

INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F
April 08, 2004

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal period ended December 31, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from October 1, 2002 to December 31, 2003

Commission file number: 1-10409

InterContinental Hotels Group PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

**67 Alma Road,
Windsor, Berkshire SL4 3HD
(Address of principal executive offices)**

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

**Name of each exchange
on which registered**

American Depositary Shares
Ordinary Shares of £1 each

New York Stock Exchange
New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

**Securities registered or to be registered pursuant to Section 12(g) of the Act:
None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of £1 each **739,364,254**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

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INTRODUCTION

As used in this document, except as the context otherwise requires, the terms:

- **Board** refers to the board of directors of InterContinental Hotels Group PLC or, where appropriate, the board of Six Continents PLC;
- **Britvic** refers to Britannia Soft Drinks Limited;
- **Company** refers to InterContinental Hotels Group PLC or Six Continents PLC or their respective board of directors as the context requires;
- **Group** refers to InterContinental Hotels Group PLC and its subsidiaries or Six Continents PLC and its subsidiaries as the context requires;
- **Hotels** or **IHG Hotels** refers to the hotels business of Six Continents or InterContinental Hotels Group PLC as the context requires;
- **IHG** refers to InterContinental Hotels Group PLC or, where appropriate, its board of directors;
- **MAB** or **Mitchells and Butlers** refers to Mitchells & Butlers plc;
- **ordinary share** or **share** refer to the ordinary shares of 28p each of Six Continents PLC or the ordinary shares of £1 each of the Company;
- **Separation transaction** or **Separation** refers to the transaction that separated Six Continents PLC's hotels and soft drinks businesses from its retail business, completed on April 15, 2003. The Separation resulted in two separately listed holding companies: (i) Mitchells & Butlers plc, which is the holding company of the retail business and Standard Commercial Property Developments Limited; and (ii) InterContinental Hotels Group PLC, which is the holding company for the hotels and soft drinks businesses;
- **Six Continents** refers to Six Continents PLC;
- **Soft Drinks** and **Britvic Group** refer to the soft drinks business of InterContinental Hotels Group PLC, which the Company has through its controlling interest in Britvic; and
- **VAT** refers to UK value added tax levied by HM Customs & Excise on certain goods and services. References in this document to the **Companies Act** mean the Companies Act 1985, as amended, of Great Britain; references to the **EU** mean the European Union. References in this document to **UK** refer to the United Kingdom of Great Britain and Northern Ireland.

The Company publishes its Consolidated Financial Statements expressed in UK pounds sterling. In this document, references to **US dollars**, **US\$**, **\$** or **¢** are to United States (**US**) currency, references to **euro** or **€** are to the currency of the European Economic and Monetary Union and references to **pounds sterling**, **sterling**, **£**, **pence** or **p** are to UK currency. Solely for convenience, this Annual Report on Form 20-F contains translations of certain pound sterling amounts into US dollars at specified rates. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rates indicated. Unless otherwise indicated, the translations of pounds sterling into US dollars have been made at the rate of £1.00 = \$1.78, the noon buying rate in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the **Noon Buying Rate**) on December 31, 2003. On March 26, 2004 the Noon Buying Rate was £1.00 = \$1.81. For information regarding rates of exchange between pounds sterling and US dollars from fiscal 1999 to the present, see **Item 3. Key Information Exchange Rates**.

The Company's fiscal year ends on December 31. This reflects a change from September 30, implemented following Separation. The December 31 fiscal year end is in line with the calendar accounting year ends of the majority of comparable US and European hotel companies. IHG will continue to report on a December 31 fiscal year end basis, as the Group believes this will facilitate more meaningful comparisons with other key participants in the industry. References in this document to a particular year are to the fiscal year unless otherwise indicated.

For example, references to the fiscal period ended December 31, 2003 are shown as 2003 and represent the

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15 months from October 1, 2002 to December 31, 2003, unless otherwise specified, references to the fiscal year ended September 30, 2002 are shown as 2002 and references to other fiscal years are shown in a similar manner.

The Company's Consolidated Financial Statements are prepared on the basis of accounting principles generally accepted in the United Kingdom ("UK GAAP") which differ from those generally accepted in the United States ("US GAAP"). The significant differences applicable to the Group are explained in Note 33 of Notes to the Financial Statements.

During 2003, the Company changed its fiscal year end to December 31 and thus its financial statements for its last fiscal period are presented for the 15 months ended December 31, 2003 as permitted by the Companies Act 1985. In accordance with the transition period reporting requirements of the US Securities and Exchange Commission, an unaudited analysis of the financial statements and notes thereto for this 15 month period showing the three month period ended December 31, 2002 and the 12 month period ended December 31, 2003 is presented in Note 32 of Notes to the Financial Statements.

IHG believes that the reporting of profit and earnings measures before exceptional items provides additional meaningful information on underlying returns and trends to shareholders. The Group's key performance indicators used in budgets, monthly reporting, forecasts, long-term planning and incentive plans for internal financial reporting focus primarily on profit and earnings measures before exceptional items. For this purpose, exceptional items comprises operating exceptional items, in addition to those non-operating exceptional items disclosed below operating profit as required by UK GAAP. Throughout this document earnings per share is also calculated excluding the effect of all exceptional items and the related tax effect and is referred to as adjusted earnings per share.

The Company furnishes The Bank of New York, as Depositary, with annual reports containing Consolidated Financial Statements and an independent auditor's opinion thereon. These Financial Statements are prepared on the basis of UK GAAP. The annual reports contain reconciliations to US GAAP of net income and shareholders' equity. The Company also furnishes the Depositary with semi-annual reports prepared in conformity with UK GAAP, which contain unaudited interim consolidated financial information. Upon receipt thereof, the Depositary mails all such reports to recorded holders of American Depositary Receipts ("ADRs") evidencing American Depositary Shares ("ADSs"). The Company also furnishes to the Depositary all notices of shareholders' meetings and other reports and communications that are made generally available to shareholders of the Company. The Depositary makes such notices, reports and communications available for inspection by recorded holders of ADRs and mails to all recorded holders of ADRs notices of shareholders' meetings received by the Depositary. The Company is not required to report quarterly financial information. However, during 2003, the Company reported interim financial information at March 31, 2003 and September 30, 2003 in accordance with the Listing Rules of the UK Listing Authority. In addition, it provided a trading update at June 30, 2003 and intends to continue to provide quarterly financial information during fiscal 2004, although it has not made any decision with respect to reporting quarterly financial information after 2004.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 20-F contains certain forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934 with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the board of directors of InterContinental Hotels Group PLC with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use such words as "anticipate", "target", "expect", "estimate", "intend", "plan", "believe" or other words of similar meanings. Such statements in the Form 20-F include, but are not limited to, statements under the following headings: (i) "Item 4. Information on the Company"; (ii) "Item 5. Operating and Financial Review and Prospects"; (iii) "Item 8. Financial Information"; and (iv) "Item 11. Quantitative and Qualitative Disclosures About Market Risk". Specific risks faced by the Company are described under "Item 3. Key Information - Risk Factors" commencing on page 13. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this Form 20-F could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. These factors include, among others, the effect of economic recession, events that adversely impact domestic or international travel, including terrorist incidents and epidemics such as Severe Acute Respiratory Syndrome ("SARS"), increased use of intermediary reservation channels, the risks involved with the Group's reliance on brands and protection of intellectual property rights and the reliance on consumer perception of its brands, the future balance between supply and demand for the Group's hotels, political and economic developments and currency exchange rate fluctuations (including the effect of fluctuations in the US dollar/UK

