MILLENNIUM & COPTHORNE HOTELS plc

Annual Report & Accounts 2006

HEART & SOUL

THE HEART OF MILLENNIUM & COPTHORNE BEATS IN 108 HOTELS AND OVER 29,000 ROOMS IN 17 COUNTRIES.

OUR STAFF CONTINUALLY STRIVE TO PROVIDE SERVICE WHICH EXCEEDS EVERY EXPECTATION, MAKING EVERY VISITOR FEEL RESTED AND PAMPERED.

WITHIN THIS GLOBAL SERVICE CULTURE, THE SOUL OF MILLENNIUM & COPTHORNE RESIDES: EXCEPTIONAL HOSPITALITY THAT KEEPS GUESTS ALL AROUND THE WORLD COMING BACK FOR MORE.

CONTENTS

The front cover features staff from Orchard Hotel donning the new uniforms which will be introduced to all the Group's hotels worldwide

The heart and soul of our renowned service is epitomised by our staff,
each one living and breathing the Millennium & Copthorne service culture.

URBAN LOGIC

A Ravishing Beauty Stirs: Spectacular Manhattan,
as seen from the Millennium UN Plaza Hotel New York.

RESORT MAGIC

Rest and Relax: Lapping it up at Copthorne
Hotel & Resort Bay of Islands, New Zealand.

CONTEMPORARY BRAND

J Bar of M Hotel Singapore:
An oasis within the busy financial district.

CLASSIC BLEND

The Millennium Biltmore Hotel, Los Angeles:
Home to presidents, kings and Hollywood celebrities and the Oscars.

EXOTIC EAST

Exquisite Greeting: Sculptural relief on the door of the Signature Room at the Orchard Hotel Singapore unlocks delightful East-West secrets.

ROMANTIC WEST

A High Note: Built in the 1930s, Millennium Hotel Paris Opéra has modern facilities and it's right beside one of the most fashionable streets in the world, Boulevard Hausmann.

INTIMATE SPACE

Peace and Comfort: At the end of the day, all's well
that ends well at the Copthorne Hotel Cardiff Caerdydd.

SOCIAL PLACE

Red Hot: An event invariably turns into something special at the Copthorne Hotel & Resort Effingham Park London Gatwick.

WELCOME TO A WORLD OF HOSPITALITY

Millennium & Copthorne Hotels comprise 108† hotels with 29,075 rooms in 17 countries.
Maritim Hotels, our world of hospitality marketing alliance partner has
49 hotels with 13,950 rooms in 7 countries.

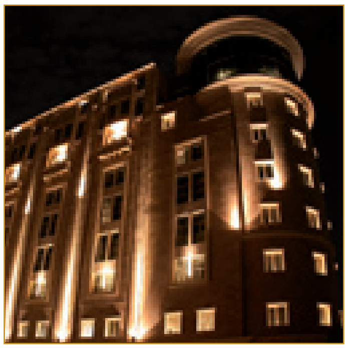
THE AMERICAS	EUROPE	MIDDLE EAST	ASIA	AUSTRALASIA
Anchorage	Aberdeen	Abu Dhabi (3)	Bangkok	Auckland (4)
Boston	Birmingham	Doha	Beijing	Bay Of Islands (2)
Boulder	Cardiff	Dubai (2)	Hong Kong (2)	Christchurch (5)
Buffalo	Doncaster	Marsa Alam	Jakarta	Hokianga
Chicago	Gatwick (2)	Sharjah	Kuala Lumpur	Kingsgate Hotels & Resorts (9)
Cincinnati	Glasgow	Sharm El Sheikh (2)	Manila	Marlborough
Durham	Hannover		Penang	Masterton
Los Angeles	London (7)		Phuket	New Plymouth
Minneapolis	Manchester		Seoul	Queenstown (3)
Nashville	Merry Hill Dudley		Shanghai	Rotorua (2)
New York (3)	Newcastle		Singapore (6)	Taupo
Scottsdale	Paris (2)		Taipei	Wellington (2)
St Louis	Plymouth			
Other United States (6)	Reading (2)			
	Sheffield			
	Slough Windsor			
	Southampton			
	Stuttgart			

† The 108 hotels comprise 94 hotels that are open and a further 14 that are in the pipeline

ASIA
Orchard Hotel Singapore

ASIA
Millennium Hongqiao Hotel
Shanghai

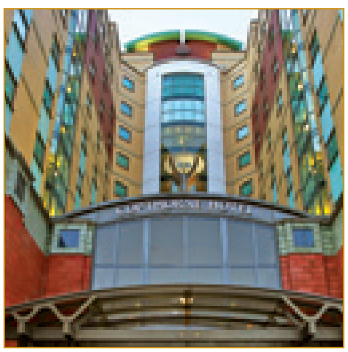
AUSTRALASIA
Copthorne Hotel & Resort
Queenstown Lakefront



MIDDLE EAST
Millennium Hotel Doha

MIDDLE EAST
Millennium Hotel
Abu Dhabi

EUROPE
Millennium Hotel
London Mayfair



EUROPE
Millennium & Copthorne
Hotels at Chelsea
Football Club

USA
Millennium Broadway Hotel
New York

USA
Millennium Resort Scottsdale
McCormick Ranch

FINANCIAL HEADLINES

- Revenue up 8.6% to £646.3m
- Headline operating profit[1] £124.7m, up 15.4%
- Headline profit before tax[1] of £94.4m, up 27.6%
- Headline earnings per share[1] of 21.8 pence, up 16.6%
- Dividends of 12.5 pence per share for the year, up 62.3%
- Group RevPAR[2] up by 8.1% with particularly strong performances in the US and Asia
- Sale of long leasehold interests in three Singapore hotels and subsequent leaseback gave rise to a £10.1m pre-tax profit, realised £210.6m in cash of which £78.0m was reinvested for a 39.1% stake in CDLHT[3]

	2006 £m	2005 £m
Revenue	**646.3**	595.2
Operating profit	**154.2**	124.9
Profit before tax	**130.2**	95.8
Profit for the year	**108.1**	69.8
Basic earnings per share	**34.5p**	21.3
Headline operating profit[1]	**124.7**	108.1
Headline profit before tax[1]	**94.4**	74.0
Headline earnings per share[1]	**21.8p**	18.7p
Free cash flow[1]	**283.3**	69.0
Dividends per share[4]	**12.5p**	7.7p

The financial information above is discussed in the business review on pages 16 to 31, together with the reasons for focusing on headline results. The Consolidated Financial Statements are on pages 60 to 65.

[1] A number of measures quoted in this Annual Report are 'non-GAAP' measures. The directors believe these measures provide an analysis of trading results of the Group* and are consistent with the way financial performance is measured by management. These include hotel operating profit, headline operating profit, headline profit before tax, headline earnings per share, net debt and free cash flow. The rationale for using non-GAAP measures is shown on page 31. Reconciliations to the most directly comparable IFRSs† indicators are provided on pages 20 and 22.

[2] Room revenue divided by the number of room nights sold

[3] CDL Hospitality Trusts (a hotel real estate investment trust, listed on the Stock Exchange of Singapore in July 2006)

[4] Dividends per share represent the dividend proposed in respect of the relevant financial year

* Comprises the Company, its subsidiaries and its interests in associates and joint ventures

† International Financial Reporting Standards as adopted by the EU

CHAIRMAN'S STATEMENT

A YEAR OF STRONG PROFIT GROWTH. 2006 WAS ANOTHER SUCCESSFUL YEAR FOR MILLENNIUM & COPTHORNE HOTELS. WE ACHIEVED STRONG GROWTH IN PROFITABILITY WITH REVPAR GROWING ACROSS ALL REGIONS.

I am pleased to report on our 2006 results which show an improvement in operating profits and further capital gains from the realisation of some of our assets. This has led to the Group's highest level of profits since our listing in 1996.

Since the industry's low point in 2003, the Group has achieved a steady and sustainable recovery through a focused strategy laid down by the Board in 2004. This strategy was aimed at restoring the Group's profitability, redeploying the Group's assets and developing the hotel brand whilst maintaining a dividend consistent with the Group's overall performance.

The Group recorded a pre tax profit of £130.2m (2005: £95.8m) and basic earnings per share increased by 62.0% to 34.5p (2005: 21.3p) and headline earnings per share at 21.8p showing a 16.6% increase on the prior year (2005: 18.7p). Revenue increased 8.6% to £646.3m with headline operating profit up 15.4% to £124.7m. Headline profit before tax rose to £94.4m, an increase of 27.6%. During the period under review we sold the long term leasehold interests in three Singapore hotels to the CDL Hospitality Trusts ("CDLHT"). This realised £210.6m in cash of which £78m was reinvested for a 39.1% stake in the REIT.

DIVIDEND

The Board is recommending a dividend of 10.42p per share comprising a final dividend of 6.42p per share plus a special dividend of 4.00p per share. Together with the interim dividend of 2.08p per share (2005: 2.08p), the total dividend of 12.5p represents an increase of 62.3% over last year's total of 7.7p. The dividend increase reflects both the growth in profit before tax and the Group's future investment needs.

BOARD CHANGES

Christopher Keljik joined the board on 4 May 2006 as a non-executive director. Biographical details are on page 41.

In July 2006 Tony Potter, Group Chief Executive Officer of Millennium & Copthorne Hotels plc announced his intention to resign to relocate outside the UK and on 27 October left the Group. I have, as Chairman, been proud to work with him. He left the company in a healthy and prosperous position and we wish him well in his future endeavours.

In the meantime, Wong Hong Ren has acted as Interim Group Chief Executive Officer until Peter Papas joins the Group as Group Chief Executive Officer on 1 March 2007.

Sir Idris Pearce, who joined the Group at the time of its flotation in 1996, retired from the Board on 31 August 2006.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

The Group remains committed to its priority to grow its international hotel business. Despite the divestment trend evident in a number of hotel groups in recent years, our strategy has always been to be both long-term owner and operator of hotels given the size of our portfolio. The Group will continue to grow the hotel business by adopting sustainable strategies. The financial capacity reflected in the Group's balance sheet and the flexibility created through the CDLHT platform put us in an advantageous position to seize opportunities.

As a hotel chain with substantial real estate assets, the Group is able to maximise the value of our hotels at the right time to create a larger sustainable earnings stream. We have demonstrated our ability to unlock shareholder value. The sale of The Plaza Hotel in New York is an example of how the Group maximised value by selling an asset based on its real estate potential rather than on earnings alone. The recent flotation of CDLHT is another example where we have realised both one off gains and continue to enjoy the value that CDLHT is generating.

The Group is now well placed for growth. This will be realised through continued focus on improvements in operational performance and, in the medium term, by elevating the status of some of our key strategic hotels in prime locations. This repositioning exercise will be achieved through the total refurbishment and redevelopment of these hotels, with the ultimate objective of enhancing their earnings potential and value.

We have commissioned a study of the Millennium brand. This study confirms further improvement in both our brand recognition and reputation. This progress is particularly encouraging following a recovery period in which we reduced brand investment to protect Group earnings. In global terms, our brand awareness continues to grow and its strength is underlined by our success in winning management contracts in the highly competitive Asian, Middle Eastern and UK markets. Our first hotel in China, the Millennium Hongqiao Hotel Shanghai opened in October 2006. The Group announced nine new management contracts during the year taking the total number of rooms signed since 2004 to just under 4,000 and the total number of management contracts to 21.

In 2005, the Group announced its commitment to grow the Copthorne chain. Since that announcement, we have secured four management contracts. Over time, there remains a significant opportunity to increase the total number of Copthorne rooms without further acquisitions due to existing redevelopment potential within these properties. The Copthorne Hotel Manchester, for instance, should be suitable for redevelopment to take advantage of the transformation of the city where the super casino will be located.

Asia is a key region in the Group's future development. It has fully recovered from the Asian financial crisis and is once again a resurgent region. The growth in inter-city business and leisure travel resulting in increased demand for accommodation is expected to outstrip the growth in hotel rooms. This situation is expected to remain particularly acute in Singapore for at least the next three years. Beyond this timeframe visitor arrivals to Singapore are expected to increase from the current nine million to 17 million, by 2015, as a result of initiatives to be implemented by the Singapore tourism board. The Group owns and operates prime assets in gateway Asian cities such as Bangkok, Kuala Lumpur, Taipei, Seoul, Shanghai and from 2008, Beijing. With the substantial growth of real estate values in some of these key cities, acquisition of prime sites has become more restricted and more expensive.

LOOKING FORWARD

The appointment of Peter Papas as the Group Chief Executive Officer, with effect from 1 March, will bring a fresh perspective to the management team. His broad experience as a chartered accountant, investment banker, director within the hospitality and private equity sectors as well as being a hands-on leader will be invaluable to the Group. Peter will be able to offer new approaches and provide the Group with fresh impetus to drive organic growth, and, if the right opportunities arise, growth through acquisition.

