MILLENNIUM & COPTHORNE HOTELS plc

ANNUAL REPORT & ACCOUNTS 2005

MILLENNIUM & COPTHORNE HOTELS plc ANNUAL REPORT & ACCOUNTS 2005

MILLENNIUM & COPTHORNE HOTELS plc

ANNUAL REPORT & ACCOUNTS 2005

CONTENTS

TO A WORLD OF HOSPITALITY

MILLENNIUM & COPTHORNE HOTELS COMPRISE **97 HOTELS WITH 26,270 ROOMS IN 18 COUNTRIES.** OUR WORLD OF HOSPITALITY MARKETING ALLIANCE PARTNER, MARITIM HOTELS HAS 45 HOTELS WITH 12,557 ROOMS IN 8 COUNTRIES.

THE AMERICAS
ANCHORAGE
BOSTON
BOULDER
CHICAGO
CINCINNATI
DURHAM
GALAPAGOS ISLANDS
LOS ANGELES
MINNEAPOLIS
NASHVILLE
NEW YORK (3)
SCOTTSDALE
ST LOUIS
OTHER UNITED STATES (7)

EUROPE AND MIDDLE EAST
ABERDEEN
ABU DHABI
BIRMINGHAM
CARDIFF
DUBAI
DOHA
GATWICK (2)
GLASGOW
HANNOVER
LONDON (5)
MANCHESTER
MARSA ALAM
MERRY HILL DUDLEY
NEWCASTLE
PARIS (2)
PLYMOUTH
READING (2)
SHARJAH
SHARM EL SHEIKH
SLOUGH WINDSOR
SOUTHAMPTON
STUTTGART

ASIA
BANGKOK
HONG KONG (2)
JAKARTA
KUALA LUMPUR
MANILA
PENANG
SEOUL
SHANGHAI
SINGAPORE (5)
TAIPEI

AUSTRALASIA
AUCKLAND (4)
BAY OF ISLANDS (2)
CHRISTCHURCH (6)
HOKIANGA
KINGSGATE HOTELS & RESORTS (8)
ROTORUA (2)
MASTERTON
NEW PLYMOUTH
QUEENSTOWN (3)
TAUPO
WELLINGTON (2)

CORPORATE OFFICES

EUROPE
Millennium & Copthorne Hotels plc
Corporate Headquarters
Scarsdale Place
Kensington
London, W8 5SR
UK
Tel [44] (0) 20 7872 2444
Fax [44] (0) 20 7872 2460
Email marketing@mill-cop.com

THE AMERICAS
Millennium Hotels & Resorts
145 West 44th Street
Sixth Floor
New York, 10036
USA
Tel +[1] 212 789 0700
Fax +[1] 212 789 7660
Email mhrmarketing@mhrmail.com

ASIA
Millennium & Copthorne International Ltd
390 Havelock Road
#02-01 King's Centre
Singapore 169622
Tel +[65] 6737 1928
Fax +[65] 6735 8924
Email sales@millenniumhotels.com.sg

AUSTRALASIA
Millennium & Copthorne Hotels New Zealand Limited
Level 13, 280 Centre
280 Queen Street
Auckland
New Zealand
Tel +[64] (9) 309 4411
Fax +[64] (9) 377 0764
Email sales.marketing@millenniumhotels.co.nz

GLOBAL SALES OFFICES

EUROPE

UK	+[44] (0) 20 7872 2821
Germany	+[49] (0) 6151 905 710
France	+[33] (0) 1 4949 16 17

THE AMERICAS

TOLL FREE IN US	+[1] (866) 866 8086
New York	+[1] (212) 789 0700

ASIA

Hong Kong	+[852] 2921 8328
Japan	+[81] (3) 3509 7021
Singapore	+[65] 6737 1928
Taipei	+[886] (2) 2729 0580
Beijing	+[86] (10) 8450 6883

AUSTRALASIA

Sydney	+[61] (2) 9358 5080

INTERNATIONAL RESERVATIONS NUMBERS

EUROPE AND MIDDLE EAST
Please dial the following toll free number: 00 800 86 86 8086 for the following countries:

Austria
Belgium
Denmark
Finland (please dial prefix 990, rather than 00)
Germany (answered by Alliance Partner Maritim Hotels)
Ireland
Italy
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland

France	0800 90 95 86
Israel	(00) (44) (0) 845 30 20001
United Kingdom	0 800 41 47 41
Egypt	(0020) 65 3700 222

UNITED ARAB EMIRATES

Abu Dhabi	(00) 971 (0) 2 626 2700
Dubai	(00) 971 (0) 4 282 3464
Sharjah	(00) 971 (0) 6 556 6666

THE AMERICAS
Please dial 1 866 866 8086 for the following countries:

Canada
Puerto Rico
United States
US Virgin Islands

Brazil – Sao Paolo	0800 119 131#
Chile	800 530 061#
Colombia	(57-1) 2949 570#
Mexico	800 903 9500#
Venezuela	0800 100 6814#

ASIA

Hong Kong	800 96 2541
Japan	0120 500 174*
India	91 11 371 3661/2
Indonesia	001 803 65 6541
Beijing	10 800 852 0673#
Malaysia	1 800 80 1063
Singapore	65 6735 7575
Thailand	001 800 65 6544
Seoul	00 308 651 1888
Taiwan	0080 65 15 05 (toll free)

AUSTRALASIA

Australia	1 800 124 420
New Zealand	0800 808 228

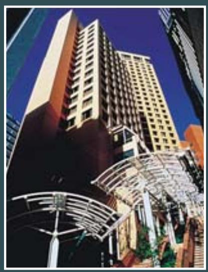
For further information
Please visit our website http://www.millenniumhotels.com

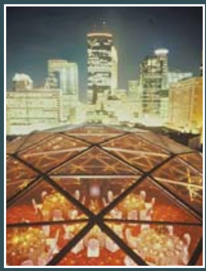
For Asia: reservations@millenniumhotels.com.sg
Reservations may also be made through your travel planner, GDS Chain code: MU, or direct with the hotel.

Produced by
Group Corporate Affairs
Hong Leong Group Singapore
http://www.hongleong.com.sg

Designed by
Zucchini Design Pte Ltd

* Millennium Hotels and Resorts Dedicated Line
\# Numbers operated by Utell International


EUROPE
Millennium
Hotel Paris Opera

AUSTRALASIA
Copthorne Hotel
Wellington Plimmer
Towers

ASIA
Millennium
Hongqiao Shanghai
China

MIDDLE EAST
Millennium Hotel
Abu Dhabi

USA
Millennium Hotel
Minneapolis

EUROPE
Millennium
Bailey's Hotel London
Kensington

ASIA
Millennium
Sukhumvit Hotel
Bangkok

MIDDLE EAST
Millennium
Doha, Qatar

FINANCIAL SUMMARY

	2005	2004
Revenue (£m)	**595.2**	551.0
Group operating profit before other operating income and impairment (£m)	**99.6**	85.2
Profit before tax (£m)	**95.8**	91.0
Earnings per share (pence)	**21.3**	17.9
Total ordinary dividend (pence)	**7.70**	6.25

THIS YEAR'S HIGHLIGHTS

ASSET DISPOSALS AND DEVELOPMENTS

- Continued success in maximising value from asset sales with a £9.6m profit from the sales of Bayswater Tower Sydney and the Kingsgate Shopping and Commercial Centres
- Further redevelopment of assets in progress at Four Points Sunnyvale and Copthorne Orchid Hotel Singapore

STRONG EARNINGS GROWTH

- RevPAR improvement in all regions
- New York hotels performed very strongly
- Continued recovery in Asia

MANAGEMENT AND FRANCHISE CONTRACTS

- Ten new management and franchise contracts announced during the year comprising 1,839 rooms
- First management contract in China

COVER RATIONALE

In this year's annual report, the different facets of M&C's service culture are depicted in an illustration - signifying its importance and serving as a tribute to our front line ambassadors. They give our guests a memorable M&C experience, and keep them returning to us, wherever we are in the world.

Pearl Liang Chinese Seafood Restaurant
Grand Hyatt Taipei

CHAIRMAN'S STATEMENT

GROUP RESULTS

2005 WAS ANOTHER YEAR OF POSITIVE DEVELOPMENT WITH STRONG GROWTH IN PROFITABILITY. REVPAR GREW ACROSS ALL REGIONS WITH IMPROVEMENTS IN EACH QUARTER.

RESULTS WERE ACHIEVED THROUGH OUR STRATEGY OF BEING AN INTEGRATED OWNER AND OPERATOR OF INTERNATIONAL HOTEL ASSETS WITH A BALANCED GEOGRAPHIC PORTFOLIO. WE HAVE BENEFITED FROM OUR FOCUS ON OPERATIONAL IMPROVEMENT AND FROM OUR COMMITMENT TO ACHIEVING SUSTAINED OPERATIONAL EXCELLENCE IN OUR HOTELS. OUR PROPERTY EXPERTISE HAS ALLOWED US TO MANAGE OUR REAL ESTATE ASSETS ACTIVELY AND TO UNLOCK LONG TERM VALUE TO ENSURE SUPERIOR VALUE CREATION OVER TIME.

Revenue for the year was up 8.0% to £595.2m (2004: £551.0m). Group operating profit before other income and impairment increased 16.9% to £99.6m (2004: £85.2m) and our profit before tax before other operating income and impairment was £74.0m (2004: £51.2m). Profit before tax was £95.8m (2004: £91.0m).

	3 months to 31 December 2005 £m	3 months to 31 December 2004 £m	Year to 31 December 2005 £m	Year to 31 December 2004 £m
Revenue	**167.6**	151.1	**595.2**	551.0
Group operating profit before other operating income and impairment	**35.1**	28.6	**99.6**	85.2
Profit before tax before other operating income and impairment	**31.0**	20.9	**74.0**	51.2
Profit before tax	**36.7**	60.2*	**95.8**	91.0

** 2004 financials include £51.8m arising from the disposal of The Plaza, New York joint venture*

ASSET PORTFOLIO

2005 was another successful year for our continued effort to maximise value from our portfolio through disposal or selective asset redeployment:

- BAYSWATER TOWER SYDNEY
  We completed the sale of the Bayswater Tower in Sydney at a price of A$20 million (£8.5m). Profit on disposal was £3.3m.

- KINGSGATE SHOPPING CENTRE AND KINGSGATE COMMERCIAL CENTRE
  We disposed of the Kingsgate Shopping Centre in Sydney, for a net consideration of A$19.9 million (£8.5m). We also sold a further section of the complex, the Kingsgate Commercial Centre, for a net consideration of A$19.0 million (£8.0m). The combined profit on the disposal of these two properties was £6.3 million.

- FOUR POINTS HOTEL SUNNYVALE
  We announced in the third quarter the redevelopment of the Four Points Sunnyvale Hotel in California into 240 residential condominiums for sale and a 250 bedroom hotel. Planning permission has been obtained and the hotel has closed. Work on the redevelopment should commence in the third quarter of 2006.

- COPTHORNE ORCHID HOTEL SINGAPORE
  We announced the planned redevelopment of the Copthorne Orchid Singapore into residential condominiums for sale. We expect work to commence on this project later in the year.

- MILLENNIUM SEOUL HILTON HOTEL
  We have entered into a lease agreement with the State casino operator for the convention space at the Millennium Seoul Hilton. Conversion work is expected to be completed early in the second half of 2006.

MANAGEMENT AND FRANCHISE CONTRACTS

The Group announced ten new management and franchise contracts during the year comprising 1,839 rooms:

- The Millennium Hongqiao Shanghai, a 350 bedroom 5-star property, scheduled to open during 2006. Our first management contract in China in an increasingly competitive market.

- The Millennium Hotel and Resort Montazah near Sharm el Sheikh with 350 bedrooms and 115 villas scheduled to open early 2007.

- The Millennium Sukhumvit Hotel Bangkok, a 326 bedroom hotel, which is scheduled to open in December 2007.

- The Millennium Hotel Southampton Ocean Village, a 200 bedroom 4-star luxury hotel on the waterfront.

- The Copthorne Hotel Reading, the 81 bedroom Kirtons Farm property by the M4, which will be rebranded into a Copthorne following a refurbishment in late 2006.

- The Millennium Hotel Doha in Qatar, a 238 bedroom, 5-star property scheduled to open late 2006.

- Four new franchise contracts signed in New Zealand: the Copthorne Hotel Grand Central, New Plymouth, and the Copthorne Hotels & Resorts - Hokianga, the Kingsgate Hotel Wanganui and the Kingsgate Hotel Beachcomber, Nelson.

CHAIRMAN'S STATEMENT

DIVIDEND

The Board proposes a final dividend of 5.62p per share. With the interim dividend of 2.08p, the total for the year is 7.7p per share, an increase of 23% (2004: 6.25p plus 6.25p special dividend).

PROSPECTS

In 2005, we delivered good earnings growth by exploiting our operating skills in an improving trading environment. We also used our real estate expertise and resources to derive further gains from our portfolio of assets. We have undoubtedly benefited from our twin strategy of both operating and owning hotels worldwide.

In the first six weeks of 2006, trading has continued in line with the positive trends of 2005.

Looking to the future, we believe that our established ability to combine our operating and real estate strengths gives us a real competitive edge. We will use this advantage to deliver enhanced value for shareholders and we are confident that we can make further progress.

KWEK LENG BENG
CHAIRMAN
20 February 2006

REVIEW OF OPERATIONS

GROUP PERFORMANCE

OCCUPANCY FOR THE GROUP WAS 73.0% (2004: 71.8%) AND THE AVERAGE ROOM RATE WAS £64.01 (2004: £60.59). REVPAR INCREASED 7.4% TO £46.73 (2004: £43.50). ALL FOUR REGIONS EXPERIENCED YEAR-ON-YEAR AVERAGE ROOM RATE GROWTH. REVENUE FOR THE YEAR WAS £595.2M (2004: £551.0M) AND GROUP OPERATING PROFIT BEFORE OTHER INCOME AND IMPAIRMENT WAS £99.6M (2004: £85.2M).

REGIONAL PERFORMANCE

For comparability, we have restated the 2004 figures at 2005 exchange rates. 2004 average room rate was £61.69, RevPAR £44.29, revenue £563.1m and Group operating profit before other operating income and impairment £87.3m.

UNITED STATES

New York

Occupancy was 84.5% (2004: 84.0%) and the average room rate £129.42 (2004: £109.28). RevPAR was £109.36 (2004: £91.80), up 19.1%.

All three New York hotels performed strongly. An aggressive rate strategy and the refurbishment programme this year resulted in an average room rate of £129.42 (2004: £109.28), growth of 18.4%. 2005 occupancy grew by half a percentage point from 2004.

At the Millennium Broadway Hotel, our decision to renovate the Hudson Theatre Conference Facility at the end of 2004 produced food and beverage revenues significantly ahead of 2004. The property has also increased RevPAR against its competitive set.

Millenium Hilton New York, which reopened in May 2003, continues to capture a growing share of the market and increase rates at the same time.

The Millennium UN Plaza experienced the highest RevPAR growth of our three New York properties.

Regional US

Occupancy was 66.2% (2004: 61.2%) and the average room rate was £49.63 (2004: £53.15), with RevPAR at £32.86 (2004: £32.53). Excluding the Best Western Lakeside which the Group repossessed in December 2004, RevPAR increased by 7.9% on 2004.

RevPAR improved significantly at Los Angeles, Scottsdale and Nashville. Cincinnati continues to be impacted by the temporary closure of the convention centre.

EUROPE

London

Occupancy was 84.8% (2004: 83.5%) and the average room rate was £80.20 (2004: £79.79), with RevPAR at £68.01 (2004: £66.62).

Improvements in the first half of the year were primarily driven by increased volume. The incidents in July reduced room sales for the third quarter.

The refurbishment of 115 rooms at the Millennium Mayfair enabled a more aggressive approach to rates but with a loss of available room inventory during the refurbishment.

The performance from our London hotels was in line with the market, with the exception of the Millennium Gloucester which was weak relative to our expectations. In the second half of 2005, the hotel embarked on a number of sales programmes to identify and secure further corporate business. The hotel is also impacted by a 142 room refurbishment to reposition its inventory, which is scheduled for completion in the first half of 2006. The hotel will also be refurbishing the Millennium Conference Centre during 2006. We expect to see the benefits of these activities towards the end of 2006 and beyond.

Rest of Europe

Occupancy was 72.8% (2004: 72.8%) and the average room rate was £69.83 (2004: £66.89) with RevPAR increasing to £50.84 (2004: £48.70).

In our regional UK hotels, occupancy was 77.2% (2004: 76.0%), average room rate £67.91 (2004: £64.71), and RevPAR £52.43 (2004: £49.18).

In France and Germany, occupancy was 65.9% (2004: 67.8%) and the average room rate was £73.40 (2004: £70.78), with RevPAR at £48.37 (2004: £47.99).

REVIEW OF OPERATIONS

ASIA

Occupancy for the region was 73.7% (2004: 73.2%) and the average room rate was £52.40 (2004: £49.15), with RevPAR at £38.62 (2004: £35.98).

2005 has been a strong year in Singapore with RevPAR growth of 21.4%. Both occupancy and average rates improved. The Orchard Hotel and the Copthorne Kings Hotel have benefited from extensive refurbishment programmes which have assisted rate growth in both properties.

RevPAR at the Grand Hyatt Taipei improved but RevPAR at the Millennium Seoul Hilton reduced. Overall, RevPAR increased by 2.5% in Asia excluding Singapore.

Our joint venture properties in Hong Kong, whose figures are not included in the regional or Group statistics, improved RevPAR by 24.3% built on strong average rate growth and demand particularly from the Chinese market.

AUSTRALASIA

Occupancy for the region was 69.6% (2004: 71.5%) and the average room rate was £43.43 (2004: £41.29). This led to an increase in RevPAR to £30.23 (2004: £29.52).

The performance of our New Zealand properties continued to improve, albeit at a slower rate than in previous years. At constant currency, there has been RevPAR growth every year since our acquisition of this portfolio. Both the Copthorne and Kingsgate brands saw improvements in RevPAR this year. There was a marginal decline in the Millennium portfolio due to the loss of a key leisure contract at the Millennium Queenstown, but we expect a return to positive growth during 2006.

CURRENT TRADING

Whilst the early part of the year is not a significant trading period in the context of the overall Group performance, trading in our main regions continues to be in line with the positive trends of 2005. In the period to 14 February 2006 the Group RevPAR increased by 9.4% compared to the corresponding period in 2005.

Looking to the future, we believe that our established ability to combine our operating and real estate strengths gives us a real competitive edge. We will use this advantage to deliver enhanced shareholder value.

FINANCE REVIEW

THESE ARE OUR FIRST FULL YEAR CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS.

RESULTS

The overall results are commented upon by the Chairman in his statement on pages 4 to 6 and operational trading is discussed in the Review of Operations on pages 7 to 8.

IFRS

The financial information presented in these consolidated financial statements has been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ('IFRS'). IFRS 1, 'First-time Adoption of International Financial Reporting Standards' has been applied. These are the first full year consolidated financial statements that the Group has prepared in accordance with IFRS.

Consolidated financial statements of the Group had been prepared until 31 December 2004 in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'), which differ in certain respects from IFRS. The Group's revised accounting policies for 2005 under IFRS are set out on pages 38 to 45. The 2004 comparative figures have been restated and an explanation and a reconciliation of the adjustments arising, which principally relate to revaluations, deferred taxation and employee benefits, are set out in Note 33.

VALUATIONS OF ASSETS

Interim IFRS financial information published by the Group during 2005 had applied an accounting policy of on-going revaluation of hotel land and buildings, which was consistent with the former UK GAAP accounting policy. Subsequently, for better industry comparability, this policy has been revised and now, under the transition provisions of IFRS 1, the Group states land and buildings which were previously revalued under UK GAAP at depreciated deemed cost. This is their UK GAAP carrying value, including revaluations, as at 1 January 2004 less subsequent depreciation or provision for impairment. No revaluation surpluses or deficits will be recorded after 1 January 2004. All other fixed assets are stated at cost less depreciation and any provision for impairment.

External professional open market valuations were undertaken at 31 December 2004 and 31 December 2005 in respect of hotel land and buildings. In 2005 twenty-four hotels were subject to valuation and twenty-one hotels were valued in 2004. Based on these valuations, together with such adjustments as the directors consider appropriate, a valuation surplus of £62.4m is estimated. Of this, £11.5m was reported in 2004 in respect of Group hotels and a further £50.9m uplift is estimated for 2005. In addition, £17.5m in respect of the Group's share of valuation surpluses for joint venture hotels, all reported in 2004, is estimated. Under the Group's IFRS accounting policy for hotel land and buildings described above, these valuation surpluses have not been recorded within the financial statements.

If the Group were to incorporate valuations in the accounts, the revalued amount of property, plant and equipment and lease premium prepayments would rise to £2,086.6m from £2,024.2m and the value of the investments in joint ventures would increase to £46.5m from £29.0m.

At the end of 2005, the Group's investment properties consisting of the Kings Tanglin Shopping Centre in Singapore and the Biltmore Court & Tower, Los Angeles were both subject to external professional valuation on an open market value existing use basis. The Kings Tanglin Shopping Centre was valued at existing carrying value and the Court & Tower recorded an uplift in value of £5.9m, which has been credited to the income statement in accordance with the Group's accounting policy and is shown in Note 3.

The directors undertake an annual review of the carrying value of hotel and property assets for indications of impairment, as required by IAS 36 'Impairment of assets'. An impairment charge of £6.5m (2004: £15.2m) has been recorded in the year.

FINANCE REVIEW

ASSET DISPOSALS AND DEVELOPMENTS

The Group made a net profit on asset sales in Australasia of £9.6m.

In December 2005, the Group took possession of the Wynfield Inn, Westwood in Florida due to loan payment default. This property had been sold by way of a loan note as part of the disposal programme following the Regal acquisition. The hotel only traded for two weeks under our control and the operating statistics have not been included in the results.

CASH FLOW

The Group's operating net cash inflow for 2005 was £116.1m compared with £122.8m for 2004.
Net capital expenditure was £4.7m, comprising maintenance capital of £39.2m and disposal proceeds of £34.5m, principally from the sale of assets in Australasia. Net interest paid was £29.3m, and tax payments totalled £13.1m. Equity dividend payments totalled £31.5m including the special dividend approved in 2005.

MILLENIUM HILTON NEW YORK

In the first quarter we announced the successful conclusion of negotiations in the settlement of the 11 September 2001 business interruption/property damage insurance claim for US$85.0m at the Millenium Hilton Hotel in New York. The final proceeds received in 2005 of US$25.0m (£12.8m) are disclosed within other operating income.

In October 2005 the Group filed a legal action against its insurance advisor. The action seeks damages in excess of US$45m on various grounds relating to damages and business interruption losses at its other US hotel properties resulting from the terrorist attack on 11 September 2001.

FINANCING AND GEARING

At 31 December 2005 net debt was £480.4m (2004: £483.0m) representing a gearing of 38.4% (2004: 42.1%). The Group has sufficient capacity to finance growth with £98.4m of undrawn and committed facilities which will be enhanced by future cash generation from the Group's activities.

The Group's main financial covenants for longer-term facilities are interest cover and gearing ratios.

The value of the Group's unencumbered properties as at 31 December 2005 was £1,416.7m (2004: £786.3m).

TREASURY RISK MANAGEMENT

Group treasury matters are governed by policies and procedures approved by the Board of directors. The treasury committee monitors and reviews treasury matters on a regular basis. A written summary of major treasury activity is presented to each Board meeting. The Group's treasury policies are set out in Note 19.

FINANCE INCOME AND EXPENSE

Interest receivable and similar income was £6.7m (2004: £5.8m). Total interest expense was £35.8m (2004: £41.5m). The principal reason for the reduction is the refinancing of US debt.

The net finance cost was £29.1m (2004: £35.7m), which was covered 3.4 times (2004: 2.4 times) by Group operating profit before other operating income and impairment.

TAXATION

The tax charge for the Group is £26.0m (2004: £31.4m) which, excluding the Group's share of profit of joint ventures and associates of £3.5m (2004: £1.7m), represents a blended tax rate of 28.2% (2004: 35.2%). Changes in regional profit mix, the level of other financial income and expense, and adjustments for prior years can give rise to marked variations in the Group's effective rate.

PENSIONS

The Group's major defined benefit plans are those operated in the UK, Korea and Taiwan. The UK plan is closed to new entrants. The Group's net defined benefit plans balance sheet liability increased in the year by £2.7m to £16.0m. Most of the increase was due to the UK plan with a £4.0m charge to equity which has largely risen from a change in assumption on mortality rates. This reflects an industry-wide recognition that life expectancy has increased.

EARNINGS PER SHARE AND DIVIDEND

The total basic earnings per share rose by 3.4p to 21.3p, an increase of 19%.

An interim dividend of 2.08p per share was paid and charged in the 2005 accounts in October 2005 (2004: 2.08p). A final dividend of 5.62p per share is proposed for 2005 and will be charged in the 2006 accounts. The final dividend of 4.17p per share relating to 2004 was paid for and charged in the 2005 accounts. A final 2004 special dividend of 6.25p per share in respect of exceptional profits was paid for and charged in the 2005 accounts.

In respect of dividends paid in 2005 the Group offered shareholders the right to a scrip dividend. This resulted in dividend cash payments in 2005 of £31.5m (2004: £3.0m) out of total dividends of £35.7m (2004: £11.7m). The balance of £4.2m (2004: £8.7m) was credited to reserves on issue of the related share capital. The Group will again be offering shareholders the option of a scrip dividend.

BOARD OF DIRECTORS


KWEK LENG BENG


TONY POTTER


WONG HONG REN

KWEK LENG BENG, 65[#]

Non-Executive Chairman and
Chairman of the Nominations Committee

Kwek Leng Beng has been the Chairman of Millennium & Copthorne Hotels plc since its incorporation. He is also Executive Chairman of City Developments Limited, the Hong Leong Group of companies in Singapore and Chairman and Managing Director of City e-Solutions Limited. Since 1995 he has been a member of the Singapore - US Business Council. He was named Businessman of the Year, a premiere corporate award by the Singapore Business Times in 1996, and was awarded the “Outstanding Contributor to Tourism” and “Tourism Entrepreneur of the Year” awards by the Singapore Tourism Board the following year.

In 1998 Mr Kwek was conferred a Doctorate of Business Administration in Hospitality Management by Johnson & Wales University, and a Degree from Oxford Brookes University in 2000. He was also honoured in March of the same year as ‘Asian Hotelier of the Decade’ at the 3rd Annual Asia Pacific Hotel Industry Investment Conference organised by Jones Lang Lasalle Hotels and Arthur Andersen.

In 2003, Mr Kwek was appointed a Member of ACE (Action Community for Entrepreneurship) Singapore. He is also a member of the Advisory Board of The Cornell-Nanyang Institute of Hospitality Management.

TONY POTTER, 56

Group Chief Executive Officer

Tony Potter is Group Chief Executive Officer of Millennium & Copthorne Hotels plc. He joined the company in September 1999.

Before joining Millennium & Copthorne Hotels plc, Tony held the post of chief executive officer and executive director at Choice Hotels Europe plc.

Prior to this he was with Hilton International for 19 years and was also a director of that company. During this time he held the positions of senior vice president Europe, senior vice president North America and Canada and managing director of Hilton UK.

In his earlier career he was general manager of various hotel properties including the London Hilton on Park Lane.

Before joining Hilton International he held various general management positions with Thistle Hotels, De Vere Hotels and Leisure and General.

He is a graduate of Birmingham College of Food, Tourism and Domestic Art and an Honorary Fellow of that College. He is also a visiting fellow and lecturer at the University of Plymouth from where he holds an Honorary Master of Science Degree and is a Fellow of the Hotel & Catering International Management Association (FHCIMA).

WONG HONG REN, 54

Investment Manager

Wong Hong Ren joined Millennium & Copthorne Hotels plc as a non-executive director at the flotation of the Group. He is a non-executive director of City e-Solutions Limited and the Group Investment Manager for the Hong Leong Group in Singapore. Mr Wong was appointed an executive director of the Company in April 2001.

