009 £000
Interest receivable from Group undertakings	850	621
Sundry interest receivable	-	50
	<u>850</u>	<u>671</u>

#### 7. INTEREST PAYABLE

	2010 £000	2009 £000
Sundry interest payable	48	44
Interest payable to Group undertakings	-	760
	<u>48</u>	<u>804</u>

**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

**8. TAX ON LOSS ON ORDINARY ACTIVITIES**

	<i>2010</i> £000	<i>2009</i> £000
<b>ANALYSIS OF TAX CREDIT IN THE YEAR</b>		
<b>CURRENT TAX</b>		
UK corporation tax credit on loss for the year	(280)	(1,548)
Adjustments in respect of prior periods	35	685
<b>TOTAL CURRENT TAX</b>	<u>(245)</u>	<u>(863)</u>
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	(389)	295
Adjustments in respect of prior periods	(31)	(154)
Effect of decreased tax rate on opening asset	39	-
<b>TOTAL DEFERRED TAX (see note 11)</b>	<u>(381)</u>	<u>141</u>
<b>TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES</b>	<u>(626)</u>	<u>(722)</u>

**FACTORS AFFECTING TAX CREDIT FOR THE YEAR**

The tax assessed for the year is higher than (2009 higher than) the effective standard rate of corporation tax in the UK of 28% (2009 28%) for the year to 31 December 2010. The differences are explained below:

	<i>2010</i> £000	<i>2009</i> £000
Loss on ordinary activities before tax	<u>(3,253)</u>	<u>(3,595)</u>
Loss on ordinary activities multiplied by effective standard rate of corporation tax in the UK of 28% (2009 28%)	(911)	(1,007)
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes	32	111
Depreciation in excess of capital allowances	404	374
Other timing differences	195	(1,026)
Adjustments to tax charge in respect of prior periods	35	685
<b>CURRENT TAX CREDIT FOR THE YEAR</b>	<u>(245)</u>	<u>(863)</u>



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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**8 TAX ON LOSS ON ORDINARY ACTIVITIES (continued)****FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

In his budgets of 22 June 2010 and 23 March 2011, the Chancellor of the Exchequer proposed a decrease in the rate of UK corporation tax from 28% to 23%, falling by 2%pt in 2011 and a further 1%pt a year over the period 2012 to 2014. The first 1%pt reduction for 2011 was 'substantively enacted' on 27 July 2010 and, in accordance with accounting standards, has been reflected in the Company's financial statements. The second 1%pt reduction for 2011 was substantively enacted on 29 March 2011 and, in accordance with accounting standards, will be reflected in the Company's financial statements in respect of the year ended 31 December 2011. Further proposed changes will only be reflected once the reductions are substantively enacted.

Based on current capital investment plans, the Company expects to be able to claim capital allowances in excess of depreciation in future years, although as stated in note 11, the Company does not provide for deferred tax on this timing difference.

**9. TANGIBLE FIXED ASSETS**

	Fixtures, fittings and equipment £000
<b>COST</b>	
At 1 January 2010	19,990
Additions	398
Disposals	(4,319)
At 31 December 2010	16,069
<b>DEPRECIATION</b>	
At 1 January 2010	9,711
Charge for the year	1,803
On disposals	(4,319)
At 31 December 2010	7,195
<b>NET BOOK VALUE</b>	
At 31 December 2010	8,874
At 31 December 2009	10,279

The net book value of assets held under finance leases, included above, is £348,000 (2009: £402,000).