In the first six weeks of 2007, trading has continued to be in line with the positive trends of 2006 with RevPAR growth of 10.5%. We remain confident, therefore, of a successful outcome to the year as a whole.

I am confident that, with the new management team, we have a solid foundation from which we can move our business forward into the next stage of its development.

Kwek Leng Beng
CHAIRMAN
22 February 2007

The business review describes the main trends and factors underlying the development, performance and position of the Group during the year ended 31 December 2006 as well as those likely to affect the Group's future development, performance and position.

The business review is divided into the following sections:

- Financial
- Operating
- Risk factors
- Non-GAAP information

The Group's principal operations are providing hotel rooms to guests in regions: The Americas, Europe, Middle East, Asia and Australasia. The hotel market is geographically concentrated with 12 countries accounting for two-thirds of the worldwide hotel room supply.

The fundamentals for the industry are very robust with global demand for travel and tourism providing unprecedented opportunities for the industry.

The Group owns, operates, manages and franchises hotels with significant operations in London, New York and Singapore. In addition, our property expertise allows us to manage our real estate assets actively and to unlock long term value to ensure superior value creation over time.

The Group operates under three brands: Millennium, Copthorne and Kingsgate and is primarily focusing on the development of the Millennium brand, which is used for its four star deluxe or five star properties in gateway cities. The Group is also planning to expand the Copthorne brand, primarily in the UK provinces through redevelopment of sites and management contracts. The Kingsgate brand is mainly located in New Zealand.

FINANCIAL REVIEW

Introduction

The following discussion is based on the Group Financial Statements included elsewhere in this Annual Report.

The Group Financial Statements are prepared under IFRSs. The discussion also makes reference to Non-GAAP figures. Reconciliations to GAAP figures are given.

The Group faces a number of significant risks that may impact on its future performance and activities. Please see "Risk Factors" section.

Foreign currency translation

The Company publishes its Group Financial Statements in pounds sterling. However, the majority of the Company's subsidiaries, joint ventures and associates report their revenue, costs, assets and liabilities in currencies other than pounds sterling and the Company translates the revenue, costs, assets and liabilities of those subsidiaries, joint ventures and associates into pounds sterling when preparing its Group Financial Statements. Consequently, fluctuations in the value of pounds sterling versus other currencies could materially affect the amount of these items in the Group Financial Statements, even if their value has not changed in their original currency. The following table sets out the pounds sterling exchange rates of the other principal currencies in the Group.

Currency (=£1)	At 31 December 2006	2005
US dollar	**1.957**	1.730
Singapore dollar	**3.007**	2.886
Taiwan dollar	**64.876**	58.068
New Zealand dollar	**2.782**	2.566
Malaysian ringgit	**6.909**	6.550

Currency (=£1)	Average for year ended 31 December **31 Dec 2006**	31 Dec 2005
US dollar	**1.837**	1.821
Singapore dollar	**2.925**	3.029
Taiwan dollar	**60.687**	59.390
New Zealand dollar	**2.817**	2.582
Malaysian ringgit	**6.749**	6.893

Currency movements during 2006 have generally been unfavourable for the Group as a whole. This is demonstrated by a £116.0m reduction in value of property, plant, equipment and lease premium prepayment.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Property, plant and equipment represents a significant portion of the asset base of the Group and hence assumptions made to determine carrying value and related depreciation are critical to the Group's financial performance. Land and buildings are stated at cost or deemed cost less depreciation and any provision for impairment. The assessment for impairment requires the Group to make certain judgements, including property valuations and future cash flow from the respective properties and investments. A review of impairment of property valuations 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.

TAXATION

The Group's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profit and loss and/or cash flow variances. The geographical complexity of the Group's structure makes the degree of estimation and judgement more challenging.

The resolution of issues is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the tax charge in the income statement and tax payments.

KEY PERFORMANCE INDICATORS

The Board monitors the Group's performance on a regular basis. Performance is assessed against budgets and forecasts using financial and non-financial measures.

The following sets out certain of the most significant Key Performance Indicators (KPIs) used by the Group, their purpose, the basis of calculation and source of underlying data.

The Group uses a number of primary measures to assess the performance of the Group. A number of these measures at Group level are presented on a like-for-like basis which provides an assessment of the underlying growth excluding the impact of business acquisitions and disposals and changes in exchange rates. Financial measures presented on a like-for-like basis are non-GAAP financial measures. For more information on these measures and the basis of calculation see "Non-GAAP Information" on page 31.

Revenue

Revenue and its growth for the Group, and its principal markets, covering 2006 and 2005 financial years, is provided in the discussion on "Operating Review".

Headline operating profit

Headline operating profit is used by the Group for performance analysis as it represents the underlying operating profitability of the Group. The basis of calculation, along with an analysis of why the Group believes it a useful measure, is provided in the section titled "Non-GAAP Information" on page 31.

Headline earnings per share

Headline earnings per share is calculated as basic earnings per share excluding one-off or unusual items such as profit or loss on disposal of hotel properties, fair value adjustments of investment properties, business interruption insurance proceeds and impairment. Details of excluded items are detailed in note 7 to the Consolidated Financial Statements.

Operational

Revenue based measures

Management believes that revenue based measures provide useful information for investors regarding trends in customer revenue derived from room sales and the occupancy percentage.

The data used to calculate these KPIs is derived from a number of sources. Room revenue, average room rates and occupancy are derived from hotel property management systems.

Occupancy % – rooms occupied by hotel guests, expressed as a percentage of rooms that are available

Average Room Rate – room revenue divided by the number of room nights sold

RevPAR – room revenue divided by the number of available room nights (also obtained by multiplying average room rate by occupancy percentage)

Other measure

Hotel operating profit – profit derived from hotel operations excluding related central/regional costs; other operating income and impairment; and share of results of associates and joint ventures.

GROUP OVERVIEW

	2006 £m	2005 £m
Summary results		
Revenue		
New York	**103.1**	91.2
Regional US	**117.0**	112.8
London	**84.2**	78.7
Rest of Europe	**96.8**	97.7
Asia	**175.1**	151.7
Australasia	**44.9**	48.6
Total Hotels	**621.1**	580.7
Property operations	**25.2**	14.5
	646.3	595.2
Operating profit		
New York	**22.6**	17.0
Regional US	**9.2**	5.0
London	**26.3**	24.6
Rest of Europe	**12.3**	14.1
Asia	**39.6**	35.0
Australasia	**10.3**	11.0
Total Hotels	**120.3**	106.7
Property operations	**8.8**	6.7
Central costs	**(18.2)**	(13.8)
Share of associates and joint ventures operating profit	**13.8**	8.5
Headline operating profit	**124.7**	108.1
Other operating income net of impairment	**18.1**	21.8
Share of other operating income, interest, tax and minority interests of joint ventures and associates	**11.4**	(5.0)
Operating profit	**154.2**	124.9
Net financing costs	**(24.0)**	(29.1)
Profit before tax	**130.2**	95.8
Headline earnings per share	**21.8p**	18.7p

SUMMARY RESULTS

Profit before tax increased by 35.9% to £130.2m as compared with £95.8m for 2005. Headline profit before tax, the Group's measure of underlying profit before tax, increased by 27.6% from £74.0m to £94.4m. Earnings per share were 34.5p, up 62.0% (2005: 21.3p) with headline earnings per share at 21.8p showing a 16.6% increase on the prior year (2005: 18.7p).

HEADLINE OPERATING PROFIT

Headline operating profit is the Group's measure of the underlying profit before interest and tax. It includes the operating results of joint ventures and associates but excludes other operating income (of Group and share of associates) and impairment which are normally one-off items.

Headline operating profit for the year grew by 15.4% from £108.1m to £124.7m. Reconciliation between profit before tax, headline profit before tax and headline operating profit is shown below.

	2006 £m	2005 £m
Profit before tax	**130.2**	95.8
Adjusted to exclude:		
Fair value adjustments of investment property	**(4.9)**	(5.9)
Business interruption insurance proceeds	**(5.5)**	(12.8)
Net gain on disposal of property – sale and leaseback of three Singapore hotels	**(10.1)**	–
– other	**(1.1)**	(9.6)
Share of associates (CDLHT) fair value adjustments to investment property	**(17.7)**	–
Impairment	**3.5**	6.5
Headline profit before tax	**94.4**	74.0
Add back:		
Share of results of associates and joint ventures – interest	**1.4**	1.3
– taxation	**1.8**	1.4
– minority interests	**3.1**	2.3
Net financing costs	**24.0**	29.1
Headline operating profit	**124.7**	108.1

EARNINGS PER SHARE

Basic earnings per share grew by 13.2p to 34.5p (2005: 21.3p). The growth in earnings per share was impacted by a fall in the tax rate. Reasons for the change in tax rate are set out in the section on taxation.

In the same way that the Group adjusts profit before tax to remove the impact of other operating income and impairment in arriving at headline profit before tax, it also reports headline earnings per share figures. The adjustments to earnings per share are set out in note 7 to the consolidated financial statements. Headline earnings per share rose from 18.7p per share in 2005 to 21.8p per share in 2006, a 16.6% increase.

DIVIDEND

The Group is recommending a dividend of 10.42p per share comprising a final dividend of 6.42p plus a special dividend of 4.00p per share. Taken together with the interim dividend of 2.08p (2005: 2.08p), the total dividend of 12.5p represents an increase of 62.3% over last year's total of 7.7p.

The decision to increase dividend by 62.3% is a reflection of both the growth in headline profit before tax and the Group's future investment needs.

This dividend for 2006 is covered 2.8 times by earnings (2005: 2.8 times). Subject to approval by shareholders at the Annual General Meeting to be held on 3 May 2007, the final dividend will be paid on 18 May 2007 to shareholders on the register on 23 March 2007. The ex-dividend date of the Company's shares is 21 March 2007.

FINANCIAL POSITION AND RESOURCES

Balance Sheet

	2006 £m	2005 £m	Change £m
Property, plant, equipment and lease premium prepayment	**1,687.0**	2,024.2	(337.2)
Investment properties	**49.6**	48.0	1.6
Investments in joint ventures and associates	**142.0**	55.3	86.7
Other non-current assets	**3.2**	2.2	1.0
Non-current assets	**1,881.8**	2,129.7	(247.9)
Current assets excluding cash	**139.5**	113.0	26.5
Net debt	**(260.4)**	(480.4)	220.0
Deferred tax liabilities	**(224.6)**	(239.9)	15.3
Provisions and other liabilities	**(144.2)**	(144.6)	0.4
Net assets	**1,392.1**	1,377.8	14.3
Equity attributable to equity holders of the parent	**1,269.1**	1,250.3	18.8
Minority interests	**123.0**	127.5	(4.5)
Total equity	**1,392.1**	1,377.8	14.3

Non-current assets

Property, plant, equipment and lease premium prepayment

Property, plant, equipment and lease premium prepayment decreased by £337.2m. The decrease mainly comprises £193.3m from disposal of three Singapore hotels; a £116.0m foreign exchange adjustment; transfer of £22.6m to development properties, representing the redevelopment of Four Points Sunnyvale Hotel in California into 240 residential condominiums for sale and a 250 bedroom hotel and the redevelopment of land adjoining The Regent Kuala Lumpur hotel in Malaysia.

The Group states land and buildings at depreciated deemed cost, being their UK GAAP carrying value, including revaluations as at 1 January 2004 together with additions thereafter less subsequent depreciation or provision for impairment. External professional open market valuations on certain of the Group's hotel portfolio have taken place at 31 December in each of the years 2004, 2005 and 2006 covering the entire Group's hotel portfolio over this three year period. Valuation surpluses have not been recorded in the accounts. Based on external valuations conducted at 31 December 2006 on 29% (based on net book value) of the Group's hotel portfolio, a valuation surplus of £78.3m is estimated but this has not been recorded in the accounts.

The Group undertakes an annual review of the carrying value of hotel and property assets for indications of impairment. An impairment change of £3.5m (2005: £6.5m) has been recorded in the year.

Investment in joint ventures and associates

The increase in investment in joint ventures and associates of £86.5m principally comprises a £79.0m investment for a 39.3% stake in the Hospitality REIT, CDLHT; share of profit for the year of £25.2m and a deduction of £9.3m being the unrealised post-tax profit element related to the sale of the three Singapore hotels to CDLHT.