KWEK LENG JOO, 52
Non-Executive Director

Kwek Leng Joo joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is the managing director of City Developments Limited. An executive director of Hong Leong Group Singapore, he also holds directorships in most of the listed companies within the Hong Leong Group, including City e-Solutions Limited and Hong Leong Finance Limited. The immediate past president of Singapore Chinese Chamber of Commerce and Industry, Mr Kwek is also vice chairman of the Singapore Business Federation and serves in many public and civic institutions.

KWEK LENG PECK, 49
Non-Executive Director

Kwek Leng Peck joined Millennium & Copthorne Hotels plc at the flotation of the Group. He serves as an executive director of the Hong Leong Group. He holds directorships on most of the listed companies within the Hong Leong Group, including City Developments Limited, City e-solutions Limited, Hong Leong Finance Limited, Hong Leong Asia Limited and Tasek Corporation Berhad.

THE VISCOUNT THURSO, 52[±*#]
Non-Executive Deputy Chairman, Senior Independent Director and Chairman of the Remuneration Committee

The Viscount Thurso was appointed to the Board in May 2002. He is a Fellow of the Hotel Catering International Management Association. He was previously founder general manager of Cliveden and has held executive positions as chief executive of Granfel Holdings Limited and chief executive of Fitness & Leisure Holdings Limited. He was also non-executive chairman of Walker Greenbank plc until 2002. Prior to this he was non-executive director of Savoy Group plc and Royal Olympic Cruiselines. He is currently Member of Parliament for Caithness, Sutherland and Easter Ross.

CHRISTOPHER SNEATH, 72[±*#]
Independent Non-Executive Director and Chairman of the Audit Committee

Christopher Sneath joined Millennium & Copthorne Hotels plc in March 1999. He is a Chartered Accountant and, until his retirement in 1994, he was a senior partner of KPMG. He was a non-executive director of Spirax-Sarco Engineering plc until 2002.

JOHN SCLATER CVO, 65[±*#]
Independent Non-Executive Director

John Sclater joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is currently chairman of Graphite Enterprise Trust PLC, Finsbury Emerging Biotechnology Trust plc and Argent Group Europe Limited, and a director of James Cropper PLC. He was formerly chairman of Foreign & Colonial Investment Trust PLC, The Equitable Life Assurance Society, Hill Samuel Bank Limited, The Union Discount Company of London PLC, Guinness Mahon & Co Ltd, Nordic Bank Limited and Berisford (now Enodis) plc. He was also formerly deputy chairman of Grosvenor Group Holdings, a trustee of The Grosvenor Estate, a member of the Council of The Duchy of Lancaster, First Church Estates Commissioner and a member of The Archbishops Council. In addition, he was a director of Wates Group Limited and other companies.

SIR IDRIS PEARCE, 72[±*#]
Independent Non-Executive Director

Sir Idris Pearce joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is a past president of the Royal Institution of Chartered Surveyors. He has also held a number of government appointments and is a non-executive director of Innisfree Limited and a director of various Peabody Trust development companies.

CHARLES KIRKWOOD, 70[±#]
Independent Non-Executive Director

Charles Kirkwood was appointed to the Board in May 2002. He was formerly managing director of Rosewood Hotels and Resorts, Asia and an Industrial Partner to Ripplewood (Japan). He is currently the president and director of Shawnee Holding Inc, a private hotel owning company and a director of Pennsylvania General Energy. He is a member of the Bar of New York, Pennsylvania and the US Supreme Court.

± Member of the Remuneration Committee
* Member of the Audit Committee
# Member of the Nominations Committee

DIRECTORS' REPORT
Corporate Governance

The Board is committed to ensuring that good practice in corporate governance is observed throughout the Group, and remains the responsibility of the whole Board. The Board is committed to maintaining high standards of business integrity and professionalism in all its activities, and continues to support the highest standards in corporate governance.

The Board considers that, throughout the year, it was in compliance with the provisions of the Revised Combined Code ("the Code") issued by the Financial Reporting Council in July 2003 except for the requirement for non-executive directors to annually appraise the Chairman (A.6.1).

THE BOARD

Overall control of the Group is exercised by the Board, which has responsibility, amongst other things, for setting strategy and ensuring that adequate resources are available and leadership is provided to achieve the Group's strategy. The Board meets up to seven times a year and has a schedule of matters reserved for its attention. All directors receive detailed papers one week prior to Board and committee meetings. Reserved matters which require Board approval include: acquisitions; significant property transactions; capital expenditure above predetermined limits; major contractual commitments; Board level and Company Secretary appointments/terminations; significant litigation issues; the Group's financial statements and communications with shareholders. Other matters which are reserved for the Board have been delegated to its standing committees, details of which are set out further in this report.

Executive management is responsible to the Board for the Group's operational performance including: implementing Group strategy as determined by the Board; maintaining adequate internal control systems and risk management processes; monitoring operational performance against plans and targets and reporting to the Board any significant variances; maintaining an effective management team and planning for succession.

The Board currently comprises the Chairman and two non-executive directors, who are directors of the majority shareholder, City Developments Limited, a senior independent non-executive director as Deputy Chairman, four additional independent non-executive directors and two executive directors. Each director is expected to fulfil their duties for the benefit of all shareholders and it is believed that the independent non-executive directors provide strong independent judgment to the deliberations of the Board.

Directors' biographies shown on pages 12 and 13 identify the Chairman, Senior Independent Director, the chairmen of the Board's standing committees and other directors considered by the Board to be independent, having taken consideration of the factors set out in Code provision A.3.1. There have been no significant changes in the Chairman's external commitments since the last annual report.

There is a clearly defined division of responsibilities at the head of the Company, through the separation of the positions of Chairman and Group Chief Executive Officer, and a written statement of their respective responsibilities has been approved by the Board.

All directors have access to the advice of the Company Secretary, who is responsible for ensuring the Board procedures and applicable rules and regulations are observed. In addition, the directors are able, if necessary, to take independent professional advice at the Company's expense. No such advice was sought in the year. There is the opportunity for non-executive directors to meet separately with the Chairman.

The Chairman, in conjunction with the Company Secretary, is also responsible for ensuring that new directors receive appropriate training and induction to the Company. There is also a procedure whereby Board members receive appropriate training at the Company's expense where specific expertise is required in the course of the exercise of their duties. All directors receive a Board Compendium detailing matters relating to Board procedures.

Non-executive directors are appointed for a specific term and re-appointment is not a matter of course as each director's position is reviewed as they approach re-appointment. Succession planning is considered by the non-executive directors as appropriate.

John Sclater and Sir Idris Pearce have been directors of Millennium & Copthorne Hotels plc since the flotation of the Group in 1996. The Board considers that both John Sclater and Sir Idris Pearce continue to be independent in character and judgment and that there are no relationships or circumstances which are likely to affect, or could appear to affect, either director's judgment.

Tony Potter, The Viscount Thurso, Charles Kirkwood and Christopher Sneath will retire by rotation at the forthcoming Annual General Meeting, and will offer themselves for re-election.

COMMUNICATION WITH SHAREHOLDERS

General presentations are made after the announcement of preliminary, quarterly and half-yearly results. A regular programme of meetings exists with major institutional shareholders to review the Group's performance and prospects. In addition, the Senior Independent Director has meetings with a range of major shareholders during the year and other non-executive directors also have the opportunity to attend such meetings. Regular feedback is provided to the Board of views expressed by shareholders at these meetings.

At general meetings there is the opportunity for all shareholders to question the Chairman and other directors (including the chairmen of the audit, remuneration and nomination committees). The Company prepares separate resolutions on each substantially separate issue put to shareholders and does not combine resolutions together inappropriately. A schedule of the proxy votes cast is made available for inspection at the conclusion of the proceedings and the Annual Report is laid before the shareholders at the Annual General Meeting. Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 days prior to the date of the meeting, and the Company encourages all shareholders to make positive use of the Annual General Meeting for communication with the Board.

DIRECTORS' REPORT
Corporate Governance

BOARD COMMITTEES
In relation to certain matters, committees have been established with specific delegated authority. The standing committees of the Board are the audit, remuneration and nominations committees. The terms of reference for these committees are available, on request, from the Company Secretary. The Company Secretary acts as secretary to all standing committees of the Board.

Audit Committee
The audit committee, chaired by Christopher Sneath, consists of four non-executive directors, all of whom are independent. It is considered that Christopher Sneath has recent and relevant financial experience as required by the Code. The duties of the committee include:

- Reviewing the Group's internal control and risk management procedures;
- Consideration of the appointment of the external auditors and making appropriate recommendations through the Board to the shareholders to consider at the Annual General Meeting;
- Agreement of the detailed scope of the external audit prior to the commencement of their work; reviewing the scope and results of the audit and its cost effectiveness; and recommendation of the audit fee to the Board;
- Monitoring the integrity, prior to submission to the Board, of periodic financial statements, annual accounts, reports to shareholders and any other public announcement concerning the Company's financial position, corporate governance statements and statements on the Group's system of internal controls;
- Ensuring that arrangements are in place for employees to raise concerns, in confidence, about possible fraud risk or wrongdoing in financial reporting or other matters;
- Monitoring and reviewing the effectiveness of the internal audit function; agreeing its annual work plan and satisfying itself that the function has the proper resources to enable it to satisfactorily complete such work plans; reviewing status reports from internal audit; considering management's response to any major finding and providing support, if necessary, for any follow-up action required; and ensuring that the function obtains free and unrestricted access to all Group activities, records, property and personnel necessary to fulfil its agreed objectives.

The audit committee is also responsible for reviewing the independence and objectivity of the external auditors. The audit committee has concluded that, in some cases, notably the provision of taxation services, the provision of non-audit services by the auditors is appropriate and this has been communicated to the Board. Audit independence and objectivity are safeguarded by the audit committee monitoring and approving, where appropriate, the nature of any non-audit work and the level of fees paid.

The external auditors, head of internal audit and the senior management of the Group's finance function normally attend all committee meetings. Separate meetings are held with the external auditors without the presence of any member of the executive management and similar meetings are held with the head of internal audit.

Remuneration Committee
The remuneration committee is chaired by The Viscount Thurso and consists entirely of independent non-executive directors. The committee met three times during the year. It is responsible for considering and making recommendations to the Board, within agreed terms of reference, on the Company's remuneration policies, the remuneration package of executive directors and the operation of the Company's employee share-based incentive schemes. The Group Chief Executive Officer is invited to attend meetings, if appropriate, but is not present when his own remuneration is discussed. The committee takes independent advice as deemed necessary. The Directors' Remuneration Report is given on pages 22 to 28, where further details of remuneration strategy are given. The fees paid to non-executive directors are considered by the full Board, having regard to advice received from the Group Chief Executive Officer.

Nominations Committee
The nominations committee is chaired by the Group Chairman, and includes five independent non-executive directors and meets as necessary. On behalf of the Board the committee reviews the structure, size and composition of the Board, considers succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise that are therefore needed on the Board in the future. The committee is responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise.

BOARD AND COMMITTEE MEETINGS

The number of meetings of the Board, and its committees, held during the year are shown below together with attendance details of each director:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Kwek Leng Beng (Chairman)	6(6)	na	na
The Viscount Thurso (Deputy Chairman)	5(6)	3(4)	3(3)
Tony Potter	6(6)	na	na
Wong Hong Ren	6(6)	na	na
Christopher Sneath	6(6)	4(4)	3(3)
Kwek Leng Joo	1(6)	na	na
Kwek Leng Peck	1(6)	na	na
Sir Idris Pearce	6(6)	4(4)	3(3)
John Sclater	4(6)	3(4)	3(3)
Charles Kirkwood	6(6)	na	1(3)

No nomination committee meetings were held during the year.

Figures in brackets represent the maximum number of Board or committee meetings held whilst the individual concerned is a Board member or member of the relevant committee. In addition to the formal Board and committee meetings, the Chairman held one meeting during the year with only the independent non-executive directors present.

EVALUATION PROCESS

The Board has a formal annual evaluation in respect of its own performance, its committees and individual directors. In respect of the Board and its committees, directors complete an evaluation questionnaire, developed in conjunction with external consultants. Responses from the process are collated by the Company Secretary who compiles a report which is then presented to the Board. The performance of the executive and non-executive directors is assessed annually by the Chairman. During the year the Board reviewed and acted upon the findings of the formal evaluation that was undertaken.

The independent non-executive directors, led by the Senior Independent Director, will meet annually to evaluate the effectiveness of the Chairman. The first such review will take place in 2006.

INTERNAL CONTROL SYSTEM

The full Board is responsible for the Group’s system of internal control and for monitoring its effectiveness. In establishing this system, the directors have considered the nature of the Group’s business, with regard to the risks to which that particular business is exposed, the likelihood of such risks occurring, their potential impact and the costs of protecting against them. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement.

The Board confirms that, in accordance with the Turnbull guidance, there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed by the Board and has been in place for the year under review, and up to the date of the approval of the Annual Report.

Primary responsibility for the operation of the system of internal controls is delegated to executive management.
The effectiveness of the operation of the internal control system is reviewed by an internal audit function and, where appropriate, by the Company’s external auditors, who report to management and to the audit committee. In addition, responsibility is delegated to an executive committee to monitor the effectiveness of the systems of control in managing identified risks as established by the Board.

DIRECTORS' REPORT
Corporate Governance

The internal audit department reviews the effectiveness of key internal controls as part of its standard work programme, and individual reports are issued to appropriate members of senior management. These reports are summarised and distributed to all members of the audit committee, the Group Chief Executive Officer and the external auditors. They are subsequently reviewed by the the audit committee which ensures that, where necessary, recommendations on appropriate corrective action are drawn to the attention of the full Board.

The main features of the Company's internal control framework are:

- The Group's strategic direction is regularly reviewed by the Board, which sets business objectives for the Group. Annual plans and performance targets for each hotel are set by the executive management team and reviewed by the Board in the light of overall objectives;

- The processes used to manage the key risks to the success of the Group are regularly reviewed by the Board and improved as necessary. Such processes include, but are not limited to, customer satisfaction, health and safety, market share, insurance matters, the performance of acquisitions and treasury risks; and

- Within the financial and overall objectives for the Group, agreed by the Board, the day-to-day management is delegated to the Group Chief Executive Officer and executive management. The executive management team receives a monthly summary of the results from the businesses and carries out regular operational reviews with business managers to ensure appropriate pursuit of the overall objectives and management of the primary risks of the Group.

GOING CONCERN

After having made appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the consolidated and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law the directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The consolidated financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the consolidated and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;

- Make judgments and estimates that are reasonable and prudent;

- For the consolidated financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;

- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

SUBSTANTIAL SHAREHOLDINGS

As at 20 February 2006, the Company had been notified that the following companies hold 3% or more of the issued share capital:

	Number of shares	% of issued share capital
City Developments Limited	151,783,937	52.67 %
Arnhold and S Bleichroeder Advisers LLC	25,829,394	8.96 %
Prudential plc*	22,148,110	7.69 %

* The interests of Prudential plc includes an interest of the Prudential Assurance Company Limited which itself has a notificable interest of 21,828,984 representing 7.57% of the Company's issued share capital.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10.00am on Thursday, 4 May 2006 at the Millennium Hotel London Mayfair. The notice to shareholders can be found at the back of the Annual Report.

At the Annual General Meeting resolutions will be proposed to approve the Directors' Remuneration Report, to renew the directors' authority to allot shares, to authorise the purchase of shares in the market, to renew the authority given in regard to pre-emption rights under the terms of a Co-operation Agreement dated 18 April 1996 with City Developments Limited, to renew the authority to fund donations and/or incur expenditure under the terms of the Political Parties, Elections and Referendums Act 2000 to a limit of £100,000 where it is in shareholders' interests to do so, and to adopt the terms of the new Long-Term Incentive Plan and the new Sharesave Scheme. A separate shareholders' circular accompanies the Annual Report and provides details of the proposed schemes.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution regarding the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

DIRECTORS' REPORT
Corporate Social Responsibility

INTRODUCTION
The Board takes regular account of the significance of social, environmental and ethical matters to the business of the company, and is identifying and assessing the significant risks to the Company's short and long term value arising from those matters as well as opportunities to enhance value that may arise from them. The Board believes it has received adequate information to make this assessment and will ensure that the Company has effective systems in place for managing significant risks.

EMPLOYEES
Millennium & Copthorne Hotels plc operates in various countries and values highly the rich ethnic and cultural diversity of its people. The Group strives to build on the qualities inherent in its global environment by encouraging people with different views, styles and approaches.

The Company's policy is to provide equality of opportunity for all employees without discrimination and continues to encourage the employment, training and advancement of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment. Suitable employment would, if possible, be found for any employee who becomes disabled during the course of employment.

The Group is committed to a policy of involvement by keeping its employees fully informed regarding its performance and prospects. Employees are encouraged to present their suggestions and views at staff consultative groups at each location and the Group believes that the dissemination of appropriate information is key to achieving success and motivation. "Viewpoint" is a magazine about the Group, as is the in-house quarterly publication "Global Connect", which provide communication to staff and guests.

A structured programme of staff training and workshop seminars is also carried out. Employees at every level are encouraged to develop their skills and qualifications. A variety of internally managed development programmes are available and, in certain regions, the Group offers a tuition support programme for external courses. The principles of the national standard of best practice in employee development and involvement are being followed in the countries in which we operate. Best practice in terms of labour standards is also upheld.

During the year, grants of options were made under the Executive Share Option Scheme in which 23 employees, other than the directors, participate and also under the Sharesave Scheme in which 115 employees, other than directors, participate by entering into a three or five year savings contract.

CUSTOMERS AND SUPPLIERS
Service Excellence is the Group's UK customer service programme which came into operation in May 2000. The programme is based on research findings from guests who are asked for their views on the type of customer service they expect.

It is the Company's and the Group's policy to agree the terms of payment with suppliers at the commencement of the trading or contractual relationship and to operate within such terms subject to satisfactory completion of the suppliers' obligations. It does not follow any particular guidelines established by third parties. The effect of the Group's payment policy is that its trade creditors at the financial year-end represent 23 days' purchases (2004: 24 days). At the year end the Company had no trade creditors (2004 : £nil).

The Board has adopted a Business Integrity Policy which provides standards on relationships with suppliers and customers. This requires directors and employees to act honestly, with integrity, objectivity, professional competence and due care.

HEALTH AND SAFETY AND THE ENVIRONMENT

Safety and environmental management are key management responsibilities. The Group's hotels are responsible for ensuring that the hotels take every reasonable and practical step to maintain a safe and healthy environment for employees, public visitors, guests and contractors and performance in this area is measured and judged in the same way as other key business parameters. Staff are trained to meet the needs of disabled customers.

Health and safety is managed on a practical level by established regional health and safety management groups. The audit committee receives a report from all regions at each meeting. Specialist health and safety and food safety consultants have been appointed to provide advice and guidance in all aspects of compliance with relevant legislation and to monitor, audit and review systems to ensure compliance with such legislation. Training needs are being met at all levels.

The Board has a formal environmental policy in place and a structured Environmental Management System. The Group is committed to meeting regulatory requirements in the different countries in which the Group operates, minimising the use of energy, water and materials, managing effectively the waste and emissions produced and managing any specific environmental risks associated with its operations. Based on environmental impact assessments, specific targets are set for environmental improvement and progress is monitored against these targets. Environmental management is integrated into existing health and safety structures established by the Board.

The Group operates strict controls to reduce consumption of energy, for example by installing low energy light bulbs and water saving showerheads in its hotels. Hotels have energy committees that gather information on a monthly basis and report on energy use, water use and waste management. The Company will continue to investigate ways to improve the efficiency of waste disposal and recycling whilst minimising any adverse effect on the environment. The Company only uses refrigeration equipment which complies with current legislation. Obsolete equipment is removed by nominated waste disposal companies for safe disposal.

To ensure the delivery of the Board's policies in respect of health and safety and the environment, Tony Potter has been identified as the Board member responsible for both areas. The Company has been a member of the FTSE4Good UK Index of socially responsible companies since the index's establishment in July 2001.

COMMUNITIES

The Group has extensive links with the local communities through partnerships established by the hotels and at a corporate level. Across the Group staff and management are involved with a range of charitable organisations. The Group gave £40,975 (2004: £46,293) to charities during the period. The Group's policy is to consider charities that improve the economic or social wellbeing of ordinary people or those who are deprived in some way within the Group's area of operation including local and national charities. The Group made no political contributions during 2005.

By order of the Board

Adrian Bushnell
COMPANY SECRETARY
20 February 2006

DIRECTORS' REMUNERATION REPORT

STRATEGY

The remuneration committee has delegated authority from the Board to consider and approve, the salaries, incentive and other benefit arrangements of the executive directors and to oversee the Company's share based incentive schemes. The committee meets at least three times a year.

THE REMUNERATION COMMITTEE

The current members of the committee, all of whom are independent non-executive directors, are The Viscount Thurso (Chairman), Charles Kirkwood, Sir Idris Pearce, Christopher Sneath and John Sclater. The Chairman and Group Chief Executive Officer are invited to attend meetings as appropriate but they are excluded when their own performance and remuneration are being discussed.

No member of the committee has any personal financial interest, other than as a shareholder, in the matters to be decided or the day-to-day management of the business of the Company.

Committee members receive fees as non-executive directors but do not receive any pension entitlements or performance-related incentives.

REMUNERATION POLICY

During the year, the committee took material advice from their appointed advisers, New Bridge Street Consultants LLP, who advised the committee on various matters, including the operation of the Company's share-based incentive schemes. In addition to their advice to the committee they have also advised the Company on the accounting treatment of share options required by the introduction of IFRS 2: Share-based payment. Other than this, they have no other relationship with the Company. The committee also takes advice from Jardine Lloyd Thompson on pension issues as required, but no advice was sought during the year. Jardine Lloyd Thompson are appointed by the Trustees of the Company pension scheme as its UK pensions advisor.

The committee believes that the long term interests of shareholders are best provided through a competitive remuneration policy aiming to attract, retain and motivate the right calibre of executives to manage the Company in a demanding environment.

As a result, the total remuneration of executive directors for the year ahead will continue to comprise base salaries, short-term annual bonuses placed around similar levels for comparable companies, and long-term share-based incentive schemes as described below. Overall, the policy of the committee is to provide remuneration opportunities linked to the future performance of the Company.

DIRECTORS' REMUNERATION

In establishing the remuneration policy for the executive directors of the Company, the committee intends that a significant proportion of directors' remuneration be related to individual and corporate performance through the use of annual bonus and share-based incentive schemes. Levels of pay and benefits are set which reflect the performance of the Company against pre-determined budgets, the individual contribution of each director and market conditions. The committee remains mindful of the Best Practice Provisions on the Design of Performance Related Remuneration under Schedule A of the Combined Code. Awards under incentive schemes take into consideration both market and competitive conditions.

Base Salary

Base salaries are set at levels that reflect, for each executive director, their performance, experience and market practice amongst similar companies. Base salary levels are reviewed annually.

Annual Bonus

The Group operates a non-pensionable annual bonus scheme for executive directors awarded on the basis of the achievement of agreed profit targets and personal objectives established by the committee on an annual basis. The maximum bonus payable under the scheme is 80% of salary. The committee may consider payment of special bonuses if, on the disposal of a business, individuals have had a direct role in obtaining a significantly enhanced disposal value.

Share Based Incentive Arrangements

Share based incentive schemes are designed to link remuneration to the future performance of the Group. Details of individual schemes for directors and employees are given below.

In order to keep in line with current market practice regarding share based incentives for senior executives, it is the intention of the Board to introduce a Long Term Incentive Plan as an alternative to annual grants under the existing Executive Share Option Scheme. Subject to the passing of the neccessary shareholder resolution, the first awards under the Millennium & Copthorne Hotels Long Term Incentive Plan will be made later in 2006. Details of the proposed Plan are set out in a shareholders' circular and are considered part of this report.

SERVICE CONTRACTS

To reflect current market practice, it is the committee's policy that executive directors have service contracts that provide for a notice period for termination of up to 12 months.

The committee has established a mitigation policy in the event of early termination of a director's contract where the contract does not contain a liquidated damages clause. The committee's aim will be to avoid rewarding poor performance.

The following table provides more detail on each executive director's service contract:

Name	Date of contract	Notice periods/ Unexpired term	Provisions in contract for compensation on early termination
Tony Potter	7 September 1999 (appointed 22 October 1999)	12 months' written notice to be given by either party at any time	12 months' salary and continuing benefits
Wong Hong Ren	29 August 2001 (appointed 7 March 1996)	12 months' written notice to be given by the Company at any time and six months by the executive.	12 months' salary and continuing benefits. His payment of a director's fee of £35,000 ceases on the date he ceases to be a director

OTHER BENEFITS

Other benefits comprise a motor vehicle or an appropriate allowance and insurances for life, personal accident, disability, permanent health insurance, pension allowance above the earnings cap and family medical cover.

EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the Group. Fees payable to executive directors in connection with such external appointments would be retained by them with the approval of the committee. Executive directors are generally allowed to accept one such external appointment. Currently none of the executive directors hold any such directorships.

NON-EXECUTIVE DIRECTORS

The non-executive directors are appointed for a specific term and re-appointment is not a matter of course as each director's position is reviewed as they approach re-appointment.

Fees paid to non-executive directors are determined by the Board as a whole. Fees are reviewed on an annual basis and cease immediately in the event of the non-executive ceasing to be a director for any reason in accordance with a resolution of the Board.

Non-executive directors do not receive any additional fees for participation in the remuneration, nominations and audit committees and are not entitled to bonuses, benefits or pension scheme contributions or to participate in any share scheme operated by the Company.

City Developments Limited nominates Kwek Leng Beng, Kwek Leng Joo and Kwek Leng Peck as directors under the terms of the Co-operation Agreement dated 18 April 1996, as amended, who are appointed for periods of three years. The Viscount Thurso and Charles Kirkwood have been appointed for an initial three-year fixed term from 21 May 2003.

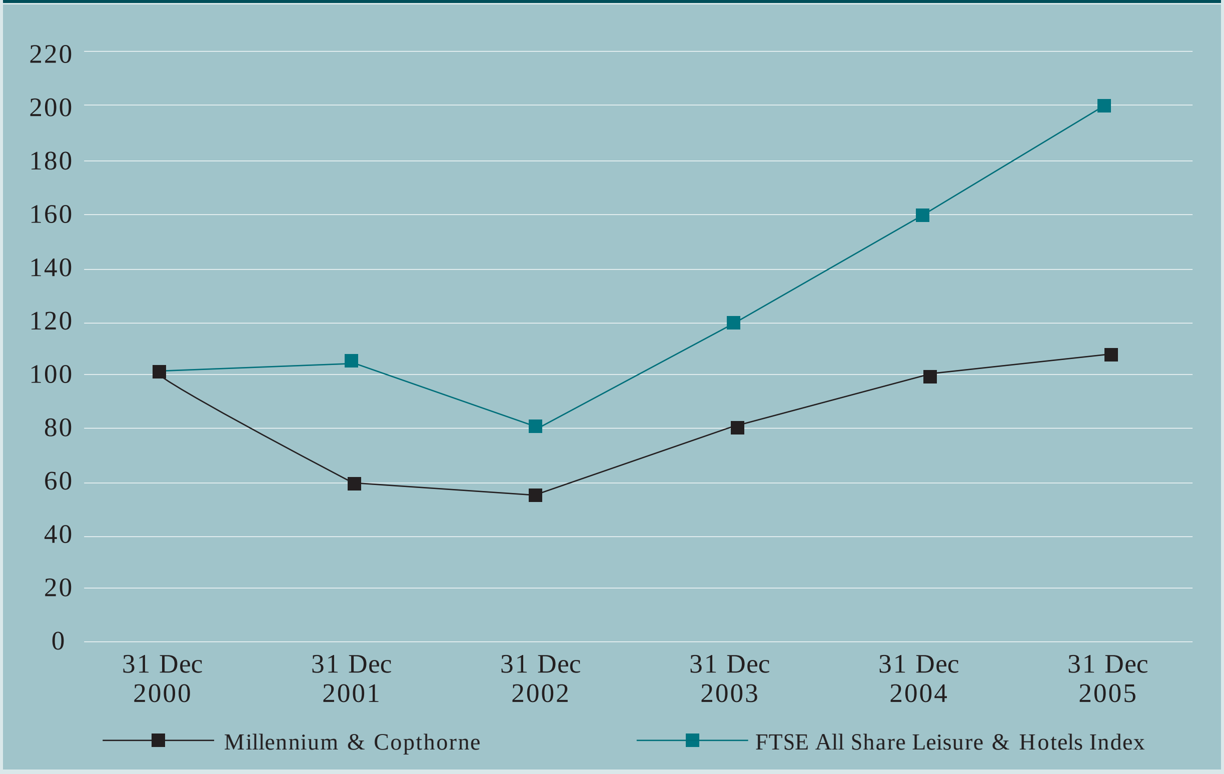
Christopher Sneath, Sir Idris Pearce and John Sclater have letters of appointment for a term of one year commencing 7 March 2005.