pound sterling exchange rate on the Group's revenue and

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on the price of Company ADSs and the US dollar value of dividends), the ability to recruit and retain key personnel, possible regulatory and legislative changes or action, the risks involved with developing and employing new technologies, the inability to sustain its organizational structure or meet cost saving strategies, the effects of being unable to make disposals of hotel assets, the risks of litigation, the Group's ability to purchase adequate insurance, risks associated with funding the defined benefits under its pension schemes, the significant levels of indebtedness for the Group, the ability to access the capital markets for future capital needs, the availability of properties to be acquired or operated by franchisees or by the Group under management contracts, the risks of reliance on suppliers in the soft drinks business, possible contamination and the effect of adverse weather conditions on the demand in the soft drinks business.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION SELECTED CONSOLIDATED FINANCIAL INFORMATION

Summary

The selected consolidated financial data set forth below for the 15 months ended December 31, 2003 and the years ended September 30, 2002, 2001, 2000 and 1999 are derived from Consolidated Financial Statements of the Group, which have been audited by its independent auditors, Ernst & Young LLP, restated where appropriate to accord with the Group's current accounting policies and presentation. The selected consolidated financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.

The selected consolidated financial data for the 12 months ended December 31, 2003 and for the three months ended December 31, 2002 are derived from the unaudited analysis of the 15 month period ended December 31, 2003 in the Consolidated Financial Statements included elsewhere in this Annual Report. See Note 32 of Notes to the Financial Statements. Segmental information has been restated for the year ended September 30, 2002 to reflect the new organizational structure of the Group following the fundamental reorganization of the Hotels business (see "Organization Review" on page 29). It has not been practicable to restate segmental information for the year ended September 30, 2001.

The Group prepares its Consolidated Financial Statements in accordance with UK GAAP which differ in certain respects from US GAAP. The US GAAP selected financial data as of and for the years ended September 30, 2002, 2001, 2000 and 1999 have been restated for the effects of an under provision for deferred taxation with a consequential change to goodwill arising on acquisitions of £145 million, identified in fiscal 2003, following a review of historical tax basis and unrealized gains in respect of the Group's properties. The overall effect on deferred tax was an underprovision of £53 million for the year ended September 30, 2002 (2001: £3 million, 2000: £30 million, 1999: £30 million). A description of the significant differences and reconciliations of net income and shareholders' equity are set forth in Note 33 of Notes to the Financial Statements.

[Back to Contents](#)**Consolidated Profit and Loss Account Data**

	15 months ended December 31 (1)		12 months ended December 31	Three months ended December 31	Year ended September 30 (1)			
	2003 (2)	2003	2003	2002	2002	2001	2000	1999
	\$	£	£	£	£	£	£	£
Amounts in accordance with UK GAAP (3)								
Turnover:								
Continuing operations	4,788	2,690	2,161	529	2,134	2,473	2,092	1,675
Discontinued operations	1,412	793	451	342	1,481	1,560	3,066	3,011
	<u>6,200</u>	<u>3,483</u>	<u>2,612</u>	<u>871</u>	<u>3,615</u>	<u>4,033</u>	<u>5,158</u>	<u>4,686</u>
Total operating profit before operating exceptional items:								
Continuing operations	616	346	286	60	329	486	428	365
Discontinued operations	244	137	85	52	289	306	477	459
	<u>860</u>	<u>483</u>	<u>371</u>	<u>112</u>	<u>618</u>	<u>792</u>	<u>905</u>	<u>824</u>
Operating exceptional items:								
Continuing operations	(91)	(51)	(51)	□	(77)	(43)	□	□
	<u>(91)</u>	<u>(51)</u>	<u>(51)</u>	<u>□</u>	<u>(77)</u>	<u>(43)</u>	<u>□</u>	<u>□</u>
Total operating profit:								
Continuing operations	525	295	235	60	252	443	428	365
Discontinued operations	244	137	85	52	289	306	477	459
	<u>769</u>	<u>432</u>	<u>320</u>	<u>112</u>	<u>541</u>	<u>749</u>	<u>905</u>	<u>824</u>
Non-operating exceptional items:								
Continuing operations	(303)	(170)	(167)	(3)	(2)	(2)	2	(112)
Discontinued operations	(76)	(43)	(43)	□	55	2	1,294	□
	<u>(379)</u>	<u>(213)</u>	<u>(210)</u>	<u>(3)</u>	<u>53</u>	<u>□</u>	<u>1,296</u>	<u>(112)</u>
Profit on ordinary activities before interest								
Interest receivable	185	104	77	27	116	165	57	48
Interest payable and similar charges	(269)	(151)	(112)	(39)	(176)	(224)	(209)	(188)
Premium on early settlement of debt	(242)	(136)	(136)	□	□	□	□	□

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Profit before taxation	64	36	(61)	97	534	690	2,049	572
Taxation	30	17	46	(29)	(52)	(223)	(342)	(190)
Minority equity interests	(60)	(34)	(30)	(4)	(25)	(24)	(16)	(8)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings	34	19	(45)	64	457	443	1,691	374
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Per ordinary share:								
Basic	4.6¢	2.6p	(6.1)p	8.7p	62.5p	60.6p	228.5p	55.3p
Diluted	4.6¢	2.6p	(6.1)p	8.7p	62.3p	60.2p	227.0p	54.9p
Adjusted: pre-FRS 15 (4)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	71.7p
post-FRS 15 (4)	86.2¢	48.4p	39.3p	9.1p	51.4p	66.6p	68.8p	66.6p
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Dividends (5)	37.7¢	21.2p	21.2p	□	41.7p	40.5p	39.3p	38.1p
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See page 11 for footnotes.