Deferred tax liabilities

The movement of £15.3m in net deferred tax liabilities mainly comprises a £9.0m release relating to the three Singapore hotels sold to CDLHT; utilisation of tax losses £12.8m; and £(17.7m) of foreign exchange adjustments.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow and net debt

During the year cash receipts totalled £210.8m from property disposals. In total the Group invested £37.1m in its properties with £34.6m on development and refurbishment of hotels and £2.5m net additions on development property. Of the £2.5m net additions on development property, £6.2m was invested in redevelopment of the Four Points Sunnyvale Hotel in California into 240 residential condominiums for sale and a 250-room hotel. At 31 December 2006, the Group's net debt was £220.0m lower than 2005 at £260.4m (2005: £480.4m). The factors contributing to this decrease are shown in the table below.

	2006 £m	2005 £m
Operating profit before changes in working capital (excluding development properties) and provisions	**147.0**	133.7
Interest and tax	**(37.4)**	(42.4)
Total investment in properties	**(37.1)**	(56.8)
Analysed between:		
Development and refurbishment of hotels	**(34.6)**	(39.2)
Expenditure on development properties	**(2.5)**	(17.6)
Disposals (including sale of three Singapore hotels)	**210.8**	34.5
Free cash flow	**283.3**	69.0
Investment in associates (39.1% in CDL Hospitality Trusts)	**(78.0)**	–
Increase in loan to joint venture	**(3.3)**	–
Proceeds from disposal of joint venture	**4.0**	6.5
Dividends paid – to equity holders of the parent	**(9.1)**	(31.5)
– to minorities	**(2.2)**	(2.3)
Other movements	**25.3**	(39.1)
Decrease in net debt	**220.0**	2.6
Opening net debt	**(480.4)**	(483.0)
Closing net debt	**(260.4)**	(480.4)

Free cash flow is defined as the net increase in cash and cash equivalents less flows from financing activities and flows from the acquisitions or disposal of subsidiaries/operations, joint ventures or associates. It is a non-GAAP measure since it is not defined under IFRS, but is a key indicator used by management in order to assess operational performance. A reconciliation of net cash flow from operating activities, the closest equivalent GAAP measure, to free cash flow is provided below.

Free cash flow	2006 £m	2005 £m
Net cash from operating activities	**107.1**	73.7
Proceeds from sale of property, plant and equipment, investment properties and assets held for sale	**210.8**	34.5
Acquisition of property, plant and equipment	**(34.6)**	(39.2)
Free cash flow	**283.3**	69.0

Financial structure

Interest cover ratio, excluding share of joint ventures, other operating income and impairment improved from 3.4 times in 2005 to 4.6 times in 2006. This reflects higher earnings, a near half year of lower interest costs due to the sale of three Singapore hotels net of investment in CDL Hospitality Trusts and an element of debt refinancing.

While Millennium & Copthorne may have a relatively low financial gearing it has additional operational gearing requirements through exposure to its development pipeline, in particular those relating to the Millennium Hotel Beijing and Four Points Hotel Sunnyvale. Developments tend to provide a greater percentage valuation change than conventional investment properties, with this being magnified by any change in yields or in occupier demand. Developments also carry a higher risk around timing, cost to completion and subsequent sale or letting.

On the basis of the Group's interest cover and capacity to finance growth with £156.4m of undrawn and committed facilities available, the Group is able to absorb an increase in gearing from its current position.

A committed revolving credit facility as part of the funding structure provides the Group with the financial flexibility to draw and repay loans at will, and to react swiftly to investment opportunities. The cost effectiveness of the structure is achieved by providing lenders with security over the Group's properties, resulting in lower interest margins than an unsecured structure. The value of the Group's unencumbered properties as at 31 December 2006 was £1,117.8m (2005: £1,416.7m).

As at 31 December 2006 total borrowings amounted to £422.7m, of which £143.5m was drawn under £212.9m of secured bank facilities, and £2.2m related to finance leases. Committed but undrawn facilities amounted to £156.4m. The Group also has £29.9m of uncommitted facilities.

Hedging

The Group uses derivative products to manage its interest rate exposure and has a policy of hedging transaction exposure through approved counterparties within designated limits, using short term forward contracts to buy or sell the currency concerned, once the timing and the underlying amount of the exposure has been determined.

Future funding

With the Group's modest gearing levels and interest cover, £156.4m of undrawn and committed facilities and demonstrable ability to unlock property value through a REIT, the Group is confident that it will be able to finance its planned capital commitments.

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 18.

TAXATION

The Group tax charge excluding the tax relating to joint ventures and associates is £22.1m (2005: £26.0m), giving an effective rate of 21.1% (2005: 28.2%). The lower rate in 2006 is primarily due to a tax credit arising on the disposal of three of its Singapore hotels.

PENSION PLANS

The Group's major defined benefit plans are those operated in the UK, Korea and Taiwan and the net defined balance sheet liability on them decreased in the year by £1.0m to £15.0m. The UK plan is closed to new entrants and the Group has agreed an enhanced contribution rate to address its deficit. This enhanced contribution rate commenced from April 2006.

OPERATING REVIEW

Group RevPAR for the year increased by 8.9% at constant exchange rates. Group occupancies increased by 1.9% and average rate grew by 6.8%. Hotel operating profit increased by £13.6m to £120.3m and at reported exchange rates, revenue increased to £646.3m (2005: £595.2m).

Headline operating profit increased by £16.6m to £124.7m (2005: £108.1m). Headline profit before tax increased by £20.4m to £94.4m (2005: £74.0m).

A reconciliation between headline operating profit, headline profit before tax and reported profit before tax is given on page 20. Headline operating profit includes the operating results of joint ventures and associates but excludes other operating income (of Group and share of associates) and impairment.

Other operating income of the Group for 2006 includes increases in the fair value of investment property of £4.9m (2005: £5.9m), profit on sale and leaseback of three Singapore hotels of £10.1m, business interruption insurance proceeds of £5.5m (2005: £12.8m) as detailed in the paragraph below, other £1.1m (2005: £9.6m relating to sale of formerly held hotel assets in Sydney). The share of associates other income of £17.7m represents the Group's share of uplift in value of properties owned by CDLHT.

The directors undertake an annual review of the carrying value of hotel and property assets for indications of impairment. An impairment charge of £3.5m (2005: £6.5m) has been recorded in the year.

The Group had filed a legal action against its insurance advisor in October 2005 relating to business interruption claims by its hotel properties in New York resulting from the terrorist attack on the World Trade Center on 11 September 2001. On 29 November 2006, Millennium & Copthorne Hotels plc and CDL Hotels USA Inc entered into an agreement with its insurance advisor to resolve the legal action. Under that agreement, CDL Hotels USA Inc received a cash amount of US$17.5 million in December 2006. The parties to the agreement agreed to a full and final settlement of any and all claims the parties may have had against each other arising out of or related to the Group's 2001 US property insurance coverage. The final settlement amount, net of associated costs of US$6.9m (£3.5m) resulted in a US$10.6m (£5.5m) credit to the income statement and is disclosed within other operating income.

Although the industry continues to face significant pressures in payroll and energy costs, our continued focus on driving the operational performance of our hotels has led to improved profit conversion of 55.6% at constant exchange rates (2005: 46.5%).

During the period, the Group started selling the Zenith apartments in the remaining tower of the former Millennium Sydney Hotel. Approximately 27% of the floor space has now been sold and the revenue and profits have been recognised within non-hotel income.

In 2006 the Group secured nine management contracts, comprising 2,007 rooms in London, Dubai, Abu Dhabi, Sharm el Sheikh and Phuket. This will bring the total number of managed and franchise rooms to 5,539. Our first hotel in China, the Millennium Hongqiao Hotel Shanghai opened in October 2006.

On 26 May 2006, the Group announced its intention to sell long leasehold interests in three of its Singapore hotels for a consideration of S$612m (£210.6m). These hotels were the Orchard Hotel (including the connected shopping centre), M Hotel and Copthorne King's Hotel. On 19 July 2006, the Group completed the sale of these three assets to CDLHT: both Orchard and M Hotels on a 75-year lease and; King's for the remaining 61 years of a 99-year leasehold interest. CDLHT has also acquired the Grand Copthorne Waterfront Hotel, a Group-managed hotel, from the Group's immediate parent company City Developments Limited for S$234.1m (£80.5m). CDLHT has, in turn, entered into an agreement on 19 July 2006 to lease all four hotels back to the Group. The Group entered into a further agreement with CDLHT to manage its assets for which it receives a management fee.

The CDLHT float completed on 19 July 2006 in tough market conditions and the Group received cash of £210.6m from the disposal of its hotels. To gain an additional platform for the Group's growth and to demonstrate its commitment to CDLHT, the Group re-invested £78.0m for a 39.1% interest in CDLHT.

PERFORMANCE BY REGION

For comparability, the following regional review is based upon calculations in constant currency whereby 31 December 2005 average room rate and RevPAR have been translated at 31 December 2006 exchange rates.

UNITED STATES

New York

RevPAR growth in New York continues to be heavily rate-driven with average rate increases of 11.7% while occupancy has grown by 2.0 percentage points. This has resulted in a RevPAR improvement of 14.4%. Gross operating profit margin has increased from 34.2% in 2005 to 37.7% in 2006.

Market demand remains high in New York and, combined with the Group's strong market position, this has allowed a continuation of the Group's aggressive rate strategy that was introduced in 2005.

The Millennium UN Plaza Hotel, in addition to good rate growth, experienced the largest occupancy increase of the Group's New York hotels and is now the strongest in terms of rooms sold. The Millennium Hotel Broadway and the Millenium Hilton Hotel which traditionally have higher occupancies used that base to drive higher average rate increases.

Regional US

Excluding the impact of the Wynfield Hotel which the Group repossessed in December 2005 and the closure of the Four Points Sunnyvale hotel at the beginning of 2006, like-for-like RevPAR increased by 10.3% to £35.92 (2005: £32.57). This was the result of a 2.0 percentage point occupancy increase and a 7.1% rate increase. The Regional US recovery continues to gain momentum, although it is not equally spread across the portfolio. All properties with one exception increased RevPAR, with particularly strong growth in our three key locations of Los Angeles, Boston and Chicago.

On an unadjusted basis, RevPAR was up 6.1% to £34.55 (2005: £32.56).

EUROPE

London

Full year RevPAR increased by 9.5% to £74.50 (2005: £68.01) driven by increases of 2.2 percentage points in occupancy and 6.8% rate.

Overall London figures were impacted by the 142 room refurbishment during the first quarter at the Millennium Gloucester Hotel. RevPAR growth for this property in the second half of the year was much stronger once the refurbished room stock was available.

Year on year growth at the Copthorne Hotel Tara has been flat. This is the result of a decision to shed two large but low yielding pieces of business to enable future higher yielding corporate business to be booked in their place. Excluding the Tara's performance, London's RevPAR growth was 14%.

Rest of Europe

RevPAR increased by 2.7% to £52.08 with occupancy up by 0.5 percentage points to 73.3%, and average rate up 2.0% to £71.05.

Regional UK

RevPAR increased 2.8% to £53.90 which was entirely driven by rate.

Growth in the UK market remains mixed with the strongest improvements coming from the Group's two Scottish hotels whilst over supply of room stock in Cardiff has had a negative impact on RevPAR in this city.

France & Germany

The Group's presence in these two countries remains limited to four hotels. RevPAR increased by 2.1% to £49.12 primarily through occupancy with a small increase in rate.

All four properties experienced positive RevPAR growth with our two German properties producing the stronger performance.

ASIA

The Group's rate-led strategy in Asia achieved an increase in average rate of 10.2% to £59.07. Occupancy increased by 2.4 percentage points resulting in RevPAR up 13.8% to £44.95.

Singapore

Singapore was the strongest market in the Group this year. On a like for like basis, with full year pro-forma figures for the Grand Copthorne Waterfront, Singapore properties have grown RevPAR by 31.5% driven by occupancy growth and strong rate increases.

Rest of Asia

Outside Singapore, overall growth has been more modest. RevPAR increased by 6.1% driven by rate increases.

All hotels improved on prior year RevPAR with the strongest growth arising in the Group's two Malaysian properties. Of the Group's larger properties, Grand Hyatt Taipei saw rate growth at the expense of occupancy whilst the Millennium Seoul Hilton showed a modest rate increase.

AUSTRALASIA

In New Zealand, where the Group operate under the Millennium, Copthorne and Kingsgate brands, RevPAR has remained flat at £27.65 with little change in occupancy or average rate.

There was modest growth in both the Millennium and Copthorne brands which was offset by a shortfall in the Kingsgate brand. The leases on two of the Kingsgate hotels were due to expire this year and sales and marketing activities were consequently scaled down. Subsequently the leases were extended by one and two years respectively. This resulted in the loss of specific seasonal business which was not readily replaceable. Also contributing to the shortfall within Kingsgate is the refurbishment of the Kingsgate Oriental Bay.