**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

**10. DEBTORS**

	2010 £000	2009 £000
<b>DUE AFTER MORE THAN ONE YEAR</b>		
Deferred tax asset (see note 11)	1,440	1,059
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	732	431
Amounts owed by Group undertakings	96,911	86,517
Corporation tax	280	1,548
Other tax and social security	2,352	1,207
Other debtors	108	33
Prepayments and accrued income	1,059	1,441
	<u>102,882</u>	<u>92,236</u>

**11. DEFERRED TAX ASSET**

	2010 £000	2009 £000
At 1 January	1,059	1,200
Released during/(charged for) year	381	(141)
At 31 December	<u>1,440</u>	<u>1,059</u>

The deferred tax asset is made up as follows

	2010 £000	2009 £000
Pension costs	1,033	788
Share based payments	383	189
Other timing differences	24	82
	<u>1,440</u>	<u>1,059</u>

The deferred tax asset relating to other timing differences, pension costs and share based payments are recognised on the basis of an expectation of sufficient future profits within the Group against which the future reversal of the timing difference may be deducted

A deferred tax asset of £3,828,000 (2009 £3,586,000) relating to timing differences on fixed assets and other amounts of £nil (2009 £50,000) have not been recognised as their use is uncertain or not currently anticipated

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**12 CREDITORS.  
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2010 £000	2009 £000
Obligations under finance leases	255	328
Trade creditors	9,289	5,844
Amounts owed to Group undertakings	6,786	859
Other taxation and social security costs	30	110
Other creditors	983	577
Accruals and deferred income	13,423	5,623
	<u>30,766</u>	<u>13,341</u>

**13. CREDITORS.  
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2010 £000	2009 £000
Obligations under finance leases	<u>43</u>	<u>113</u>

Obligations under finance leases and hire purchase contracts, included above, are payable as follows

	2010 £000	2009 £000
Between one and five years	<u>43</u>	<u>113</u>

Commitments under non-cancellable finance leases relate to company cars and are secured against the assets to which they relate

**14 SHARE CAPITAL**

	2010 £000	2009 £000
<b>ALLOTTED, CALLED UP AND FULLY PAID</b>		
481,601 ordinary shares of £1 each	<u>482</u>	<u>482</u>

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**15. RECONCILIATION OF MOVEMENT IN RESERVES**

	Share premium account £000	Profit and loss account £000
At 1 January 2010	81,469	11,922
Loss for the year	-	(2,627)
Equity-settled share-based cost (net of payments)	-	796
At 31 December 2010	<u>81,469</u>	<u>10,091</u>

**16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2010 £000	2009 £000
Opening shareholders' funds	93,873	26,663
Loss for the year	(2,627)	(2,873)
Shares issued during the year	-	20
Share premium on shares issued	-	69,980
Equity-settled share-based cost (net of payments)	796	83
Closing shareholders' funds	<u>92,042</u>	<u>93,873</u>

**17. CAPITAL COMMITMENTS**

At 31 December 2010 the Company had capital commitments as follows

	2010 £000	2009 £000
Contracted for but not provided in these financial statements	<u>81</u>	<u>896</u>

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 18. PENSION COMMITMENTS

Pension benefits are provided by the InterContinental Hotels UK Pension Plan which includes both defined benefit and defined contribution sections. In addition, there are unfunded pension arrangements for certain members affected by the lifetime allowance.

Contributions to the plan are charged to the profit and loss account as they are incurred, based upon pension costs across the Group as a whole. Total annual contributions to the scheme are based on independent actuarial advice.

Actuarial gains and losses relating to the defined benefit sections are accounted for in the accounts of the sponsoring entity, Six Continents Limited, as it is not possible to identify the Company's share of the underlying assets and liabilities of the plans. The deficit in the Group scheme combined with unfunded liabilities as at 31 December 2010, calculated in accordance with the requirements of FRS 17 "Retirement benefits", is £23,000,000 (2009 deficit of £21,000,000).

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at 31 March 2009 and showed a deficit of £129m on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by March 2017 through additional contributions from the sponsoring entity of up to £100m and projected investment returns. The agreed additional contributions comprise three annual payments of £10m, £10m was paid in August 2010 and two further payments of £10m are due on or before 31 July 2011 and 2012, together with further payments related to the disposal of hotels (7.5% of net sales proceeds) and growth in the Group's EBITDA above specified targets. If required in 2017, a top-up payment will be made to bring the total additional contributions up to £100m. The Plan is formally valued every three years and future valuations could lead to changes in the amounts payable beyond March 2012. The Company will make payments to the sponsoring entity in these future periods for its share of the additional contributions. During 2010, the Company made payments of £9,212,000 (2009 £7,010,000) in respect of these additional contributions.