[Back to Contents](#)**Consolidated Profit and Loss Account Data**

	15 months ended December 31 (1)		12 months ended December 31	Three months ended December 31	Year ended September 30 (1)			
	2003 (2)	2003	2003	2002	2002	2001	2000	1999
	\$	£	£	£	£	£	£	£
Amounts in accordance with US GAAP (6)								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations before effect of restatement	51	29	(1)	30	110	191	142	(28)
Effect of restatement for the period	□	□	□	□	56	□	□	□
Continuing operations as restated	51	29	(1)	30	166	191	142	(28)
Income from discontinued operations before effect of restatement	107	60	30	30	172	491	313	303
Effect of restatement for the period	□	□	□	□	(10)	(31)	142	□
Income from discontinued operations as restated	107	60	30	30	162	460	455	303
Surplus on disposal	□	□	□	□	171	25	1,242	□
Total discontinued operations as restated	107	60	30	30	333	485	1,697	303
Cumulative effect on prior years of adoption of FAS 142	(1,267)	(712)	□	(712)	□	□	□	□
Net (loss)/income	(1,109)	(623)	29	(652)	499	676	1,839	275

Per ordinary share and American Depositary Share (7)**Basic**

Income/(loss) before cumulative effect on prior years of change in accounting principle:

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Continuing operations before effect of restatement	7.0¢	4.0p	(0.1)p	4.1p	15.0p	26.1p	19.2p	(4.3)p
Effect of restatement for the period	□	□	□	□	7.7p	□	□	□
Continuing operations as restated	7.0¢	4.0p	(0.1)p	4.1p	22.7p	26.1p	19.2p	(4.3)p
Discontinued operations before effect of restatement	14.6¢	8.2p	4.1p	4.1p	46.9p	70.6p	210.1p	45.0p
Effect of restatement for the period	□	□	□	□	(1.3)p	(4.3)p	19.2p	□
Total discontinued operations as restated	14.6¢	8.2p	4.1p	4.1p	45.6p	66.3p	229.3p	45.0p
Cumulative effect on prior years of adoption of FAS 142	(172.9)¢	(97.1)p	□	(97.1)p	□	□	□	□
Net (loss)/income	(151.3)¢	(84.9)p	4.0p	(88.9)p	68.3p	92.4p	248.5p	40.7p

Diluted

Income/(loss) before cumulative effect on prior years of change in accounting principle:

Continuing operations before effect of restatement	7.0¢	4.0p	(0.1)p	4.1p	14.9p	26.0p	19.1p	(4.3)p
Effect of restatement for the period	□	□	□	□	7.7p	□	□	□
Continuing operations as restated	7.0¢	4.0p	(0.1)p	4.1p	22.6p	26.0p	19.1p	(4.3)p
Discontinued operations before effect of restatement	14.6¢	8.2p	4.1p	4.1p	46.7p	70.2p	208.7p	44.6p
Effect of restatement for the period	□	□	□	□	(1.3)p	(4.3)p	19.1p	□
Total discontinued operations as restated	14.6¢	8.2p	4.1p	4.1p	45.4p	65.9p	227.8p	44.6p
Cumulative effect on prior years of adoption of FAS 142	(172.9)¢	(97.1)p	□	(97.1)p	□	□	□	□
Net (loss)/income	(151.3)¢	(84.9)p	4.0p	(88.9)p	68.0p	91.9p	246.9p	40.3p

Footnotes on the following page.

[Back to Contents](#)**Consolidated Balance Sheet Data**

	December 31		September 30			
	2003 (2)	2003	2002	2001	2000	1999
	\$	£	£	£	£	£
Amounts in accordance with UK GAAP (restated) (3)						
Intangible assets	281	158	173	174	189	13
Tangible assets	7,033	3,951	7,641	7,558	6,683	5,794
Investments	306	172	218	234	217	505
Current assets	1,778	999	1,022	1,107	1,684	1,405
Total assets	9,398	5,280	9,054	9,073	8,773	7,717
Current liabilities (8)	1,931	1,085	2,273	2,009	1,604	1,803
Long-term debt (8)	1,759	988	631	1,019	1,213	2,101
Share capital	1,315	739	734	734	745	694
Shareholders' funds	4,546	2,554	5,335	5,153	5,099	3,053
Amounts in accordance with US GAAP (restated) (6)						
Intangible assets	2,825	1,587	2,702	2,902	2,960	2,594
Tangible assets	6,970	3,916	6,552	6,343	5,130	4,211
Investments	310	174	189	205	254	505
Current assets	1,741	978	983	1,209	1,796	1,438
Total assets	11,846	6,655	10,426	10,659	10,140	8,748
Current liabilities (8)	2,663	1,496	2,109	2,033	1,461	2,595
Long-term debt (8)	931	523	622	779	1,152	1,111
Redeemable preference share capital	□	□	□	□	□	18
Share capital	1,315	739	243	242	246	223
Shareholders' equity	6,016	3,380	6,221	6,381	6,147	3,755

- (1) Other than the results for fiscal 1999 which include 53 weeks' trading (Hotels 12 months), all other fiscal years include 52 weeks' trading (Hotels 12 months). Fiscal 2003 reflects 15 months' trading (Soft Drinks 64 weeks).
- (2) US dollar amounts have been translated at the Noon Buying Rate on December 31, 2003 of £1.00 = \$1.78 solely for convenience.
- (3) Fiscal 2002, 2001, 2000, and 1999 amounts have been restated on the adoption of UITF 38 and the reclassification of pension balances within provisions in fiscal 2002 and 2001 (see Note 1 of Notes to the Financial Statements).
- (4) Adjusted earnings per share are disclosed in order to show performance undistorted by exceptional items or, in respect of Financial Reporting Standard 15, the impact of adopting this Standard.
- (5) Dividend per share amounts have been restated to reflect the Separation.
- (6) US GAAP amounts for fiscal 2002, 2001, 2000 and 1999 have been restated to reflect adjustments to goodwill and deferred taxation following a review of historical tax basis and unrealized gains in respect of the Group's properties (see Note 33 of Notes to the Financial Statements).
- (7) Each American Depositary Share represents one ordinary share.
- (8) Long-term debt under UK GAAP includes amounts supported by long-term facilities, which are classified as current liabilities under US GAAP.

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Six Continents PLC paid an interim dividend of 6.6p per ordinary share on April 9, 2003 for the period prior to the Separation.

Following Separation, InterContinental Hotels Group PLC paid an interim dividend of 4.05p per share on October 14, 2003. The IHG board has proposed a final dividend of 9.45p per share, payable on June 7, 2004, if approved by shareholders at the Annual General Meeting to be held on June 1, 2004, bringing the total IHG dividend for the 12 months ended December 31, 2003 to 13.50p per share.

IHG has adopted a progressive dividend policy that it believes is appropriate to the strategies of the Group and that seeks to build dividends in real terms from the base of 13.50p and to build cover over time. However, the payment of any further dividends will depend upon the earnings and financial condition of InterContinental Hotels Group PLC.

The table below sets forth the amounts of interim, final and total dividends on each ordinary share in respect of each fiscal year indicated. Comparative dividends per share have been restated using the aggregate of the weighted average number of shares of InterContinental Hotels Group PLC and Six Continents PLC, adjusted to equivalent shares of InterContinental Hotels Group PLC. For the purposes of showing the dollar amounts per ADS, such amounts are before deduction of UK withholding tax (as described under "Item 10. Additional Information - Taxation") and are translated into US dollars per ADS at the Noon Buying Rate on each of the respective UK payment dates. However, dividends paid in US dollars by the Depository may be based on a market exchange rate other than the Noon Buying Rate.