HOTELS

	Year ended 31 Dec 2006	Year ended 31 Dec 2005	Quarter ended 31 Mar 2006	Quarter ended 30 Jun 2006	Quarter ended 30 Sep 2006	Quarter ended 31 Dec 2006	Quarter ended 31 Mar 2005	Quarter ended 30 Jun 2005	Quarter ended 30 Sep 2005	Quarter ended 31 Dec 2005
Revenue (£m):										
New York	103.1	91.2	21.4	27.6	24.0	30.1	16.4	23.5	22.6	28.7
Regional US	117.0	112.8	25.5	31.8	31.6	28.1	22.0	30.1	31.6	29.1
London	84.2	78.7	18.0	21.2	21.6	23.4	18.0	20.6	18.9	21.2
Rest of Europe	96.8	97.7	23.4	24.5	22.9	26.0	22.5	25.1	22.8	27.3
Asia	175.1	151.7	40.0	41.8	43.1	50.2	33.8	38.1	37.3	42.5
Australasia	44.9	48.6	13.8	9.3	9.6	12.2	13.8	10.4	11.2	13.2
	621.1	580.7	142.1	156.2	152.8	170.0	126.5	147.8	144.4	162.0
Hotel operating profit (£m):										
New York	22.6	17.0	1.0	5.8	3.1	12.7	0.7	5.2	3.7	7.4
Regional US	9.2	5.0	(1.3)	4.2	4.5	1.8	(2.0)	2.8	3.9	0.3
London	26.3	24.6	4.3	6.6	7.5	7.9	5.1	6.6	5.5	7.4
Rest of Europe	12.3	14.1	2.2	3.8	3.1	3.2	1.7	3.9	3.1	5.4
Asia	39.6	35.0	7.8	10.5	8.5	12.8	6.4	8.8	7.5	12.3
Australasia	10.3	11.0	4.1	1.2	1.3	3.7	3.9	1.5	1.8	3.8
	120.3	106.7	18.1	32.1	28.0	42.1	15.8	28.8	25.5	36.6
Occupancy %:										
New York	86.5	84.5	80.8	90.8	87.1	87.3	77.6	88.0	85.5	87.0
Regional US	67.3	66.2	61.3	70.2	74.9	62.7	58.7	71.0	74.8	60.1
London	87.0	84.8	82.0	88.0	92.6	85.4	82.5	87.2	84.8	84.7
Rest of Europe	73.3	72.8	70.4	75.5	74.8	72.3	68.9	76.2	73.5	72.7
Asia	76.1	73.7	72.9	73.8	78.8	78.4	69.7	73.0	77.2	74.9
Australasia	69.6	69.6	81.2	61.3	62.1	73.9	82.6	59.9	62.1	73.9
	74.4	73.0	72.1	74.3	77.1	74.1	70.2	73.9	75.5	72.3
Average Room Rate (£):										
New York	143.34	129.42	127.99	142.73	136.68	164.48	102.86	123.32	131.43	156.74
Regional US	51.33	49.63	48.62	53.62	52.20	50.36	44.30	50.21	51.98	51.13
London	85.63	80.20	75.90	85.68	87.57	92.61	75.79	82.75	79.11	82.89
Rest of Europe	71.05	69.83	70.54	73.12	68.77	71.76	69.33	71.81	68.09	69.98
Asia	59.07	52.40	58.90	62.80	56.73	58.36	49.15	54.30	50.37	55.63
Australasia	39.72	43.43	44.23	36.44	36.64	40.15	43.38	42.30	43.25	44.56
	67.92	64.01	64.45	70.15	66.48	70.48	58.23	64.97	63.73	68.83
RevPAR (£):										
New York	123.99	109.36	103.42	129.60	119.05	143.59	79.82	108.52	112.37	136.36
Regional US	34.55	32.86	29.80	37.64	39.10	31.58	26.00	35.65	38.88	30.73
London	74.50	68.01	62.24	75.40	81.09	79.09	62.53	72.16	67.09	70.21
Rest of Europe	52.08	50.84	49.66	55.21	51.44	51.88	47.77	54.72	50.05	50.88
Asia	44.95	38.62	42.94	46.35	44.70	45.75	34.26	39.64	38.89	41.67
Australasia	27.65	30.23	35.91	22.34	22.75	29.67	35.83	25.34	26.86	32.93
	50.53	46.73	46.47	52.12	51.26	52.23	40.88	48.01	48.12	49.76

The table above is calculated on reported currency values.

Hotel and room count as at 31 December 2006	Hotels 2006	Hotels 2005	Hotels Change	Rooms 2006	Rooms 2005	Rooms Change
Analysed by region						
New York	**3**	3	–	**1,746**	1,742	4
Regional US	**17**	18	(1)	**6,025**	6,042	(17)
London	**7**	5	2	**2,500**	2,224	276
Rest of Europe	**17**	17	–	**3,012**	3,012	–
Middle East	**4**	4	–	**1,256**	1,249	7
Asia	14	13	1	**6,928**	6,599	329
Australasia	**32**	31	1	**3,713**	3,688	25
Total	**94**	91	3	**25,180**	24,556	624
Analysed by ownership type						
Owned and leased	**69**	68	1	**20,856**	20,340	516
Managed	**11**	9	2	**2,077**	1,961	116
Franchised	**11**	11	–	**963**	972	(9)
Investment	**3**	3	–	**1,284**	1,283	1
Total	**94**	91	3	**25,180**	24,556	624
Analysed by brand:						
Millennium	**36**	34	2	**12,631**	12,152	479
Copthorne	**30**	28	2	**5,927**	5,736	191
Kingsgate	**16**	16	–	**1,612**	1,615	(3)
Third party	**12**	13	(1)	**5,010**	5,053	(43)
Total	**94**	91	3	**25,180**	24,556	624

HOTEL ROOM COUNT AND PIPELINE

The number of hotels/rooms owned, leased, managed or franchised showed moderate growth in 2006. Although three Singapore hotels were sold to a hotel REIT, in which the Group has a 39.3% interest as at 31 December 2006, leases were retained on all of them. Allied to the REIT transaction was the leasing of the Grand Copthorne Waterfront hotel which the Group had formerly operated as a management contract. Overall the number of rooms grew by 624.

At the end of 2006, the number of rooms in the pipeline (contracts signed but hotels/rooms yet to open) was 3,895 – 127% up on 31 December 2005 and the highest ever for the Group. Whilst not all rooms in the pipeline will come on-line in 2007, the number does demonstrate success in the securing new deals. The growth shows a good increase against 2005 with 2,855 rooms signed this year and 1,839 signed in 2005. Of the 2,855 rooms signed in the year, 2,007 were managed rooms, 820 owned or leased and 28 franchised.

Pipeline as at 31 December 2006	Hotels 2006	 2005	 Change	Rooms 2006	 2005	 Change
Analysed by region						
Regional US	**1**	1	–	**250**	250	–
Rest of Europe	**3**	1	2	**460**	200	260
Middle East	**6**	2	4	**1,639**	588	1,051
Asia	**4**	2	2	**1,546**	676	870
Total	**14**	6	8	**3,895**	1,714	2,181
Analysed by ownership type						
Owned and leased	**3**	1	2	**1,070**	250	820
Managed	**10**	4	6	**2,499**	1,138	1,361
Investment	**1**	1	–	**326**	326	–
Total	**14**	6	8	**3,895**	1,714	2,181
Analysed by brand:						
Millennium	**9**	5	4	**2,905**	1,464	1,441
Copthorne	**3**	–	3	**560**	–	560
Kingsgate	**1**	–	1	**180**	–	180
Third party	**1**	1	–	**250**	250	–
Total	**14**	6	8	**3,895**	1,714	2,181

RISK FACTORS

This section describes some of the risks that could have a material effect on the Group's business activities. Not all potential risks are listed. Some risks are excluded because the Board considers them not material to the Group as a whole. Additionally, there may be risks that are not reasonably foreseeable at the date of this report for the Group to assess fully their potential impact on the business. The order in which risks are presented below is not indicative of the relative impact on the Group. The potential effect of these risks may be material to the Group's business by having an impact on revenues, profits, net assets and financial resources. Such risks also have the potential to impact on the Group's reputation. It is often difficult to assess with accuracy the likely impact of an event on a Group's reputation, as any damage may often be disproportionate to the event's actual financial impact.

Litigation

The Group may be at risk of litigation from various parties with which it interacts, either through direct contractual arrangements, the provision of services, the failure to comply with regulatory requirements or legal obligations to third parties.

Intellectual Property Rights and Brands

Future development will, in part, be dependent on the recognition of the Group's brands and perception of the values inherent in those brands. Substantial investment continues to be made in protecting the Group's brands from misuse and infringement, by way of trade mark registration and domain name protection. Consistent delivery of product quality is vitally important to influencing consumer preference and creating and maintaining value perception. Historically the Group has mainly operated properties which it owns. The increasing trend towards managing third-party properties increases the risk that product quality may not be delivered in accordance with brand standards. This may increase the risks to the reputation of the Group's brands, reduce revenues and become an inhibiting factor on ongoing development.

Management Agreements

A key focus within the Group's strategy is to increase the number of management contracts of third-party properties. In this regard, the Group faces competition from established global and regional brands within the market place. Successful execution of this strategy will depend on the Group's ability to identify suitable management opportunities, secure contracts on suitable contractual terms and ensure that contractual commitments are met and retained going forward. The Group faces the risk of slower growth in the event it is unsuccessful in penetrating this market.

Key Personnel

Execution of the Group's strategy depends on its ability to attract, develop and retain employees with the appropriate skills, experience and aptitude. Development and maintenance of a Group culture, recognition systems, compensation and benefits arrangements, training and development all play leading roles in minimising this risk.

Events That Adversely Impact Domestic or International Travel

Sustained levels of occupancy and room rates can be adversely affected by events that reduce domestic or international travel. Such events may include acts of terrorism, war or perceived increased risk of armed conflict, epidemics, natural disasters, increased cost of travel and industrial action. These events may be localised to a particular country, region or could have a wider international perspective. Reduced demand will impact on revenues and operational profitability. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises.

Information Technology Systems and Infrastructure

The Group invests in systems that are tried and tested so that as much operational resilience as possible, cost considerations permitting, can be obtained. Investment is made in robust infrastructure technology to provide a reliable operating platform. In order to maintain its competitiveness within the market place the Group may, in the future, need to make a substantial investment in new technology. Crisis management and disaster recovery plans are in place for business critical systems.

Property Ownership

The Group's strategy is to be both owner and manager of hotel properties. Growth of the Group's portfolio of owned assets is dependent on the availability of suitable development sites, acquisitions and access to funding. A limit on such opportunities may have a negative impact on future operational profitability. Property ownership requires ongoing investment in the form of preventative maintenance, refurbishment, existing and new capital expenditure and product development. There is also the possible loss of capital due to uninsured events and reductions in asset values as a result of demographic changes in the markets in which the properties are located.

Insurance
The Group maintains insurance cover appropriate to its risk profile after taking into account the level of retained risk the Board considers to be appropriate, relative to the cost of cover available in the market place. Not all risks are insured, either because the cover is not available in the market or that cover is not available on commercially viable terms. The Group is exposed to the risk of cover not being continually available. Availability may be influenced by factors outside the Group's control, which could reduce the markets' underwriting capacity, breadth of policy coverage or simply make the cost of cover too expensive. The Group could be exposed to uninsured third-party claims, loss of revenue or reduction of fixed asset values which may, in turn, have an adverse effect on Group profitability, cash flows and ability to satisfy banking covenants.

Political and Economic Developments
Major events affecting either economic or political stability on a global and regional level represent an exposure to the Group. Economic events could include recessionary pressures which would have an impact on the Group's revenues, operating costs and profitability. Political risk could include changes in the regulatory environment in which the Group's business activities operate, including restrictions on the repatriation of funds or control over the ownership of assets.

Tax and Treasury Risk
As a multinational organisation the Group's businesses operate in numerous taxation jurisdictions. Changes in tax laws in any of those jurisdictions may have adverse consequences to the Group's profits. Similarly the Group's interpretation and application of various tax laws may be challenged, with the possible result that the Group is required to pay unforeseen tax liabilities. The Group trades in numerous international currencies but reports its financial results in sterling. Fluctuations in currency exchange rates could dilute the Group's reported trading results and also the Group's net asset value. Unhedged interest rate exposures pose a risk to the Group when interest rates rise, resulting in increased costs of funding and an impact on overall financial performance.

The Hotel Industry Supply and Demand Cycle
The hotel industry operates in an inherently cyclical market place. A weakening of demand, or an increase in market room-supply, may lead to downward pressure on room rates which in turn would lead to a negative effect on operating performance. The Group has systems in place that are designed to optimise operating profits.

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The Ability to Borrow and Satisfy Debt Covenants
The Group utilises a variety of financial instruments to fund its operational cash requirements and to maintain balance sheet efficiency. The availability of funds is determined by conditions prevalent in the capital markets and perception of the Group. If the Group does not meet the financial performance expected by the market it may either not be able to secure funding or it may not secure funding on terms it finds favourable.