Detailed disclosures relating to the InterContinental Hotels UK Pension Plan are included in the accounts of Six Continents Limited.

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 19. SHARE-BASED PAYMENTS

The Company rewards certain of its employees by awarding InterContinental Hotels Group PLC shares as part of their remuneration. All references below relate to awarding InterContinental Hotels Group PLC shares to these employees of the Company.

The Company recognised a cost of £1,021,045 (2009 £339,000) in operating profit related to equity-settled share-based payment transactions during the year.

During 2010, 100,047 shares (2009 176,378) were awarded under the Long Term Incentive Plan and no shares (2009 19,000) were awarded under the Annual Bonus Plan. No awards were granted under the Executive Share Option Plan or Sharesave Plan during the year.

Details of the relevant share-based schemes, all of which are equity-settled, are set out below.

##### *Annual Bonus Plan*

The Group Annual Bonus Plan enables eligible employees of the Company to receive all or part of their bonus in the form of shares together with, in certain cases, a matching award of free shares of up to half the deferred amount. The bonus and any matching shares awarded are released on the third anniversary of the award date. The bonuses in 2007 were eligible for matching shares, all of which were released on the third anniversary of the award date. In 2007, participants could defer up to 100% of the total annual bonus, with the deferred amount being accounted for as a share-based payment. Under the terms of the 2008, 2009 and 2010 plans, a fixed percentage of the bonus is awarded in the form of shares with no voluntary deferral and no matching shares. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company or leaving for a qualifying reason as per the plan rules. Participation in the Annual Bonus Plan is at the discretion of the Group Remuneration Committee. The number of shares is calculated by dividing a specific percentage of the participant's annual performance-related bonus by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the plan during the year, however, no conditional rights over shares (2009 19,000) were awarded to participants. All of the 2009 shares were awarded to participants for one-off individual performance-related awards.

##### *Long Term Incentive Plan*

The Long Term Incentive Plan allows eligible employees of the Company to receive share awards, subject to the satisfaction of performance conditions, set by the Group Remuneration Committee, which are normally measured over a three-year period. Awards are normally made annually, and, except in exceptional circumstances, will not exceed three times annual salary for Group Directors and four times salary in the case of other eligible employees of the Company. During the year, conditional rights over 100,047 (2009 176,378) shares were awarded to employees under the plan. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards.

##### *Executive Share Option Plan*

For options granted, the option price is not less than the market value of an ordinary share, or the nominal value if higher. The market value is the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A performance condition has to be met before options can be exercised. The performance condition is set by the Group Remuneration Committee. The plan was not operated during 2010 and no options were granted in the year under the plan. All options outstanding at 1 January 2010 were exercised in 2010.

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**19. SHARE-BASED PAYMENTS (CONTINUED)**

*Sharesave Plan*

The Sharesave Plan is a savings plan whereby employees contract to save a fixed amount each month with a savings institution for three or five years. At the end of the savings term, employees are given the option to purchase shares at a price set before savings began. The Sharesave Plan is available to all UK employees (including Directors) employed by participating Group companies provided that they have been employed for at least one year. The plan provides for the grant of options to subscribe for ordinary shares at the higher of nominal value and not less than 80% of the middle market quotations of the ordinary shares on the three dealing days immediately preceding the invitation date. The plan was not operated during 2010 and no options were granted in the year under the plan. There were no options outstanding at 1 January 2010.

The Group uses separate option pricing models and assumptions depending on the plan. The following tables set forth information about options granted in 2010 and 2009.