DIRECTORS' REMUNERATION REPORT

PERFORMANCE GRAPH

The graph below illustrates the performance of the Company and a broad equity market index over the past five years. As the Company is a constituent of the FTSE All Share Leisure and Hotels Index, the directors consider that index to be the most appropriate broad equity market index against which the Company's performance should be compared. Performance is measured by Total Shareholder Return (share price growth plus dividends reinvested). In future, the Company's Total Shareholder Return will be measured against the new FTSE All Share Travel and Leisure Index, of which the Company is a constituent from 1 January 2006.

TOTAL SHAREHOLDER RETURN
Source: Datastream



The graph shows the value, by the end of 2005, of £100 invested in Millennium & Copthorne Hotels plc on 31 December 2000 compared with £100 invested in the FTSE All Share Leisure & Hotels Index. The other points plotted are the values at the financial year-ends.

AUDITED INFORMATION

Share Options

i) Millennium & Copthorne Hotels Executive Share Option Scheme

No further options have been granted under the Millennium & Copthorne Hotels Executive Share Option Scheme (the "1996 Scheme"). Options outstanding under the 1996 Scheme may be exercised if the Company's earnings per share increases over a three year period by the Retail Price Index plus 6%.

ii) Millennium & Copthorne Hotels plc 2003 Executive Share Option Scheme

The Millennium & Copthorne Hotels plc 2003 Executive Share Option Scheme (the "2003 Scheme") provides for the grant of both approved and unapproved options. Under the 2003 Scheme options over shares worth up to two times base salary may be granted each year (although, in exceptional circumstances, such as in a recruitment situation, this limit is four times base salary). The size of actual option awards will be determined by the committee, which will take into account a number of factors, including the financial performance of the Group and the successful attainment of specified objectives.

The exercise of options granted under the 2003 Scheme is subject to the achievement of stretching performance targets. Earnings per share ("EPS") targets have been chosen as the committee believes that participants in the 2003 Scheme should be incentivised to deliver significant earnings growth which, in turn, should return substantial shareholder value.

The performance condition applying to the exercise of options granted in 2003 require the Group's EPS to grow, in real terms, from a notional base figure of 17.8p, over a period of at least three consecutive financial years after grant (measured from a fixed base). To the extent that the performance condition is not satisfied by the fifth anniversary of grant, the options will lapse. Following consultation with major shareholders in early 2004, it was agreed that for options granted in 2004 and subsequent years, the notional base EPS figure will be 15p and that options granted from 2004 onwards will not be subject to re-testing and to the extent that performance conditions are not satisfied by the third anniversary of grant the options will lapse. The EPS base figure used for options granted in 2005 was the Group's UK GAAP pre-exceptional EPS figure for 2004 of 15.3p.

Subject to the rules of the 2003 Scheme, options will become exercisable as follows:

EPS growth target	Proportion of option exercisable
EPS growth of less than an average of RPI plus 3% per annum	0%
EPS growth of an average of RPI plus 3% per annum	25%
EPS growth of an average of RPI plus 3% per annum to 10% per annum	25% - 100% (pro-rated)
EPS growth of an average of RPI plus 10% per annum or more	100%

In determining the extent to which (if at all) the EPS targets are achieved, the committee believes that the most appropriate approach is for the calculations to be undertaken internally and then verified by an independent third party. To account for the changes introduced by IFRS, the committee will arrange for EPS reported under IFRS to be converted to UK GAAP using the same methods adopted throughout these accounts, such calculations then being verified by an independent third party.

iii) Millennium & Copthorne Hotels Sharesave Scheme

The Company also operates the Millennium & Copthorne Hotels Sharesave Scheme (the "Sharesave Scheme") which is an Inland Revenue approved scheme and under which the UK-based executive directors and Group employees are eligible to participate.

Early in 2006, the Board approved, in principle, the introduction of a new Millennium & Copthorne Hotels 2006 Sharesave Plan. The introduction of the new Plan is conditional upon the passing of an appropriate resolution by shareholders at the forthcoming Annual General Meeting. Details of the Plan are shown in a separate shareholders' circular.

All grants of share options conform to institutional dilution guidelines.

DIRECTORS' REMUNERATION REPORT

DIRECTORS' INTERESTS IN SHARE OPTIONS

Name of Director		Date granted	Options held at 01/01/2005	Options granted during the year	Options exercised during the year	Options held at 31/12/2005 or *date of cessation*	Exercise price	Dates from which exercisable	Expiry date
Tony Potter	Approved[1]	19 Nov 99	7,526	–	–	7,526	£3.9856	19 Nov 02	18 Nov 09
	Unapproved[1]	19 Nov 99	47,670	–	–	47,670	£3.9856	19 Nov 02	18 Nov 06
	Unapproved[1]	17 Mar 00	65,671	–	65,671	–	£3.35	17 Mar 03	16 Mar 07
	Unapproved[1]	14 Mar 01	50,867	–	–	50,867	£4.325	14 Mar 04	13 Mar 08
	Unapproved[2]	10 Mar 03	305,860	–	–	305,860	£1.935	10 Mar 06	09 Mar 13
	Unapproved[2]	16 Mar 04	71,999	–	–	71,999	£2.9167	16 Mar 07	15 Mar 14
	Unapproved[2]	24 Mar 05	–	100,396	–	100,396	£3.9842	24 Mar 08	24 Mar 15
	Sharesave	28 Apr 03	10,920	–	–	10,920	£1.504	1 Jul 08	1 Jan 09
Wong Hong Ren	Unapproved[1]	14 Mar 01	69,364	–	–	69,364	£4.325	14 Mar 04	13 Mar 08
	Unapproved[1]	15 Mar 02	83,720	–	–	83,720	£3.225	15 Mar 05	14 Mar 09
	Unapproved[2]	10 Mar 03	124,031	–	–	124,031	£1.935	10 Mar 06	09 Mar 13
	Unapproved[2]	16 Mar 04	44,999	–	–	44,999	£2.9167	16 Mar 07	15 Mar 14
	Unapproved[2]	24 Mar 05	–	75,297	–	75,297	£3.9842	24 Mar 08	24 Mar 15

[1] Performance conditions attaching to these options are those specified for the 1996 Scheme as detailed on page 24.
[2] Performance conditions attaching to these options are those specified for the 2003 Scheme as detailed on page 25.

All of the options were granted for nil consideration.
The market price of ordinary shares at 31 December 2005 was 400p and the range during the year was 339.5p to 404p.
Aggregate gains made by directors on exercise of share options in 2005 were £40,223 (2004: £518,087).

PENSIONS

Mr Tony Potter participates in a contributory pension plan designed to provide up to two-thirds of his final salary (subject to Inland Revenue limits) at age 65 plus a spouse's death in retirement pension of two-thirds of the pension payable at date of death. In addition, death-in-service benefits are provided comprising a lump sum benefit of four times salary at date of death. The Company's pension contribution for the scheme is set at 20.6% of salary. As Mr Potter entered service after 31 May 1989 the benefits provided for him by the Company's pension scheme are restricted by the operation of the earnings cap. Accordingly, a salary supplement of 20.6% of salary above the earnings cap was paid during the year. No pension is provided for Mr Wong Hong Ren. The committee has reviewed its pension provisions in anticipation of the introduction of the Pensions Act 2004 ('the Act') in April 2006. After April 2006, the UK defined benefit scheme will retain an earnings cap which will be increased each year in line with the retail price index. For earnings in excess of the scheme's cap, Mr Potter will either continue to receive a salary supplement or the Company will make equivalent contributions on his behalf into the Group's UK defined contribution pension plan or a personal pension arrangement. No arrangements have been made, or are contemplated, to compensate for any adverse tax consequences arising from the introduction by the Act of lifetime limits.

Details in respect of the director who served during the year are given in the table below. These amounts exclude any benefits attributable to additional voluntary contributions.

Director and age at 31 December 2005	Accrued benefits at 1 January 2005 £000	Increase in accrued benefits (net of indexation) £000	Accrued benefits at 31 December 2005 £000	Transfer value of increase in accrued benefits less director's contributions £000	Transfer value of accrued benefits at 1 January 2005 £000	Transfer value of accrued benefits at 31 December 2005 £000	Increase in transfer value less contributions made by director £000
Tony Potter (56)	9	2	11	16	83	121	33

The transfer values have been calculated on the basis of actuarial advice and in accordance with version 9.2 of the Actuarial Guidance note GN11. The transfer value of the increase in accrued benefits includes the effect on business fluctuations due to factors beyond the control of the Company and the directors such as stock market fluctuations. It is calculated after deducting director's contributions.

DIRECTORS' EMOLUMENTS

	Note	Salaries and fees 2005 £000	Bonus payments 2005 £000	Benefits 2005 £000	Total emoluments 2005 £000	Total emoluments 2004 £000
Executives						
Tony Potter	1, 5, 6	476	124	22	622	713
Wong Hong Ren	2, 3, 5, 6	303	348	–	651	643
Non-executives						
Kwek Leng Beng (Chairman)	3, 4, 6	68	1,800	–	1,868	63
The Viscount Thurso (Deputy Chairman)		35	–	–	35	35
Christopher Sneath		30	–	–	30	30
Kwek Leng Joo	3	37	–	–	37	37
Kwek Leng Peck	3	34	–	–	34	34
Sir Idris Pearce		30	–	–	30	30
John Sclater		35	–	–	35	35
Charles Kirkwood		30	–	–	30	30
Total		1,078	2,272	22	3,372	1,650

The total remuneration, including gains on the exercise of share options of £nil, paid to the highest paid director was £1,868,000 (2004 : £713,000).

DIRECTORS' REMUNERATION REPORT

NOTES

1. An additional salary supplement of 20.6% above the Pensions Earnings cap was paid to the UK based director during the year, and is included within the relevant director's salary. The Pensions Earning cap is currently set at £105,600 per annum (£102,000 per annum for 2004/2005). For the purposes of making such salary supplement payments, the Company will maintain a notional Pensions Earnings cap with effect from 6 April 2006 which will be increased annually in-line with increases in the retail price index.
2. Salaries and fees paid to Wong Hong Ren include a fee of £35,000 (2004: £31,000) relating to his position as a director of the Company with the balance being salary for his work undertaken for the Group outside the UK.
3. Salaries and fees shown are inclusive of sums receivable by the directors from the Company and any of its subsidiary undertakings.
4. The Group owns a flat in London used by the Chairman for business purposes only.
5. With effect from 1 January 2005 the base salaries (inclusive of fees) payable to Tony Potter and Wong Hong Ren were increased to £400,000 per annum and £300,000 per annum respectively.
6. As indicated in last year's Directors' Remuneration Report, an accrual of £2.2 million was made in respect of potential bonuses to directors to recognise the substantial exceptional profit made on the disposal of the Group's joint venture interest in The Plaza, New York in 2004. Following determination of completion adjustments arising from the disposal, the remuneration committee awarded bonuses of £1.8 million to Kwek Leng Beng, £300,000 to Wong Hong Ren and £60,000 to Tony Potter. The remuneration committee has also awarded performance related bonuses for 2005 of £64,000 to Tony Potter and £48,000 to Wong Hong Ren.

DIRECTORS' SHARE INTERESTS

The beneficial interests of the directors in the ordinary shares at the start and end of the year were as follows:

	31 December 2005 Number of shares	31 December 2004 Number of shares
Executives		
Tony Potter	25,187	19,070
Wong Hong Ren	–	–
Non-Executive		
Kwek Leng Beng (Chairman)	–	–
The Viscount Thurso (Deputy Chairman)	–	–
John Sclater (Independent director)	–	–
Sir ldris Pearce (Independent director)	3,703	3,589
Christopher Sneath (Independent director)	5,000	5,000
Charles Kirkwood (Independent director)	–	–
Kwek Leng Peck	–	–
Kwek Leng Joo	–	–

In their capacity as directors of Millennium & Copthorne Share Trustees Limited, the trustee of the Millennium & Copthorne Share Ownership Plan Trust, Sir Idris Pearce and Christopher Sneath are deemed to have a non-beneficial interest in 10,152 shares at the year end (2004 : 20,304 shares).

The interests of the City Developments Limited nominated directors in that company and in its ultimate parent company, Hong Leong Investment Holdings Pte Limited, are disclosed in the accounts of those companies.

There have been no changes to directors' interests between 31 December 2005 and the date of this report.

On behalf of the Board

Thurso

The Viscount Thurso
Chairman of the Remuneration Committee
20 February 2006

SHAREHOLDER INFORMATION

Analysis of shareholders as at 31 January 2006

NUMBER OF SHARES	Number of holders	Percentage of holders	Total number of shares held	Percentage of issued share capital
1 – 10,000	685	77.66	830,350	0.29
10,001 – 25,000	39	4.42	656,220	0.23
25,001 – 50,000	39	4.42	1,422,149	0.49
50,001 – 100,000	25	2.83	1,763,708	0.61
100,001 – 500,000	49	5.56	12,051,726	4.18
500,001 – 1,000,000	14	1.59	9,989,386	3.47
1,000,001 - Highest	31	3.52	261,462,549	90.73
TOTALS	**882**	**100.00**	**288,176,088**	**100.00**

We are committed to providing information to our shareholders to enable them to assess the Group's performance and financial position. Information on the daily share price can be found on BBC1 Ceefax (page 228) and Channel 4 Teletext (page 518) as well as the financial and business pages of the national papers. Our website is **www.millenniumhotels.com** which provides information about the Group's properties and room availability, and on the corporate pages, annual report and other financial information, together with announcements made by the Group.

REGISTERED OFFICE
Victoria House, Victoria Road, Horley, Surrey, RH6 7AF, United Kingdom

CORPORATE HEADQUARTERS
Scarsdale Place, Kensington, London, W8 5SR, United Kingdom

FINANCIAL CALENDAR

Dividend record date	24 March 2006
Annual General Meeting	4 May 2006
Final dividend payment	19 May 2006
Interim results announcement	4 August 2006
Interim dividend payable	October 2006
Third quarter results announcement	3 November 2006

ADVISORS

Stockbrokers	Credit Suisse
Auditors	KPMG Audit Plc
Solicitors	Clifford Chance LLP
Principal Bankers	Royal Bank of Scotland
	DBS Bank
	BNP Paribas
	ING Bank NV
	HSBC
	OCBC
	Sumitomo Mitsui Banking Corporation
Registrars	Lloyds TSB Registrars

REPORT OF THE AUDITORS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILLENNIUM & COPTHORNE HOTELS PLC

We have audited the consolidated and parent company financial statements (the "financial statements") of Millennium & Copthorne Hotels plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 AUDITORS

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on pages 18 and 19.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition the consolidated financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion, the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
20 February 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue	1	**595.2**	551.0
Cost of sales		**(259.1)**	(246.2)
GROSS PROFIT		**336.1**	304.8
Administrative expenses	2	**(243.0)**	(234.8)
Other operating income	3	**28.3**	55.0
GROUP OPERATING PROFIT		**121.4**	125.0
Analysed between:			
Group operating profit before other income and impairment		**99.6**	85.2
Other operating income	3	**28.3**	55.0
Impairment	2	**(6.5)**	(15.2)
Share of profit of joint ventures and associates	11	**3.5**	1.7
Analysed between:			
Operating profit		**8.5**	7.8
Interest		**(1.3)**	(3.2)
Taxation		**(1.4)**	(0.8)
Minority interests		**(2.3)**	(2.1)
Finance income	5	**6.7**	5.8
Finance expense	5	**(35.8)**	(41.5)
PROFIT BEFORE TAX		**95.8**	91.0
Income tax expense	6	**(26.0)**	(31.4)
PROFIT FOR THE YEAR		**69.8**	59.6
Attributable to:			
Equity holders of the parent		**61.1**	50.9
Minority interests		**8.7**	8.7
		69.8	59.6
Basic earnings per share (pence)	7	**21.3p**	17.9p
Diluted earnings per share (pence)	7	**21.2p**	17.8p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2005

	2005 £m	2004 £m
Foreign exchange translation differences	**80.7**	(43.5)
Cash flow hedges: amounts recycled to income statement	**4.0**	–
Actuarial gains and losses arising in respect of defined benefit pension plans	**(2.4)**	(3.3)
Taxation credit arising on defined benefit pension plans	**0.6**	1.0
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	**82.9**	(45.8)
Profit for the year	**69.8**	59.6
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**152.7**	13.8
First-time adoption of IAS 39 and IAS 32:		
Hedging reserve	**(4.0)**	–
Retained earnings	**(1.4)**	–
	(5.4)	–
TOTAL	**147.3**	13.8
Attributable to:		
Equity holders of the parent	**138.3**	9.9
Minority interests	**14.4**	3.9
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**152.7**	13.8

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Notes	2005 £m	2004 £m
NON-CURRENT ASSETS			
Property, plant and equipment	8	**1,943.4**	1,818.2
Lease premium prepayment	9	**80.8**	80.5
Investment properties	10	**48.0**	43.7
Investments in joint ventures and associates	11	**29.0**	23.0
Loans due from joint ventures and associates	11	**26.3**	22.3
Other financial assets	12	**2.2**	2.8
		2,129.7	1,990.5
CURRENT ASSETS			
Assets held for sale	13	**–**	14.5
Inventories	14	**4.4**	3.9
Development properties	15	**48.5**	32.3
Lease premium prepayment	9	**1.0**	1.0
Trade and other receivables	16	**53.2**	49.8
Other financial assets	12	**5.9**	4.1
Cash and cash equivalents	17	**104.6**	90.7
		217.6	196.3
TOTAL ASSETS		**2,347.3**	2,186.8
NON-CURRENT LIABILITIES			
Interest-bearing loans, bonds and borrowings	18	**(530.1)**	(248.0)
Employee benefits	20	**(16.0)**	(13.3)
Provisions	21	**(1.6)**	(2.0)
Other non-current liabilities	22	**(6.8)**	(6.7)
Deferred tax liabilities	23	**(239.9)**	(208.1)
		(794.4)	(478.1)
CURRENT LIABILITIES			
Interest-bearing loans, bonds and borrowings	18	**(54.9)**	(325.7)
Trade and other payables	24	**(100.3)**	(99.0)
Provisions	21	**(0.4)**	(0.4)
Income taxes payable		**(19.5)**	(22.6)
		(175.1)	(447.7)
TOTAL LIABILITIES		**(969.5)**	(925.8)
NET ASSETS		**1,377.8**	1,261.0

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Notes	**2005 £m**	2004 £m
EQUITY			
Issued capital	25,27	**86.5**	85.9
Share premium	25	**847.6**	846.1
Translation reserve	25	**36.3**	(38.7)
Retained earnings	25	**279.9**	252.9
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,250.3**	1,146.2
Minority interests	26	**127.5**	114.8
TOTAL EQUITY		**1,377.8**	1,261.0

These financial statements were approved by the Board of directors on 20 February 2006 and were signed on its behalf by:

Kwek Leng Beng
Chairman

Tony Potter
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	2005 £m	2004 £m
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**69.8**	59.6
Adjustments for:		
Depreciation and amortisation	**36.4**	37.1
Property, plant and equipment written off	**–**	0.2
Share of profit of joint ventures and associates	**(3.5)**	(1.7)
Impairment for property, plant and equipment	**6.5**	15.2
Profit on sale of property, plant and equipment	**(9.6)**	(3.2)
Revaluation of investment properties	**(5.9)**	–
Gain on sale of joint venture	**–**	(51.8)
Employee share options	**0.7**	0.4
Finance income	**(6.7)**	(5.8)
Finance expense	**35.8**	41.5
Income tax expense	**26.0**	31.4
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS	**149.5**	122.9
Increase in inventories, trade and other receivables	**(19.3)**	(6.9)
(Increase)/decrease in development properties	**(17.6)**	2.4
Increase in trade and other payables	**3.9**	4.0
(Decrease)/increase in provisions and employee benefits	**(0.4)**	0.4
CASH GENERATED FROM OPERATIONS	**116.1**	122.8
Interest paid	**(35.4)**	(41.0)
Interest received	**6.1**	5.5
Income taxes paid	**(13.1)**	(10.5)
NET CASH FROM OPERATING ACTIVITIES	**73.7**	76.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment, investment properties and assets held for sale	**34.5**	45.1
Change in financial assets	**(1.8)**	0.3
Proceeds from disposal of joint venture	**6.5**	90.8
Acquisition of property, plant and equipment	**(39.2)**	(25.4)
NET CASH FROM INVESTING ACTIVITIES	**–**	110.8
BALANCE CARRIED FORWARD	**73.7**	187.6

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	2005 £m	2004 £m
BALANCE BROUGHT FORWARD	**73.7**	187.6
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	**2.1**	1.4
Purchase of shares from minority interests	**–**	(5.9)
Repayment of borrowings	**(419.0)**	(396.9)
Drawdown of borrowings	**387.0**	273.1
Payment of finance lease obligations	**(1.8)**	(1.6)
Loan arrangement fees	**(1.4)**	(0.6)
Dividends paid to minorities	**(2.3)**	(1.6)
Dividends paid to equity holders of the parent	**(31.5)**	(3.0)
NET CASH FROM FINANCING ACTIVITIES	**(66.9)**	(135.1)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**6.8**	52.5
Cash and cash equivalents at beginning of year	**89.8**	39.6
Effect of exchange rate fluctuations on cash held	**7.1**	(2.3)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**103.7**	89.8
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents shown in the balance sheet	**104.6**	90.7
Overdraft bank accounts included in borrowings	**(0.9)**	(0.9)
CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT PURPOSES	**103.7**	89.8

ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS). IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the 2004 annual financial statements prepared under UK GAAP. With the exception of accounting policies in respect of financial instruments, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from previous UK GAAP to IFRS is explained in Note 33.

The consolidated financial statements are prepared on the historical cost basis except investment property and, from 1 January 2005, derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale, are stated at their fair value. Hotel properties are stated at cost or deemed cost. Deemed cost is calculated based on the hotel's cost or valuation as at 1 January 2004. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Group has adopted the transitional rules of IAS 32: 'Financial Instruments (Disclosures and Presentation)' and IAS 39: 'Financial Instruments (Recognition and Measurement)'. The Group has therefore adopted these standards, and the related accounting policies (D) and (E), only with effect for the current year from 1 January 2005 and not within the comparative financial year. A reconciliation showing the impact on the adoption of these standards from 1 January 2005 is set out in Note 33. Further details are set out in (V).

The Group has adopted IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' with effect from 1 January 2004.

Areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 32.

ACCOUNTING POLICIES

B Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies.

The consolidated financial statements include the Group's share of the recognised income and expense of joint ventures and associates on an equity accounted basis, from the date that joint control or significant influence respectively commences until the date that it ceases. When the Group's share of losses exceeds its interest in a joint venture or associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

C Foreign currency

(i) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to the translation reserve. They are released into the income statement upon disposal.

ACCOUNTING POLICIES

D Derivative financial instruments*

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

E Hedges*

(i) Cash flow hedges

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (i.e., when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

When a derivative financial instrument is used as an economic hedge of the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

(iii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement.

* accounting policies (D) and (E) have been adopted with effect from 1 January 2005, as set out in parts (A) and (V).

ACCOUNTING POLICIES

F Property, plant, equipment and depreciation

Land and buildings are stated at cost, or deemed cost, less depreciation and any provision for impairment. All other fixed assets are stated at cost less depreciation and any provision for impairment. Any impairment of such properties below depreciated historical cost is charged to the income statement.

Under the transition provisions of IFRS 1, land and buildings which were previously revalued under UK GAAP are stated at deemed cost, being their UK GAAP carrying value, including revaluations, as at 1 January 2004.

Freehold land is not depreciated. All other assets are depreciated to their residual values on a straight-line basis over their estimated useful lives as follows:

Building core	50 years or lease term if shorter
Building surface, finishes and services	30 years or lease term if shorter
Plant and machinery	15-20 years
Furniture and equipment	10 years
Soft furnishings	5-7 years
Computer equipment	5 years
Motor vehicles	4 years

No residual values are ascribed to building surface, finishes and services. Residual values ascribed to building core depend on the nature, location and tenure of each property and are reassessed annually.

Capital expenditure on major projects is recorded separately within property, plant and equipment as capital work in progress. Once the project is complete, the balance is transferred to the appropriate fixed asset categories. Capital work in progress is not depreciated.

Interest attributable to funds used to finance the construction or acquisition of new hotels or major extensions to existing hotels is capitalised gross of tax relief and added to the cost of the hotel core.

Operating supplies, which include china, linen, glass and silverware are treated as base stock upon initial hotel opening. Subsequent renewals and replacements of such stocks are written off as incurred to the income statement.

G Leases

Assets financed by way of finance leases, which transfer substantially all the risks and rewards of ownership to the Group, are initially recorded at the lower of fair value and the present value of the minimum lease payments. The equivalent liability, categorised as appropriate, is included within creditors. Assets are depreciated over the shorter of the lease term and their useful economic lives. Finance charges are allocated to accounting periods over the period of the lease to produce constant rates of return on the outstanding balance. Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

On occasion, the Group makes initial payments on entering into long leases of land and buildings. As leases of land are normally classified as operating leases if title is not expected to pass, the element of the payment attributable to land is recorded in the balance sheet as prepaid rentals and is charged to the income statement on a straight-line basis over the term of the lease. Where the lease is for substantially all of the economic life of the building, the building is recognised on balance sheet as property, plant and equipment and accounted for in accordance with Note F above.

H Impairment

The carrying amounts of the Group's assets, other than investment property, inventories, employee benefit assets and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

ACCOUNTING POLICIES

H Impairment (Continued)
An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairments are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

I Investment properties
Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are stated at fair value.

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, value the portfolio annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

J Inventories
Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

K Development properties
Development properties are stated at the lower of cost and net realisable value. The cost of development properties includes interest and other related expenditure incurred in order to get the asset ready for its intended use.

L Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

M Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost: any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

N Income tax
Income tax on profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are not expected to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner or realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the benefit will be realised.

ACCOUNTING POLICIES

N Income tax (Continued)

Deferred tax assets and liabilities are offset only to the extent that: the Group has a legally enforceable right to offset current tax assets against current tax liabilities; the Group intends to settle net; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

O Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses at 1 January 2004, the date of transition to IFRS, were recognised. The Group recognises actuarial gains and losses that arise subsequent to 1 January 2004 within the Statement of Recognised Income and Expense in the period in which they occur.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than post-employment plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit method and is discounted to its present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

(iv) Share based payment transactions

The share option programme allows Group employees to acquire shares of Millennium & Copthorne Hotels plc. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

P Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the avoidable cost of meeting its obligations under the contract.

ACCOUNTING POLICIES

Q Revenue and its recognition

Revenue comprises:

- Income from the ownership, management and operation of hotels: recognised as the related goods and services that are provided;
- Income from property rental: recognised on a straight-line basis over the lease term: lease incentives granted are recognised as an integral part of the total rental income; and
- Land, development property and property sales: recognised when legal title transfers provided the related significant risk and rewards of ownership have passed by that date.

R Dividend distribution

Dividends are recognised as a liability in the period in which they are approved for payment.

S Segmental reporting

The Group's primary reporting format shows two business segments, hotel and property operations, with each segment representing a business unit that offers different products or serves different markets. The hotel operations comprise income from the ownership and management of hotels. Property operations comprise the development and the sale of land and development properties and investment property rental income.