NON-GAAP INFORMATION

Presentation of headline operating profit

The Group presents headline operating profit, this excludes material one-off or unusual items such as profits on disposal of property, fair value adjustments to investment property and business interruption insurance proceeds. The Group believes that it is both useful and necessary to report these measures for the following reasons:

- they are measures used by the Group for internal performance analysis; and
- it is useful in connection with discussion with the investment analyst community

Reconciliation of these measures to the closest equivalent GAAP measure, operating profit/(loss) is provided on page 20.

Like-for-like growth

The Group believes that like-for-like growth which is not intended to be a substitute, or superior to, reported growth, provides useful and necessary information to investors and interested parties for the following reasons:

- it provides additional information on the underlying growth of the business without the effect of factors unrelated to the operating performance of the business; and
- it is used by the Group for internal performance analysis

Cash Flow Measures

In presenting and discussing the Group reported results, free cash flow is calculated and presented on the basis of methodologies other than in accordance with IFRS. The Group believes that it is both useful and necessary to communicate free cash flow to investors and other interested parties, for the following reasons:

- free cash flow allows the Company and external parties to evaluate the Group's liquidity and the cash generated by the Group's operations. Free cash flow does not include items determined independently of the ongoing business, such as the level of dividends, and items that are deemed discretionary, such as cash flows relating to acquisitions or financing activities. In addition, it does not necessarily reflect the amounts which the Group has an obligation to incur. However, it does reflect the cash available for such discretionary activities, to strengthen the balance sheet or to provide returns to shareholders in the form of dividends or share purchases;
- free cash flow facilitates comparability of results with other companies, although the Group's measure of free cash flow may not directly be comparable to similarly titled measures by other companies; and
- it is useful in connection with discussion with the investment analyst community.

A reconciliation of net cash inflow from operating activities, the closest equivalent GAAP measure, to free cash flow is provided on page 22.

Net debt

In presenting and discussing the Group's indebtedness and liquidity position, net debt is calculated. There is no definition of net debt within IFRS. The Group believes that it is both useful and necessary to communicate net debt to investors and other interested parties, for the following reasons:

- net debt allows the Company and external parties to evaluate the Group's overall indebtedness and liquidity position;
- net debt facilitates comparability of indebtedness and liquidity with other companies, although the Group's measure of net debt may not be directly comparable to similarly titled measures used by other companies; and
- it is used in discussions with the investment analyst community.

Other

Certain of the statements within the section titled "Risk Factors" on pages 29 and 30, contain forward-looking non-GAAP financial information which at this time cannot be quantitatively reconciled to comparable GAAP financial information.

MAJOR PROPERTIES

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
ASIA				
Hotel Nikko Hong Kong 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong	75-year term from 28.11.1984 and may be renewable for a further 75 years	2,850	463	48
JW Marriot Hotel, Hong Kong Pacific Place, 88 Queensway, Hong Kong	75-year term from 18.04.1985 and option to renew for a further 75 years	10,690	602	25
Millennium Hotel Sirih Jakarta Jalan Fachrudin 3, Jakarta 10250, Indonesia	The title is held under a Hak Guna Bangunan (i.e. Right to Build) and a 40-year lease wef 14.04.1984 and 22.01.1986 for approximate site area of 7,137 sq. metres and 212 sq. metres respectively	7,296	390	80
The Heritage Hotel Manila Roxas Boulevard at cnr of EDSA Pasay City, Metropolitan Manila, Philippines	Fee Simple	9,888	448	66
Copthorne Orchid Penang Tanjung Bungah, 11200 Penang, Malaysia	Freehold	10,329	318	100
The Regent Kuala Lumpur 160 Jalan Bukit Bintang, Kuala Lampur, Malaysia	Freehold	7,899	461	100
Grand Copthorne Waterfront Hotel Singapore*** 392 Havelock Road, Singapore	20-year lease commencing 19.07.2006, and extendable up to 75 years	10,860	539	100
M Hotel Singapore* 81 Anson Road, Singapore	Freehold reversionary interest and a 20-year lease commencing 19.07.2006 and extendable up to 75 years	2,134	413	100
Copthorne King's Hotel Singapore** 403 Havelock Road, Singapore	20-year lease commencing 19.07.2006, extendable up to 61 years	5,637	310	100
Copthorne Orchid Hotel Singapore 214 Dunearn Road, Singapore	Freehold	16,629	440	100
Orchard Hotel, Singapore* 442 Orchard Road, Singapore	Freehold reversionary interest and a 20-year lease commencing 19.07.2006 and extendable up to 75 years	8,588	653	100

* Freehold interest held. A 75-year long leasehold interest sold (19 July 2007) to CDL Hospitality Trust (CDLHT) and leased back to the Group for an initial period of 20 years (up to 75 years).

** Long leasehold interest assigned to CDLHT for 61 years and CDLHT leased back to the Group for an initial period of 20 years (up to 61 years).

*** Leasehold owned by CDLHT and let to the Group for an initial period of 20 years (up to 75 years).

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
ASIA (Continued)				
Republic Iconic Hotel Mohamed Sultan Road/Nanson Road (expected year of opening is 2008)	99-year lease commencing Feb 2007	2,932	300	100
Millennium Seoul Hilton 395 Namdaemun-ro 5-Ga, Chung-gu, Seoul, Korea	Freehold	18,760	685	100
Grand Hyatt Taipei Taipei World Trade Centre, Sung Shou Road, Taipei, Taiwan	50-year term extendable to 880-year term wef 07.03.1990	14,317	856	80
Millennium Sukhumvit Hotel, Bangkok Sukhumvit Soi 21, Asoke Road, Bangkok, Thailand (expected date of opening is December 2007)	30-year term from 02.02.2005 with option to renew for a further term of 30 years	5,053	326	50
Millennium Beijing Dongsanhuan North Road, Chaoyang District,Beijing, PRC (expected year of opening is 2008)		9,200	520	
EUROPE				
Millennium Bailey's Hotel London Kensington 140 Gloucester Road, London SW7 4QH, England	Freehold	1,932	211	100
Millennium Hotel London Mayfair Grosvenor Square, Mayfair, London W1K 2HP, England	Leasehold to year 2096	4,260	348	100
Millennium Hotel London Knightsbridge 17 Sloane Street. Knightsbridge, London SW1X 9NU, England	Leasehold to year 2091	809	222	100
Millennium Gloucester Hotel London Kensington Harrington Gardens, London SW7 4LH, England	Freehold	6,348	610	100
Millennium Hotel Glasgow George Square, Glasgow G2 1DS, Scotland	Leasehold to year 2109	9,398	117	100
Millennium Hotel Paris Opéra 12 Boulevard Haussmann, 75009 Paris, France	Freehold	1,093	163	100

MAJOR PROPERTIES

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
EUROPE (Continued)				
Millennium Hotel Paris Charles de Gaulle Zone Hoteliere, Allée du Verger, 95700 Roissy-en-France, France	Finance lease	11,657	239	100
Copthorne Hotel Hannover Würzburger Strasse 21, 30800 Hannover-Laatzen, Germany	Short lease	13,165	222	100
Millennium Hotel & Resort Stuttgart Plieninger Strasse 100, 70567 Stuttgart, Germany	Short lease	39,094	451	100
Copthorne Hotel Aberdeen 122 Huntly Street, Aberdeen, AB10 1SU, Scotland	Freehold	1,302	89	83
Copthorne Hotel Birmingham Paradise Circus, Birmingham B3 3HJ, England	Freehold	2,188	212	100
Copthorne Hotel Cardiff Caerdydd Copthorne Way, Culverhouse Cross, Cardiff CF5 6DH, Wales	Freehold	26,305	135	100
Copthorne Hotel & Resort Effingham Park London Gatwick West Park Road, Copthorne, West Sussex RH10 3EU, England	Freehold	161,878	122	100
Copthorne Hotel London Gatwick Copthorne Way, Copthorne, West Sussex RH10 3PG, England	Freehold	404,694	227	100
Copthorne Hotel Manchester Clippers Quay, Salford Quays, Manchester M50 3SN, England	Leasehold to 2135	9,800	166	100
Copthorne Hotel Merry Hill-Dudley The Waterfront, Level Street, Brierley Hill, Dudley, West Midlands DY5 1UR, England	Finance Lease	13,734	138	100

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
EUROPE (Continued)				
Copthorne Hotel Newcastle The Close, Quayside, Newcastle upon Tyne NE1 3RT, England	Freehold	9,200	156	94
Copthorne Hotel Slough Windsor Cippenham Lane, Slough, Berkshire SL1 2YE, England	Freehold	6,880	219	100
Copthorne Tara Hotel London Kensington Scarsdale Place, Kensington, London W8 5SR, England	Freehold	19,860	834	100
Copthorne Hotel Plymouth Armada Way, Plymouth PL1 1AR, England	Long leasehold	1,853	135	100
NORTH AMERICA				
Millennium Broadway Hotel New York 145 West 44th Street, New York, NY 10036-4012, USA	Freehold	2,122	750	100
Millenium Hilton Hotel New York 55 Church Street, New York, NY 10007, USA	Freehold	1,680	569	100
Millennium Alaskan Hotel Anchorage 4800 Spenard Road, Anchorage, AK 99517-3236, USA	Freehold/Leased to year 2040	20,639	248	100
Millennium Biltmore Hotel Los Angeles 506 South Grand Avenue, Los Angeles, CA 90071, USA	Freehold	11,331	683	100
Millennium Bostonian Hotel Boston 26 North Street At Faneuil Hall Marketplace, Boston, MA 02109, USA	Freehold	2,796	201	100

MAJOR PROPERTIES

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
NORTH AMERICA (Continued)				
Millennium Hotel Cincinnati 150 West Fifth Street, Cincinnati, OH 45202, USA	Freehold/Leased to year 2074	6,839	872	97
Millennium Harvest House Boulder 1345 28th Street, Boulder, CO 80302-6899, USA	Freehold	64,019	269	87
Millennium Knickerbocker Hotel Chicago 163 East Walton Place, Chicago, IL 60611, USA	Freehold	2,007	305	100
Millennium Maxwell House Nashville 2025 Metro Center Boulevard, Nashville, TN 37228, USA	Leased to year 2030	36,421	287	100
Millennium Resort Scottsdale, McCormick Ranch 7401 North Scottsdale Road, Scottsdale, AZ 85208, USA	Leased to year 2033	32,819	125	100
Millennium Hotel Minneapolis 1313 Nicollet Mall, Minneapolis, MN 55403, USA	Leased to year 2030 (with three 5-year options)	4,537	321	100
Millennium Hotel St. Louis 200 South 4th Street, St. Louis, MO 63102-1804,USA	Freehold	17,033	780	100
Millennium UN Plaza Hotel New York 1 UN Plaza, 44th Street at 1st Avenue, New York, NY 10017-3575, USA	Freehold/Leased to year 2079	4,554	427	100
Millennium Hotel Durham 2800 CampusWalk Avenue, Durham, NC 27705-4479, USA	Freehold	42,814	313	100

Hotels	Tenure	Approximate Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
NORTH AMERICA (Continued)				
Comfort Inn Vail/Beaver Creek 161 West Beaver Creek Boulevard, Avon, Co 81620-5510, USA	Freehold	11,209	146	100
Eldorado Hotel Sante Fe 309 West San Francisco Street, Sante Fe, NM 87501-2115,USA	Indirect Interest	7,349	219	20
Pine Lake Trout Club Chagrin Falls 17021 Chillicothe Road, Chagrin Falls, OH 44023-0282, USA	Freehold	331,121	6	100
Millennium Airport Hotel Buffalo 2040 Walden Avenue Buffalo, NY 14225-5186. USA	Leased to year 2012	31,726	300	100
Best Western Lakeside 7769 W Irlo Bronson Memorial Highway, Kissimmee, FL 34747-1750, USA	Freehold	93,796	651	100
Wynfield Inn Orlando Convention Centre 6263 Westwood Boulevarde, Orlando FL 32821	Freehold	29,425	299	100