**2010**

	Long Term Incentive Plan
	Monte Carlo Simulation and Binomial
Valuation model	
Weighted average share price	1,033.0p
Expected dividend yield	3.10%
Risk-free interest rate	1.83%
Volatility *	41%
Term (years)	3.0

**2009**

	Annual Bonus Plan	Long Term Incentive Plan
		Monte Carlo Simulation and Binomial
Valuation model	Binomial	Binomial
Weighted average share price	903.5p	612.0p
Expected dividend yield	n/a	5.26%
Risk-free interest rate		2.11%
Volatility *		43%
Term (years)	0.0	3.0

\* The expected volatility was determined by calculating the historical volatility of the InterContinental Hotels Group PLC share price corresponding to the expected life of the option or share award.

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**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**19. SHARE-BASED PAYMENTS (CONTINUED)**

Movements in the awards and options outstanding under the schemes are as follows

	Annual Bonus Plan Number of shares thousands	Long Term Incentive Plan Number of shares thousands
Outstanding at 1 January 2009	2	546
Granted	19	176
Transfers out to inter-group companies	-	(15)
Vested	(21)	(158)
Lapsed	-	(65)
	<u>-</u>	<u>(65)</u>
Outstanding at 31 December 2009	-	484
Granted	-	100
Net transfers out to inter-group companies	-	(4)
Vested	-	(77)
Lapsed	-	(109)
	<u>-</u>	<u>(109)</u>
Outstanding at 31 December 2010	<u>-</u>	<u>394</u>
Fair value of awards granted during the period		
2010	n/a	914 0p
2009	903 5p	329 8p
Weighted average remaining contract life (years)		
At 31 December 2010	n/a	1 0
At 31 December 2009	n/a	1 1

The above awards do not vest until the performance conditions have been met



**INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

**19. SHARE-BASED PAYMENTS (CONTINUED)**

	ShareSave Plan Number of shares thousands	ShareSave Plan Range of option prices pence	ShareSave Plan Weighted average option price pence	Executive Share Option Plan Number of shares thousands	Executive Share Option Plan Range of option prices pence	Executive Share Option Plan Weighted average option price pence
Options outstanding at 1 January 2009	49	420.5	420.5	19	494.2	494.2
Exercised	(48)	420.5	420.5	-	-	-
Lapsed	(1)	420.5	420.5	-	-	-
Options outstanding at 31 December 2009	-	-	-	19	494.2	494.2
Transfer in from inter-group companies	-	-	-	43	438.0-494.2	464.6
Exercised	-	-	-	(62)	438.0-494.2	473.7
Options outstanding at 31 December 2010	-	-	-	-	-	-
Options exercisable At 31 December 2010	-	-	-	-	-	-
At 31 December 2009	-	-	-	19	494.2	494.2

The weighted average share price at the date of exercise for share options vested during the year was 1,250.9p. The closing share price on 31 December 2010 was 1,243.0p and the range during the year was 887.0p to 1,266.0p per share.

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## INTERCONTINENTAL HOTELS GROUP SERVICES COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 20 OPERATING LEASE COMMITMENTS

At 31 December 2010 the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>EXPIRY DATE:</b>				
Within 1 year	-	-	99	86
Between 2 and 5 years	-	-	155	260
After more than 5 years	2,212	2,212	-	-

#### 21. OTHER FINANCIAL COMMITMENTS

The Company has entered into a composite guarantee with Lloyds TSB Bank plc to guarantee amounts due on overdrafts of other companies in the Group to the extent of any credit balance of the Company held by Lloyds TSB Bank plc. At 31 December 2010 the maximum liability under the guarantee amounted to £53,496,566 (2009 £69,738,035)

#### 22. RELATED PARTY TRANSACTIONS

As the Company was a wholly owned subsidiary of InterContinental Hotels Group PLC at 31 December 2010, the Company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities which form part of the Group, headed by InterContinental Hotels Group PLC

#### 23. PARENT UNDERTAKING AND CONTROLLING PARTY

As at 31 December 2010, InterContinental Hotels Group PLC, a company incorporated in Great Britain and registered in England and Wales, was the ultimate parent undertaking of the Company

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 and controlling company is IHG Hotels Limited, a company registered in England and Wales