The Group's secondary reporting format is geographic location. The hotel and property operations are managed on a worldwide basis and operate in six principal geographical areas: New York, Regional US, London, Rest of Europe, Asia and Australasia.

T Non-current assets held for sale

Non-current assets are classified as held for sale when their disposal is considered highly probable. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRS. Then on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying value amount and fair value less costs to sell. Impairments on initial classification as held for sale are included in the income statement, even for assets measured at fair value, as are gains and losses on subsequent re-measurement.

U Other financial assets and liabilities

Trade investments are classified as available for sale assets and are included under non-current assets within 'other financial assets'. They are recorded at market value with movements in value taken to equity. Any impairment to value is recorded in the income statement.

Trade and other receivables are stated at their nominal amount (discounted if material) less impairments.

Trade and other payables are stated at their nominal amount (discounted if material).

V Effect of first time adoption of IAS 32 and IAS 39 on 1 January 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments issued by the Group, investments in debt and equity securities, derivative financial instruments and hedging.

In the comparative year, other than investment properties, all financial assets and financial liabilities were carried at cost or deemed cost (amortised as appropriate) less, in the case of financial assets, provision for impairment. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction the unrecognised gains and losses arising on the instrument were recognised, either in the income statement or combined into the carrying value of the associated asset or liability. Interest differentials arising from interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

ACCOUNTING POLICIES

V Effect of first time adoption of IAS 32 and IAS 39 on 1 January 2005 (Continued)

Adjustments have been made to implement the revised policies in (D) and (E) as at 1 January 2005. The principal effect on the primary statements, had IAS 32 and IAS 39 been adopted, would have been to recognise the fair value of hedging derivatives on the balance sheet with fair value movements being recorded through the statement of recognised income and expense.

IAS 32 disclosure information is only presented for the current year. Comparative financial instrument disclosures, presented in Note 19, have not been restated and are presented in accordance with FRS 13.

W IFRS not yet adopted

The following IFRS adopted for use in the European Union were available for early application but have not been applied by the Group in these consolidated financial statements.

IFRS 7 'Financial Instruments disclosures' must be applied for years commencing on or after 1 January 2007. The application of IFRS 7 in the current year would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The Group does not currently intend early adoption.

Similarly, the Group has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006. Where a company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee. The Group does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

X Related parties

For the purpose of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business and geographical segments. The primary format is business segments, and is based on the Group's management and internal reporting structure. Inter segment pricing is determined on an arm's length basis.

Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items principally comprise interest-bearing loans, borrowings and net financing costs, taxation balances and corporate assets and expenses.

Business segments

The Group comprises the following main business segments:

- Hotel operations, comprising income from the ownership and management of hotels
- Property operations, comprising the development and sale of land and development properties and investment property rental income

Geographical segments

The hotel and property operations are managed on a worldwide basis and operate in six principal geographical areas:

- New York
- Regional US
- London
- Rest of Europe
- Asia
- Australasia

In presenting information on the basis of geographical segments, segment revenue and assets are based on the geographical location of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (Continued)

Business segments (primary)

	Hotel 2005 £m	Property operations 2005 £m	Central costs 2005 £m	Total Group 2005 £m
Revenue	580.7	14.5	–	595.2
Gross operating profit	200.0	6.7	–	206.7
Depreciation	(35.4)	–	–	(35.4)
Amortisation of lease prepayments	(1.0)	–	–	(1.0)
Other hotel fixed charges*	(56.9)	–	–	(56.9)
Profit before central costs	106.7	6.7	–	113.4
Central costs	–	–	(13.8)	(13.8)
Group operating profit before other operating income and impairment	106.7	6.7	(13.8)	99.6
Other operating income	12.8	15.5	–	28.3
Impairment	(6.5)	–	–	(6.5)
Share of profit of joint ventures and associates	3.5	–	–	3.5
Profit before financing	116.5	22.2	(13.8)	124.9
Net financing costs				(29.1)
Profit before tax				95.8

*'Other hotel fixed charges' include property rent, taxes and insurance, operating lease rentals and management fees.
There are no inter segment sales. Revenue by origin is not significantly different from revenue by destination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (Continued)

Business segments (primary)

	Hotel 2004 £m	Property operations 2004 £m	Central costs 2004 £m	Total Group 2004 £m
Revenue	529.6	21.4	–	551.0
Gross operating profit	177.8	10.3	–	188.1
Depreciation	(35.9)	–	–	(35.9)
Amortisation of lease prepayments	(1.2)	–	–	(1.2)
Other hotel fixed charges	(53.3)	–	–	(53.3)
Profit before central costs	87.4	10.3	–	97.7
Central costs	–	–	(12.5)	(12.5)
Group operating profit before other operating income and impairment	87.4	10.3	(12.5)	85.2
Other operating income	51.8	3.2	–	55.0
Impairment	(15.2)	–	–	(15.2)
Share of profit of joint ventures and associates	1.7	–	–	1.7
Profit before financing	125.7	13.5	(12.5)	126.7
Net financing costs				(35.7)
Profit before tax				91.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (Continued)

Geographical segments (secondary)

	New York 2005 £m	Regional US 2005 £m	London 2005 £m	Rest of Europe 2005 £m	Asia 2005 £m	Australasia 2005 £m	Central costs 2005 £m	Total Group 2005 £m
Revenue								
Hotel	91.2	112.8	78.7	97.7	151.7	48.6	–	580.7
Property operations	–	2.6	–	–	1.4	10.5	–	14.5
Total	91.2	115.4	78.7	97.7	153.1	59.1	–	595.2
Hotel gross operating profit	31.2	23.5	38.1	31.1	55.7	20.4	–	200.0
Hotel fixed charges	(14.2)	(18.5)	(13.5)	(17.0)	(20.7)	(9.4)	–	(93.3)
Hotel operating profit	17.0	5.0	24.6	14.1	35.0	11.0	–	106.7
Property operations operating profit	–	0.6	–	–	0.8	5.3	–	6.7
Profit before central costs	17.0	5.6	24.6	14.1	35.8	16.3	–	113.4
Central costs	–	–	–	–	–	–	(13.8)	(13.8)
Group operating profit before other operating income and impairment	17.0	5.6	24.6	14.1	35.8	16.3	(13.8)	99.6
Other operating income	12.8	5.9	–	–	–	9.6	–	28.3
Impairment	–	–	–	(6.5)	–	–	–	(6.5)
Share of profit of joint ventures and associates	–	–	–	–	3.5	–	–	3.5
Profit before financing	29.8	11.5	24.6	7.6	39.3	25.9	(13.8)	124.9
Net financing costs								(29.1)
Profit before tax								95.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (Continued)

Geographical segments (secondary)

	New York 2004 £m	Regional US 2004 £m	London 2004 £m	Rest of Europe 2004 £m	Asia 2004 £m	Australasia 2004 £m	Central costs 2004 £m	Total Group 2004 £m
Revenue								
Hotel	77.6	100.7	77.2	93.0	136.6	44.5	–	529.6
Property operations	–	2.5	–	–	1.4	17.5	–	21.4
Total	77.6	103.2	77.2	93.0	138.0	62.0	–	551.0
Hotel gross operating profit	22.4	21.1	39.5	27.9	48.4	18.5	–	177.8
Hotel fixed charges	(12.3)	(17.0)	(13.6)	(17.3)	(21.5)	(8.7)	–	(90.4)
Hotel operating profit	10.1	4.1	25.9	10.6	26.9	9.8	–	87.4
Property operations operating profit	–	0.6	–	–	0.8	8.9	–	10.3
Profit before central costs	10.1	4.7	25.9	10.6	27.7	18.7	–	97.7
Central costs	–	–	–	–	–	–	(12.5)	(12.5)
Group operating profit before other operating income and impairment	10.1	4.7	25.9	10.6	27.7	18.7	(12.5)	85.2
Other operating income	51.8	–	–	–	0.5	2.7	–	55.0
Impairment	–	(15.2)	–	–	–	–	–	(15.2)
Share of profit of joint ventures and associates	(2.3)	–	–	–	4.0	–	–	1.7
Profit before financing	59.6	(10.5)	25.9	10.6	32.2	21.4	(12.5)	126.7
Net financing costs								(35.7)
Profit before tax								91.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (Continued)

Segmental assets, liabilities and capital expenditure

	New York 2005 £m	Regional US 2005 £m	London 2005 £m	Rest of Europe 2005 £m	Asia 2005 £m	Australasia 2005 £m	Total Group 2005 £m
Hotel operating assets	328.5	291.8	449.7	227.1	694.3	106.1	2,097.5
Hotel operating liabilities	(72.5)	(61.7)	(65.7)	(41.6)	(129.4)	(14.6)	(385.5)
Investment in joint ventures	–	–	–	–	29.0	–	29.0
Loans to joint ventures	–	–	–	–	26.3	–	26.3
Total hotel operating net assets	256.0	230.1	384.0	185.5	620.2	91.5	1,767.3
Property operations assets	–	19.8	–	–	29.2	48.5	97.5
Property operations liabilities	–	(4.7)	–	–	(0.5)	(1.4)	(6.6)
Total property operations net assets	–	15.1	–	–	28.7	47.1	90.9
Net debt							(480.4)
Net assets							1,377.8
Capital expenditure							
Hotel operations	8.4	7.9	5.4	2.0	9.9	4.5	38.1
Property operations	–	0.1	–	–	–	2.9	3.0
	8.4	8.0	5.4	2.0	9.9	7.4	41.1

	New York 2004 £m	Regional US 2004 £m	London 2004 £m	Rest of Europe 2004 £m	Asia 2004 £m	Australasia 2004 £m	Total Group 2004 £m
Hotel operating assets	289.0	265.7	451.1	236.1	616.8	115.5	1,974.2
Hotel operating liabilities	(59.8)	(57.4)	(61.4)	(49.4)	(108.0)	(13.7)	(349.7)
Investment in joint ventures	–	–	–	–	23.0	–	23.0
Loans to joint ventures	–	–	–	–	22.3	–	22.3
Total hotel operating net assets	229.2	208.3	389.7	186.7	554.1	101.8	1,669.8
Property operations assets	–	12.5	–	–	32.2	32.3	77.0
Property operations liabilities	–	(2.2)	–	–	(0.6)	–	(2.8)
Total property operations net assets	–	10.3	–	–	31.6	32.3	74.2
Net debt							(483.0)
Net assets							1,261.0
Capital expenditure							
Hotel operations	4.2	4.8	1.9	2.0	8.8	3.0	24.7
Property operations	–	0.3	–	–	–	0.2	0.5
	4.2	5.1	1.9	2.0	8.8	3.2	25.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADMINISTRATIVE EXPENSES

The following items are included within administrative expenses:

	2005	2004
	£m	£m
Impairment	**6.5**	15.2
Auditor's remuneration		
– Audit	**1.0**	0.9
– Fees receivable by the auditors and their associates in respect of other services	**0.8**	0.6
Repairs and maintenance	**28.8**	27.3
Depreciation	**35.4**	35.9
Rentals payable under operating leases:		
– Land and buildings	**10.8**	12.3
– Plant and machinery	**3.8**	1.3
Exchange gain	**–**	(0.1)

Properties are annually reviewed for indications of impairment, and appropriate charges made where their value is less than the current carrying values. In 2005 the impairment related to one European hotel property, whereas in 2004 it related to five US hotel properties.

The audit fee for the Company was £50,000 (2004: £40,000).

The non-audit fees comprise £0.6m (2004: £0.5m) in respect of taxation compliance and advice, and £0.2m (2004: £0.1m) in respect of further assurance services.

3. OTHER OPERATING INCOME

	Notes	**2005**	2004
		£m	£m
Fair value adjustments of investment property	(a)	**5.9**	–
Business interruption insurance proceeds	(b)	**12.8**	–
Gain on disposal of joint venture	(c)	**–**	51.8
Net gain on disposal of property	(d)	**9.6**	3.2
		28.3	55.0

(a) At the end of 2005, the Group's investment properties consisting of the Kings Tanglin Shopping Centre in Singapore and the Biltmore Court & Tower, Los Angeles were subject to external professional valuation on an open market existing use basis. The Kings Tanglin Shopping Centre was valued at its carrying value and the Court & Tower recorded uplift in value of £5.9m which has been credited to the income statement in accordance with the Group's accounting policy. No surplus or deficit arose on the valuations undertaken in 2004.

(b) In March 2005, the Group settled the 11 September 2001 business interruption/property damage insurance claim regarding the Millenium Hilton for US$85.0m. The final proceeds of US$25.0m (£12.8m) have been credited to the income statement.

(c) The gain on disposal of joint venture in 2004 related to The Plaza Hotel, New York.

(d) The net gains on property disposal in 2004 and 2005 arise principally on assets in Australasia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. PERSONNEL EXPENSES

	2005 £m	2004 £m
Wages and salaries	**188.7**	177.0
Compulsory social security contributions	**27.6**	25.3
Contributions to defined contribution plans	**4.2**	3.8
Defined benefit pension costs – recorded in the statement of recognised income and expense	**2.4**	3.3
Defined benefit pension costs – recorded in the income statement	**2.7**	2.7
	225.6	212.1

The average number of persons employed by the Group (including directors) during the year analysed by category, was as follows:

	2005 Number	2004 Number
Hotel operating staff	**10,305**	10,148
Management/administration	**1,261**	1,272
Sales and marketing	**511**	424
Repairs and maintenance	**655**	604
	12,732	12,448

Directors' remuneration

Details of directors' remuneration, share options, long term incentive schemes and directors' pension entitlements and interests in shares are disclosed in the Directors' Remuneration Report on pages 22 to 28.

5. FINANCE INCOME AND EXPENSE

	2005 £m	2004 £m
Interest income	**3.4**	2.0
Interest receivable from joint ventures	**0.1**	0.5
Foreign exchange gain	**3.2**	3.3
Finance income	**6.7**	5.8
Interest expense	**(32.6)**	(38.3)
Foreign exchange loss	**(3.2)**	(3.2)
Finance expense	**(35.8)**	(41.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

	2005 £m	2004 £m
Current tax expense		
Current year	**16.7**	27.4
Adjustments for prior years	**(8.5)**	(3.1)
	8.2	24.3
Deferred tax expense (Note 23)		
Origination and reversal of temporary differences	**11.5**	(22.1)
Increase/(reduction) in tax rate	**2.5**	(1.1)
Benefits of tax losses recognised	**1.5**	30.3
Underprovision in respect of prior years	**2.3**	–
	17.8	7.1
Total income tax expense in income statement	**26.0**	31.4

Income tax reconciliation

	2005 %	**2005 £m**	2004 %	2004 £m
Profit before tax in income statement		**95.8**		91.0
Less share of profit in joint ventures and associates		**(3.5)**		(1.7)
Profit on ordinary activities excluding share of joint ventures and associates		**92.3**		89.3
Income tax on ordinary activities at the standard rate of UK tax of 30% (2004: 30%)	**30.0**	**27.7**	30.0	26.8
Permanent differences	**(2.9)**	**(2.7)**	(5.2)	(4.6)
Non-utilisation of tax losses arising in the year	**0.3**	**0.3**	1.5	1.3
Utilisation of brought forward tax losses	**(0.7)**	**(0.7)**	(1.3)	(1.2)
Higher rates on overseas earnings	**1.7**	**1.6**	1.5	1.3
Overseas tax suffered	**1.6**	**1.5**	13.4	12.0
Effect of change in tax rates on opening deferred assets	**2.7**	**2.5**	(1.2)	(1.1)
Adjustment to tax charge in respect of prior years	**(6.7)**	**(6.2)**	(3.5)	(3.1)
Unrecognised deferred tax assets	**2.2**	**2.0**	–	–
	28.2	**26.0**	35.2	31.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

The basic earnings per share are calculated using the following information:

- profit for the year attributable to holders of the parent £61.1m (2004: £50.9m).
- weighted average number of ordinary shares in issue of 287.0m (2004: 284.5m).

In calculating diluted earnings per share, the weighted average number of ordinary shares is adjusted for the effect of all dilutive potential ordinary shares:

	2005 Number of shares m	2004 Number of shares m
Weighted average number of shares issued used in the calculation of basic earnings per share	**287.0**	284.5
Effect of share options on issue	**0.9**	0.7
Weighted average number of ordinary shares (diluted)	**287.9**	285.2

8. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings £m	Capital work in progress £m	Plant and machinery £m	Fixtures, fittings, equipment, and vehicles £m	Total £m
Cost						
Balance at 1 January 2004		1,802.7	6.0	85.1	165.0	2,058.8
Additions		3.4	5.3	6.0	10.0	24.7
Transfer from current assets	(a)	5.8	–	–	1.0	6.8
Transfer to development properties		(11.6)	–	–	–	(11.6)
Transfer to assets held for sale		(15.9)	–	(1.2)	(0.8)	(17.9)
Transfers		3.2	(5.9)	1.1	1.6	–
Fair value adjustment		0.8	–	–	–	0.8
Disposals		(0.5)	–	(7.2)	(7.5)	(15.2)
Written off		–	–	(2.0)	(1.3)	(3.3)
Foreign exchange adjustments		(58.7)	(0.3)	(4.4)	(7.1)	(70.5)
Balance at 31 December 2004		1,729.2	5.1	77.4	160.9	1,972.6
Balance at 1 January 2005		1,729.2	5.1	77.4	160.9	1,972.6
Additions		5.5	12.8	5.0	14.8	38.1
Transfer from current assets	(a)	4.1	–	–	–	4.1
Transfers		2.6	(13.5)	1.7	9.2	–
Disposals		(0.3)	–	(1.5)	(5.7)	(7.5)
Written off		–	–	(3.3)	(7.2)	(10.5)
Foreign exchange adjustments		116.6	0.9	9.1	15.0	141.6
Balance at 31 December 2005		1,857.7	5.3	88.4	187.0	2,138.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings £m	Capital work in progress £m	Plant and machinery £m	Fixtures, fittings, equipment, and vehicles £m	Total £m
Depreciation					
Balance at 1 January 2004	30.0	–	27.3	72.3	129.6
Charge for the year	9.8	–	4.9	21.2	35.9
Impairments	15.2	–	–	–	15.2
Transfer to assets held for sale	(2.7)	–	(0.3)	(0.4)	(3.4)
Transfers	(0.5)	–	–	0.5	–
Disposals	–	–	(7.0)	(7.2)	(14.2)
Written off	–	–	(1.9)	(1.2)	(3.1)
Foreign exchange adjustments	(1.7)	–	(0.4)	(3.5)	(5.6)
Balance at 31 December 2004	50.1	–	22.6	81.7	154.4
Balance at 1 January 2005	50.1	–	22.6	81.7	154.4
Charge for the year	9.8	–	4.8	20.8	35.4
Impairments	6.5	–	–	–	6.5
Transfers	–	–	(0.1)	0.1	–
Disposals	–	–	(1.1)	(5.8)	(6.9)
Written off	–	–	(3.3)	(7.2)	(10.5)
Foreign exchange adjustments	4.3	–	0.4	11.4	16.1
Balance at 31 December 2005	70.7	–	23.3	101.0	195.0
Carrying amounts					
At 1 January 2004	1,772.7	6.0	57.8	92.7	1,929.2
At 31 December 2004	1,679.1	5.1	54.8	79.2	1,818.2
At 1 January 2005	1,679.1	5.1	54.8	79.2	1,818.2
At 31 December 2005	**1,787.0**	**5.3**	**65.1**	**86.0**	**1,943.4**

(a) Transfers between fixed assets and current assets

The Group acquired the Wynfield Inn, at Westwood, Florida in 1999. The hotel was subsequently sold. Consideration was paid to the Group by issue of a loan note. Following a loan note default, during 2005 the Group repossessed the property and recommenced operating the hotel. It is the Group's intention to operate the hotel in the medium term and as a result, the hotel is now included within property, plant and equipment at a cost of £4.1m, equivalent to the carrying value of the loan note.

The Group acquired La Quinta Inn, at Lakeside, Florida in 1999. The hotel was subsequently sold. Consideration was paid to the Group by issue of a loan note. Following a loan note default, during 2004 the Group repossessed the property and recommenced to operate the hotel. It is still the Group's intention to operate the hotel in the medium term and as a result, the hotel is now included within property, plant and equipment at a cost of £6.8m, equivalent to the carrying value of the loan note.

The Millennium Sydney Hotel closed on 31 March 2003. From 2004, part of the hotel site has been subject to residential development. Consequently, during 2004 £11.6m was transferred from tangible fixed assets to development properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Land and buildings

Land and buildings includes long leasehold building assets with a book value of £367.6m (2004: £353.8m). It also includes assets held under finance leases with a net book value of £11.1m (2004: £12.1m) which give the Group an option to purchase the properties for a nominal sum at the end of the lease. The net book value of land and buildings held under short leases was £23.1m (2004: £22.3m), in respect of which depreciation of £3.5m was charged during the year.

No interest has been capitalised within land and buildings during the year (2004: £nil). The cumulative interest within land and buildings is £4.4m (2004: £4.4m). In line with local tax regimes, tax relief is obtained in the United Kingdom and France on 100% of the interest capitalised in the year, in the United States of America over the period of amortisation of the related asset but in New Zealand no tax relief is available.

(c) Impairments

The directors undertake an annual review of the carrying value of hotel and property assets for indications of impairment, as required by IAS 36 'Impairment of assets'. Where appropriate, external property valuations are also undertaken. An impairment charge of £6.5m (2004: £15.2m) has been recorded within administrative expenses in the year (Note 2). In 2005, the impairment charge and the estimated recoverable amount were based on the hotel property's value in use, using a discount rate of 7%. In 2004, the impairment charge was primarily based on the results of external valuations of the hotels.

9. LEASE PREMIUM PREPAYMENT

	2005 **£m**	2004 £m
Cost		
Balance at 1 January	**89.6**	90.8
Foreign exchange adjustments	**1.5**	(1.2)
Balance at 31 December	**91.1**	89.6
Amortisation		
Balance at 1 January	**8.1**	7.3
Charge for year	**1.0**	1.2
Foreign exchange adjustments	**0.2**	(0.4)
Balance at 31 December	**9.3**	8.1
Carrying amount	**81.8**	81.5
Analysed between:		
Amount due after more than one year included in non-current assets	**80.8**	80.5
Amount due within one year included in current assets	**1.0**	1.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INVESTMENT PROPERTIES

	2005 £m	2004 £m
Valuation		
Balance at 1 January	**43.7**	90.3
Additions	**0.1**	0.5
Fair value adjustment	**5.9**	–
Disposals	**(5.7)**	(42.0)
Foreign exchange adjustments	**4.0**	(5.1)
Balance at 31 December	**48.0**	43.7

During the year, the Group disposed of a number of units within the Kings Tanglin Shopping Centre, Singapore. No gain or loss arose on disposal. Cash proceeds were received in the current and prior years. In 2004, the Group disposed of the Birkenhead Marina and Shopping Centre, Sydney. The profit on disposal was £2.7m which is included within other operating income as shown in Note 3.

In general the carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

At the end of 2005, the Group's investment properties were subject to external professional valuation on an open market existing use basis as follows:

Property	Valuer
Kings Tanglin Shopping Centre, Singapore	DTZ Debenham Tie Leung
Biltmore Court & Tower, Los Angeles	Jones Lang LaSalle

Based on these valuations, together with such considerations as the directors considered appropriate, the Kings Tanglin Shopping Centre was, as in 2004, valued at its carrying value of £28.8m (2004: £31.6m). The Biltmore Court & Tower was valued on an existing use basis at £19.2m (2004: £12.1m), leading to a surplus on revaluation, after exchange differences, of £5.9m which, in accordance with the Group's accounting policy was credited to the income statement. In 2004, the Biltmore Court & Tower was valued at its existing book value by the directors.

Further details in respect of investment property rentals are given in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group has the following investments in joint ventures and associates at 31 December 2005:

	Country of incorporation	Effective ownership 2005	2004
Joint ventures			
New Unity Holdings Limited	British Virgin Islands	**50%**	50%
Fena Estate Company Limited	Thailand	**50%**	50%

With effect from 1 January 2005, the Group has consolidated its former associate entities, Rogo Realty Corporation and Harbour Land Corporation, to reflect the power, at this date, of the Group to control the operating and financial policies and operations of these entities. Both entities are incorporated in the Philippines and form part of the Group's ownership structure of the Heritage Hotel, Manila. Due to the size of these entities, this change has not had a significant effect on the consolidated financial statements. The Group's effective ownership is 24% and 41% respectively and an adjustment has been made to reflect the minority interest held (Note 26).

	Joint ventures £m	Associates £m	Total £m
Share of net assets/cost			
Balance at 1 January 2004	45.1	0.5	45.6
Share of profit for the year	1.7	–	1.7
Foreign exchange adjustments	(3.8)	(0.1)	(3.9)
Increase on cost of investment	1.3	–	1.3
Disposal of joint ventures	(38.4)	–	(38.4)
Transfer to group deferred tax provision (Note 23)	16.7	–	16.7
Balance at 31 December 2004	22.6	0.4	23.0
Balance at 1 January 2005	22.6	0.4	23.0
Share of profit for the year	3.5	–	3.5
Foreign exchange adjustments	2.9	–	2.9
Transfer to subsidiaries	–	(0.4)	(0.4)
Balance at 31 December 2005	29.0	–	29.0
Carrying amounts			
At 1 January 2004	45.1	0.5	45.6
At 31 December 2004	22.6	0.4	23.0
At 1 January 2005	22.6	0.4	23.0
At 31 December 2005	**29.0**	**–**	**29.0**

On 15 October 2004, the Group disposed of its joint venture investment in The Plaza Hotel, New York. Total consideration of £93.3m was receivable of which £79.9m had been received at 31 December 2004. Total cash flows received in 2004 were £90.8m which comprised £79.9m sale proceeds together with the settlement of group loans to the joint venture and other debtor balances. A further £6.5m was settled during 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

The profit on disposal of The Plaza Hotel, New York joint venture investment is calculated as follows:

	2004 £m
Consideration	93.3
Less net book value of joint venture investment disposed	(38.4)
Accrual for directors' bonuses (Page 27)	(2.2)
Fees payable to related party (Note 30)	(0.9)
Gain on disposal of joint venture investment (Note 3)	51.8

	2005 £m	2004 £m
Loans due from joint ventures and associates		
Loans due from joint ventures	**26.3**	22.3

	2005 £m	2004 £m
Summary information on joint ventures – 100%		
Revenue	**66.3**	112.4
Operating profit	**17.0**	15.6
Interest	**(2.6)**	(6.4)
Taxation	**(2.8)**	(1.6)
Minority interests	**(4.6)**	(4.2)
Profit for year	**7.0**	3.4
Assets		
Non-current assets	**285.4**	204.0
Current assets	**35.5**	27.8
Total assets	**320.9**	231.8
Liabilities		
Non-current liabilities	**(92.7)**	(128.6)
Current liabilities	**(104.2)**	(17.6)
Total liabilities	**(196.9)**	(146.2)
Total assets less total liabilities	**124.0**	85.6
Less minority share of net assets	**(66.0)**	(40.4)
Net assets	**58.0**	45.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

Summary information on associates – 100 %

	2005 £m	2004 £m
Revenue	–	0.2
Assets		
Non-current assets	–	0.9
Current assets	–	0.3
Total assets	–	1.2
Liabilities		
Current liabilities	–	(0.2)
Net assets	–	1.0

12. OTHER FINANCIAL ASSETS

Other financial assets included within non-current assets comprise:

	2005 £m	2004 £m
Unquoted equity investments available for sale	**0.8**	0.8
Loan notes receivable	**1.4**	2.0
	2.2	2.8

Other financial assets included within current assets comprise:

	2005 £m	2004 £m
Short term investment deposits	**5.9**	4.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. ASSETS HELD FOR SALE

	2005 £m	2004 £m
Carrying value		
Balance at 1 January	**14.5**	–
Additions	**2.9**	–
Disposals	**(18.0)**	–
Transfer from property, plant and equipment	**–**	14.5
Foreign exchange adjustments	**0.6**	–
Balance at 31 December	**–**	14.5

At 31 December 2004, the following assets were presented as held for sale with a total carrying value of £14.5m:

- Commercial property assets held in Sydney: these comprised part of the Millennium Sydney hotel property and the adjoining retail and conference centre.