MAJOR PROPERTIES

Hotels	Tenure	Right of renewal	Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
AUSTRALASIA					
Millennium Hotel Christchurch 14 Cathedral Square, Christchurch, New Zealand	Leasehold to Nov 2010	1 x 5 years	1,417	179	70
Millennium Hotel Queenstown Cnr Frankton Road & Stanley St., Queenstown, New Zealand	Freehold		7,453	220	49
Millennium Hotel Rotorua Cnr Eruera & Hinemaru Streets, Rotorua, New Zealand	Freehold/ Leasehold land	Perpetual	10,109	227	70
Copthorne Hotel Auckland Anzac Avenue 150 Anzac Avenue, Auckland, New Zealand	Leasehold land	Perpetual	2,495	110	49
Copthorne Hotel Auckland Harbour City Quay Street, Auckland, New Zealand	Leasehold to 13.01.2020		2,407	187	70
Copthorne Hotel & Resort Bay of Islands Tau Henare Drive, Paihia New Zealand	Leasehold to year 2021	1 x 30 years	62,834	145	35
Copthorne Hotel Christchurch Central 776 Colombo Street, Christchurch, New Zealand	Freehold		2,154	142	70
Copthorne Hotel Christchurch Durham Street Cnr Durham & Kilmore Streets, Christchurch, New Zealand	Leasehold to year 2015		1,734	161	49
Copthorne Hotel & Resort Queenstown Lakefront Cnr Adelaide Street & Frankton Road, Queenstown, New Zealand	Freehold		18,709	241	70
Copthorne Hotel Wellington Plimmer Towers Cnr Boulcott Street & Glimer Terrace, Wellington, New Zealand	Leasehold to year 2008	2 x 3 years	3,982	94	49

Hotels	Tenure	Right of renewal	Site Area (sq. metres)	Number of Rooms	Effective Group Interest (%)
AUSTRALASIA (Continued)					
Kingsgate Hotel Parnell, Auckland 92-102 Gladstone Road, Parnell Auckland, New Zealand	Leasehold to year 2008	2 x 5 years	7,650	114	49
Kingsgate Hotel Dunedin Upper Moray Place, Dunedin, New Zealand	Freehold		2,193	55	49
Kingsgate Hotel Greymouth 32 Mawhera Quay Greymouth, New Zealand	Freehold/ Leasehold land	Perpetual	2,807	102	70
Kingsgate Hotel Rotorua Fenton Street Rotorua, Rotorua, New Zealand	Freehold		35,935	136	49
Kingsgate Hotel Palmerston North 110 Fitzherbert Avenue Palmerston North, New Zealand	Freehold		15,514	151	49
Kingsgate Hotel Terraces, Queenstown 88 Frankton Road, Queenstown, New Zealand	Freehold		4,713	85	49
Kingsgate Hotel Te Anau 20 Lakefront Drive, Te Anau, New Zealand	Freehold		8,819	94	70
Kingsgate Hotel Oriental Bay, Wellington 73 Roxburgh Street, Wellington, New Zealand	Freehold		3,904	116	49

Investment properties	Site Area. (sq. metres)	Approximate lettable strata area (sq. metres)	Effective Group Interest (%)
Tanglin Shopping Centre, Singapore A shopping-cum-office complex situated at Tanglin Road within the Orchard Road tourist district. The Group also owns 325 car park lots.	Freehold	6,285	100
The Biltmore Court & Tower. Situated at 500/520 South Grand Avenue, Los Angeles, CA 90071. Comprising the Court which has 21,257sq m Class "B" lettable office space within the Biltmore hotel structure and the Tower which has 12,116 sq m of class "A" office space. The Tower also has 299 car park spaces.	Freehold	25,423	100

BOARD OF DIRECTORS

KWEK LENG BENG, 66#
Chairman

Kwek Leng Beng has been the Chairman of Millennium & Copthorne Hotels plc since its incorporation. He is the Executive Chairman of the Hong Leong Group of Companies Singapore, and also City Developments Limited and Hong Leong Finance Limited.

Mr Kwek's achievements have also captured the attention of the academic institutions. He was conferred:

Doctorate of Business Administration in Hospitality from Johnson & Wales University (Rhode Island, US), where students have an opportunity to pursue career education in business, hospitality, culinary arts or technology.

Honorary Doctorate (DUniv) from Oxford Brookes University (UK) where its citation traced how Mr Kwek, who joined the family business in the early 1960s, had gone on to establish an international reputation for his leadership of the Hong Leong Group, as well as an active supporter of higher education in Singapore.

His other involvement in the institutions of higher learning includes serving on the Advisory Board of the Cornell-Nanyang Institute of Hospitality Management. The Institute is a collaboration between Ivy League member Cornell University in New York City and Singapore's Nanyang Technological University. Cornell is renowned for its hotel school which is a leader in teaching, research and industry partnerships.

Mr Kwek also serves as a Member of the INSEAD East Asia Council. France-based INSEAD is one of the world's leading and largest graduate business schools which brings together people, cultures and ideas from around the world.

He is a Member of the Action Community of Entrepreneurship (ACE), which involves both the private and public sectors to create a more entrepreneurial environment in Singapore for small and medium enterprises.

Mr Kwek has distinguished himself in property investment and development, hotel ownership and management, financial services and industrial enterprises. Today, he sits on the flagship of a multi-billion empire worth over US$20 billion in diversified premium assets worldwide, with an annual turnover of US$4.55 billion and stocks traded on seven of the world's stock markets. He currently heads world-wide staff strength of over 40,000 across a range of businesses in Asia-Pacific, the Middle East, Europe and North America. This fortune is set to expand further with his recent success in collaborating with the Las Vegas Sands Corporation in the bid for Singapore's high profile Integrated Resort project at the Marina Bay.

The Hong Leong flagship of Mr Kwek is a household name in Southeast Asia. Asia Money's latest issue (September 2006), included Mr Kwek in its augural list of 100 Most Powerful and Influential People in Business and Finance throughout Asia Pacific.

WONG HONG REN, 55
Interim Group Chief Executive

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 as an Executive Director of the Company in April 2001.

KWEK LENG JOO, 53
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, 50
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, 53±*#

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, 73±*#

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.

CHRISTOPHER KELJIK OBE, 58±*#

Independent Non-Executive Director

Christopher Keljik was appointed to the Board in May 2006. After a long career with Standard Chartered plc that commenced in 1976, he retired from his position as Group Executive Director of Standard Chartered plc in May 2005. During his career with Standard Chartered, he held a number of senior positions in corporate finance, treasury and general management in the UK, USA and Asia. Immediately prior to his retirement, his responsibilities at Standard Chartered included its businesses in Africa, the Middle East, South Asia, the UK and the Americas. A Chartered Accountant, his previous responsibilities have also included risk management, audit, corporate affairs, investor relations and corporate governance. He currently holds non-executive directorships at Foreign & Colonial Investment Trust plc and Jardine Lloyd Thompson Group plc.

JOHN SCLATER CVO, 66±*#

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.

CHARLES KIRKWOOD, 71 ±#

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

The Directors present their report for the financial year ended 31 December 2006.

BUSINESS REVIEW

The Business Review incorporates sections covering financial, operating, risk factors and non-GAAP information for the year ended 31 December 2006 and is set out on pages 16 to 31.

SUBSTANTIAL SHAREHOLDINGS

As at 22 February 2007, the Company had received details of the following notifiable interests in its issued share capital:

	Number of shares	% of issue share capital
City Developments Limited	154,395,563	52.91
Prudential plc*	22,927,846	7.86
Arnhold and S Bleichroeder Advisers LLC	13,425,418	4.60

* The interests of Prudential plc include the notifiable interests of the following companies:–

M&G Group Limited	22,927,846	7.86%
M&G Limited	22,927,846	7.86%
M&G Investment Management Limited	22,899,578	7.85%
The Prudential Assurance Company Limited	22,854,691	7.83%

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.

AUDITORS

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

STATEMENT OF THE DIRECTORS AS TO DISCLOSURE OF INFORMATION TO AUDITOR

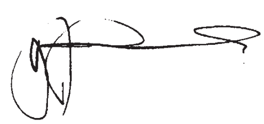
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10.00am on Thursday, 3 May 2007 at the Millennium Hotel London Mayfair. The notice to shareholders can be found at the back of this Annual Report.

At the Annual General Meeting resolutions will be proposed to approve the Directors' Remuneration Report, to renew the director's 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.

By order of the Board



Adrian Bushnell
COMPANY SECRETARY
22 February 2007

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 Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs 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 Group and Parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs 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 report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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 June 2006.

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 ten 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 one executive director. 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 judgement to the deliberations of the Board.

Director's biographies shown on pages 40 and 41 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 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 has been director of Millennium & Copthorne Hotels plc since the flotation of the Group in 1996. The Board considers that John Sclater continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect his judgement.

Wong Hong Ren and John Sclater will retire by rotation at the forthcoming Annual General Meeting, and will offer themselves for re-election. Christopher Keljik will be appointed as a director in accordance with the Company's Articles of Association at the same meeting.

On 12 January 2007 the Company announced the appointment of Peter Papas as Group Chief Executive Officer. Mr Papas will join the Board on 1 March 2007 and, in accordance with the Company's Articles of Association, will stand for election as a director at the forthcoming Annual General Meeting.

BOARD COMMITTEES

In relation to certain matters, committees have been established with specific delegated authority. The standing committees of the Board are Audit, Remuneration and Nominations. The terms of reference for these committees are available, on request, from the Company Secretary and on the Group's web site at www.millenniumhotels.com 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 auditor and to make 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 the annual work plan and being satisfied itself that the function has the proper resources to enable it to satisfactorily complete such work plans; review status reports from the 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 auditor. The Audit Committee has concluded that, in some cases, notably the provision of taxation services, the provision of non-audit services by the auditor 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 auditor and head of internal audit normally attend all committee meetings, and the Group's chief financial officer is normally invited to attend. Separate meetings are held with the external auditor 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 twice 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 would normally be invited to attend meetings, if appropriate, but would not be present when his own remuneration is discussed. The Committee takes independent advice as deemed necessary. The Directors' Remuneration Report is given on pages 50 to 56, where further details of remuneration strategy are given. The fees paid to non-executive directors are considered by the full Board, having regard to any relevant advice received.

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 what skills and expertise are 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.

CORPORATE GOVERNANCE

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.

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.

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nominations Committee Meetings
Kwek Leng Beng (Chairman)	10(10)	na	na	2(2)
The Viscount Thurso (Deputy Chairman)	10(10)	6(6)	2(2)	2(2)
Tony Potter (until his resignation on 27 October 2006)	8(8)	na	na	na
Wong Hong Ren	9(10)	na	na	na
Christopher Sneath	9(10)	6(6)	2(2)	2(2)
Kwek Leng Joo	0(10)	na	na	na
Kwek Leng Peck	2(10)	na	na	na
Sir Idris Pearce (until his resignation on 31 August 2006)	7(7)	3(4)	2(2)	na
John Sclater	9(10)	6(6)	2(2)	1(2)
Charles Kirkwood	9(10)	na	2(2)	2(2)
Christopher Keljik (appointed 4 May 2006)	5(6)	2(3)	1(1)	2(2)

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, meet annually to evaluate the effectiveness of the Chairman.

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 Group's significant Risk Factors are included in the Business Review on pages 29 and 30.

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 auditor, 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. 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 senior management. These reports are summarised and distributed to all members of the Audit Committee, the Group Chief Executive Officer, senior management of the Group's finance function, and the external auditor. They are subsequently reviewed by 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;
- 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.

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 Nominations 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 working days prior to the date of the meeting, and the Company encourages all shareholders to make positive use of the Company's Annual General Meeting for communication with the Board.

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 identifies value arising from those matters as well as opportunities to enhance value that may arise from them. The Group Risk Management Committee has identified and assessed the Company's significant short and long term risks. The Board believes it has received adequate information to ensure that the Company has effective systems in place for managing the Group's key risks. The Group's significant Risk Factors are included on pages 29 to 30.

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 consultation groups at each location and the Group believes that the dissemination of appropriate information is key to achieving success and motivation. "Global Connect" is the in-house quarterly publication about the Group, which provides communication to staff.

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 Long Term Incentive Plan in which 31 employees participate, and under the Sharesave Scheme in which 100 employees, other than directors, participate by entering into a three or five year savings contract.

CUSTOMERS AND SUPPLIERS

During the year, the Group's strategic service vision was launched on a global basis, by way of an initiative called Outstanding Service Experience ("OSE").

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 22 days' purchases (2005: 23 days). At the year end the Company had no trade creditors (2005: £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, SAFETY AND THE ENVIRONMENT

Safety and environmental management are key management responsibilities. The Group's management is responsible for ensuring that reasonable and practical steps are taken to maintain a safe and healthy environment for employees, public visitors, guests and contractors. 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 the 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 any of 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 all 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, Wong Hong Ren, in his capacity as Interim Group Chief Executive Officer, 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 community 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 £44,183 (2005: £40,975) 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 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 met twice during the 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, John Sclater, Christopher Sneath and Christopher Keljik. Sir Idris Pearce served on the Committee until his retirement on 31 August 2006. The Chairman and Group Chief Executive Officer are invited to attend meetings as appropriate but they are excluded when their own performance and remuneration is being discussed.

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided or for 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 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 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's UK pension scheme.