	Pence per ordinary share			\$ per ADS		
	Interim	Final	Total	Interim	Final	Total
Year ended September 30						
1999 (1)	11.56	26.55	38.11	0.188	0.427	0.615
2000 (1)	11.92	27.37	39.29	0.178	0.402	0.580
2001 (1)	12.27	28.20	40.47	0.177	0.406	0.583
2002 (1)	12.58	29.14	41.72	0.205	0.474	0.679
Period ended December 31, 2003						
Six Continents (1)	7.65	□	7.65	0.119	□	0.119
IHG	4.05	9.45	13.50	0.068	0.171(2)	0.239

(1) Restated to reflect an equivalent number of shares in InterContinental Hotels Group PLC.

(2) The 2003 final dividend has been translated at the Noon Buying Rate on March 26, 2004 of £1.00=\$1.81.

Dividends will be paid in pounds sterling and exchange rate fluctuations will affect the US dollar amount received by holders of ADRs on conversion of such dividends. Moreover, fluctuations in the exchange rates between pounds sterling and the US dollar will affect the dollar equivalent of the pounds sterling price of the ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of ADSs which are evidenced by ADRs in the United States.

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The following tables show, for the periods and dates indicated, certain information regarding the exchange rate for pounds sterling, based on the Noon Buying Rate for pounds sterling expressed in US dollars per £1.00. The exchange rate on March 26, 2004 was £1.00 = \$1.81.

Month	Month's Highest Exchange Rate	Month's Lowest Exchange Rate
September 2003	1.66	1.57
October 2003	1.70	1.66
November 2003	1.72	1.67
December 2003	1.78	1.72
January 2004	1.85	1.79
February 2004	1.90	1.82
March 2004 (through March 26, 2004)	1.87	1.79

Year ended September 30	Period End	Average Rate (1)	High	Low
1999	1.65	1.63	1.72	1.55
2000	1.48	1.55	1.68	1.40
2001	1.47	1.44	1.50	1.37
2002	1.57	1.48	1.58	1.41
Period ended December 31				
2003	1.78	1.63	1.78	1.54

(1) The average of the Noon Buying Rate on the last day of each full month during the period.

A significant portion of the Group's assets, liabilities and revenues are denominated in currencies other than pounds sterling, principally the US dollar and euro. For a discussion of the impact of exchange rate movements, see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

RISK FACTORS

This section describes some of the risks that could materially affect the Group's businesses. The factors below should be considered in connection with any forward looking statements in this Form 20-F and the cautionary statements contained on page 6.

The risks below are not the only ones that the Group faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material. All of these risks could materially affect the Group's businesses, turnover, operating profit, earnings, net assets and liquidity and capital resources.

The Group is exposed to the risks of economic recession

The Group is exposed to the risks of either a global economic recession or a recession in one or more of its key markets that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income generating activities resulting in deterioration of results of operations and potentially affecting the value of properties in affected economies.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The Group's room rates and occupancy levels could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters resulting in reduced worldwide travel or other local factors impacting individual hotels.

In fiscal 2003, the outbreak of SARS dramatically reduced travel to Toronto, Hong Kong, Singapore, China and to other destinations in Asia. If the apparently successful efforts to control the disease are not maintained and the disease reappears or spreads beyond previously affected areas to other markets, particularly in the United States or Europe, the resulting decline in travel could have an adverse impact on the Group's business,

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financial condition and results of operations. Additionally, future epidemics such as the SARS epidemic could materially harm the Group's future financial results.

Terrorist incidents such as the events of September 11, 2001, and the bombings in Bali in October 2002 and the war in Iraq in 2003 have significantly affected international travel and consequently global demand for hotel rooms. Further incidents or uncertainties in this area may have an adverse impact on the Group's operations and financial results.

The Group is exposed to the risk of increased use of intermediaries' reservation channels

The value of the Group's brands is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system. In recent years there have been very rapid changes in the ability to choose and book hotel rooms, partly driven by the internet, with the emergence of intermediaries which market hotel rooms in such a way that there is the risk of commoditization of hotel rooms. Some of the emerging business models and intermediaries could have a significant impact on the ability of the Group to continue to drive reservations, and hence have an impact on the value of the Group's brands. Additionally, these channels, including off-line intermediaries and travel agents, are becoming more consolidated which may lead to higher costs of distribution for the Group, for example by intermediaries being able to demand higher commissions. Although the Group is actively taking steps to adapt to the changing environment (by developing competitive internet reservation systems for its own benefit), because of the very high pace of change in this area there is a risk that the Group will not adapt quickly enough.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

An event that were to materially damage the reputation of one or more of the Group's brands and/or failure to sustain the appeal of the Group's brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business. Given the importance of brand recognition to the Group's businesses, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its businesses.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The Group's future operating results could be adversely affected by industry over-capacity (by number of rooms) and weak demand. Reductions in room rates and occupancy levels would adversely impact the Group's results of operations.

The Group may not be able to increase or maintain the number of its properties operated by its franchisees or pursuant to its management contracts

Competition may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. There can be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group. Changes in legislation or regulatory changes may be implemented that have the effect of favoring franchisees relative to brand owners.

The Group is exposed to political and economic developments and currency exchange rate fluctuations

Global political and economic developments and currency exchange rate fluctuations may impact results of operations. In addition, local economic factors such as local interest rates, risks of hyper-inflation or deflation and political developments in some countries could adversely impact the Group's results of operations. Political or economic factors could effectively prevent the Group from receiving profits from, or from selling its investments in, certain countries. In addition, fluctuations in currency exchange rates between the UK pound sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group's international operations or investments do business, could adversely affect the Group's reported earnings and the value of its businesses. Fluctuations of this type have been experienced recently with the significant strengthening of the pound against the dollar.

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The Group is dependent upon recruiting and retaining key personnel and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Group's succession planning and incentivization plans, or a failure to invest in the development of key skills. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

The Group is exposed to changes in consumer perception and preference adversely affecting its brands

The Group's range of brands and relevance to the sectors of the markets in which it operates may be adversely affected by changes in taste, commoditization (whereby the price and quality of hotel rooms become relatively more important than brand identifications) or other factors affecting consumers' willingness to purchase goods or services, including any factor which adversely affects the reputation of those brands.