- Kingsgate Hotel Greenlane, Auckland.

The net gain on disposal of the above assets was £9.6m and the sale proceeds, net of disposal costs, were £27.6m.

14. INVENTORIES

	2005 £m	2004 £m
Consumables	**4.4**	3.9

15. DEVELOPMENT PROPERTIES

	2005 £m	2004 £m
Carrying value		
Balance at 1 January	**32.3**	14.6
Additions	**14.4**	6.5
Transfer from property, plant and equipment (Note 8)	**–**	11.6
Foreign exchange adjustments	**1.8**	(0.4)
Balance at 31 December	**48.5**	32.3

Development properties included above comprises:

	2005 £m	2004 £m
Development land for resale	**22.1**	17.5
Development properties work in progress	**26.4**	14.8
	48.5	32.3

As described in Note 8(a), the Millennium Sydney Hotel closed in 2003. Part of the former hotel site continues to be the subject of residential development and this asset is held within development properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. TRADE AND OTHER RECEIVABLES

	2005 £m	2004 £m
Trade receivables due from joint ventures	–	0.1
Trade receivables due from associates	–	0.1
Other trade receivables	**30.7**	25.9
Other debtors	**6.7**	2.3
Prepayments and accrued income	**11.8**	9.0
Amounts receivable from hotel disposals	**4.0**	12.4
	53.2	49.8

Trade receivables are shown net of impairment amounting to £1.6m (2004: £1.4m) recognised in the current year, and arising from the likely bankruptcies of customers.

17. CASH AND CASH EQUIVALENTS

	2005 £m	2004 £m
Cash at bank and in hand	**29.9**	36.7
Short term deposits	**74.7**	54.0
	104.6	90.7

18. INTEREST-BEARING LOANS, BONDS AND BORROWINGS

Included within non-current liabilities:	2005 £m	2004 £m
Bank loans	**322.4**	138.7
Bonds payable	**205.4**	105.0
Obligations under finance leases	**2.3**	4.3
	530.1	248.0

Included within current liabilities:	2005 £m	2004 £m
Bank loans and overdrafts	**53.1**	192.5
Bonds payable	–	131.5
Obligations under finance leases	**1.8**	1.7
	54.9	325.7

Further details in respect of financial liabilities are given in Note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

As set out in the accounting policies, the Group has adopted IAS 32 and IAS 39 from 1 January 2005. Comparative financial information has been prepared under UK GAAP, FRS 13.

The primary objectives of the treasury function are to provide secure and competitively priced funding for the activities of the Group and to identify and manage financial risks, including exposure to movements in interest and foreign exchange rates arising from those activities. If appropriate, the Group uses financial instruments and derivatives to manage these risks, as set out below.

Credit risk

Exposure to credit risk is monitored on an ongoing basis, credit checks being performed on all clients requiring credit over certain amounts. Credit is not extended beyond authorised limits, established where appropriate through reference with a professional credit vetting organisation. Credit granted is subject to regular review, to ensure it remains consistent with the client's current creditworthiness and appropriate to the anticipated volume of business.

Investments are allowed only in liquid short term instruments within approved limits, with investment counterparties approved by the Board.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet, these being spread across the various currencies and jurisdictions in which the Group operates.

Interest rate risk

The Group adopts a policy of ongoing review of its exposure to changes in interest rates on its borrowings, taking into account market expectations with regard to the perceived level of risk associated with each currency, the maturity profile and cash flows of the underlying debt, and the extent to which debt may potentially be either prepaid prior to its maturity or refinanced at reduced cost.

The Group's policy is to maintain a mixture of its financial liabilities on fixed and floating-rate bases.

Interest rate derivatives may be used to manage interest rate risk. The Group actively monitors the need and timing for such derivatives. Interest rate derivatives are classified as cash flow hedges, and are stated at fair value within the Group's balance sheet.

Foreign currency risk

The Group is exposed to foreign currency risk on revenue, purchases, borrowings and cash deposits denominated in currencies other than sterling. The currencies giving rise to this risk are primarily US dollars, Singapore dollars, New Zealand dollars, Australian dollars, New Taiwan dollars and Korean won.

The Group's principal policy wherever possible is to maintain a natural hedge whereby liabilities are matched with assets denominated in the same currency. Foreign currency investment exposure is also reduced by borrowing in the currency of investment.

To mitigate foreign currency translation exposure, an appropriate proportion of net assets is designated as hedged against corresponding financial liabilities in the same currency. Exchange differences arising on foreign currency loans during each accounting period are recognised as a component of equity, to the extent that the hedge is effective. The foreign exchange exposure arising on the Group's net investment in its subsidiaries is expected to be highly effective in offsetting the exposure arising on the Group's foreign currency borrowings.

Foreign currency transaction exposure is primarily managed through funding of purchases from operating income streams arising in the same currency.

Hedging of transaction exposure may be undertaken with approved counterparties and within designated limits, using spot or short term forward contracts to buy or sell the currency concerned, once the timing and the underlying amount of exposure have been determined. Foreign exchange derivatives may also be used to hedge specific transaction exposure where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

(a) 2005 IAS 32 disclosures

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	2005				
	Effective interest rates	Total £m	6 months or less £m	1 – 2 years £m	More than 5 years £m
Financial assets					
Short term deposits, cash at bank and in hand					
Floating rate:					
- Sterling	4.60%	0.9	0.9	–	–
- US dollar	3.71%	6.4	6.4	–	–
- Korean won	3.21%	3.6	3.6	–	–
- New Zealand dollar	7.01%	5.3	5.3	–	–
- Others	0.80%	4.6	4.6	–	–
Fixed rate:					
- Sterling	4.60%	0.3	0.3	–	–
- US dollar	3.23%	3.9	3.9	–	–
- Singapore dollar	2.62%	11.0	11.0	–	–
- New Taiwan dollar	0.67%	13.7	13.7	–	–
- Australian dollar	5.59%	39.5	39.5	–	–
- New Zealand dollar	7.53%	7.6	7.6	–	–
- Others	3.65%	7.4	7.4	–	–
Non interest-bearing:					
- Sterling	–	0.3	0.3	–	–
- US dollar	–	2.4	2.4	–	–
- Singapore dollar	–	2.4	2.4	–	–
- New Taiwan dollar	–	0.3	0.3	–	–
- Others	–	0.9	0.9	–	–
- Trade investments (US dollar)	–	0.8	–	0.8	–
- Loans to joint ventures	–	26.3	–	–	26.3
- Loan notes receivable (US dollar)	–	1.4	–	1.4	–
Total	–	139.0	110.5	2.2	26.3

Represented by:	
Cash and cash equivalents	104.6
Loans to joint ventures	26.3
Other financial assets (current)	5.9
Other financial assets (non-current)	2.2
	139.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

	2005						
	Effective interest rates	Total £m	6 months or less £m	6 – 12 months £m	1 – 2 years £m	2 – 5 years £m	More than 5 years £m
Financial liabilities							
Bank overdrafts, loans and bonds							
Floating rate:							
- Sterling	5.32%	148.4	–	–	123.0	25.4	–
- Singapore dollar	3.81%	92.1	–	–	58.7	33.4	–
- US dollar	5.12%	257.1	–	26.0	2.4	228.7	–
- New Zealand dollar	7.88%	17.8	0.8	17.0	–	–	–
- Malaysian ringgit	3.38%	9.3	9.3	–	–	–	–
- Korean won	4.90%	45.9	–	–	45.9	–	–
Fixed rate:							
- Singapore dollar	2.70%	10.3	–	–	10.3	–	–
Finance leases							
- Euro	2.70%	4.1	–	1.8	2.3	–	–
Other liabilities							
Non interest-bearing:							
- US dollar	–	0.8	–	–	–	–	0.8
- Korean won	–	3.8	0.2	0.1	–	–	3.5
Total		589.6	10.3	44.9	242.6	287.5	4.3

Represented by :	
Interest-bearing loans, bonds and borrowings (non-current)	530.1
Interest-bearing loans, bonds and borrowings (current)	54.9
Other liabilities (see Note 22)	4.6
	589.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

Fair value

Set out below is a comparison of fair and book values of all the Group's financial instruments by category. Fair values are determined by reference to market values, where available, or calculated by discounting cash flows at prevailing interest rates.

	2005 Book value £m	2005 Fair value £m
Financial assets		
Short term deposits	74.7	74.7
Cash at bank and in hand	29.9	29.9
Other financial assets	5.9	5.9
Loans due from joint ventures	26.3	26.3
Equity securities – available for sale	0.8	0.8
Other financial assets – loan notes	1.4	1.4
Trade and other receivables	53.2	53.2
	192.2	192.2
Financial liabilities		
Bank overdrafts	(0.9)	(0.9)
Short-term bank loans and bonds	(52.2)	(52.2)
Long-term bank loans and bonds	(527.8)	(527.5)
Finance lease liabilities	(4.1)	(2.5)
Trade and other payables	(100.3)	(100.3)
Other non-current liabilities	(4.6)	(4.0)
	(689.9)	(687.4)
Total unrecognised gains		2.5

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or discounted using the contractual forward price and deducting the current spot rate. For interest rate swaps bank valuations are used.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for similiar lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Interest rates used for determining fair value

Prevailing market interest rates are used to discount cash flows to determine the fair value of financial assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

(b) 2004 FRS 13 disclosures

Short term debtors and creditors, as defined in FRS 13, have been omitted from all of the financial instruments disclosures except those relating to currency risk.

Liquidity

The maturity of all financial liabilities is shown in the following tables.

	Debt other than finance leases 2004 £m	Finance lease obligations 2004 £m	Other financial liabilities 2004 £m	Total 2004 £m
Financial liabilities maturing:				
in one year or less or on demand	324.0	1.7	–	325.7
in more than one year but not more than two years	23.7	2.0	–	25.7
in more than two years but not more than five years	220.0	2.3	–	222.3
in more than five years	–	–	4.1	4.1
	567.7	6.0	4.1	577.8

Interest rate risk profile of financial liabilities

The following analysis sets out the interest rate risk of the Group's financial liabilities after taking into account derivative instruments held as hedges to manage the currency of such financial liabilities.

	Floating rate 2004 £m	Fixed rate 2004 £m	Non-interest bearing 2004 £m	Total 2004 £m	Average interest rate of fixed rate borrowings 2004 %	Average years to maturity of fixed rate borrowings 2004 Years	Average years to maturity of non-interest bearing liabilities 2004 Years
Sterling	129.4	–	–	129.4	–	–	–
Singapore dollar	10.9	94.9	0.2	106.0	3	1	5
US dollar	261.5	–	0.2	261.7	–	–	5
New Zealand dollar	16.0	–	0.6	16.6	–	–	5
Malaysian ringgit	8.4	–	0.1	8.5	–	–	5
Korean won	45.8	–	2.9	48.7	–	–	5
New Taiwan dollar	–	–	0.1	0.1	–	–	5
Euro	0.8	6.0	–	6.8	3	3	–
	472.8	100.9	4.1	577.8	3	1	5

The floating rate financial liabilities comprise bank loans and overdrafts bearing interest at rates based on individual bank base rates or LIBOR depending upon which facility is used. Loans with floating rates are at the following interest rates:

- Sterling: LIBOR plus a margin of up to 1%.
- US dollar: LIBOR plus a margin of between 1% and 2%.
- Other principal currencies: bank rate plus a margin of up to 2%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk profile of financial assets

The following analysis sets out the interest rate risk of the Group's financial assets after taking into account derivative instruments held as hedges to manage the currency of such financial assets.

	Floating rate 2004 £m	Fixed rate 2004 £m	Non-interest bearing 2004 £m	Total 2004 £m	Average interest rate of fixed rate assets 2004 %	Average years to maturity of fixed rate assets 2004 Years
Sterling	1.0	–	0.1	1.1	–	–
US dollar	9.6	12.3	3.4	25.3	2.4	0.1
Korean won	–	6.7	0.1	6.8	2.9	0.1
Singapore dollar	0.1	8.0	2.7	10.8	1.0	0.1
New Taiwan dollar	3.0	3.5	4.3	10.8	0.9	0.1
Others	9.5	32.9	0.4	42.8	5.0	0.1
	23.2	63.4	11.0	97.6	3.5	0.1

Financial assets comprise cash and cash equivalents and other financial assets presented within current and non-current assets (Note 12).

(c) Other financial instrument disclosures

Gains and losses on hedges	£m
Derivatives recognised as financial liabilities at 1 January 2005 (UK GAAP)	–
First time adoption of IAS 39	
- Recognised through creation of hedging reserve	4.0
- Adjustment to retained earnings	1.4
Hedging derivatives recognised as financial liabilities at 1 January 2005	5.4
Gains recognised in the year recycled to income statement	(4.0)
Derivatives realised during year	(1.4)
Hedging derivatives recognised as financial liabilities at 31 December 2005	–

Undrawn committed borrowing facilities

Undrawn borrowing facilities are available to the Group with the maturities as set out in the following table. The conditions precedent to the availability of these facilities are all satisfied at the balance sheet date.

	2005 £m	2004 £m
Expiring in one year or less	**7.5**	29.8
Expiring after more than one year but not more than two years	**30.8**	29.7
Expiring after more than two years but not more than five years	**60.1**	88.3
	98.4	147.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (Continued)

Security

Included within the Group's total bank loans and overdrafts of £375.5m (2004: £331.2m) are £375.3m (2004: £330.7m) of secured loans. Of total bonds and notes payable of £205.4m (2004: £236.5m), £45.9m (2004: £45.8m) are secured bonds.

Loans, bonds and notes are secured on land and buildings.

20. EMPLOYEE BENEFITS

Pension arrangements

The Group operates various funded pension schemes which are established in accordance with local conditions and practices within the countries concerned. The most significant funds are described below.

United Kingdom

The Group operates a pension scheme (the Millennium & Copthorne Pension Plan) for its UK employees which was set up in 1993. The scheme is a funded defined benefit arrangement with different categories of membership. The Trustees of the Plan have appointed The Frank Russell Company and Legal and General Investment Management Limited as the investment managers of the Plan. The assets of the Plan are held separately from those of the Group.

Scheme costs are charged so as to spread the cost of providing the scheme benefits over the average remaining service lives of the employees concerned. The contributions required are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 6 April 2005 and this has been updated on an approximate basis to 31 December 2005. The contributions of the Group were 20.6% of pensionable salary (2004: 20.6%). The contributions of employees were from 3% to 5% (2004: 3% to 5%) of pensionable salary.

As the defined benefit section is closed to new entrants, the current service cost, as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll. The assumptions which have the most significant effect on the results of the valuation are those relating to mortality, the rate of return on investments and the rates of increase in salaries and pensions. The expected average remaining working lifetime of the members was calculated to be 8 years.

Korea

The Group operates a defined benefit pension plan for its employees. The contributions required are determined by an external qualified actuary using the projected unit method. The most recent valuation was carried out on 31 December 2005. The contributions of the Group were 13% (2004: 11.7%) of the employees' earnings. The assumptions which have the most significant effect on the results of the valuations are those relating to the discount rate and rate of increase in salaries. Average future service of participants expected to receive benefits is between 10 and 19 years.

Taiwan

The Group operates a defined benefit pension plan for its employees. The contributions required are determined by an external qualified actuary using the projected unit method. The most recent valuation was carried out on 31 December 2004 and updated on an approximate basis to 31 December 2005. The contributions of the Group were 6% (2004: 6%) of the employees' earnings. The assumptions which have the most significant effect on the results of the valuations are those relating to the discount rate and rate of increase in salaries. Average future service of participants expected to receive benefits is 14 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

The assets of each scheme have been taken at market value and the liabilities have been calculated using the following principal assumptions:

	2005 UK	**2005 Korea**	**2005 Taiwan**	2004 UK	2004 Korea	2004 Taiwan
Inflation rate	**2.90%**	**3.00%**	**–**	2.90%	4.50%	–
Discount rate	**4.80%**	**5.70%**	**3.50%**	5.30%	4.00%	3.50%
Rate of salary increases	**3.40%**	**5.00%**	**3.00%**	4.40%	5.80%	3.00%
Rate of pension increases	**2.90%**	**–**	**–**	2.90%	–	–
Annual expected return on plan assets	**5.77%**	**–**	**3.50%**	6.29%	–	3.50%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered may not be necessarily borne out in practice. The present value of the schemes' liabilities are derived from cash flow projections over long periods and are inherently uncertain.

Amounts recognised in the balance sheet are as follows:

	2005 UK £m	**2005 Korea £m**	**2005 Taiwan £m**	**2005 Other £m**	**2005 Total £m**	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Present value of funded obligations	**29.5**	**6.2**	**6.5**	**0.4**	**42.6**	21.7	8.3	5.5	0.4	35.9
Fair value of plan assets	**(18.9)**	**(6.3)**	**(1.4)**	**–**	**(26.6)**	(15.4)	(5.5)	(1.7)	–	(22.6)
Plan deficit/(surplus)	**10.6**	**(0.1)**	**5.1**	**0.4**	**16.0**	6.3	2.8	3.8	0.4	13.3

Changes in the present value of defined benefit obligations are as follows:

	2005 UK £m	**2005 Korea £m**	**2005 Taiwan £m**	**2005 Other £m**	**2005 Total £m**	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Balance at 1 January	**21.7**	**8.3**	**5.5**	**0.4**	**35.9**	18.0	6.9	5.5	0.4	30.8
Current service cost	**0.7**	**1.1**	**0.3**	**–**	**2.1**	0.7	1.0	0.5	–	2.2
Interest cost	**1.2**	**0.4**	**0.2**	**–**	**1.8**	1.0	0.4	0.2	–	1.6
Benefits paid	**(0.4)**	**(2.3)**	**(0.6)**	**–**	**(3.3)**	(0.3)	(1.9)	(0.3)	–	(2.5)
Experience (gains)/losses	**6.3**	**(2.5)**	**0.7**	**–**	**4.5**	2.3	1.5	(0.3)	–	3.5
Foreign exchange adjustments	**–**	**1.2**	**0.4**	**–**	**1.6**	–	0.4	(0.1)	–	0.3
Balance at 31 December	**29.5**	**6.2**	**6.5**	**0.4**	**42.6**	21.7	8.3	5.5	0.4	35.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

Changes in the fair value of plan assets are as follows:

	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Balance at 1 January	**15.4**	**5.5**	**1.7**	**–**	**22.6**	13.9	4.8	1.8	–	20.5
Expected return on plan assets	**1.0**	**0.2**	**–**	**–**	**1.2**	0.9	0.2	–	–	1.1
Total contributions	**0.6**	**2.2**	**0.3**	**–**	**3.1**	0.7	2.2	0.2	–	3.1
Benefits paid	**(0.4)**	**(2.3)**	**(0.6)**	**–**	**(3.3)**	(0.3)	(1.9)	(0.3)	–	(2.5)
Experience gains/(losses)	**2.3**	**(0.2)**	**–**	**–**	**2.1**	0.2	–	–	–	0.2
Foreign exchange adjustments	**–**	**0.9**	**–**	**–**	**0.9**	–	0.2	–	–	0.2
Balance at 31 December	**18.9**	**6.3**	**1.4**	**–**	**26.6**	15.4	5.5	1.7	–	22.6
Actual return of plan assets	**3.3**	**–**	**–**	**–**	**3.3**	1.1	0.1	–	–	1.2

The fair values of plan assets in each category are as follows:

	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Equity	**14.7**	**–**	**–**	**–**	**14.7**	12.1	–	–	–	12.1
Bonds	**4.2**	**–**	**–**	**–**	**4.2**	3.3	–	–	–	3.3
Cash	**–**	**6.3**	**1.4**	**–**	**7.7**	–	5.5	1.7	–	7.2
	18.9	**6.3**	**1.4**	**–**	**26.6**	15.4	5.5	1.7	–	22.6

The expense recognised in the income statement is as follows:

	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Current service cost	**0.7**	**1.1**	**0.3**	**–**	**2.1**	0.7	1.0	0.5	–	2.2
Interest cost on obligation	**1.2**	**0.4**	**0.2**	**–**	**1.8**	1.0	0.4	0.2	–	1.6
Expected return on plan assets	**(1.0)**	**(0.2)**	**–**	**–**	**(1.2)**	(0.9)	(0.2)	–	–	(1.1)
	0.9	**1.3**	**0.5**	**–**	**2.7**	0.8	1.2	0.7	–	2.7

The total cost is recognised in the following items in the income statement:

	2005 £m	2004 £m
Cost of sales	**1.3**	1.3
Administrative expenses	**1.4**	1.4
	2.7	2.7

The Group expects to contribute £4.4m to the plans in 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

The expense recognised in the statement of recognised income and expense is as follows:

	2005 UK £m	**2005 Korea £m**	**2005 Taiwan £m**	**2005 Other £m**	**2005 Total £m**	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Actual return less expected return on plan assets	**2.3**	**(0.2)**	**–**	**–**	**2.1**	0.2	–	–	–	0.2
Experience losses on plan liabilities	**(0.5)**	**0.3**	**–**	**–**	**(0.2)**	(0.4)	0.3	–	–	(0.1)
Changes in demographic and financial assumptions underlying the present value of plan liabilities	**(5.8)**	**2.2**	**(0.7)**	**–**	**(4.3)**	(1.9)	(1.8)	0.3	–	(3.4)
	(4.0)	**2.3**	**(0.7)**	**–**	**(2.4)**	(2.1)	(1.5)	0.3	–	(3.3)

The principal cause for the UK Plan actuarial loss in the period is a change in the mortality rates used. This reflects an industry wide recognition that life expectancy has increased. The life expectancies underlying the value of the accrued liabilities for the UK Plan, based on a retirement age of 65, are as follows:

	2005 Years	2004 Years
Males	**20**	17
Females	**23**	21

Trend analysis

	2005 UK £m	**2005 Korea £m**	**2005 Taiwan £m**	**2005 Other £m**	**2005 Total £m**	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Present value of defined benefit obligations	**29.5**	**6.2**	**6.5**	**0.4**	**42.6**	21.7	8.3	5.5	0.4	35.9
Fair value of plan assets	**(18.9)**	**(6.3)**	**(1.4)**	**–**	**(26.6)**	(15.4)	(5.5)	(1.7)	–	(22.6)
Plan deficit/(surplus)	**10.6**	**(0.1)**	**5.1**	**0.4**	**16.0**	6.3	2.8	3.8	0.4	13.3
Experience gains/(losses) on plan liabilities	**(6.3)**	**2.5**	**(0.7)**	**–**	**(4.5)**	(2.3)	(1.5)	0.3	–	(3.5)
Experience gains/(losses) on plan assets	**2.3**	**(0.2)**	**–**	**–**	**2.1**	0.2	–	–	–	0.2

Share-based payments

The Group operates a number of share option schemes which are designed to link remuneration to the future performance of the Group. Details of these schemes are given in the Directors' Remuneration Report.

In accordance with the Group's accounting policy, O(iv), on share-based payment transactions, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

Share-based payments (Continued)

The charge to the income statement in the year was £0.6m (2004: £0.4m).

The Group applied IFRS 2 to its active employee share-based payment arrangements at 1 January 2005 except for equity-settled employee share-based payment arrangements granted before 7 November 2002. The Group has granted employee equity-settled share-based payments in 2004 and 2005. The adoption of IFRS 2 is equity-neutral for equity-settled transactions .

(i) Millennium & Copthorne Hotels plc 2003 Executive Share Option Scheme
Share options under this scheme are granted to executive directors and senior management of the Group.

								Proceeds on exercise of options during the year		
Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding as at 31 Dec 2005	Credited to share capital £'000	Credited to share premium £'000	Exercise Period
Part I										
10.03.2003	1.9350	79,325	–	–	15,503	–	63,822	–	–	10.03.2006 – 09.03.2013
16.03.2004	2.9167	62,049	–	–	–	–	62,049	–	–	16.03.2007 – 15.03.2014
24.03.2005	3.9842	–	52,703	–	–	–	52,703	–	–	24.03.2008 – 23.03.2015
Part II										
10.03.2003	1.9350	1,198,465	–	52,697	19,639	–	1,126,129	16	86	10.03.2006 – 09.03.2013
16.03.2004	2.9167	669,109	–	34,960	39,429	–	594,720	10	91	16.03.2007 – 15.03.2014
24.03.2005	3.9842	–	705,613	–	29,365	–	676,248	–	–	24.03.2008 – 23.03.2015
		2,008,948	758,316	87,657	103,936	–	2,575,671	26	177	

(ii) Millennium & Copthorne Hotels Executive Share Option Scheme
No further share options are granted under this scheme.

								Proceeds on exercise of options during the year		
Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding as at 31 Dec 2005	Credited to share capital £'000	Credited to share premium £'000	Exercise Period
Part A										
05.03.1998	4.6087	6,509	–	–	–	–	6,509	–	–	05.03.2001 – 04.03.2008
19.11.1999	3.9856	7,526	–	–	–	–	7,526	–	–	19.11.2002 – 18.11.2009
17.03.2000	3.3500	8,955	–	–	–	–	8,955	–	–	17.03.2003 – 16.03.2010
23.10.2000	3.9500	7,594	–	–	–	–	7,594	–	–	23.10.2003 – 22.10.2010
20.03.2001	4.3500	55,168	–	–	6,896	–	48,272	–	–	20.03.2004 – 19.03.2011
15.03.2002	3.2250	96,583	–	68,110	2,117	–	26,356	20	199	15.03.2005 – 14.03.2012
		182,335	–	68,110	9,013	–	105,212	20	199	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

Share-based payments (Continued)

Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding as at 31 Dec 2005	Proceeds on exercise of options during the year: Credited to share capital £'000	Proceeds on exercise of options during the year: Credited to share premium £'000	Exercise Period
Part B										
05.03.1998	4.6088	15,186	–	–	–	15,186	–	–	–	05.03.2001 – 04.03.2005
02.04.1998	4.9527	27,830	–	–	7,278	20,552	–	–	–	02.04.2001 – 01.04.2005
05.03.1999	4.8321	40,436	–	–	–	–	40,436	–	–	05.03.2002 – 04.03.2006
19.11.1999	3.9856	47,670	–	–	–	–	47,670	–	–	19.11.2002 – 18.11.2006
17.03.2000	3.3500	122,625	–	104,256	–	–	18,369	31	318	17.03.2003 – 16.03.2007
23.10.2000	3.9500	5,570	–	–	–	–	5,570	–	–	23.10.2003 – 22.10.2007
14.03.2001	4.3250	120,231	–	–	–	–	120,231	–	–	14.03.2004 – 13.03.2008
20.03.2001	4.3500	133,151	–	–	1,437	–	131,714	–	–	20.03.2004 – 19.03.2008
04.12.2001	2.7350	153,787	–	153,787	–	–	–	46	374	04.12.2004 – 03.12.2008
15.03.2002	3.2250	395,639	–	221,684	23,537	–	150,418	67	648	15.03.2005 – 14.03.2009
		1,062,125	–	479,727	32,252	35,738	514,408	144	1,340	

(iii) Millennium & Copthorne Hotels Sharesave Scheme
Share options under this scheme are granted to UK based executive directors and employees.

Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2005	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding as at 31 Dec 2005	Proceeds on exercise of options during the year: Credited to share capital £'000	Proceeds on exercise of options during the year: Credited to share premium £'000	Exercise Period
05.05.1999	3.8675	13,626	–	–	–	13,626	–	–	–	01.07.2004 – 01.01.2005
09.05.2000	3.1000	16,845	–	11,275	1,436	–	4,134	3	32	01.07.2005 – 01.01.2006
08.05.2001	3.1360	28,897	–	–	–	28,897	–	–	–	01.07.2004 – 01.01.2005
08.05.2001	3.1360	22,806	–	–	645	–	22,161	–	–	01.07.2006 – 01.01.2007
21.05.2002	2.9200	41,037	–	23,346	7,350	–	10,341	7	61	01.07.2005 – 01.01.2006
21.05.2002	2.9200	24,247	–	–	3,173	–	21,074	–	–	01.07.2007 – 01.01.2008
28.04.2003	1.5040	126,637	–	–	4,393	–	122,244	–	–	01.07.2006 – 01.01.2007
28.04.2003	1.5040	143,050	–	–	33,633	–	109,417	–	–	01.07.2008 – 01.01.2009
20.04.2004	2.3400	64,019	–	–	14,656	–	49,363	–	–	01.07.2007 – 01.01.2008
20.04.2004	2.3400	31,152	–	–	2,653	–	28,499	–	–	01.07.2009 – 01.01.2010
23.03.2005	3.0800	–	74,112	–	6,705	–	67,407	–	–	01.07.2008 – 01.01.2009
23.03.2005	3.0800	–	43,341	–	3,862	–	39,479	–	–	01.07.2010 – 01.01.2011
		512,316	117,453	34,621	78,506	42,523	474,119	10	93	

The weighted average share price at the date of exercise of share options in the year was £3.86 (2004: £2.85).

The options outstanding at the year end have an exercise price in the range £1.504 and £4.832 and a weighted average contractual life of 8 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

Measurement of fair value

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured on a stochastic model.

The option pricing model involves six variables:

- Exercise price
- Share price at grant
- Expected life (Note (a) below)
- Expected volatility of share price (Note (b) below)
- Risk free interest rate
- Expected dividend yield (Note (c) below)

The following awards were granted in the current year and comparative year:

2005 Award	**Date of grant**	**Options granted**	**Share price prevailing on date of grant £**	**Exercise price £**	**Fair value £**	**Expected term (years)**	**Expected volatility**	**Expected dividend yield**	**Risk free interest rate**
2003 Executive Share Option Scheme (directors)	**24.03.2005**	**175,693**	**3.960**	**3.984**	**1.454**	**Note (b)**	**33.2%**	**1.58%**	**4.79%**
2003 Executive Share Option Scheme (non-directors)	**24.03.2005**	**582,623**	**3.960**	**3.984**	**1.276**	**Note (b)**	**33.2%**	**1.58%**	**4.79%**
Sharesave Scheme (3 year)	**23.03.2005**	**74,112**	**3.955**	**3.080**	**1.414**	**3.25**	**31.5%**	**1.58%**	**4.79%**
Sharesave Scheme (5 year)	**23.03.2005**	**43,341**	**3.955**	**3.080**	**1.659**	**3.25**	**33.6%**	**1.58%**	**4.79%**

2004 Award	Date of grant	Options granted	Share price prevailing on date of grant £	Exercise price £	Fair value £	Expected term (years)	Expected volatility	Expected dividend yield	Risk free interest rate
2003 Executive Share Option Scheme (directors)	16.03.2004	116,998	2.880	2.917	1.072	Note (b)	36.0%	1.43%	4.56%
2003 Executive Share Option Scheme (non-directors)	16.03.2004	695,329	2.880	2.917	0.979	Note (b)	36.0%	1.43%	4.56%
Sharesave Scheme (3 year)	20.04.2004	67,241	3.215	2.340	1.355	3.25	38.4%	1.28%	4.70%
Sharesave Scheme (5 year)	20.04.2004	31,152	3.215	2.340	1.492	5.25	34.8%	1.28%	4.84%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (Continued)

Measurement of fair value

Note (a)

Directors: 30% exercise after 3 years if gain; 25% of the remainder in following years using reducing balance method; 1% exercise in years 4 to 10 (on reducing balance method) and the balance of options exercised at maturity (year 10) if in the money.

Non-directors: 45% after 3 years if gain; 25% of the remainder in following years using reducing balance method; 10% exercise in years 1 to 3 (straight line); 5% exercise on third anniversary; 5% exercise in years 4 to 10 (on reducing balance method) and the balance of options exercised at maturity (year 10) if in the money.

Note (b)

The expected volatility is based upon the movement in the share price over a certain period until the grant date. The length of the period reviewed is commensurate with the expected term of the option granted.

Note (c)

The expected dividend yield is based upon dividends announced in the 12 months prior to grant calculated as a percentage of the share price on the date of grant.

21. PROVISIONS

	2005 £m	2004 £m
Balance at 1 January	**2.4**	2.8
Utilised during the year	**(0.4)**	(0.4)
Balance at 31 December	**2.0**	2.4
Analysed taken:		
Non-current	**1.6**	2.0
Current	**0.4**	0.4
	2.0	2.4

The provisions relate to an onerous lease and the balance will be released over the life of the lease until 2014.

22. OTHER NON-CURRENT LIABILITIES

	2005 £m	2004 £m
Deferred property taxes	**2.2**	2.6
Other liabilities	**4.6**	4.1
	6.8	6.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. DEFERRED TAXATION

Movements in deferred tax liabilities and assets (prior to offsetting balances) during the year are as follows:

	At 1 January 2004 £m	Charged/ (credited) to income statement £m	Credited to reserves £m	Transfer from joint venture £m	Foreign exchange adjustments £m	At 31 December 2004 £m
Deferred tax liabilities						
Property assets	258.6	(24.1)	–	16.7	(13.5)	237.7
Deferred tax assets						
Tax losses	(55.5)	30.2	–	–	1.9	(23.4)
Employee benefits	(2.4)	0.3	(1.0)	–	(0.1)	(3.2)
Other	(3.9)	0.7	–	–	0.2	(3.0)
	(61.8)	31.2	(1.0)	–	2.0	(29.6)
Total	196.8	7.1	(1.0)	16.7	(11.5)	208.1

	At 1 January 2005 £m	Charged/ (credited) to income statement £m	Credited to reserves £m	Foreign exchange adjustments £m	**At 31 December 2005 £m**
Deferred tax liabilities					
Property assets	237.7	14.6	–	16.4	**268.7**
Deferred tax assets					
Tax losses	(23.4)	2.1	–	(1.7)	**(23.0)**
Employee benefits	(3.2)	(1.1)	(0.6)	0.3	**(4.6)**
Other	(3.0)	2.2	–	(0.4)	**(1.2)**
	(29.6)	3.2	(0.6)	(1.8)	**(28.8)**
Total	208.1	17.8	(0.6)	14.6	**239.9**

Property assets comprise plant, property and equipment, lease premium prepayment and investment properties.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. DEFERRED TAXATION (Continued)

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits:

	2005 £m	2004 £m
Deductible temporary differences	**2.0**	–
Tax losses	**(1.2)**	0.5
	0.8	0.5
Adjustments due to tax losses in respect of prior year	**6.5**	6.4
	7.3	6.9

The deductible temporary differences do not expire under current tax legislation. The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in respective countries in which certain subsidiaries operate.

The tax losses with expiry dates are as follows:

	2005 £m	2004 £m
Expiry dates		
- within 1 to 5 years	**1.5**	1.4
- after 5 years	**2.9**	2.7
- no expiry date	**21.8**	24.9
	26.2	29.0

At 31 December 2005, a deferred tax liability of £3.1m (2004: £1.9m) relating to investments in overseas subsidiaries and joint ventures has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

24. TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
Trade creditors	**16.1**	16.0
Amount owed to parent	**0.2**	1.0
Other creditors including taxation and social security:		
- Social security and PAYE	**4.7**	4.4
- Value added tax and similar sales taxes	**8.4**	7.6
- Other creditors	**12.4**	8.9
Accruals and deferred income	**56.3**	59.1
Rental and other deposits	**2.2**	2.0
	100.3	99.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. RECONCILIATION OF EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2004	84.8	845.8	–	–	206.9	1,137.5
Total recognised income and expense	–	–	(38.7)	–	48.6	9.9
Dividends *(see below)*	–	–	–	–	(11.7)	(11.7)
Issue of shares in lieu of dividends	0.9	(0.9)	–	–	8.7	8.7
Share options exercised	0.2	1.2	–	–	–	1.4
Equity settled transactions	–	–	–	–	0.4	0.4
Balance at 31 December 2004	85.9	846.1	(38.7)	–	252.9	1,146.2
Balance at 1 January 2005	85.9	846.1	(38.7)	–	252.9	1,146.2
Adoption of IAS 39 – 1 January 2005	–	–	–	(4.0)	(1.4)	(5.4)
Balance restated at 1 January 2005	85.9	846.1	(38.7)	(4.0)	251.5	1,140.8
Total recognised income and expense	–	–	75.0	4.0	59.3	138.3
Dividends *(see below)*	–	–	–	–	(35.7)	(35.7)
Issue of shares in lieu of dividends	0.4	(0.4)	–	–	4.2	4.2
Share options exercised	0.2	1.9	–	–	–	2.1
Equity settled transactions	–	–	–	–	0.6	0.6
Balance at 31 December 2005	**86.5**	**847.6**	**36.3**	**–**	**279.9**	**1,250.3**

Dividends

	2005 pence	2004 pence	**2005 £m**	2004 £m
Final ordinary dividend paid	**4.17**	2.05	**11.9**	5.8
Final special dividend paid	**6.25**	–	**17.9**	–
Interim dividend paid	**2.08**	2.08	**5.9**	5.9
	12.50	4.13	**35.7**	11.7

After the balance sheet date, the directors proposed the following ordinary dividends, which have not been provided for:

	2005 pence	2004 pence	**2005 £m**	2004 £m
Final ordinary dividend proposed	**5.62**	4.17	**16.2**	11.9
Final special dividend proposed	**–**	6.25	**–**	17.9
	5.62	10.42	**16.2**	29.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. RECONCILIATION OF EQUITY (Continued)

In respect of dividends paid in 2005 totalling £35.7m (2004: £11.7m), the Group offered shareholders the option of a scrip dividend. This resulted in dividend cash payments in 2005 of £31.5m (2004: £3.0m). The balance of £4.2m (2004: £8.7m) has been credited to reserves upon issue of the related share capital. The Group will again be offering shareholders the option of a scrip dividend.

26. MINORITY INTERESTS

	2005 £m	2004 £m
Balance at 1 January	**114.8**	117.2
Total recognised income and expense	**14.4**	3.9
Dividends paid	**(2.3)**	(1.6)
Transfer from share of associates	**0.6**	–
Purchase of minority interests	**–**	(4.7)
Balance at 31 December	**127.5**	114.8

27. SHARE CAPITAL

	Number of 30p shares authorised	Number of 30p shares allotted, called up and fully paid
Balance at 1 January 2005	1,000,000,000	286,321,066
Issue of ordinary shares on exercise of share options	–	670,115
Issue of ordinary shares in lieu of dividends	–	1,184,907
Balance at 31 December 2005	1,000,000,000	288,176,088

The authorised share capital stood at £300,000,000 throughout the year. All of the share capital is equity share capital.

At the year end, options over 3,669,410 ordinary shares had been issued. Share options are exercisable before 24 March 2015 at between 150p and 483p.

During the year, Millennium & Copthorne Hotels plc issued invitations to UK employees under the Sharesave Scheme to enter into a five-year savings contract or a three-year savings contract with an option to purchase shares at an option price of 308p on expiry of the savings contract.

28. FINANCIAL COMMITMENTS

	2005 £m	2004 £m
(a) Capital commitments at the end of the financial year for which no provision has been made:		
Contracted	**6.4**	16.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. FINANCIAL COMMITMENTS (Continued)

	2005	2004
	£m	£m
(b) Total commitments under non-cancellable operating lease rentals are payable as follows:		
- less than one year	**16.9**	16.7
- between one and five years	**60.5**	58.9
- more than five years	**162.1**	161.1
	239.5	236.7

(c) Leases as lessor
The Group leases out its property under operating leases (Note 10). The future minimum lease payments under non-cancellable leases are as follows:

	2005	2004
	£m	£m
Leases expiring in:		
- less than one year	**5.5**	5.4
- between one and five years	**8.7**	11.0
- more than five years	**4.9**	5.9
	19.1	22.3

During the year ended 31 December 2005, £3.7m was recognised as rental income in the income statement (2004: £3.6m) and £0.6m in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property (2004: £0.6m).

29. CONTINGENCIES AND SUBSEQUENT EVENTS

(a) The Millenium Hilton Hotel New York closed on 11 September 2001 and reopened on 5 May 2003. In 2005 the Group announced the successful conclusion of negotiations in the settlement of the 11 September 2001 business interruption/property damages insurance claim for US$85m.

In October 2005 the Group filed a legal action against its insurance advisor. The action seeks damages in excess of US$45m on various grounds relating to damages and business interruption losses at its other US hotel properties resulting from the terrorist attack on 11 September 2001. At 20 February 2006, no final agreement has been reached.

(b) The Group has contingent liabilities with regard to normal trading operations and corporate transactions. In the opinion of the directors, adequate provision has been made for all known liabilities. The Group has two main classes of contingent liabilities, being issues relating to construction projects and to employment issues. Any financial impact, taking account of appropriate insurance policies, is considered immaterial.

(c) There are no subsequent events to the balance sheet date which either require adjustment to or disclosure within these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with certain subsidiaries (Note 31), joint ventures and associates (Note 11) and with its directors and executive officers.

Transactions with ultimate holding company and related subsidiaries

The Group also has a related party relationship with certain subsidiaries of Hong Leong Investment Holdings Pte. Ltd, the ultimate holding and controlling company of Millennium & Copthorne Hotels plc and which holds 53% of the Company's shares via City Developments Limited. During 2005 the Group had transactions with those subsidiaries as noted below.

City Developments Limited and City e-Solutions Limited recharge, on an arm's length basis, certain expenses borne on behalf of the Group. The total amount recharged during the year was £1.8m (2004: £1.8m). The amount outstanding at 31 December 2005 is £nil (2004: £nil).

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary undertaking of the ultimate holding and controlling company of the Group, on normal commercial terms. Interest income of £nil (2004: £nil) was received during the year. As at 31 December 2005 £4.6m (2004: £2.4m) of cash was deposited with Hong Leong Finance Limited.

Swan Inc, a company owned 85% by City e-Solutions Limited (a subsidiary of the Hong Leong Group) and 15% by the Group, provided reservations, accounting and information technology services to the Group. A total of £1.6m (2004: £1.5m) was charged by Swan Inc during the year and, at 31 December 2005, £0.2m (2004: £0.1m) was due to Swan Inc.

During 2005 Hong Leong Management Services Pte Ltd charged £0.4m for providing advice to the Group on refinancing matters and a further £0.3m for general legal advice. At 31 December 2005 £0.7m (2004: £1.6m) was owing by the Group.

Transactions with joint ventures and associates

New Plaza Associates – interest of £0.4m was received in 2004 on a US$15m loan note held by New Plaza Associates in favour of CDL Hotels USA Inc., which was also repaid following sale of the assets of the partnership. An asset management fee of £0.1m was also received from New Plaza Associates. As at 31 December 2005 a total of £nil (2004: £0.1m) was due.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 0.02 per cent of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to UK-based directors and executives, and contributes to either a post-employment defined benefit plan on their behalf or a defined contribution plan depending on the date of commencement of employment. In accordance with the terms of the defined benefit plan, directors and executives normally retire at the age of 65 and are entitled to receive annual payments equivalent to 1/60th of their pensionable salary, subject to the earnings cap, for each year of pensionable service until the date of retirement. The defined contribution plan does not have a specified pension payable on retirement and benefits are determined by the extent to which the individual's fund can buy an annuity in the market at retirement.

Executives also participate in the Group's share option programme (Note 20).

The key management personnel compensations are as follows:

	2005	2004
	£m	£m
Short-term employee benefits	**4.7**	2.8
Other long-term benefits	**0.1**	0.1
Termination benefits	**0.1**	0.1
Share-based payment	**0.6**	0.3
	5.5	3.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. RELATED PARTIES (Continued)

Total remuneration is included in personnel expenses (Note 4):

	2005 £m	2004 £m
Directors*	3.8	2.0
Executives	1.7	1.3
	5.5	3.3

* The directors' remuneration reported in the Directors' Remuneration Report (see pages 22 to 28) focuses, so far as concerns pension benefits, on changes in accrued benefits rather than the income statement effect for individuals. In the context of this analysis, the amount above reflects benefits paid.

31. SIGNIFICANT INVESTMENTS

The companies listed below are those which were part of the Group at 31 December 2005 and which in the opinion of the directors significantly affected the Group's results and net assets during the year. The directors consider that those companies not listed are not significant in relation to the Group as a whole.

These companies operate principally in the country in which they are incorporated and are held indirectly unless stated otherwise.

	Effective Group interest	Country of incorporation	Principal activity
United Kingdom			
Archyield Limited	100%	England and Wales	Hotel owner and operator
CDL Hotels (Chelsea) Limited	100%	England and Wales	Hotel owner and operator
CDL Hotels (UK) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Aberdeen Limited	83%	England and Wales	Hotel owner and operator
Copthorne Hotel (Birmingham) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Cardiff) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Effingham Park) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Gatwick) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Manchester) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Merry Hill) Limited	100%	England and Wales	Hotel operator
Copthorne Hotel (Merry Hill) Construction Limited	100%	England and Wales	Hotel owner
Copthorne Hotel (Newcastle) Limited	94%	England and Wales	Hotel owner and operator
Copthorne Hotel (Plymouth) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotel (Slough) Limited	100%	England and Wales	Hotel owner and operator
Copthorne Hotels Limited	100%	England and Wales	Hotel management
London Britannia Hotel Limited	100%	England and Wales	Hotel owner and operator
London Tara Hotel Limited	100%	England and Wales	Hotel owner and operator
Millennium Hotels & Resorts Services Limited	100%	England and Wales	Management contract holding company
Millennium Partnercard Services Limited	100%	England and Wales	Hotel management services company
USA			
M&C Management Services (USA) Inc	100%	USA	Management services company
CDL Hotels USA, Inc	100%	USA	Hotel investment holding company
CDL (New York) LLC	100%	USA	Hotel owner
CDL West 45th Street LLC	100%	USA	Hotel owner
CDL Management LLC	100%	USA	Hotel management
Regal Grand Avenue, Inc	100%	USA	Hotel investment holding company
WHB Biltmore LLC	100%	USA	Hotel owner and operator

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SIGNIFICANT INVESTMENTS (Continued)

	Effective Group interest	Country of incorporation	Principal activity
Gateway Regal Holdings LLC	100%	USA	Hotel owner and operator
Regal Hotel Management, Inc	100%	USA	Hotel investment holding company
Chicago Hotel Holdings, Inc	100%	USA	Hotel owner and operator
RHM-88, LLC	100%	USA	Hotel owner and operator
Richfield Holdings, Inc	100%	USA	Hotel investment holding company
M&C Hotel Interests, Inc	100%	USA	Hotel management services company
RHM Management LLC	100%	USA	Hotel owner and operator
Cincinnati Sl.Co.	100%	USA	Hotel owner and operator
RHM Aurora, LLC	100%	USA	Hotel owner and operator
Park Plaza Hotel Corporation	100%	USA	Hotel investment holding company
Trimark Hotel Corporation	100%	USA	Hotel owner and operator
Buffalo RHM Operating LLC	100%	USA	Hotel owner and operator
Durham Operating LLC	100%	USA	Hotel owner and operator
Fourwinds Operating LLC	100%	USA	Hotel owner and operator
Bostonian Hotel Limited Partnership	100%	USA	Hotel owner and operator
RHM Ranch LLC	100%	USA	Hotel owner and operator
Anchorage-Lakefront Limited Partnership	100%	USA	Hotel owner and operator
RHH Operating LLC	100%	USA	Hotel owner and operator
RHM Wynfield LLC	100%	USA	Hotel owner and operator
Avon Wynfield LLC	100%	USA	Hotel owner and operator
Sunnyvale Partners Limited	100%	USA	Hotel owner and operator
France			
M&C Hotels France SAS	100%	France	Hotel owner
Millennium Opera Paris SAS	100%	France	Hotel operator
Millennium Charles-de Gaulle Paris SAS	100%	France	Hotel operator
Singapore			
Millennium & Copthorne International Limited	100%	Singapore	Hotels and resorts management
TOSCAP Limited **	100%	Singapore	Investment holding
CDL Entertainment & Leisure Pte. Ltd.	100%	Singapore	Management services and investment holding
Hong Leong International Hotel (Singapore) Pte. Ltd.	97%	Singapore	Investment holding
Republic Hotels & Resorts Limited	100%	Singapore	Hotel owner and operator and investment holding
City Hotels Pte. Ltd.	100%	Singapore	Hotel owner and operator
Copthorne Orchid Hotel Singapore Pte. Ltd	100%	Singapore	Hotel owner
King's Tanglin Shopping Pte. Ltd.	100%	Singapore	Property owner
Harbour View Hotel Pte. Ltd.	100%	Singapore	Hotel owner
Cayman Islands			
Hong Leong Hotels Pte. Ltd.	100%	Cayman Islands	Investment holding
M&C Hotels Holdings USA Ltd	100%	Cayman Islands	Investment holding
Hong Kong			
First 2000 Limited	100%	Hong Kong	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SIGNIFICANT INVESTMENTS (Continued)

	Effective Group interest	Country of incorporation	Principal activity
Korea			
CDL Hotels (Korea) Ltd.	100%	Korea	Hotel owner and operator
Indonesia			
PT Millennium Hotels & Resorts	100%	Indonesia	Management services
PT Millennium Sirih Jakarta	80%	Indonesia	Hotel owner and operator
Taiwan			
Hong Leong Hotel Development Limited	80%	Taiwan	Hotel owner and operator
Thailand			
M&C Holdings (Thailand) Ltd.	100%	Thailand	Hotel management
Philippines			
The Philippine Fund Limited	60%	Bermuda	Investment holding
Grand Plaza Hotel Corporation	66%	Philippines	Hotel owner and operator and investment holding
Rogo Realty Corporation *	24%	Philippines	Real estate owner
Harbour Land Corporation *	41%	Philippines	Real estate owner
CDL Hotels (Phils) Corporation	100%	Philippines	Management and consultancy services
Malaysia			
CDL Hotels (Malaysia) Sdn. Bhd	100%	Malaysia	Hotel owner and operator
Copthorne Orchid Penang Sdn. Bhd	100%	Malaysia	Hotel owner
CDL Hotels (Labuan) Limited	100%	Malaysia	Investment holding
New Zealand & Australia			
CDL Hotels Holdings New Zealand Limited	100%	New Zealand	Investment holding and property management company
Millennium & Copthorne Hotels New Zealand Limited	70%	New Zealand	Investment holding and property management company
KIN Holdings Limited	43%	New Zealand	Investment holding
Kingsgate International Corporation Limited	43%	New Zealand	Investment holding
Quantum Limited	49%	New Zealand	Investment holding
CDL Investments New Zealand Limited	43%	New Zealand	Investment and property/ management company
QINZ Holdings (New Zealand) Limited	49%	New Zealand	Investment holding company
Austria			
ATOS Holdings AG	100%	Austria	Investment holding
Germany			
Tara Hotels Deutschland GmbH	100%	Germany	Hotel investment holding company
Tara Hotel Hannover GmbH	100%	Germany	Hotel operator
Millennium Hotel Stuttgart GmbH	100%	Germany	Hotel operator
Sl- Erlebnis-Centrum Stuttgart GmbH	100%	Germany	Marketing company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SIGNIFICANT INVESTMENTS (Continued)

	Effective Group interest	Country of incorporation	Principal activity
Joint ventures			
New Unity Holdings Limited	50%	British Virgin Islands	Investment holding company
Fena Estate Company Limited	50%	Thailand	Property development

Due to minority interest shareholdings held within intermediary parent undertakings, the Group's effective shareholding in certain subsidiary undertakings in which it has control is less than 50%.

* These investments have been fully consolidated with effect from 1 January 2005 as the Group considers it has the power to govern the financial and operating policies at this date.

** TOSCAP Limited is incorporated in Singapore and operates in the United Kingdom.

A full listing of subsidiaries will be included in the Millennium & Copthorne Hotels plc Annual Return.

32. ACCOUNTING ESTIMATES AND JUDGMENTS

Management discussed with the audit committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets, and the reported amount of revenue and expenses during the year. The Group evaluates its estimates and assumptions on an ongoing basis. Such estimates and judgments are based upon historical experience and other factors it believes to be reasonable under the circumstances, which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Certain critical accounting policies, among others, affect the Group's more significant estimates and assumptions used in preparing the consolidated financial statements. Actual results could differ from the Group's estimates and assumptions.

Asset carrying values

Land and buildings are stated at cost or deemed cost less depreciation and any provision for impairment. The assessment for possible revaluation and impairment requires the Group to make certain judgments, including property valuations and future cash flow from the respective properties and investments. A review of recoverability of property and investment carrying values is made whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

Defined benefit pension plans

The Group operates a number of defined benefit pension plans. As set out in Note 20, the calculation of the present value of the Group's defined benefit obligations at each period is subject to significant estimation. An appropriately qualified, independent actuary is used to undertake this calculation. The assumptions made by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered, may not necessarily be borne out in practice. The valuation of scheme assets is based on their fair value at the balance sheet date. As these assets are not intended to be sold in the short term, their values may be subject to significant change before they are realised.

Taxation

The Group has, from time to time, contingent tax liabilities arising from trading and corporate transactions. After taking appropriate external professional advice, the Group makes provision for these liabilities based on the probable level of economic loss that may be incurred and which is reliably measurable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These are the Group's first consolidated annual financial statements prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS).

The accounting policies noted on pages 38 to 45 have been applied in preparing the consolidated annual financial statements for the year ended 31 December 2005, the comparative information for the year ended 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

First Time Adoption

IFRS 1 establishes the transitional requirements for the first time preparation of financial statements in accordance with IFRS. In general, a company is required to determine its IFRS accounting policies effective at the reporting date and apply these retrospectively to the balance sheet at the date of transition, and all financial statements for the comparative period and the reporting period.

To assist in the transition process, there are a number of exemptions to this retrospective application. The following significant exemptions have been adopted by the Group:

(i) Business combinations: the Group has elected not to account for business combinations retrospectively in accordance with IFRS 3 'Business Combinations'. Those combinations recognised prior to the date of transition have not been restated.

(ii) Employee benefits: the Group has elected to adopt the amendments to IAS 19 'Employee Benefits' which provide the Group with the option of recognising all cumulative actuarial gains and losses in equity at the date of transition, with subsequent actuarial gains and losses being taken directly to equity via the Statement of Recognised Income and Expense. This is consistent with the treatment under UK GAAP, required by FRS 17 'Retirement benefits'.

(iii) Share-based payment: in accordance with IFRS 2 'Share-based Payment', the Group is recognising a charge to income representing the fair value of outstanding employee share options over the relevant option vesting periods, adjusted to reflect the actual and expected levels of vesting. However, the Group has elected not to apply IFRS 2 retrospectively to equity instruments either granted on or before 7 November 2002 and/or vesting prior to 1 January 2005.

(iv) Financial instruments: the Group has elected to apply the requirements of IAS 32 'Financial Instruments: Disclosures and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1 January 2005 and consequently the restated figures for 2004 do not reflect the impact of these standards.

(v) Valuation of properties: the Group has elected to treat the revalued amount of properties at 1 January 2004 as deemed cost as at that date and will not continue its policy of revaluing properties triennially.

Overview of impact

For Millennium & Copthorne Hotels plc the adoption of IFRS gives rise to the following significant changes:

Measurement

(i) The recognition, on balance sheet, of pension liabilities together with associated pension fund assets and other employee benefit liabilities;

(ii) The inclusion in the income statement of a fair value charge in respect of outstanding employee share options;

(iii) The recognition of certain financial instruments at fair value. Specifically under UK GAAP the Group did not recognise derivatives on the balance sheet;

(iv) The recognition of deferred tax in respect of all taxable temporary differences arising between the tax base and the accounting base of balance sheet items;

(v) Amounts of proposed dividends are not provided for. Dividends are recorded as liabilities when declared;

(vi) The recognition of payments made on entering into or acquiring operating leasehold land and buildings is required to be amortised over the lease term and classified as a prepayment versus the UK GAAP treatment of inclusion within tangible fixed assets and the cost less residual value depreciated;

(vii) The recognition of investment property valuation surpluses and deficits through the income statement (in other operating income) instead of through reserves;

(viii) Revenue in respect of non-hotel land development sales is now recognised on transfer of legal title and the risks and rewards of ownership, rather than on unconditional completion of sale;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(ix) The Group no longer revalues hotel land and buildings from 1 January 2004 but records properties at depreciated cost or, where properties have been previously revalued, their depreciated deemed cost, being their carrying value at 1 January 2004, including previously recognised revaluation surpluses at that date.

