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The agreed sale price was €352 million. IHG's share of the proceeds was €345.2 million (before transaction costs), in cash and the assumption of debt, and the balance of €6.8 million relates to third-party minority interests.

The hotels continue to be operated by the purchaser under the same brands under 15-year franchise agreements.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

### ***Disposal to Morgan Stanley Real Estate Funds***

On July 13, 2006 a sale and purchase agreement ("SPA") was entered into between BHR Holdings BV and other wholly owned subsidiaries of IHG as sellers (BHR Holdings BV being the principal seller) and a subsidiary of Morgan Stanley Real Estate Funds MSREF VI Danube BV. Under the SPA the sellers agreed to sell seven InterContinental branded hotels situated across Europe in France, Germany, the Netherlands, Austria, Hungary, Italy and Spain.

The agreed sale price for the seven hotels was €634 million. The Group retained 30-year management contracts on the hotels, with two ten-year renewals at the Group's discretion, giving a total potential contract length of 50 years.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

### **EXCHANGE CONTROLS**

There are no restrictions on dividend payments to US citizens.

Although there are currently no UK foreign exchange control restrictions on the export or import of the capital or the payment of dividends on the ordinary shares or the ADSs, from time to time English law imposes restrictions on the payment of dividends to persons resident (or treated as so resident) in or governments of (or persons exercising public functions in) certain countries (each of the foregoing, a "Prohibited Person").

There are no restrictions under the articles of association or under English law that limit the right of non-resident or foreign owners to hold or vote the ordinary shares. However, under current English law, ordinary shares or ADSs may not be owned by a Prohibited Person. In addition, the Company's articles of association contain certain limitations on the voting and other rights of any holder of ordinary shares, whose holding may, in the opinion of the directors, result in the loss or failure to secure the reinstatement of any license or franchise from any US governmental agency held by Six Continents Hotels Inc or any subsidiary thereof.

### **TAXATION**

This section provides a summary of the material US federal income tax and UK tax consequences to US holders, as defined below, of owning and disposing of ordinary shares or ADSs of the Company. This section addresses only the tax position of a US holder who holds ordinary shares or ADSs as capital assets. This section does not, however, discuss the tax consequences of members of special classes of holders subject to special rules, such as

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding ordinary shares or ADSs as part of a hedge, straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for US federal income tax purposes is not the US dollar;
- partnerships or other entities classified as partnerships for US federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;

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- persons who acquired our ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise in connection with employment; or
- holders that, directly or indirectly, hold 10% or more of the Company's voting stock.

This section does not generally deal with the position of a US holder who is resident or, in the case of an individual, ordinarily resident in the UK for UK tax purposes or who is subject to UK taxation on capital gains or income by virtue of carrying on a trade, profession or vocation in the UK through a branch, agency or permanent establishment to which such ADSs or ordinary shares are attributable ("trading in the UK").

A US holder is a beneficial owner of ordinary shares or ADSs who is for US federal income tax purposes (i) an individual citizen or resident of the US, (ii) a US domestic corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; (iii) an estate whose income is subject to US federal income tax regardless of its source, or (iv) a trust if a US court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and on UK tax laws and the published practice of HM Revenue and Customs, all as of the date hereof. These laws, and that practice, are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the Depositary and assumes that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For US federal income tax purposes, an owner of ADRs evidencing ADSs will generally be treated as the owner of the underlying shares represented by those ADSs. Generally, exchanges of ordinary shares for ADRs, and ADRs for ordinary shares, will not be subject to US federal income tax or UK taxation on capital gains, although UK stamp duty reserve tax ("SDRT") may arise as describes below.

The US Treasury has expressed concerns that parties to whom American Depositary Shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for US holders of American Depositary Shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, for qualified dividend income. Accordingly, the analysis of the availability of the reduced rate of tax for qualified dividend income described below could be affected by actions taken by parties to whom the ADRs are pre-released.

The following discussion assumes that the Company is not, and will not become, a passive foreign investment company (a "PFIC"), as described below.

*Investors should consult their own tax advisors regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances.*

### **Taxation of Dividends**

#### *United Kingdom Taxation*

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

A US holder who is not resident for UK tax purposes in the UK and who is not trading in the UK will generally not be liable for UK taxation on dividends received in respect of the ADSs or ordinary shares.

#### *United States Federal Income Taxation*

A US holder is subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Distributions in excess of the Company's current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a return of capital to the extent of the US holder's basis in the shares or ADSs and thereafter as capital gain. Because the Company has not historically maintained, and does

not currently maintain, books in accordance with US tax principles, the Company does not expect to be in a position to determine whether any distribution will be in excess of the Company's current and accumulated earnings and profits as computed for US federal income tax purposes. As a result, the Company expects that amounts distributed will be reported to the Internal Revenue Service as dividends.

Subject to applicable limitations and the discussion above regarding concerns expressed by the US Treasury, dividends paid to a non-corporate US holder in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to the holder at a maximum tax rate of 15%. The Company expects that dividends paid by the Company with respect to the shares or ADSs will constitute qualified dividend income. US holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at this favorable rate.