The Group is exposed to regulatory action

Both in the United Kingdom and internationally, the Group's operations are subject to regulation, and further changes in regulation could adversely affect results of operations. Examples of such regulatory changes could include:

- Further employment legislation which could impact labor costs such as minimum wage and maximum working hours, overtime, working conditions, recruiting and terminating employees and work permits.
- Changes in tax legislation and practice.
- Future legislation or regulation or different enforcement of current legislation or regulations, particularly in the areas of competition law, consumer protection, nondiscrimination, franchise and environmental law could adversely affect the Group's operations. The Group's operations are exposed to governmental actions in almost 100 countries and territories. The hospitality industry is heavily regulated, including with respect to food and beverage sales, employee relations, diversity and access for the disabled, construction and environmental concerns. Compliance with these laws could reduce revenues and profits of properties owned or managed by the Group. The Group and its various properties are subject worldwide to numerous laws, including those relating to the preparation and sale of food and beverages, such as health and liquor license laws. Additionally, the success of the Group's strategy in relation to the expansion of its existing properties may be dependent upon obtaining necessary building permits or zoning variances from local authorities. The Group is also subject to foreign and US federal, state and local laws and regulations relating to the environment and the handling of hazardous substances which may impose or create significant potential environmental liabilities, even in situations where the environmental problem or violation occurred on a property before the Group acquired it.
- Adverse regulatory developments could limit or prevent the Group receiving profits from, or limit its ability to sell, the properties affected by the regulatory change.

The Group is exposed to certain risks in relation to technology

A failure by the Group to take advantage of new technology and developments could put the Group at a competitive disadvantage in the field of e-commerce and business-to-business hospitality or supplier procurement or any other aspect of the Group businesses dependent upon its technology infrastructure. The Group may have to make substantial additional investments in new technologies to remain competitive. The technologies that the Group chooses may not prove to be commercially successful or the information technology strategy employed may not be sufficiently aligned or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base or face other losses. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

The Group is reliant upon its HolidexPlus reservation system which is an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements leading to loss of key communications linkages, particularly in relation to HolidexPlus and other key parts of the IT infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

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The Group may be unable to sustain the new organizational structure or meet cost-saving strategies on an ongoing basis

The Group has implemented a new organizational structure and certain cost-saving strategies relating to its non-hotel cost base. There is no assurance that the organizational structure will remain appropriate or that annualized cost-savings will be realized, which could adversely affect the financial performance of the Group.

The Group may be unable to make disposals of hotel assets

The Group has stated its intention to dispose of assets that do not have strategic value, either with or without brand representation. If a disposal is appropriate, there can be no assurance that the Group will be able to complete any such selected disposals on commercially reasonable terms, or at all.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the United States may include requests for punitive damages as well as compensatory damages.

Exposure to litigation may affect the Group's reputation even though the monetary consequences are not significant.

The Group may face difficulties insuring its businesses

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the businesses in which it operates. Following the effects of the September 11, 2001 terrorist attacks and subsequent events, many companies faced increased premiums for reduced cover as the insurance market hardened. A repeat of incidents of this nature may result in the Group experiencing significant increases in the cost of insuring its business at an acceptable level, or in the Group being unable to obtain cover for certain risks at a realistic price.

The Group is exposed to funding risks in relation to the defined benefits under its pension plans

The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for the members of its pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group's funding obligations) are: (i) poor investment performance of pension fund investments; (ii) long life expectancy (which will make pensions payable for longer and therefore more expensive to provide); (iii) adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; and (iv) other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group's past contributions were assessed.

The Group's indebtedness could adversely affect its financial position

The Group has put in place borrowing facilities to meet its expected capital resource requirements. The Group's ability to borrow under these and any other additional facilities which it might seek to establish will require that the Group be able to comply with certain financial and other covenants contained in the relevant facility documentation. If the Group's revenues, cash flow or credit ratings do not meet expectations, the Group may lose its ability to borrow money or to do so on terms it considers to be favorable. Conditions in the capital markets will also affect the Group's ability to borrow funds or to raise equity financing, as well as the terms it may obtain. All of these factors could also make it difficult or impossible for the Group otherwise to raise capital needed to pursue its strategy.

The Group cannot assure investors that it will be able to arrange any additional financing or refinancing needed to fund its capital resource requirements on acceptable terms, or at all.

If the Group's levels of debt increase substantially, its business may not be able to generate sufficient cash flow to service its debt and/or continue its investment program.

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The Group may experience a lack of selected acquisition opportunities

While the Group's strategy is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could adversely affect its results of operations.

Additional Risks Relating to Soft Drinks

The Britvic Group is reliant upon certain suppliers

The Britvic Group is reliant upon fruit juice concentrates, sugar and other fruit juice raw materials as necessary ingredients for many of its products, as well as packaging and containers such as cans and Polyethylene Terephthalate (PET) bottles. In the event the Britvic Group is unable to obtain an adequate supply of these raw materials or packaging or fails to negotiate the purchase of these materials on a reasonable commercial basis, this could have a significant adverse impact on the Britvic Group's financial operations.

The Britvic Group is exposed to risks related to possible product contamination

The Britvic Group, like all beverage producers, has been and will continue to be vulnerable to accidental or malicious contamination of its products or base raw materials. Any such contamination could result in recall of the Britvic Group's products, the Britvic Group being unable to sell its products, damage to brand image and/or civil or criminal liability, which could have a material adverse effect on the Britvic Group's operations and financial performance.

The Britvic Group is exposed to significant competition

The Britvic Group operates in a highly competitive market sector in which large competitors are active.

A change in the level of marketing undertaken by competitors or in their pricing policies, the growth or strengthening of existing retailers of beverage products, the introduction of new competing brands or products or increased purchasing power pressure from customers could have a material adverse effect on the Britvic Group's operations and financial performance. Conversely, competition law may regulate the Company's ability to participate in industry consolidation at a strategic level.

Adverse weather conditions could reduce demand for the Britvic Group's products

Demand for the Britvic Group's products may be affected by weather conditions, especially in the summer months, when unseasonably cool or wet weather can affect sales volumes and therefore the results of the Britvic Group's operations for the year.

ITEM 4. INFORMATION ON THE COMPANY

SUMMARY

Group Overview

Group companies operate in two core business areas: hotels and resorts, with worldwide interests through ownership, leasing, management and franchising, and soft drink manufacture in the United Kingdom.

On March 22, 2004, InterContinental Hotels Group PLC had a market capitalization of £3.6 billion, and was included in the list of FTSE 100 companies. Following the Separation in April 2003, InterContinental Hotels Group PLC became the holding company for the Group of which Six Continents PLC is the principal subsidiary company. Six Continents PLC was formed in 1967.

The Company's corporate headquarters are in the United Kingdom, and the registered address is:

InterContinental Hotels Group PLC
67 Alma Road
Windsor
Berkshire SL4 3HD
Tel: +44 (0) 1753 410 100
Internet address: www.ihgplc.com

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InterContinental Hotels Group PLC was incorporated in Great Britain on October 2, 2002 and registered in, and operates under, the laws of England and Wales. Operations undertaken in countries other than England and Wales are under the laws of those countries in which they reside.

Group History and Recent Developments

The Group, formerly known as Bass, and more recently, Six Continents, was historically a conglomerate operating, among other things, as a brewer, soft drinks manufacturer, hotelier, leisure operator, and restaurant, pub and bar owner. In the last several years, the Group underwent a major transformation in its operations and organization, as a result of the Separation and a number of significant disposals during this period, narrowing the scope of its business.