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 schemes as explained below. Overall, the policy of the Committee is to provide remuneration opportunities linked to the future performance of the Company.

DIRECTOR'S 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 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, a Long Term Incentive Plan ("LTIP") was introduced during the year. Awards under the LTIP will be made as an alternative to annual grants under the existing Executive Share Option Scheme.

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 the executive director's service contract:

Name	Date of contract	Notice periods/ Unexpired term	Provisions in contract for compensation on early termination
Current Director			
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
Former Director			
Tony Potter	7 September 1999 (appointed 22 October 1999, resigned 27 October 2006)	12 months' written notice to be given by either party at any time	12 months' salary and continuing benefits

OTHER BENEFITS

Other benefits comprise a motor vehicle or an appropriate allowance and insurances for life, personal accident, disability, 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.

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 letters of appointment for a term of one year commencing 4 May 2006.

Christopher Sneath and John Sclater have letters of appointment for a term of one year commencing 26 June 2006. Christopher Keljik has a letter of appointment for a term of one year commencing on 19 June 2006.

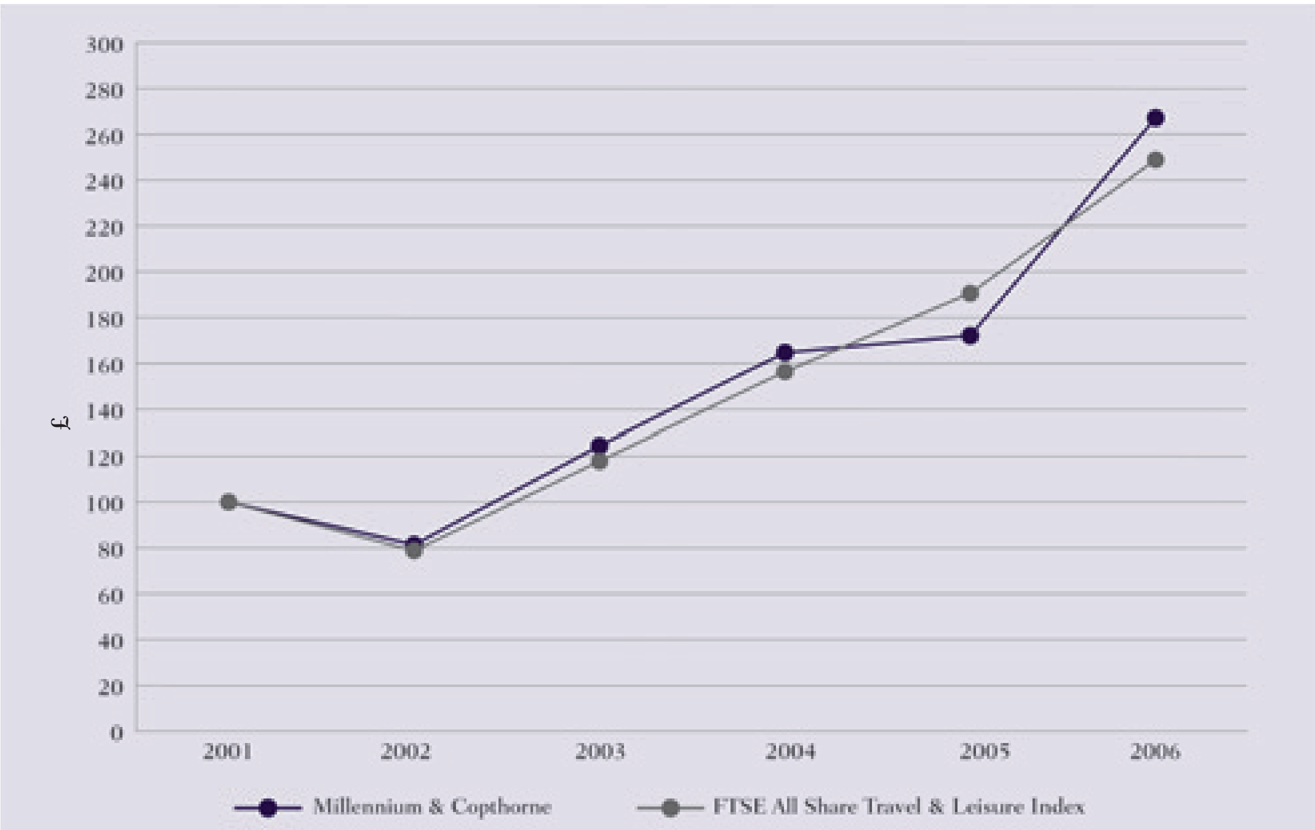
DIRECTORS' REMUNERATION REPORT

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 Travel and Leisure Index, the directors consider this 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).

TOTAL SHAREHOLDER RETURN

Source: Datastream



The graph shows the value, by the end of 2006, of £100 invested in Millennium & Copthorne Hotels plc on 31 December 2001 compared with £100 invested in the FTSE All Share Travel & Leisure 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 requires the Company'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 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. The base EPS figures for grants made in 2003, 2004 and 2005 were prepared in accordance with UK GAAP. Following the introduction of International Financial Reporting Standards (IFRS), the Committee now arranges for EPS figures prepared under IFRSs to be recalculated to a UK GAAP basis, as necessary, so that true like for like growth comparisons are made.

iii) Millennium & Copthorne Hotels Long-Term Incentive Plan

The Millennium & Copthorne Hotels Long-Term Incentive Plan (the "LTIP") was approved at the Annual General Meeting in 2006. Under the terms of the LTIP, the Company is permitted to make both Performance Share Awards and Deferred Share Bonus Awards. The level of awards made under the terms of the LTIP are determined by the Committee.

Vesting of Performance Share Awards is subject to the achievement of stretching performance targets. Consistent with the performance measures for the Company's executive share options schemes, EPS targets have been chosen so that participants are incentivised to deliver significant earnings growth which, in turn, should return substantial shareholder value.

The performance condition applying to Performance Share Awards require the Company's EPS to grow, in real terms, over a period of three consecutive financial years after award. Performance Share Awards will vest on the third anniversary of the award being made, subject to the vesting schedule shown in the table below. Awards will not be subject to re-testing.

EPS growth target	Proportion of award vesting
EPS growth of less than an average of RPI plus 5% per annum	0%
EPS growth of an average of RPI plus 5% per annum	25%
EPS growth of an average of RPI plus 5% per annum to 13.5% per annum	25% – 100% (pro-rated)
EPS growth of an average of RPI plus 13.5% per annum or more	100%

No awards of Deferred Share Bonus Awards were made during the year.

iv) Millennium & Copthorne Hotels Sharesave Scheme

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

All awards made under the Company's share schemes conform to institutional dilution guidelines.

DIRECTORS' INTERESTS IN SHARE OPTIONS

Name Of Director		Date granted	Options/ Awards held at 01/01/2006	Options/ Awards granted during the year	Options/ Awards exercised/ vested during the year	Options/ Awards held at 31/12/2006 *or date of registration if earlier*	Exercise price	Dates from which options are exercised or may vest	Expiry date
Tony Potter[3]	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]	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
	LTIP[4]	1 Sept 06	–	67,834	–	67,834	N/A	1 Sept 09	1 Sept 10

1 Performance conditions attaching to these options are those specified for the 1996 Scheme as detailed on page 52.

2 Performance conditions attaching to these options are those specified for the 2003 Scheme as detailed on page 53.

3 Share options granted to Tony Potter lapsed on date of resignation.

4 The performance conditions for the Company's Long Term Incentive Plan are as detailed on page 53.

All of the options were granted for nil consideration.
The market price of ordinary shares at 29 December 2006 was 610.5p and the range during the year was 390p to 610.5p.
Aggregate gains made by directors on exercise of share options in 2006 were £16,250.53 (2005: £40,223).

PENSIONS

Mr Tony Potter participated in a contributory defined benefit 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 were provided comprising a lump sum benefit of four times salary at date of death. The Company's pension contribution to the scheme was 20.6% of pensionable salary until April 2006 when the contribution rate reduced to 20.5% of pensionable salary. As Mr Potter entered service after 31 May 1989 the benefits provided to him by the Company's pension scheme were restricted by the operation of the earnings cap. After the introduction of provisions of the Pensions Act 2004 in April 2006, the UK defined benefit scheme retained an earnings cap which is to be increased each year in line with the retail price index. For base salary in excess of the scheme's cap, Mr Potter had the options to either receive a salary supplement equal to the Company's pension contribution rate in excess of the earnings cap or for the Company to make equivalent contributions on his behalf into the Group's UK defined contribution pension plan or a personal pension arrangement. A salary supplement of 20.6% of base salary above the earnings cap was paid during the year up until 1 April 2006 and 20.5% up until the date of his resignation on 27 October 2006. No pension is provided for Mr Wong Hong Ren.

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 2006	Accrued benefits at 1 January 2006 £000	Increase in accrued benefits (net of indexation) £000	Accrued benefits as at 31 December 2006 £000	Transfer value of increase in accrued benefits less director's contribution £000	Transfer value of accrued benefits 1 January 2006 £000	Transfer value of accrued benefits as at 31 December 2006 £000	Increase in transfer value less contributions made by director £000
Tony Potter (57)	11	2	13	15	121	171	46

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 the director's contributions.

DIRECTORS' EMOLUMENTS

	Note	Salaries and Fees 2006 £000	Bonus Payments 2006 £000	Benefits 2006 £000	Total Emoluments 2006 £000	Total Emoluments 2005 £000
Executives						
Tony Potter (Up until 27 October 2006)	1	396	–	22	418	622
Wong Hong Ren	2, 3	303	240	–	543	651
Non-executives						
Kwek Leng Beng (Chairman)	3, 4	68	–	–	68	1,868
The Viscount Thurso (Deputy Chairman)		35	–	–	35	35
Christopher Sneath		30	–	–	30	30
Kwek Leng Joo	3	38	–	–	38	37
Kwek Leng Peck	3	34	–	–	34	34
Sir Idris Pearce (Up until 31 August 2006)		23	–	–	23	30
John Sclater		35	–	–	35	35
Charles Kirkwood		30	–	–	30	30
Christopher Keljik		17	–	–	17	–
Total		1,009	240	22	1,271	3,372

The total remuneration, including gains on the exercise of share options of £nil, paid to the highest paid director, was £543,000 (2005: £1,868,000).

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 up until 1 April 2006 and 20.5% up until the date of his resignation on 27 October 2006, and is included within the relevant director's salary.
2. Salaries and fees paid to Wong Hong Ren include a fee of £35,000 (2005: £35,000) 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.

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 2006 Number of shares	31 December 2005 or date of appointment Number of shares
Executives		
Wong Hong Ren	–	–
Non-Executive		
Kwek Leng Beng (Chairman)	–	–
The Viscount Thurso (Deputy Chairman)	–	–
John Sclater (Independent director)	–	–
Christopher Sneath (Independent director)	5,000	5,000
Charles Kirkwood (Independent director)	–	–
Christopher Keljik (Independent director)	5,952	5,874
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, Christopher Keljik and Christopher Sneath are deemed to have a non-beneficial interest in 10,152 shares at the year end (2005: 10,152 shares).

The interests of the City Developments Limited nominated directors in that company and 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 2006 and the date of this report.

On behalf of the Board

The Viscount Thurso
CHAIRMAN OF THE REMUNERATION COMMITTEE
22 February 2007

SHAREHOLDER INFORMATION

Analysis of shareholders as at 31 January 2007

	Number of holders	Percentage of holders	Total number of shares held	Percentage of issued share capital
1 – 10,000	700	73.92	905,286	0.31
10,001 – 25,000	49	5.17	772,532	0.27
25,001 – 50,000	44	4.65	1,477,772	0.51
50,001 – 100,000	24	2.53	1,704,080	0.58
100,001 – 500,000	79	8.34	17,915,207	6.14
500,001 – 1,000,0000	17	1.80	13,077,274	4.48
1,000,001 – Highest	34	3.59	255,978,375	87.71
TOTALS	**947**	**100.00**	**291,830,526**	**100.00**

We are committed to providing information to our shareholders to enable them to assess our 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 in 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 together with announcements made by the Group.

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CORPORATE HEADQUARTERS

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

FINANCIAL CALENDAR

Dividend record date	23 March 2007
Annual General Meeting	3 May 2007
Final dividend payment	18 May 2007
Interim results announcement	7 August 2007
Interim dividend payable	October 2007
Third quarter's results announcement	7 November 2007

ADVISORS

Stockbrokers	Credit Suisse Securities Limited
Auditor	KPMG Audit Plc
Solicitor	Clifford Chance LLP
Principal Bankers	Royal Bank of Scotland
	HSBC
	DBS Bank
	BNP Paribas
	ING Bank N.V.
	OCBC
	Sumitomo Mitsui Banking Corporation
Registrars	Lloyds TSB Registrars

REPORT OF THE AUDITOR

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

We have audited the Group and Parent Company financial statements (the financial statements) of Millennium & Copthorne Hotels plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and 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 AUDITOR

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) 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 page 43.