Presentation

(i) For joint ventures and associates, the share of equity accounted earnings after tax and minority interest is presented as a single line item in the operating result rather than being separately included within operating profit, interest, taxation and minority interest; and

(ii) The reclassification of the initial payment element of operating leased land is required to be accounted for as a prepayment instead of being recorded as a tangible fixed asset.

An explanation of how the transition from previous UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Table	
(a)	Reconciliation to present the 31 December 2004 UK GAAP consolidated profit and loss account under IFRS format headings
(b)	Reconciliation to restate the 31 December 2004 UK GAAP consolidated profit and loss account (under IFRS format headings) for IFRS accounting policies
(c)	Reconciliation to present the 31 December 2004 UK GAAP consolidated balance sheet under IFRS format headings
(d)	Reconciliation to restate the 31 December 2004 UK GAAP consolidated balance sheet (under IFRS format headings) for IFRS accounting policies
(e)	Reconciliation to restate the 1 January 2004 UK GAAP consolidated balance sheet for IFRS accounting policies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (a) Reconciliation to present the 31 December 2004 UK GAAP consolidated profit and loss account under IFRS format headings

Consolidated profit and loss account/income statement

Classification	2004 UK GAAP reported £m	IFRS presentational reclassifications £m	2004 UK GAAP (IFRS presentation) £m
Group turnover/Revenue	547.1	–	547.1
Cost of sales	(243.8)	–	(243.8)
Gross profit	303.3	–	303.3
Administrative expenses	(232.6)	–	(232.6)
Group operating profit/ Operating profit before other operating income	70.7	–	70.7
Other operating income	–	55.0	55.0
Share of operating profits of joint ventures	8.0	(8.0)	–
Total operating profit	78.7	47.0	125.7
Share of profit of joint ventures and associates:			
- operating profit	–	8.0	8.0
- interest	–	(3.2)	(3.2)
- taxation	–	2.9	2.9
- minority interests	–	(2.1)	(2.1)
	–	5.6	5.6
Profit on disposal of fixed assets	3.2	(3.2)	–
Profit on disposal of joint venture	51.8	(51.8)	–
Profit before interest and taxation	133.7	(2.4)	131.3
Interest receivable/finance income	5.8	–	5.8
Interest payable/finance expense			
- Group	(41.5)	–	(41.5)
- Joint ventures	(3.2)	3.2	–
Profit before tax	94.8	0.8	95.6
Tax on profit on ordinary activities/income tax	(16.4)	(2.9)	(19.3)
Profit on ordinary activities after tax	78.4	(2.1)	76.3
Minority interests - equity	(8.8)	2.1	(6.7)
	69.6	–	69.6
Dividends paid and proposed	(35.7)	35.7	–
Retained profit for the financial year	33.9	35.7	69.6
Attributable to:			
Equity holders of the parent	69.6	–	69.6
Minority interests	8.8	(2.1)	6.7
Profit for the year	78.4	(2.1)	76.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (b) Reconciliation to restate the 31 December 2004 UK GAAP consolidated profit and loss account (under IFRS format headings) for IFRS accounting policies

	UK GAAP £m *Note*	Lease premium pre payment £m *(i)*	New Zealand land bank sales £m *(iv)*	Employee benefits £m *(vi)*	Share based payments £m *(vii)*	Deferred taxes £m *(viii)*	IFRS £m
Revenue	547.1	–	3.9	–	–	–	551.0
Cost of sales	(243.8)	–	(2.4)	–	–	–	(246.2)
Gross profit	303.3	–	1.5	–	–	–	304.8
Administrative expenses	(232.6)	(1.2)	(0.2)	(0.4)	(0.4)	–	(234.8)
Other operating income	55.0	–	–	–	–	–	55.0
Operating profit	125.7	(1.2)	1.3	(0.4)	(0.4)	–	125.0
Share of profit of joint ventures and associates							
- operating profit	8.0	(0.2)	–	–	–	–	7.8
- interest	(3.2)	–	–	–	–	–	(3.2)
- taxation	2.9	–	–	–	–	(3.7)	(0.8)
- minority interests	(2.1)	–	–	–	–	–	(2.1)
	5.6	(0.2)	–	–	–	(3.7)	1.7
Finance income	5.8	–	–	–	–	–	5.8
Finance expense	(41.5)	–	–	–	–	–	(41.5)
Profit before tax	95.6	(1.4)	1.3	(0.4)	(0.4)	(3.7)	91.0
Income tax expense	(19.3)	–	(0.5)	–	–	(11.6)	(31.4)
Profit for the year	76.3	(1.4)	0.8	(0.4)	(0.4)	(15.3)	59.6
Attributable to:							
Equity holders of the parent	69.6	(1.3)	0.4	(0.4)	(0.4)	(17.0)	50.9
Minority interests	6.7	(0.1)	0.4	–	–	1.7	8.7
Profit for the year	76.3	(1.4)	0.8	(0.4)	(0.4)	(15.3)	59.6
Basic earnings per share (pence)	24.5						17.9
Diluted earnings per share (pence)	24.4						17.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (c) Reconciliation to present the 31 December 2004 UK GAAP consolidated balance sheet under IFRS format headings

Classification	2004 UK GAAP reported £m	IFRS presentational reclassifications £m	2004 UK GAAP (IFRS presentation) £m
Fixed assets/Non-current assets			
Tangible assets/Property, plant and equipment	1,970.6	(140.9)	1,829.7
Lease premium prepayment	–	81.7	81.7
Investment properties	–	43.7	43.7
Investments in joint ventures and associates	40.3	0.4	40.7
Loans to joint ventures	22.3	–	22.3
Investment in associated undertakings	0.4	(0.4)	–
Other investments/Other financial assets	0.8	2.0	2.8
	2,034.4	(13.5)	2,020.9
Current assets			
Assets held for sale	–	14.5	14.5
Stocks/Inventories	36.0	(32.1)	3.9
Development properties	–	32.1	32.1
Lease premium prepayment	–	1.0	1.0
Debtors due within one year/Trade and other receivables	50.4	–	50.4
Debtors due after more than one year	2.0	(2.0)	–
Other financial assets	–	4.1	4.1
Cash and short term deposits/Cash and cash equivalents	94.8	(4.1)	90.7
	183.2	13.5	196.7
Creditors: less than one year/Current liabilities	(477.2)	477.2	–
Interest-bearing loans, bonds and borrowings	–	(325.7)	(325.7)
Trade and other payables	–	(128.8)	(128.8)
Provisions	–	(0.4)	(0.4)
Income taxes payable	–	(22.7)	(22.7)
	(477.2)	(0.4)	(477.6)
Creditors: greater than one year/Non-current liabilities	(258.6)	258.6	–
Interest-bearing loans, bonds and borrowings	–	(248.0)	(248.0)
Employee benefits	–	(3.9)	(3.9)
Provisions	–	(2.0)	(2.0)
Other non-current liabilities	–	(6.7)	(6.7)
Deferred tax liabilities	–	(51.9)	(51.9)
	(258.6)	(53.9)	(312.5)
Provisions for liabilities and charges	(54.3)	54.3	–
Net assets	1,427.5	–	1,427.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (c) Reconciliation to present the 31 December 2004 UK GAAP consolidated balance sheet under IFRS format headings (Continued)

Classification	2004 UK GAAP reported £m	IFRS presentational reclassifications £m	2004 UK GAAP (IFRS presentation) £m
Capital and reserves			
Called up share capital	85.9	–	85.9
Share premium account	846.1	–	846.1
Revaluation reserve	287.9	–	287.9
Profit and loss account	77.5	–	77.5
Shareholders' funds	1,297.4	–	1,297.4
Minority interests	130.1	–	130.1
Total capital employed	1,427.5	–	1,427.5

Table (d) Reconciliation to restate the 31 December 2004 UK GAAP consolidated balance sheet (under IFRS format headings) for IFRS accounting policies

	UK GAAP £m	Lease premium pre-payments £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Property, plant, equipment and investment in joint ventures £m	Dividend £m	Reclassification of reserves £m	IFRS £m
	Note	*(i)*	*(iv)*	*(vi)*	*(viii)*	*(v)*	*(ix)*		
Non-current assets									
Property, plant and equipment	1,829.7	–	–	–	–	(11.5)	–	–	1,818.2
Lease premium prepayment	81.7	(1.2)	–	–	–	–	–	–	80.5
Investment properties	43.7	–	–	–	–	–	–	–	43.7
Investments in joint ventures and associates	40.7	(0.2)	–	–	–	(17.5)	–	–	23.0
Loans due from joint ventures	22.3	–	–	–	–	–	–	–	22.3
Other financial assets	2.8	–	–	–	–	–	–	–	2.8
	2,020.9	(1.4)	–	–	–	(29.0)	–	–	1,990.5
Current assets									
Assets held for sale	14.5	–	–	–	–	–	–	–	14.5
Inventories	3.9	–	–	–	–	–	–	–	3.9
Development properties	32.1	–	0.2	–	–	–	–	–	32.3
Lease premium prepayment	1.0	–	–	–	–	–	–	–	1.0
Trade and other receivables	50.4	–	(0.6)	–	–	–	–	–	49.8
Other financial assets	4.1	–	–	–	–	–	–	–	4.1
Cash and cash equivalents	90.7	–	–	–	–	–	–	–	90.7
	196.7	–	(0.4)	–	–	–	–	–	196.3
Total assets	2,217.6	(1.4)	(0.4)	–	–	(29.0)	–	–	2,186.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (d) Reconciliation to restate the 31 December 2004 UK GAAP consolidated balance sheet (under IFRS format headings) for IFRS accounting policies (Continued)

	UK GAAP £m	Lease premium pre-payments £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Property, plant, equipment and investment in joint ventures £m	Dividend £m	Reclassification of reserves £m	IFRS £m
	Note	*(i)*	*(iv)*	*(vi)*	*(viii)*	*(v)*	*(ix)*		
Non-current liabilities									
Interest-bearing loans, bonds and borrowings	(248.0)	–	–	–	–	–	–	–	(248.0)
Employee benefits	(3.9)	–	–	(9.4)	–	–	–	–	(13.3)
Provisions	(2.0)	–	–	–	–	–	–	–	(2.0)
Other non-current liabilities	(6.7)	–	–	–	–	–	–	–	(6.7)
Deferred tax liabilities	(51.9)	–	–	–	(156.2)	–	–	–	(208.1)
	(312.5)	–	–	(9.4)	(156.2)	–	–	–	(478.1)
Current liabilities									
Interest-bearing loans, bonds and borrowings	(325.7)	–	–	–	–	–	–	–	(325.7)
Trade and other payables	(128.8)	–	–	–	–	–	29.8	–	(99.0)
Provisions	(0.4)	–	–	–	–	–	–	–	(0.4)
Income taxes payable	(22.7)	–	0.1	–	–	–	–	–	(22.6)
	(477.6)	–	0.1	–	–	–	29.8	–	(447.7)
Total liabilities	(790.1)	–	0.1	(9.4)	(156.2)	–	29.8	–	(925.8)
Net assets	1,427.5	(1.4)	(0.3)	(9.4)	(156.2)	(29.0)	29.8	–	1,261.0
Equity									
Issued capital	85.9	–	–	–	–	–	–	–	85.9
Share premium	846.1	–	–	–	–	–	–	–	846.1
Revaluation reserve	287.9	–	–	–	(52.2)	(21.4)	–	(214.3)	–
Translation reserve	–	–	–	–	–	–	–	(38.7)	(38.7)
Retained earnings	77.5	(1.4)	(0.1)	(9.2)	(96.7)	–	29.8	253.0	252.9
Total equity attributable to equity holders of the parent	1,297.4	(1.4)	(0.1)	(9.2)	(148.9)	(21.4)	29.8	–	1,146.2
Minority interests	130.1	–	(0.2)	(0.2)	(7.3)	(7.6)	–	–	114.8
Total equity	1,427.5	(1.4)	(0.3)	(9.4)	(156.2)	(29.0)	29.8	–	1,261.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (e) Reconciliation to restate the 1 January 2004 UK GAAP consolidated balance sheet for IFRS accounting policies

	UK GAAP £m	Lease premium pre-payments £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Dividend £m	Reclassification of revaluation reserves £m	IFRS £m
	Note	*(i)*	*(iv)*	*(vi)*	*(viii)*	*(ix)*		
Non-current assets								
Property, plant and equipment	2,012.7	(83.5)	–	–	–	–	–	1,929.2
Lease premium prepayment	–	82.2	–	–	–	–	–	82.2
Investment properties	90.3	–	–	–	–	–	–	90.3
Investments in joint ventures and associates	58.6	–	–	–	(13.0)	–	–	45.6
Loans due from joint ventures	32.7	–	–	–	–	–	–	32.7
Other financial assets	2.8	–	–	–	–	–	–	2.8
	2,197.1	(1.3)	–	–	(13.0)	–	–	2,182.8
Current assets								
Assets held for sale	–	–	–	–	–	–	–	–
Inventories	4.0	–	–	–	–	–	–	4.0
Development properties	12.0	–	2.6	–	–	–	–	14.6
Lease premium prepayment	–	1.3	–	–	–	–	–	1.3
Trade and other receivables	59.6	–	(4.5)	–	–	–	–	55.1
Other financial assets	4.4	–	–	–	–	–	–	4.4
Cash and cash equivalents	40.5	–	–	–	–	–	–	40.5
	120.5	1.3	(1.9)	–	–	–	–	119.9
Total assets	2,317.6	–	(1.9)	–	(13.0)	–	–	2,302.7
Non-current liabilities								
Interest-bearing loans, bonds and borrowings	(659.3)	–	–	–	–	–	–	(659.3)
Employee benefits	(4.4)	–	–	(5.7)	–	–	–	(10.1)
Provisions	(2.4)	–	–	–	–	–	–	(2.4)
Other non-current liabilities	(7.3)	–	–	–	–	–	–	(7.3)
Deferred tax liabilities	(52.2)	–	–	–	(144.7)	–	–	(196.9)
	(725.6)	–	–	(5.7)	(144.7)	–	–	(876.0)
Current liabilities								
Interest-bearing loans, bonds and borrowings	(66.5)	–	–	–	–	–	–	(66.5)
Trade and other payables	(97.5)	–	0.2	–	–	5.8	–	(91.5)
Provisions	(0.4)	–	–	–	–	–	–	(0.4)
Income taxes payable	(14.2)	–	0.6	–	–	–	–	(13.6)
	(178.6)	–	0.8	–	–	5.8	–	(172.0)
Total liabilities	(904.2)	–	0.8	(5.7)	(144.7)	5.8	–	(1,048.0)
Net assets	1,413.4	–	(1.1)	(5.7)	(157.7)	5.8	–	1,254.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Table (e) Reconciliation to restate the 1 January 2004 UK GAAP consolidated balance sheet for IFRS accounting policies (Continued)

	UK GAAP £m	Lease premium pre-payments £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Dividend £m	Reclassification of revaluation reserves £m	IFRS £m
	Note	*(i)*	*(iv)*	*(vi)*	*(viii)*	*(ix)*		
Equity								
Issued capital	84.8	–	–	–	–	–	–	84.8
Share premium	845.8	–	–	–	–	–	–	845.8
Revaluation reserve	296.4	8.2	–	–	(57.3)	–	(247.3)	–
Retained earnings	59.5	(8.2)	(0.5)	(5.6)	(91.4)	5.8	247.3	206.9
Total equity attributable to equity holders of the parent	1,286.5	–	(0.5)	(5.6)	(148.7)	5.8	–	1,137.5
Minority interests	126.9	–	(0.6)	(0.1)	(9.0)	–	–	117.2
Total equity	1,413.4	–	(1.1)	(5.7)	(157.7)	5.8	–	1,254.7

Notes to tables (a) to (e)

(i) Lease premium prepayment

The Group has adopted the requirements of IAS 17 'Leases'. IAS 17 requires a lease of land and buildings to be considered separately between its land and building constituent parts. Land is only able to be treated as a tangible fixed asset, held under finance lease, where it is considered likely that the Group will obtain title to the land during or at the end of the lease term.

The Group holds a number of hotels under long leases where land title is not anticipated to pass to the Group under the terms of the lease. In respect of these leases, under UK GAAP, payment made on entering into or acquiring leasehold land and buildings was previously all included within tangible fixed assets and the cost less residual value was depreciated over the shorter of its lease length and useful economic life.

Under IFRS, the initial payment made in respect of the operating leased land is required to be accounted for as a prepayment and amortised in full over the lease term in accordance with the pattern of benefits provided.

This change in accounting policy has been adopted retrospectively to the date of lease acquisition by the Group. Retained reserves at 1 January 2004 have been debited by £7.5m (Group) and £0.7m (joint venture) accumulated amortisation which would have been charged to that date, in excess of depreciation previously charged under UK GAAP. This has not impacted total equity as an equal credit has been recorded to the revaluation reserve at 31 December 2003 to reflect how the Group's total interest in the hotel property is carried at valuation and in aggregate is maintained at the level of the most recent external valuation recorded.

This change in accounting policy has increased the annual amortisation charge in respect of leasehold land by £1.2m.

Long leasehold buildings lease premium continues to be accounted for as property, plant and equipment where the Group holds the asset for substantially all of its useful economic life.

(ii) Investment property

The Group has adopted IAS 40 'Investment Property'. IAS 40 is consistent with the Group's previous accounting policy of revaluing investment properties annually. The principal change under IFRS is that valuation surpluses and deficits arising are required to be recorded in the income statement (in other operating income) under IAS 40. Under UK GAAP, such surpluses and deficits were recorded directly within reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Notes to tables (a) to (e) (Continued)

(ii) Investment property (Continued)

However, this change of accounting policy did not impact the 2004 income statement as no investment property valuation movements were recorded in that year.

(iii) Assets held for sale

The Group applied IFRS 5 retrospectively from 1 January 2004 in respect of assets held for sale. No adjustments were necessary in order to state assets at the lower of cost and fair value less disposal costs.

(iv) Real estate and land development sales

On adoption of IAS 18, the Group changed the timing of revenue recognition in respect of its non-hotel land development sales. Revenue in respect of these sales is now recognised on transfer of legal title and of the risks and rewards of ownership (previously on completion of sale).

Operating profit for the year ended 31 December 2004 has increased by £1.3m.

Total equity at 1 January 2004 and 31 December 2004 has been reduced by £1.1m and £0.3m respectively.

(v) Property, plant and equipment and investments in joint ventures and associates

On adoption of IAS 16, the Group changed the policy of triennial valuations on its portfolio of operating assets. Under the transition rules of IFRS 1, the Group has elected to use previous UK GAAP carrying values at 1 January 2004, including revaluations, as deemed cost at transition. Adoption of this policy has resulted in reversing the effect of surpluses previously capitalised during 2004. Property, plant and equipment has reduced by £11.5m and reversal of the Group's share of revaluation of property, plant and equipment within investments in joint ventures and associates has reduced that investment by £17.5m.

(vi) Employee benefits

IAS 19: 'Employee benefits' requires full recognition of defined benefit pension obligations in the financial statements.

Under UK GAAP, the Group recognised in the profit and loss account the estimated cost of providing the pensionable benefits accrued in the period. Variations from these costs were charged or credited to the profit and loss account over the average remaining service lives of employees.

Adoption of IAS 19 has reduced equity at 1 January 2004 and 31 December 2004 by £5.7m and £9.4m respectively (excluding recognition of deferred tax).

Movements in the defined benefit obligation are primarily recognised in the Statement of Recognised Income and Expense. Actuarial gains and losses of £3.3m were charged to the Statement of Recognised Income and Expense in the year ended 31 December 2004. The pension charge to the income statement was increased in the year ended 31 December 2004 by £0.4m.

(vii) Share-based payments

The Group applied IFRS 2 to its active employee share-based payment arrangements at 1 January 2005 except for equity-settled employee share-based payment arrangements granted before 7 November 2002. The Group has granted employee equity-settled share-based payments in 2004 and 2005.

The Group accounted for these share-based payment arrangements at intrinsic value under UK GAAP.

Under IFRS, the effect of accounting for equity-settled share-based payment transactions at fair value is to increase administrative expenses by £0.4m for the year ended 31 December 2004. The adoption of IFRS 2 is equity-neutral for equity-settled transactions. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Notes to tables (a) to (e) (Continued)

(viii) Deferred taxes

	1 January 2004 £m	31 December 2004 £m
Group deferred tax liability - UK GAAP	52.2	51.9
Property assets*	170.9	162.2
Employee benefits	(2.4)	(3.3)
Other	2.7	(0.1)
Tax losses carry forward	(26.5)	(2.6)
Increase in deferred tax liability	144.7	156.2
Group deferred tax liability – IFRS	196.9	208.1

**Property assets comprise property, plant and equipment, investment properties, assets held for sale and lease premium prepayment*

The deferred tax liability has been increased at each period end as shown in the table.

The increase in liability in respect of property assets is a result of the requirement under IFRS to provide for deferred tax for fair value adjustments and revaluation surpluses. Deferred tax is matched to how the asset value will be recovered, either through use in the business or through sale. Under UK GAAP, such provision was not required. This adjustment is significant, principally due to the Group having previously adopted until 1 January 2004 a policy of carrying its hotel property assets at open market value.

The provision for employee benefits and defined benefit pension liabilities, as set out above, gives rise to a matching recognition of a deferred tax asset.

The overall increase in deferred tax liabilities resulting from property assets has allowed the Group to increase its matching recognition of tax losses, which were not recorded in the balance sheet under UK GAAP. Such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect on the income statement for the year ended 31 December 2004 was to increase the previously reported tax charge for the period by £11.6m for subsidiary undertakings and by £3.7m for joint ventures. The increase in the tax charge for the year ended 31 December 2004 principally relates to the disposal of the Group's joint venture interest in The Plaza Hotel, New York. This is principally due to the utilisation of tax losses which were carried as assets on the IFRS balance sheet at 1 January 2004, and therefore formed part of the deferred tax charge. These losses were largely unrecognised under UK GAAP and therefore their use did not incur a deferred tax charge. The reported current tax charge in respect of the transaction remains unchanged.

(ix) Dividends

Under IFRS dividends are recorded as liabilities in the period in which they are approved. Under UK GAAP dividends were previously recorded when proposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Notes to tables (a) to (e) (Continued)

(x) Adoption of IAS 32 and IAS 39 at 1 January 2005

	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Fair value derivatives	–	(5.4)	(5.4)
Hedging reserve	–	(4.0)	(4.0)
Retained earnings	–	(1.4)	(1.4)
	–	(5.4)	(5.4)

Under UK GAAP, the Group did not recognise derivatives. In accordance with IFRS, derivatives are recognised at fair value. The effect is to increase the liability for derivatives and hedging reserve by £5.4m at 1 January 2005.

(xi) Total effect on equity and profit for year

A summary of the effect on total equity of the adjustments set out in the above notes is set out below.

	1 January 2004 £m	31 December 2004 £m
Dividends	5.8	29.8
Real estate and land developments	(1.1)	(0.3)
Lease premium amortisation	–	(1.4)
Employee benefits	(5.7)	(9.4)
Deferred taxes – Group and joint venture	(157.7)	(156.2)
Revaluation surplus	–	(29.0)
Total	(158.7)	(166.5)

A summary of the effect on profit for the year ended 31 December 2004 of the adjustments in the above notes is set out below.

	Profit before tax £m	Income tax expense £m	Profit for year £m
UK GAAP	94.8	(16.4)	78.4
Presentational adjustments/reclassifications:			
- Joint venture tax included within profit before tax under IFRS	2.9	(2.9)	–
- Joint venture minorities included within profit before tax under IFRS	(2.1)	–	(2.1)
Measurement adjustments:			
- Lease premium amortisation	(1.4)	–	(1.4)
- Revenue recognition on development properties	1.3	(0.5)	0.8
- Pension and share option charges	(0.8)	–	(0.8)
- Deferred tax charge (including joint ventures)	(3.7)	(11.6)	(15.3)
IFRS	91.0	(31.4)	59.6

KEY OPERATING STATISTICS

for the year ended 31 December 2005

	2005 Reported currency	2004 Constant currency	2004 Reported currency
Occupancy %			
New York	**84.5**		84.0
Regional US	**66.2**		61.2
TOTAL US	**70.4**		66.9
London	**84.8**		83.5
Rest of Europe	**72.8**		72.8
TOTAL EUROPE	**78.1**		77.6
Asia	**73.7**		73.2
Australasia	**69.6**		71.5
TOTAL GROUP	**73.0**		71.8
Average Room Rate (£)			
New York	**129.42**	109.28	108.77
Regional US	**49.63**	53.15	52.91
TOTAL US	**71.53**	70.76	70.43
London	**80.20**	79.79	79.79
Rest of Europe	**69.83**	66.89	66.67
TOTAL EUROPE	**74.82**	73.05	72.93
Asia	**52.40**	49.15	46.76
Australasia	**43.43**	41.29	38.77
TOTAL GROUP	**64.01**	61.69	60.59
RevPAR (£)			
New York	**109.36**	91.80	91.37
Regional US	**32.86**	32.53	32.38
TOTAL US	**50.36**	47.34	47.12
London	**68.01**	66.62	66.62
Rest of Europe	**50.84**	48.70	48.54
TOTAL EUROPE	**58.43**	56.69	56.59
Asia	**38.62**	35.98	34.23
Australasia	**30.23**	29.52	27.72
TOTAL GROUP	**46.73**	44.29	43.50
Gross Operating Profit Margin (%)			
New York	**34.2**		28.9
Regional US	**20.8**		21.0
TOTAL US	**26.8**		24.4
London	**48.4**		51.2
Rest of Europe	**31.8**		30.0
TOTAL EUROPE	**39.2**		39.5
Asia	**36.7**		35.4
Australasia	**42.0**		41.6
TOTAL GROUP	**34.4**		33.6

COMPANY BALANCE SHEET

as at 31 December 2005

	Notes	**2005 £m**	Restated 2004 £m
Fixed assets			
Investments	(D)	**1,402.0**	1,354.2
Current assets			
Amounts owed by subsidiary undertakings falling due within one year		**13.0**	37.0
Cash at bank and in hand		**0.7**	12.3
		13.7	49.3
Creditors: amounts falling due within one year	(E)	**(4.9)**	(9.4)
Net current assets		**8.8**	39.9
Creditors: amounts falling due after more than one year	(F)	**(409.8)**	(385.3)
Net assets		**1,001.0**	1,008.8
Capital and reserves			
Called up share capital	(G),(H)	**86.5**	85.9
Share premium account	(H)	**847.6**	846.1
Profit and loss account	(H)	**66.9**	76.8
Equity shareholders' funds	(H)	**1,001.0**	1,008.8

The financial statements were approved by the Board of directors on 20 February 2006 and were signed on its behalf by:

Kwek Leng Beng
Chairman

Tony Potter
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(A) ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of accounting

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Company has taken advantage of the exemption contained in FRS 8 'Related Parties' and has therefore not disclosed transactions with Group entities.

Accounting convention and basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom (UK GAAP).

The Company has taken advantage of the exemption under Section 230(4) of the Companies Act 1985 from presenting its own profit and loss account. The profit after tax included in the accounts of Millennium & Copthorne Hotels plc, determined in accordance with the Act, was £21.6m (2004: £29.0m).

Under Financial Reporting Standard No 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement as its cash flows are included within the published consolidated statement of cash flows of Millennium & Copthorne Hotels plc.

The Company has taken advantage of the exemption contained within FRS 8 and has not therefore disclosed transactions or balances with entities which form part of its Group.

Prior year adjustments and changes in accounting policy

The Company adopted the following new Financial Reporting Standards in 2005:

FRS 20: 'Share-based payment'

FRS 20 requires that the fair value of share options granted is recognised as an expense or, if relating to the employees of subsidiaries, a capital contribution to subsidiaries, with a corresponding increase in equity in both cases. Previously, only the intrinsic value of share options issued at a discount was recognised as an expense.