On August 22, 2000, Six Continents completed the sale of its brewing business to Interbrew S.A. (Interbrew) of Belgium for £2.3 billion.

In February 2001, the Group sold an estate of 988 smaller unbranded pub sites with limited growth potential to Nomura International PLC (Nomura) for £625 million.

On March 3, 2003 Capital Management and Investment PLC (CMI) announced an unsolicited unilateral securities exchange offer for Six Continents PLC, which was firmly rejected by the board. At an Extraordinary General Meeting held on March 12, 2003 shareholders voted in favor of proceeding with the proposed Separation of Six Continents, immediately following which CMI's bid lapsed.

On April 15, 2003, following shareholder and regulatory approval, Six Continents PLC separated into two new listed groups, InterContinental Hotels Group PLC comprising the Hotels and Soft Drinks businesses and Mitchells & Butlers plc comprising the Retail and Standard Commercial Property Developments businesses (see page F-8 for the mechanics of the Separation).

Acquisitions, Dispositions and Capital Expenditure

Since the Separation, the Group has entered into the following significant acquisition and disposal transactions:

On July 1, 2003, the Group completed the sale of a 16 property Staybridge Suites portfolio to Hospitality Properties Trust (HPT) for \$185 million. The Group entered into a contract with HPT for the ongoing management of these hotels. In September 2003, HPT converted 14 other suite hotels to the Staybridge Suites brand under IHG management.

On September 9, 2003, the Group completed the sale of the London May Fair Hotel Limited (the holding company for the InterContinental London May Fair) to Radisson Edwardian for £115 million.

In October 2003, the Group announced the acquisition of the Candlewood Suites brand in the United States from Candlewood Hotel Corporation for a consideration of \$15 million and an agreement to enter into a management contract with HPT to manage 76 Candlewood Suites properties. The transaction concluded on December 31, 2003.

On February 24, 2004, the Group sold its share of Midland Hotel and Conference Centre Limited (the holding company for the Crowne Plaza The Midland in Manchester) to Quintessential Hotels Limited for £20 million.

On March 15, 2004, the Group announced that it had entered into an agreement to sell the InterContinental Central Park South in New York City to Anbau Enterprises Inc. for \$63.5 million, with an expected completion date in April 2004.

The Group's continuing operations have invested cash capital expenditure, including for major refurbishments, of £288 million, £396 million and £621 million in fiscal 2003, 2002 and 2001, respectively. Capital expenditure was significantly higher in 2001 due to acquisitions completed in that year.

Material acquisitions and dispositions relating to IHG Hotels are described below under "Hotels History".

[Back to Contents](#)**Hotels**

Hotels owns, manages, leases or franchises a number of hotel brands including InterContinental, Crowne Plaza, Holiday Inn, Staybridge Suites, Candlewood Suites and Holiday Inn Express (or Express by Holiday Inn outside of the Americas) (["Express"]), which at December 31, 2003 comprised 3,520 hotels with 536,318 guest rooms in nearly 100 countries and territories.

Soft Drinks

IHG has a controlling interest in and manages Britvic, the second largest soft drinks manufacturer (measured by volume) in the United Kingdom. Britvic owns an extensive portfolio of soft drinks brands that include Tango and Robinsons. It also produces Pepsi Beverages International (["PBI"]) products under license. The Group, and other shareholders in the Britvic business (Allied Domecq, Whitbread and PepsiCo) have agreed, subject, *inter alia*, to market conditions, to consider an initial public offering of Britvic between January 1, 2005 and December 31, 2008.

SEGMENTAL INFORMATION**Geographic Segmentation**

The following table shows turnover and operating profit in pounds sterling by geographical area and the percentage of each geographical area, for the following periods: 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, the years ended September 30, 2002 and 2001.

Amounts in accordance with UK GAAP

15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30		15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30	
			2002	2001				2002	2001
%					(£ million)				
					Turnover by Geographical Area (1) (3)				
61.2	58.7	68.7	68.9	60.7	2,131	1,533	598	2,491	2,446
14.6	15.7	10.9	11.4	10.9	506	411	95	411	441
16.4	17.4	13.4	13.2	22.5	571	454	117	476	908
3.6	3.8	3.1	3.0	3.4	127	100	27	108	137
4.2	4.4	3.9	3.5	2.5	148	114	34	129	101
100.0	100.0	100.0	100.0	100.0	3,483	2,612	871	3,615	4,033
					Operating Profit before Exceptional Items by Geographical Area (1) (2)				
55.3	53.1	62.5	64.2	54.4	267	197	70	397	431
7.9	8.1	7.1	9.7	14.6	38	30	8	60	116

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25.7	28.8	15.2	18.5	24.0	United States	124	107	17	114	190
					Rest of					
6.8	7.0	6.3	4.2	5.1	Americas	33	26	7	26	40
4.3	3.0	8.9	3.4	1.9	Asia Pacific	21	11	10	21	15
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>		<u>483</u>	<u>371</u>	<u>112</u>	<u>618</u>	<u>792</u>

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rates are fiscal 2003: £1=\$1.62 (2002: £1=\$1.48; 2001: £1=\$1.44).
- (2) Operating profit before exceptional items does not include operating and non-operating exceptional items for all periods presented. Operating exceptional items by region are United Kingdom (2003: 15 months £17 million, 12 months £17 million, 3 months £nil million; 2002: £24 million; 2001: £19 million), Rest of Europe, the Middle East and Africa (2003: 15 months £24 million, 12 months £24 million, 3 months £nil million; 2002: £nil million; 2001: £nil million) the United States (2003: 15 months £9 million, 12 months £9 million, 3 months £nil million; 2002: £39 million; 2001: £24 million) and Asia Pacific (2003: 15 months £1 million, 12 months £1 million, 3 months £nil million; 2002: £14 million; 2001: £nil million).
- (3) Amounts are reported by origin. See Note 2 of Notes to the Financial Statements for details by destination, for which the amounts are not significantly different.

[Back to Contents](#)**Activity Segmentation**

The following table shows turnover and operating profit in pounds sterling by activity and the percentage contribution of each activity for the following periods: 15 months ended December 31, 2003 (including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003) and the year ended September 30, 2002. Segmental information has been restated for the year ended September 30, 2002 to reflect the new structure of the organization following the fundamental reorganization of the Hotels business (see [Organization Review] on page 29).