Dividends must be included in income when the US holder, in the case of shares, or the Depositary, in the case of ADSs, actually or constructively receives the dividend, and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. For foreign tax credit limitation purposes, dividends will generally be income from sources outside the United States.

The amount of any dividend paid in pounds will be the US dollar value of the sterling payments made, determined at the spot sterling/US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, a US holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date the payment is converted into US dollars will be treated as ordinary income or loss and, for foreign tax credit limitation purposes, from sources within the United States.

#### **Taxation of Capital Gains**

##### *United Kingdom Taxation*

A US holder who is not resident or, in the case of an individual, ordinarily resident for UK tax purposes in the UK and who is not trading in the UK will not generally be liable for UK taxation on capital gains realized or accrued on the sale or other disposal of ADSs or ordinary shares.

A US holder of ADSs or ordinary shares who is an individual and who, broadly, has temporarily ceased to be resident or ordinarily resident in the UK or has become temporarily treated as non-resident for UK tax purposes for a period of less than five years of assessment and who disposes of ordinary shares or ADSs during that period may, for the year of assessment when that individual becomes resident again in the UK, be liable to UK tax on capital gains (subject to any available exemption or relief), notwithstanding the fact that such US holder was not resident or ordinarily resident in the UK at the time of the sale or other disposal.

##### *United States Federal Income Taxation*

A US holder that sells or otherwise disposes of ordinary shares or ADSs will recognize a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realized and its tax basis, determined in US dollars, in the ordinary shares or ADSs. Such capital gain or loss will be long-term capital gain or loss where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of losses is subject to limitations.

#### **PFIC Rules**

The Company believes that it was not a PFIC for US federal income tax purposes for its 2011 taxable year. However, this conclusion is an annual factual determination and thus may be subject to change. If the Company were to be treated as a PFIC, gain realized on the sale or other disposition of ordinary shares or ADSs would in general not be treated as capital gain. Instead, gain would be treated as if the US holder had realized such gain ratably over the holding period for the ordinary shares or ADSs and, to the extent allocated to the taxable year of

the sale or other exchange and to any year before the Company became a PFIC, would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, similar rules would apply to any “excess distribution” received on the ordinary shares or ADSs (generally, the excess of any distribution received on the ordinary shares or ADSs during the taxable year over 125% of the average amount of distributions received during a specified prior period), and the preferential rate for “qualified dividend income” received by certain non-corporate US holders would not apply. Certain elections may be available (including a market-to-market election) to US holders that would result in alternative treatments of the ordinary shares or ADSs. Pursuant to legislation enacted in 2010, if the Company were to be treated as a PFIC in any taxable year, a US holder may be required to file an annual report with the Internal Revenue Service containing such information as the Treasury Department may require.

#### **Additional Tax Considerations**

##### *United States Backup Withholding and Information Reporting*

Payments of dividends and other proceeds with respect to ADSs and ordinary shares may be reported to the IRS and to the US holder. Backup withholding may apply to these payments if the US holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US holders (including, among others, corporations) are not subject to backup withholding. The amount of any backup withholding from a payment to a US holder will be allowed as a credit against the holder’s US federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. US holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

##### *United Kingdom Inheritance Tax*

An individual who is neither domiciled nor deemed domiciled in the UK (under certain UK rules relating to previous domicile or long residence) is only chargeable to UK inheritance tax to the extent the individual owns assets situated in the UK. As a matter of UK law, it is not clear whether the situs of an ADS for UK inheritance tax purposes is determined by the place where the depository is established and records the entitlements of the depository holders, or by the situs of the underlying share which the ADS represents, but the UK tax authorities are likely to take the view that the ADSs, as well as the ordinary shares, are UK situs assets.

However, an individual who is domiciled in the United States (for the purposes of the Estate and Gift Tax Convention) and is not a UK national as defined in the Convention will not be subject to UK inheritance tax (to the extent UK inheritance tax applies) in respect of the ordinary shares or ADSs on the individual’s death or on a transfer of the ordinary shares or ADSs during their lifetime, provided that any applicable US federal gift or estate tax is paid, unless the ordinary shares or ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base of an individual used for the performance of independent personal services. Where the ordinary shares or ADSs have been placed in trust by a settlor, they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the United States and was not a UK national. If no relief is given under the Convention, inheritance tax may be charged on the amount by which the value of the transferor’s estate is reduced as a result of any transfer made by way of gift or other undervalue transfer by an individual, broadly within seven years of death, or on the death of an individual, and in certain other circumstances. Where the ordinary shares or ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the Estate and Gift Tax Convention generally provides for either a credit against US federal tax liabilities for UK inheritance tax paid or for a credit against UK inheritance tax liabilities for US federal tax paid, as the case may be.

##### *United Kingdom Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

Neither stamp duty nor SDRT will generally be payable in the UK on the purchase or transfer of an ADS, provided that the ADS and any separate instrument or written agreement of transfer are executed and remain at all times outside the UK. Stamp duty or SDRT is, however, generally payable at the rate of 1.5% on the amount or value of the consideration (or, in some cases, the value of the ordinary shares) where ordinary shares are