During the current and prior year, the Company only issued share options to the employees of its operating subsidiaries. Consequently, FRS 20 has not impacted the financial statements.

FRS 21: 'Events after the balance sheet date'

FRS 21 requires dividends to be recorded as liabilities in the period in which they are authorised and approved. Previously, proposed dividends were recorded as liabilities in the period, notwithstanding they were declared and approved after the balance sheet date. This change in accounting policy has resulted in dividends proposed in February 2005 and recorded in the balance sheet at 31 December 2004 only being recognised during 2005. The impact of this restatement is to increase net assets at 31 December 2004 by £29.8m and increase dividend distribution made in 2005 by the same amount.

FRS 25: 'Financial instruments – disclosure and presentation'

The Company has adopted, with effect from 1 January 2005, the disclosure and presentation requirements of FRS 25: Financial instruments – disclosure and presentation. Comparative financial information has not been restated.

FRS 26: 'Financial instruments – measurement'

The Company has adopted, with effect from 1 January 2005, the measurement requirements of FRS 26: Financial instruments – measurement. Comparative financial information has not been restated.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(A) ACCOUNTING POLICIES (Continued)

Investments

In the Company's accounts, investments in subsidiary and associated undertakings are stated at cost less provisions for impairment. Dividends received and receivable are credited to the Company's profit and loss account.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Timing differences arise when items on income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

Foreign exchange

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The Company uses a fair value hedging model to designate bank loans and bonds held in overseas currencies as hedging instruments against designated overseas investments held in the same currency. Under such fair value hedges, both the hedged item and the hedging instrument are retranslated with the exchange differences in both cases being recorded in the profit and loss account as they arise at each period end.

Dividend distribution

Dividends are recognised as a liability in the period in which they are approved for payment.

(B) DIRECTORS' REMUNERATION AND EMPLOYEES

Details of directors' remuneration in the current and prior years are contained in the Directors' Remuneration Report.

The Company had no employees.

Details of share options issued by the Company are given in Note 20 to the consolidated financial statements and Note (G).

The Company is the principal employer of the UK group pension scheme, the Millennium & Copthorne Pension Plan, which provides benefits based on final pensionable pay. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the scheme has been accounted for in these financial statements, as if it were a defined contribution scheme (as permitted by FRS 17 'Retirement benefits'). Details of the plan are given in Note 20 to the consolidated financial statements.

(C) DIVIDENDS

Details of dividends paid and proposed in the current and prior year are given in Note 25 to the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(D) INVESTMENTS

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost and net book value			
At 1 January 2005	1,048.5	305.7	1,354.2
Additions	30.2	0.3	30.5
Foreign exchange adjustments	17.3	–	17.3
At 31 December 2005	1,096.0	306.0	1,402.0

There were no provisions made against investments in subsidiary undertakings.

The Company's subsidiary undertakings at 31 December 2005 are listed below. All of the subsidiary undertakings have coterminous year ends.

Subsidiary name	Effective interest	Country of Incorporation/ operation	Principal activity
Millennium & Copthorne (Austrian Holdings) Limited	100%	England and Wales	Investment holding
Millennium Hotel Holdings EMEA Limited	100%	England and Wales	Investment holding
Copthorne Hotel Holdings Limited	100%	England and Wales	Hotel investment holding company
Millennium & Copthorne Share Trustees Limited	100%	England and Wales	Trustee holding
Millennium Hotels London Limited	100%	England and Wales	Hotel investment holding company
M&C Hotels Holdings USA Limited	100%	Cayman Islands	Investment holding

(E) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £m	Restated 2004 £m
Amounts owed to parent and fellow subsidiary undertakings	**0.8**	4.6
Corporation tax	**1.5**	0.1
Other creditors	**0.4**	0.4
Accruals and deferred income	**2.2**	4.3
	4.9	9.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(F) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £m	2004 £m
Bank loans	**205.5**	115.1
Bonds payable	**159.8**	171.6
Amounts owed to parent and fellow subsidiary undertakings	**44.5**	98.6
	409.8	385.3

Bank loans and bonds are repayable as follows:

	2005 £m	2004 £m
Between one and two years	**194.2**	66.6
Between two and five years	**171.1**	220.1
	365.3	286.7

(G) SHARE CAPITAL

	Number of 30p shares authorised	Number of 30p shares allotted, called up and fully paid
Balance at 1 January 2005	1,000,000,000	286,321,066
Issue of ordinary shares on exercise of share options	–	670,115
Issue of ordinary shares in lieu of dividends	–	1,184,907
Balance at 31 December 2005	1,000,000,000	288,176,088

The authorised share capital stood at £300,000,000 throughout the year. All of the share capital is equity share capital. At the year end options over 3,669,410 ordinary shares had been issued. Share options are exercisable before 24 March 2015 at between 150p and 483p.

During the year Millennium & Copthorne Hotels plc issued invitations to UK employees under the Sharesave Scheme to enter into a five-year savings contract or a three-year savings contract with an option to purchase shares at an option price of 308p on expiry of the savings contract.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(H) RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £m	Share premium £m	Profit and loss account £m	**Total 2005 £m**	Total 2004 £m
Balance at 1 January	85.9	846.1	47.0	**979.0**	975.6
Change in accounting policy to:					
- recognise dividends only when approved (Note A)	–	–	29.8	**29.8**	5.8
Balance at 1 January 2005 as restated	85.9	846.1	76.8	**1,008.8**	981.4
Profit for the financial year	–	–	21.6	**21.6**	29.0
Dividends	–	–	(35.7)	**(35.7)**	(11.7)
Issue of shares in lieu of dividends	0.4	(0.4)	4.2	**4.2**	1.4
Share options exercised	0.2	1.9	–	**2.1**	8.7
Balance at 31 December	86.5	847.6	66.9	**1,001.0**	1,008.8

(I) CONTINGENT LIABILITIES, COMMITMENTS AND SUBSEQUENT EVENTS

The Company has contingent liabilities with regard to normal trading operations and corporate transactions. In the opinion of the directors, adequate provision has been made for all known liabilities.

The Company had no capital commitments at the end of the financial year for which provisions had not been made.

There are no events subsequent to the balance sheet date which require adjustment to or disclosure within these financial statements.

(J) ULTIMATE HOLDING AND CONTROLLING COMPANY

The directors consider the ultimate holding and controlling company to be Hong Leong Investment Holdings Pte. Ltd. which is incorporated in the Republic of Singapore. The accounts of the ultimate holding company, which heads the largest group in which the results of the Company are consolidated, are available to the public at the Accounting and Corporate Regulatory Authority, 10 Anson Road #05-10/15, International Plaza, Singapore 079903.

The immediate holding company is City Developments Limited, a company incorporated in Singapore, which also heads the smallest group in which the results of the Company are consolidated. The consolidated accounts are available to the public and may be obtained from 36 Robinson Road, #04-01 City House, Singapore 068877.

FINANCIAL RECORD

			UK GAAP - not restated under IFRS		
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
INCOME STATEMENT					
Revenue	**595.2**	551.0	523.1	567.5	594.6
Group operating profit	**121.4**	125.0	54.8	96.3	100.4
Share of profit of joint ventures and associates	**3.5**	1.7	7.0	12.6	12.2
Net financing costs	**(29.1)**	(35.7)	(43.1)	(48.7)	(58.4)
Income tax expense	**(26.0)**	(31.4)	(1.9)	(14.4)	(15.1)
Profit for period	**69.8**	59.6	16.8	45.8	39.1
CASH FLOW					
Cash generated from operations	**116.1**	122.8	93.1	122.2	136.0

BALANCE SHEET				*UK GAAP - not restated under IFRS*	
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Property, plant, equipment and lease premium prepayment	**2,024.2**	1,898.7	2,011.4	2,096.1	2,210.6
Investment properties	**48.0**	43.7	90.3	89.3	92.9
Investments and loans in joint ventures and associates	**55.3**	45.3	78.3	104.1	111.9
Other financial assets	**2.2**	2.8	2.8	2.3	10.1
Non-current assets	**2,129.7**	1,990.5	2,182.8	2,291.8	2,425.5
Current assets excluding cash	**113.0**	105.6	79.4	91.3	82.2
Borrowings net of cash	**(480.4)**	(483.0)	(685.3)	(675.5)	(685.4)
Deferred tax liabilities	**(239.9)**	(208.1)	(196.9)	(46.4)	(42.4)
Provisions and other liabilities	**(144.6)**	(144.0)	(125.3)	(194.9)	(215.7)
NET ASSETS	**1,377.8**	1,261.0	1,254.7	1,466.3	1,564.2
Share capital and share premium	**934.1**	932.0	930.6	930.4	930.2
Reserves	**316.2**	214.2	206.9	420.5	480.7
Total equity attributable to equity holders	**1,250.3**	1,146.2	1,137.5	1,350.9	1,410.9
Minority interests	**127.5**	114.8	117.2	115.4	153.3
TOTAL EQUITY	**1,377.8**	1,261.0	1,254.7	1,466.3	1,564.2

FINANCIAL RECORD

KEY OPERATING STATISTICS			*UK GAAP - not restated under IFRS*		
	2005	2004	2003	2002	2001
Gearing (%)	**38%**	42%	53%	50%	49%
Earnings per share (pence)	**21.3p**	17.9p	3.9p	13.4p	10.9p
Dividends per share (pence)	**12.50p**	4.13p	6.25p	12.50p	12.50p
Gross operating profit margin (%)	**34.4%**	33.6%	32.1%	35.1%	34.6%
Occupancy (%)	**73.0%**	71.8%	65.1%	67.2%	65.1%
Average room rate (£)	**£64.01**	£60.59	£61.60	£65.73	£71.39
RevPAR (£)	**£46.73**	£43.50	£40.10	£44.17	£46.47

It is not possible to show comparative results for a full 5 years because IFRS accounting policies only came into existence from 1 January 2004, the effective date of transition to IFRS. Details of adjustments to previously reported figures are given in Note 33 to the consolidated financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 Annual General Meeting of Millennium & Copthorne Hotels plc will be held at the Millennium Hotel London Mayfair, Grosvenor Square, London W1K 2HP on 4 May 2006 at 10.00am for the transaction of the following business:

ORDINARY BUSINESS

To consider and, if thought fit, pass resolutions 1 to 8 inclusive below as ordinary resolutions:

1 To receive and adopt the Directors' Report for the year ended 31 December 2005.

2 To receive and adopt the Accounts for the year ended 31 December 2005 together with the auditor's report on those Accounts.

3 To declare a final dividend for the year ended 31 December 2005 of 5.62p per share to be paid on 19 May 2006 to shareholders on the register at close of business on 24 March 2006.

4 To re-appoint Tony Potter retiring by rotation as a director in accordance with the Company's Articles of Association.

5 To re-appoint The Viscount Thurso retiring by rotation as a director in accordance with the Company's Articles of Association.

6 To re-appoint Charles Kirkwood retiring by rotation as a director in accordance with the Company's Articles of Association.

7 To re-appoint Christopher Sneath retiring by rotation as a director in accordance with the Company's Articles of Association. Pursuant to the Company's Articles of Association, shareholders are notified that Mr Sneath is 72 years of age at the date of the Annual General Meeting.

8 To re-appoint KPMG Audit Plc as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and to authorise the directors to fix its remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass resolutions 9 to 14 as ordinary resolutions and resolutions 15 and 16 as special resolutions:

ORDINARY RESOLUTIONS

9 THAT the Directors' Remuneration Report for the year ended 31 December 2005, as set out on pages 22 to 28 of the Accounts, be approved.

10 THAT the provisions of the Co-operation Agreement dated 18 April 1996, as amended - by which the Company agrees that it shall use all reasonable endeavours to ensure that any issue of voting securities (other than pursuant to an employee or executive share option scheme) for cash which takes place is carried out in a manner that provides City Developments Limited with an opportunity to acquire additional ordinary shares at the time of such proposed issue for cash in such amounts as are necessary to enable it to maintain its voting rights in the Company at the same level as is held immediately prior to such issue - be renewed for the period expiring at the conclusion of the Company's Annual General Meeting in 2007.

11 THAT the Company be authorised for the purposes of Companies Act 1985 Part XA to make donations to EU political organisations and/or to incur EU political expenditure (as such terms are defined in Companies Act 1985 Section 347A) provided that:

(a) the maximum amount which may be donated to EU political organisations shall not exceed £100,000, the maximum amount which may be incurred in respect of EU political expenditure shall not exceed £100,000 and the maximum amount which may be so donated or incurred shall not in aggregate exceed £100,000 in the period expiring at the conclusion of the Company's Annual General Meeting in 2007.

NOTICE OF ANNUAL GENERAL MEETING

(b) the maximum amount referred to in sub-paragraph (a) may comprise sums in different currencies which shall be converted at such rate as the Company is able to acquire such currency at the relevant time.

(c) this authority expires at the conclusion of the Company's Annual General Meeting in 2007 after the date of the passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting; and

(d) the Company may before such expiry enter into a contract or undertaking which would or might require donations to be made to EU political organisations and/or EU political expenditure to be incurred (subject always to the maximum amount in sub-paragraph (a) above not thereby being exceeded) wholly or partly after the expiry of this authority, and the Company may make donations to EU political organisations and/or incur EU political expenditure in pursuance of any such contract or undertaking (subject always to the maximum amount in sub-paragraph (a) above not thereby being exceeded) as if the authority conferred by this resolution had not expired.

12 THAT the authority conferred on the directors by article 4(B) of the Company's Articles of Association be renewed for the period expiring 15 months after the date of the passing of this resolution and for that period the 'section 80 amount' is £28,817,609 (approximately 96,058,696 ordinary shares) being 33$^{1}/_{3}$% of the ordinary share capital of 30p each in issue on 20 February 2006.

13 THAT

(a) the Millennium & Copthorne Hotels 2006 Sharesave Plan (the "Sharesave Plan"), the main features of which are summarised in Appendix 1 of the shareholders' circular a copy of which is produced to the meeting and signed by the Chairman for identification, be approved and the directors are hereby authorised to take any action as they consider necessary to implement the Sharesave Plan;

(b) the directors be authorised to take any action they consider appropriate to enable benefits under the Sharesave Plan to be provided to employees resident outside the UK, either by adding schedules to the Sharesave Plan or establishing separate plans based on the Sharesave Plan, having regard to local tax and securities laws and exchange controls (provided that any awards granted under those plans shall be treated as granted under the Sharesave Plan for the purpose of the individual and overall limits on participation); and

(c) the directors be authorised to vote, and be counted in the quorum, on any matter connected with the Sharesave Plan, even though they may be interested in the Sharesave Plan (except that no director may be counted in a quorum or vote in respect of his own participation), and any prohibition on voting by interested directors contained in the Articles of Association of the Company be relaxed accordingly.

14 THAT

(a) the Millennium & Copthorne Hotels 2006 Long Term Incentive Plan (the "LTIP"), the main features of which are summarised in Appendix 2 of the shareholders' circular a copy of which is produced to the meeting and signed by the Chairman for identification, be approved and the directors are hereby authorised to take any action as they consider necessary to implement the LTIP;

(b) the directors be authorised to take any action they consider appropriate to enable benefits under the LTIP to be provided to employees resident outside the UK, either by adding schedules to the LTIP or establishing separate plans based on the LTIP, having regard to local tax and securities laws and exchange controls (provided that any awards granted under those plans shall be treated as granted under the LTIP for the purpose of the individual and overall limits on participation); and

(c) the directors be authorised to vote, and be counted in the quorum, on any matter connected with the LTIP, even though they may be interested in the LTIP (except that no director may be counted in a quorum or vote in respect of his own participation), and any prohibition on voting by interested directors contained in the Articles of Association of the Company be relaxed accordingly.

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL RESOLUTIONS

15 **Disapplication of pre-emption rights**

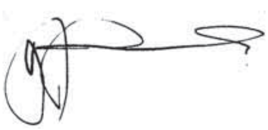
Subject to the passing of resolution 12 above THAT the power conferred on the directors by article 4(C) of the Company's Articles of Association be renewed for the period expiring 15 months after the passing of the resolution and for that period the 'section 89 amount' is £4,322,641 (approximately 14,408,804 ordinary shares) being 5% of the ordinary share capital in issue on 20 February 2006.

16 **Purchase of the Company's own shares**

THAT the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of s163(3) of the Companies Act 1985) of ordinary shares of 30p in the capital of the Company provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 28,817,608 (representing 10% of the ordinary share capital in issue on 20 February 2006);
(b) the minimum price which may be paid for an ordinary share is 30p, which amount shall be exclusive of expenses;
(c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased;
(d) this authority expires at the conclusion of the next Annual General Meeting of the Company to be held in 2007 or within 15 months from the date of the passing of this resolution whichever is earlier; and
(e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board



Adrian Bushnell
Company Secretary
17 March 2006

Registered Office
Victoria House
Victoria Road
Horley
Surrey RH6 7AF
UK

NOTICE OF ANNUAL GENERAL MEETING

NOTES

1 Any member entitled to attend and vote at the meeting convened by the above Notice may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed for use, if desired. Completion of a form of proxy does not preclude a member from attending and voting at the meeting in person.

2 To be valid, forms of proxy must be lodged with the Company's Registrars, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex, BN99 6ZL not less than 48 hours before the time appointed for holding the meeting.

3 Information regarding Electronic and CREST voting is shown below.

4 Any power of attorney or other written authority pursuant to which a proxy appointment is executed (or an office or notarially certified copy thereof or a copy thereof certified in accordance with the Powers of Attorney Act 1971) should also be deposited at the office of the Registrar by the latest time and date specified in note 2 above, provided that, in the case of a proxy executed through the CREST electronic proxy appointment service by a voting service provider or CREST sponsor on behalf of a CREST member, any such written authority may instead be delivered to a place of business of the relevant voting service provider or CREST sponsor itself in the United Kingdom.

5 There are available for inspection at the registered office of the Company, Victoria House, Victoria Road, Horley, Surrey, RH6 7AF, during normal business hours on each business day, copies of all service contracts between the directors and the Company or its subsidiaries. These documents will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.

6 The register of directors' interests kept by the Company under section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

7 The directors have no current intention to exercise the right to allot shares given by resolution 12 set out above or to acquire shares pursuant to the authority granted by resolution 16. Authority to allot shares is sought to enable the directors to respond to opportunities as and when they arise. Share purchases would only be made where the directors believed that they are in the best interests of the Company, taking into account other available investment opportunities and the overall financial position of the Group.

8 The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 2 May 2006, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00pm on 2 May 2006 or after any suitable dates upon adjournment shall be disregarded in determining the rights of any person to attend or vote at the meeting.

INFORMATION FOR SHAREHOLDERS

Electronic Proxy Voting

You may, if you wish, register the appointment of a proxy or voting instructions for the meeting electronically by logging on to www.sharevote.co.uk. You will need your Reference Number (this is the 24-digit number printed to the right of your name and address on the accompanying **Form of Proxy**). Full details of the procedure are given on the website. The proxy appointment and/or voting instructions must be received by Lloyds TSB Registrars not later than **10.00am on 2 May 2006.** Please note that any electronic communication sent to the Company or the Registrars that is found to contain a computer virus will not be accepted. The use of the internet service in connection with the Annual General Meeting is governed by Lloyds TSB Registrars' conditions of use set out on the website, www.sharevote.co.uk, and may be read by logging on to that site.

If you are not planning to come to the meeting and wish to vote on any of the resolutions the Form of Proxy/Voting Instruction Form must be returned to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZL to arrive no later than **10.00am on 2 May 2006.** If the card is posted in the UK, IOM or Channel Islands there is no postage to pay.

CREST Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on **4 May 2006** and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001.

MILLENNIUM & COPTHORNE HOTELS WORLDWIDE

Millennium & Copthorne Hotels plc operates in major gateway cities in 18 countries with a portfolio of 97 hotels.

THE AMERICAS

United States
Millenium Hotel New York Hilton
Millennium Airport Hotel Buffalo
Millennium Biltmore Hotel Los Angeles
Millennium Bostonian Hotel Boston
Millennium Hotel Anchorage
Millennium Hotel Boulder
Millennium Hotel Cincinnati
Millennium Hotel Durham
Millennium Hotel Minneapolis
Millennium Hotel New York Broadway
Millennium Hotel New York UN Plaza
Millennium Hotel St. Louis
Millennium Knickerbocker Hotel Chicago
Millennium Maxwell House Nashville
Millennium Resort Scottsdale McCormick Ranch
Best Western Lakeside
Comfort Inn Avon/Vail
Eldorado, New Mexico
Pine Lake Trout Club, Ohio
Sunnyvale Four Points*
Wynfield Inn, Orlando
Galapagos Islands
Royal Palm Hotel (A Millennium Partner)

EUROPE AND MIDDLE EAST

France
Millennium Hotel Paris Charles de Gaulle
Millennium Hotel Paris Opera
Germany
Copthorne Hotel Hannover
Millennium Hotel & Resort, Stuttgart
UK
Copthorne Hotel & Resort, Effingham Park, London Gatwick
Copthorne Hotel Aberdeen
Copthorne Hotel Birmingham
Copthorne Hotel Cardiff Caerdydd
Copthorne Hotel London Gatwick
Copthorne Hotel Manchester
Copthorne Hotel Merry Hill Dudley
Copthorne Hotel Newcastle
Copthorne Hotel Plymouth
Copthorne Hotel Slough Windsor
Copthorne Tara Hotel London Kensington
Kirtons Farm Hotel Reading
Millennium Bailey's Hotel London Kensington
Millennium Gloucester Hotel London Kensington
Millennium Hotel Glasgow
Millennium Hotel London Knightsbridge
Millennium Hotel London Mayfair
Millennium Hotel Southampton Ocean Village*
Millennium Madejski Hotel Reading
Middle East
Millennium Airport Hotel Dubai
Millennium Doha, Qatar*
Millennium Hotel Abu Dhabi
Millennium Hotel Sharjah
Millennium Hotel & Resort Montazah-Egypt*
The Coral Beach Diving Hotel-Egypt

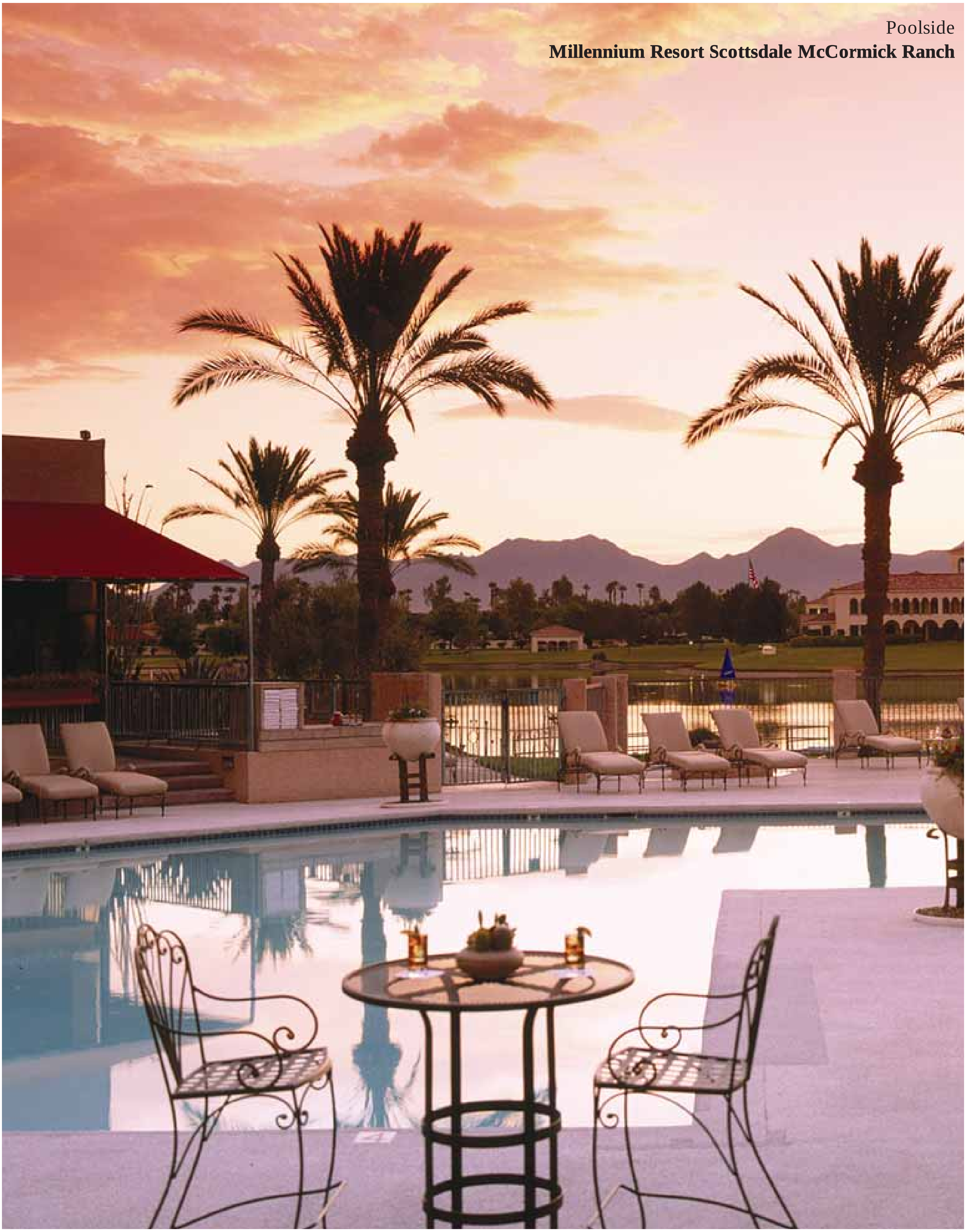
ASIA

China
Millennium Hongqiao Shanghai*
Hong Kong
JW Marriott Hotel Hong Kong
Nikko Hong Kong
Indonesia
Millennium Hotel Sirih Jakarta
Korea
The Millennium Seoul Hilton
Malaysia
Copthorne Orchid Hotel Penang
The Regent Kuala Lumpur
Philipines
The Heritage Hotel Manila
Singapore
Copthorne King's Hotel Singapore
Copthorne Orchid Hotel Singapore
Grand Copthorne Waterfront Hotel Singapore
M Hotel Singapore
Orchard Hotel Singapore
Taiwan
Grand Hyatt Taipei
Thailand
Millennium Sukhumvit Hotel Bangkok*

AUSTRALASIA

New Zealand
Copthorne Commodore, Christchurch Airport
Copthorne Hotel and Resort Hokianga
Copthorne Hotel & Resort Queenstown Lakefront
Copthorne Hotel & Resort Solway Park Masterton
Copthorne Hotel & Resort Waitangi Bay of Islands
Copthorne Hotel Auckland Anzac Avenue
Copthorne Hotel Auckland Harbour City
Copthorne Hotel Christchurch Central
Copthorne Hotel Christchurch Durham Street
Copthorne Hotel Grand Central New Plymouth
Copthorne Hotel Wellington Plimmer Towers
Kingsgate Hotel Autolodge Christchurch
Kingsgate Hotel Autolodge Paihai, Bay of Islands
Kingsgate Hotel Beachcomber, Nelson
Kingsgate Hotel Brydon Oamura, Christchurch
Kingsgate Hotel Dunedin
Kingsgate Hotel Greenlane, Auckland
Kingsgate Hotel Greymouth
Kingsgate Hotel Hamilton
Kingsgate Hotel Oriental Bay, Wellington
Kingsgate Hotel Palmerston North
Kingsgate Hotel Parnell, Auckland
Kingsgate Hotel Rotorua
Kingsgate Hotel Te Anau
Kingsgate Hotel Terraces, Queenstown
Kingsgate Hotel Wanganui
Kingsgate Hotel Whangarei, Northland
Millennium Hotel & Resort Manuels Taupo
Millennium Hotel Christchurch
Millennium Hotel Queenstown
Millennium Hotel Rotorua

* Not open



Poolside
Millennium Resort Scottsdale McCormick Ranch


Making memories at
Millennium & Copthorne Hotels