Amounts in accordance with UK GAAP

15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30, 2002		15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30, 2002
				Turnover by Activity (1)				
%					(£ million)			
24.6	24.3	25.7	26.7	Americas	661	525	136	570
37.5	37.3	38.4	37.2	EMEA	1,010	807	203	794
5.5	5.3	6.4	6.0	Asia Pacific	148	114	34	128
1.9	1.9	1.9	1.9	Central (3)	51	41	10	40
69.5	68.8	72.4	71.8	Hotels	1,870	1,487	383	1,532
30.5	31.2	27.6	28.2	Soft Drinks	820	674	146	602
100.0	100.0	100.0	100.0	Continuing operations	2,690	2,161	529	2,134
				Discontinued operations	793	451	342	1,481
					3,483	2,612	871	3,615
				Operating Profit before Exceptional Items by Activity (1) (2)				
56.3	56.3	56.6	52.6	Americas	195	161	34	173
32.9	32.2	36.7	38.0	EMEA	114	92	22	125
6.4	4.2	16.7	7.0	Asia Pacific	22	12	10	23
(23.1)	(21.7)	(30.0)	(16.7)	Central (3)	(80)	(62)	(18)	(55)
72.5	71.0	80.0	80.9	Hotels	251	203	48	266
27.5	29.0	20.0	19.1	Soft Drinks	95	83	12	63
100.0	100.0	100.0	100.0	Continuing operations	346	286	60	329
				Discontinued operations	137	85	52	289
					483	371	112	618

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rates are fiscal 2003: £1=\$1.62 (2002: £1=\$1.48).
- (2) Operating profit before exceptional items does not include operating and non-operating exceptional items for all periods presented. Operating exceptional items by business segment are the Americas (2003: 15 months £9 million, 12 months £9 million, 3 months £nil million; 2002: £39 million), EMEA (2003: 15 months £41 million, 12 months £41 million, 3 months £nil million; 2002: £24 million) and Asia Pacific (2003: 15 months £1 million, 12 months £1 million, 3 months £nil million; 2002: £14 million).
- (3) Central includes global functions that were centralized following the reorganization review. Costs are reduced by Holidex fee income.

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The following table shows turnover and operating profit in pounds sterling by activity and the percentage contribution of each activity for the year ended September 30, 2002 and the year ended September 30, 2001. As it has not been practicable to restate segmental information for the year ended September 30, 2001 to conform with the new presentation resulting from the new structure following the fundamental reorganization of the Hotels business, the 2002 financial information is presented on the same basis.

Amounts in accordance with UK GAAP

Year ended September 30			Year ended September 30	
2002	2001		2002	2001
	%	Turnover by Activity (1)	(£ million)	
71.8	76.7	Hotels	1,532	1,896
28.2	23.1	Soft Drinks	602	571
□	0.2	Other (3)	□	6
100.0	100.0	Continuing operations	2,134	2,473
		Discontinued operations	1,483	1,567
		Less: Inter-divisional sales	2	7
			3,615	4,033
		Operating Profit before Exceptional Items by Activity (1) (2)		
79.6	87.9	Hotels	262	427
19.2	11.7	Soft Drinks	63	57
1.2	0.4	Other (3)	4	2
100.0	100.0	Continuing operations	329	486
		Discontinued operations	289	306
			618	792

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year. In the case of the US dollar, the translation rates are fiscal 2002: £1=\$1.48 (2001: £1=\$1.44).
- (2) Operating profit before exceptional items does not include operating and non-operating exceptional items for all periods presented. Operating exceptional items by business segment are the Americas (2002: £39 million, 2001: £11 million), EMEA (2002: £24 million, 2001: £18 million), Asia Pacific (2002: £14 million, 2001: £nil million) and Other (2002: £nil million, 2001: £14 million).
- (3) Other includes central service costs, dividends received from FelCor Lodging Trust Inc., goodwill amortization, significant contract termination receipts, rebates and other non-trading items.

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HOTELS

Overview

InterContinental Hotels Group owns a portfolio of well-recognized and respected brands, including InterContinental, Crowne Plaza, Staybridge Suites, Holiday Inn and Express, with more than 3,500 owned, leased, managed and franchised hotels and approximately 535,000 guest rooms across nearly 100 countries and territories as at December 31, 2003. IHG believes its strong hotel brands, international scope and portfolio of high quality assets, built through organic growth and acquisition, place it in a strong competitive position.

History

The Group made its first significant international hotel acquisition when it acquired Holiday Inn International in 1988 and the remaining North American Business of Holiday Inn in 1990. This gave the Group the Holiday Inn and the Crowne Plaza by Holiday Inn brands. Subsequently, in 1990, the Group launched the limited service brand, Express.

In line with its strategy to optimize capital deployment, the Group disposed of its owned US midscale hotel property assets in 1997, but retained branding distribution on the majority of these properties through franchise agreements.

During 1997, the Group entered the US upscale extended stay segment with the introduction and development of Staybridge Suites by Holiday Inn. To expand further its international reach and its strong brand portfolio, the Group acquired the InterContinental hotels business in March 1998. This acquisition added 117 InterContinental and 20 Forum hotels to the portfolio. Following this acquisition, the Group had a portfolio of brands spanning the industry from upper upscale to midscale limited service across all regions.

In January 2000, the Group announced that it had purchased the business of the Australia-based hotel company, Southern Pacific Hotels Corporation ("SPHC"), which operated 59 hotels under the "Parkroyal" and "Centra" brands across Australia, New Zealand and the South Pacific as well as hotels in select South East Asian countries, for Australian \$313 million. These hotels strengthened considerably the Group's existing organically-built presence in the Asia Pacific region. A large proportion of these hotels were subsequently converted to the InterContinental, Crowne Plaza and Holiday Inn brands. Shortly afterwards, in April 2000, the Group acquired the outstanding 90.1% of the issued share capital which it did not already own of Bristol Hotels & Resorts Inc., a US based hotel management company comprising 112 hotels operating mainly under leases, for a total consideration of \$157 million. These leases were then sold or converted to management contracts by July 2001.

In April 2001, the Group acquired the entire business of Posthouse for a consideration of £810 million. Posthouse consisted of 79 midscale hotels, 78 of which were in the United Kingdom and one in the Republic of Ireland, with 12,333 rooms, of which 77 hotels were owned or on long leases and two were management contracts. The Group then converted the majority of these hotels to the Holiday Inn brand, thereby enhancing the position of Holiday Inn in the United Kingdom, making it the number one midscale brand by number of rooms. This acquisition, combined with strong midscale segment positions in Germany and Italy, gave the Group a strong European base of operations.

In August 2001, the Group completed the acquisition, for a total consideration of £241 million, of the Regent Hotel in Hong Kong, which it subsequently rebranded "InterContinental Hong Kong", strengthening its upper upscale hotel market position in the Asia Pacific region and adding a key location for its international guests.

In April 2003, the Group completed its Separation from the Retail business of Six Continents, creating a focused hotel company. The Separation also resulted in the creation of Mitchells & Butlers plc, a stand-alone operator of managed pubs, bars and restaurants. On Separation, the Group retained a controlling interest in Britannia Soft Drinks Limited, the holding company for the Britvic Group.

Developments

InterContinental Hotels. During 2003, 10 new InterContinental Hotels were added to the portfolio including Bangkok, Perth, and Warsaw. After dispositions there was no net change in the total number of InterContinental Hotels.

The Group expects to open an InterContinental in Buckhead (Atlanta) in late 2004 and Boston in 2006, along with other properties in Beijing, Cyprus and Seattle.

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The major refurbishment program at some of the leading InterContinental properties is now largely complete, with the reopening of the InterContinental Le Grand, Paris in April 2003. Since reopening, the hotel has encountered difficult market conditions due to the Iraq war, reduced US travel and a poorly attended airshow, all contributing to a slower than expected performance. As the global economy recovers, IHG expects the refurbished hotels to demonstrate the benefit of the capital invested.

Staybridge Suites. As of December 31, 2003, 71 hotels were open, including 23 opened in 2003, in addition to a further 22 franchise agreements and 15 management contracts which had been signed during the year. In July 2003, IHG entered into an arrangement with Hospitality Properties Trust (HPT), whereby 16 owned Staybridge suites were sold to HPT in conjunction with a management contract between HPT and IHG to keep the hotels in the IHG system. In September 2003, IHG announced the conversion by HPT of 14 Summerfield suites to Staybridge Suites under IHG management.

Holiday Inn. By December 31, 2003, 70 of the 79 original Posthouse hotels acquired in 2001 had been re-branded as IHG hotels, and 9 had been disposed of.

Candlewood Suites. On December 31, 2003, IHG acquired the Candlewood Suites brand and entered into a management contract with HPT to manage 76 Candlewood Suites properties. This adds 109 hotels and 12,569 rooms to the IHG portfolio in the United States in the midscale extended stay segment where IHG was previously unrepresented.

Crowne Plaza. On February 24, 2004, IHG sold its share of Midland Hotel and Conference Centre Limited (the holding company for the Crowne Plaza The Midland in Manchester) to Quintessential Hotels Limited.

Strategy

IHG Hotels' strategy is to use the strength of its brands, the breadth of its hotel distribution, the diversity of its business models and the benefits of its scale to drive growth and returns for shareholders. Key to the implementation of this strategy are the following priorities:

- the continued development of high quality, strongly differentiated and preferred brands;
- extending the network of hotels around the world that are attractive to international guests in the upscale and upper upscale brands and in the domestic markets for the midscale brands;
- using the Group's scale to drive revenues and operating margins;
- enhancing returns from the asset base by redeploying capital over time; and
- investing and training staff to ensure that brands and service levels are maintained and enhanced.

Segmental Results

The following table shows turnover and operating profit in US dollars of the IHG Hotels business by activity and the percentage contribution of each activity for the following periods: 15 months ended December 31, 2003 (including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003) and the year ended September 30, 2002. Segmental information has been restated for the year ended September 30, 2002 to reflect the new structure of the organization following the fundamental reorganization of the Hotels business.

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15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30, 2002		15 months ended December 31, 2003	12 months ended December 31, 2003	Three months ended December 31, 2002	Year ended September 30, 2002
%					(\$ million)			
Turnover by Activity (1)								
Americas								
20.2				Owned and				
	19.9	21.2	20.5	leased	608	481	127	463
1.9	1.9	2.0	2.5	Managed	58	46	12	57
13.3	13.5	12.5	14.2	Franchised	402	327	75	322
<u>35.4</u>	<u>35.3</u>	<u>35.7</u>	<u>37.2</u>		<u>1,068</u>	<u>854</u>	<u>214</u>	<u>842</u>
EMEA								
49.9				Owned and				
	50.2	48.6	48.1	leased	1,503	1,213	290	1,088
2.6	2.6	2.5	2.3	Managed	77	62	15	53
1.5	1.5	1.5	1.6	Franchised	46	37	9	36
<u>54.0</u>	<u>54.3</u>	<u>52.6</u>	<u>52.0</u>		<u>1,626</u>	<u>1,312</u>	<u>314</u>	<u>1,177</u>
Asia Pacific								
6.6				Owned and				
	6.4	7.4	6.7	leased	198	154	44	152
1.1	1.1	1.3	1.3	Managed	34	26	8	29
0.2	0.2	0.3	0.2	Franchised	7	5	2	5
<u>7.9</u>	<u>7.7</u>	<u>9.0</u>	<u>8.2</u>		<u>239</u>	<u>185</u>	<u>54</u>	<u>186</u>
2.7	2.7	2.7	2.6	Central (3)	82	66	16	57
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>		<u>3,015</u>	<u>2,417</u>	<u>598</u>	<u>2,262</u>
Operating Profit before Exceptional Items by Activity (2)								
Americas								
9.4				Owned and				
	9.7	8.0	9.1	leased	38	32	6	36
2.2	2.1	2.7	3.8	Managed	9	7	2	15
84.4	84.5	84.0	66.5	Franchised	342	279	63	262
(18.3)				Regional				
	(17.0)	(24.0)	(14.2)	overheads	(74)	(56)	(18)	(56)
<u>77.7</u>	<u>79.3</u>	<u>70.7</u>	<u>65.2</u>		<u>315</u>	<u>262</u>	<u>53</u>	<u>257</u>
EMEA								
38.5	37.9	41.3	46.7		156	125	31	184

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				Owned and leased				
9.6	9.4	10.7	7.4	Managed	39	31	8	29
8.9	8.8	9.3	4.3	Franchised	36	29	7	17
(11.9)				Regional				
	(10.9)	(16.0)	(10.9)	overheads	(48)	(36)	(12)	(43)
45.1	45.2	45.3	47.5		183	149	34	187
				Asia Pacific Owned and leased				
6.7	5.5	12.0	6.1	Managed	27	18	9	24
6.2	4.6	13.3	4.8	Franchised	25	15	10	19
1.2	1.2	1.3	1.3	Regional	5	4	1	5
(5.4)				overheads				
	(5.5)	(5.3)	(4.1)		(22)	(18)	(4)	(16)
8.7	5.8	21.3	8.1		35	19	16	32
(31.5)	(30.3)	(37.3)	(20.8)	Central (3)	(128)	(100)	(28)	(82)
100.0	100.0	100.0	100.0		405	330	75	394

(1) Amounts are reported by origin.

(2) Operating profit before exceptional items excludes profits/(losses) on sale of fixed assets and operations and other exceptional items.

(3) Central includes global functions that were centralized following the reorganization review. Costs are reduced by Holidex fee income.

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The following table shows turnover and operating profit in US dollars of the IHG Hotels business by activity and the percentage contribution of each activity for the year ended September 30, 2002 and the year ended September 30, 2001. As it has not been practicable to restate segmental information for the year ended September 30, 2001 to conform with the new presentation resulting from the new structure following the fundamental reorganization of the Hotels business, the 2002 financial information is presented on the same basis.

Amounts in accordance with UK GAAP

<u>Year ended September 30</u>		<u>Year ended September 30</u>	
<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	%		(\$ million)

Turnover by Activity (1)