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, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the financial, operating and risk factors sections of the Business Review that is cross referred from the Business Review section of the Directors' Report on page 42.

In addition we report to you if, in our opinion, 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 2003/2006 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 the 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 judgements 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group 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 2006;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
22 February 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Revenue	1	**646.3**	595.2
Cost of sales		**(277.4)**	(259.1)
GROSS PROFIT		**368.9**	336.1
Administrative expenses	2	**(261.5)**	(243.0)
Other operating income	3	**21.6**	28.3
		129.0	121.4
Share of profit of joint ventures and associates	11	**25.2**	3.5
Analysed between:			
Operating profit before other income		**13.8**	8.5
Other operating income		**17.7**	–
Interest, tax and minority interests		**(6.3)**	(5.0)
OPERATING PROFIT		**154.2**	124.9
Analysed between:			
Headline operating profit		**124.7**	108.1
Other operating income – Group		**21.6**	28.3
Other operating income – Share of joint ventures and associates		**17.7**	–
Impairment (included within administrative expenses)		**(3.5)**	(6.5)
Share of interest, tax and minority interests of joint ventures and associates		**(6.3)**	(5.0)
Finance income	5	**5.8**	6.7
Finance expense	5	**(29.8)**	(35.8)
PROFIT BEFORE TAX		**130.2**	95.8
Income tax expense	6	**(22.1)**	(26.0)
PROFIT FOR THE YEAR		**108.1**	69.8
Attributable to:			
Equity holders of the parent		**100.1**	61.1
Minority interests		**8.0**	8.7
		108.1	69.8
Basic earnings per share (pence)	7	**34.5p**	21.3p
Diluted earnings per share (pence)	7	**34.4p**	21.2p

The financial results above all derive from continuing activities.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 **£m**	2005 £m
Foreign exchange translation differences	**(84.2)**	80.7
Cash flow hedges: amounts recycled to income statement	**–**	4.0
Share of associate other reserve movements	**(2.3)**	–
Actuarial losses arising in respect of defined benefit pension plans	**(1.4)**	(2.4)
Taxation credit arising on defined benefit pension plans	**0.4**	0.6
Taxation credit arising in respect of previously revalued property	**2.2**	–
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	**(85.3)**	82.9
Profit for the year	**108.1**	69.8
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**22.8**	152.7
Attributable to:		
Equity holders of the parent	**25.1**	138.3
Minority interests	**(2.3)**	14.4
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**22.8**	152.7

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
NON-CURRENT ASSETS			
Property, plant and equipment	8	**1,612.4**	1,943.4
Lease premium prepayment	9	**74.6**	80.8
Investment properties	10	**49.6**	48.0
Investments in joint ventures and associates	11	**115.5**	29.0
Loans due from joint ventures and associates	11	**26.5**	26.3
Other financial assets	12	**3.2**	2.2
		1,881.8	2,129.7
CURRENT ASSETS			
Inventories	13	**4.6**	4.4
Development properties	14	**68.6**	48.5
Lease premium prepayment	9	**1.3**	1.0
Trade and other receivables	15	**57.8**	53.2
Other financial assets	12	**7.2**	5.9
Cash and cash equivalents	16	**162.3**	104.6
		301.8	217.6
TOTAL ASSETS		**2,183.6**	2,347.3
NON-CURRENT LIABILTIES			
Interest-bearing loans, bonds and borrowings	17	**(283.1)**	(530.1)
Employee benefits	19	**(15.0)**	(16.0)
Provisions	20	**(1.3)**	(1.6)
Other non-current liabilities	21	**(6.8)**	(6.8)
Deferred tax liabilities	22	**(224.6)**	(239.9)
		(530.8)	(794.4)
CURRENT LIABILITIES			
Interest-bearing loans, bonds and borrowings	17	**(139.6)**	(54.9)
Trade and other payables	23	**(102.6)**	(100.3)
Provisions	20	**(0.4)**	(0.4)
Income taxes payable		**(18.1)**	(19.5)
		(260.7)	(175.1)
TOTAL LIABILITIES		**(791.5)**	(969.5)
NET ASSETS		**1,392.1**	1,377.8

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
EQUITY			
Issued capital	24,26	**87.6**	86.5
Share premium	24	**848.7**	847.6
Translation reserve	24	**(37.6)**	36.3
Retained earnings	24	**370.4**	279.9
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,269.1**	1,250.3
Minority interests	25	**123.0**	127.5
TOTAL EQUITY		**1,392.1**	1,377.8

These financial statements were approved by the Board of directors on 22 February 2007 and were signed on its behalf by:

Kwek Leng Beng
CHAIRMAN

Wong Hong Ren
DIRECTOR

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £m	2005 £m
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**108.1**	69.8
Adjustments for:		
Depreciation and amortisation	**34.5**	36.4
Share of profit of joint ventures and associates	**(25.2)**	(3.5)
Impairment losses for property, plant and equipment	**3.5**	6.5
Profit on sale of property, plant and equipment	**(11.2)**	(9.6)
Revaluation of investment properties	**(4.9)**	(5.9)
Employee stock options	**0.6**	0.7
Finance income	**(5.8)**	(6.7)
Finance expense	**29.8**	35.8
Income tax expense	**22.1**	26.0
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS	**151.5**	149.5
Increase in inventories, trade and other receivables	**(5.1)**	(19.3)
Increase in development properties	**(2.5)**	(17.6)
Increase in trade and other payables	**0.9**	3.9
Decrease in provisions and employee benefits	**(0.3)**	(0.4)
CASH GENERATED FROM OPERATIONS	**144.5**	116.1
Interest paid	**(28.9)**	(35.4)
Interest received	**7.8**	6.1
Income taxes paid	**(16.3)**	(13.1)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**107.1**	73.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**210.8**	34.5
Change in financial assets	**(3.1)**	(1.8)
Proceeds from disposal of joint venture	**4.0**	6.5
Increase in investment in joint ventures and associates	**(81.3)**	-
Acquisition of property, plant and equipment	**(34.6)**	(39.2)
NET CASH FROM INVESTING ACTIVITIES	**95.8**	-
BALANCE CARRIED FORWARD	**202.9**	73.7

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £m	2005 £m
BALANCE BROUGHT FOWARD	**202.9**	73.7
CASH FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	**2.2**	2.1
Repayment of borrowings	**(205.0)**	(419.0)
Drawdown of borrowings	**79.7**	387.0
Payment of finance lease obligations	**(2.0)**	(1.8)
Loan arrangement fees	**(0.6)**	(1.4)
Dividends paid to minorities	**(2.2)**	(2.3)
Dividends paid to equity holders of the parent	**(9.1)**	(31.5)
NET CASH FROM FINANCING ACTIVITIES	**(137.0)**	(66.9)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**65.9**	6.8
Cash and cash equivalents at the beginning of year	**103.7**	89.8
Effect of exchange rate fluctuations on cash	**(8.1)**	7.1
CASH AND CASH EQUIVALENTS AT END OF YEAR	**161.5**	103.7
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents shown in the balance sheet	**162.3**	104.6
Overdraft bank accounts included in borrowings	**(0.8)**	(0.9)
CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT PURPOSES	**161.5**	103.7

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 Group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP, these are presented on pages 122 to 127.

The financial statements are presented in the Group's functional currency of sterling, rounded to the nearest hundred thousand.

The financial statements are prepared on the historical cost basis except that 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 frozen valuation as at 1 January 2004. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Group's income statement and segmental analysis separately identifies material one-off or unusual items together with the interest, tax and minority interest elements of its share of joint ventures and associates profit for the year. This is in accordance with IAS 1. 'Presentation of Financial Statements' and is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the Group. Headline operating profit may not be comparable to similarly titled measures used by other companies. Items which have been considered material one-off or unusual in nature include fair value adjustments of investment property, business interruption insurance proceeds, profit on disposal of hotel property and impairment. The directors intend to follow such presentation on a consistent basis in the future.

The preparation of the financial statements in conformity with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 31 (Accounting estimates and judgements).

(i) Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but the application of these standards has no material effect on these accounts to the Group's operations:

- IAS 21 (Amendment), Net Investment in Foreign Operations:
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste and Electronic Equipment;

ACCOUNTING POLICIES

A BASIS OF PREPARATION (CONTINUED)

(ii) Forthcoming interpretations to existing standards that are not yet effective and have not been adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not elected for early adoption:

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts; and
- IFRIC 10, Interim Financial Reporting and Impairment (once endorsed by the EU, effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial asset carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but is not expected to have any impact on the Group's accounts.

(iii) Forthcoming standards and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRS 7, Financial Instruments : Disclosures
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).

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

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

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

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis, from the date that significant influence or joint control respectively commences until the date that it ceases. When the Group's share of losses exceeds its interest in an associate or joint venture, 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 associates and jointly controlled entities 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.

ACCOUNTING POLICIES

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 equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

(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 translation reserve. They are released into the income statement upon disposal of the foreign operation.

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 recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. 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 profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. 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 entity 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.

F PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Land and buildings (other than investment properties) are stated at cost, except as allowed under IFRS 1 transition rules, 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 measured on the basis of their 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.

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 a base stock upon initial hotel opening. Subsequent renewals and replacements of such stocks are written off as incurred to the income statement.

ACCOUNTING POLICIES

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.

Impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss 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. Any increase or decrease in the fair value on annual revaluation is recognised in the income statement.

An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued, values 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.

ACCOUNTING POLICIES

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 both accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively 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.

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 credit 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 IFRSs, were recognised. The Group recognises actuarial gains and losses that arise subsequent to 1 January 2004 within the Consolidated Statement of Recognised Gains and Losses in the period in which they occur.

ACCOUNTING POLICIES

O EMPLOYEE BENEFITS (CONTINUED)

(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 credit 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 except where forfeiture is only due to share prices not achieving the threshold for vesting.

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.

Q REVENUE AND ITS RECOGNITION

Revenue comprises:

- income from the ownership and operation of hotels: recognised at the point at which the accomodation and related services are provided;
- management fees recognised in accordance with the terms of the agreement;
- 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

Dividend distribution to the shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are appropriately authorised and approved for payment and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

S SEGMENT REPORTING

The Group's primary reporting format is two business segments, hotel and property operations, with each segment representing a business unit that offers different products and 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.

ACCOUNTING POLICIES

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 IFRSs. 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. Impairment losses 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 RELATED PARTIES

For the purpose of these 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

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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.

Segment 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 2006 £m	Property operations 2006 £m	Central costs 2006 £m	Total Group 2006 £m
Revenue	**621.1**	**25.2**	**–**	**646.3**
Gross operating profit	223.8	8.8	–	232.6
Depreciation	(32.9)	–	–	(32.9)
Amortisation of lease prepayments	(1.6)	–	–	(1.6)
Other hotel fixed charges	(69.0)	–	–	(69.0)
Central costs	–	–	(18.2)	(18.2)
Share of joint ventures operating profit	13.8	–	–	13.8
Headline operating profit	**134.1**	**8.8**	**(18.2)**	**124.7**
Other operating income – Group	16.7	4.9	–	21.6
Other operating income – share of associates and joint ventures	17.7	–	–	17.7
Impairment	(3.5)	–	–	(3.5)
Share of interest, tax and minority interests of joint ventures and associates	(6.3)	–	–	(6.3)
Operating profit	**158.7**	**13.7**	**(18.2)**	**154.2**
Net finance expense				(24.0)
Profit before tax				**130.2**

	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)
Central costs	–	–	(13.8)	(13.8)
Share of joint ventures operating profit	8.5	–	–	8.5
Headline operating profit	115.2	6.7	(13.8)	108.1
Other operating income	22.4	5.9	–	28.3
Impairment	(6.5)	–	–	(6.5)
Share of interest, tax and minority interests of joint ventures and associates	(5.0)	–	–	(5.0)
Operating profit	126.1	12.6	(13.8)	124.9
Net finance expense				(29.1)
Profit before tax				95.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (CONTINUED)

Geographical segments (secondary)

	New York 2006 £m	Regional US 2006 £m	London 2006 £m	Rest of Europe 2006 £m	Asia 2006 £m	Australasia 2006 £m	Central Costs 2006 £m	Total Group 2006 £m
Revenue								
Hotel	103.1	117.0	84.2	96.8	175.1	44.9	–	621.1
Property operations	–	2.3	–	–	1.4	21.5	–	25.2
Total	103.1	119.3	84.2	96.8	176.5	66.4	–	646.3
Hotel gross operating profit	38.9	27.7	40.1	28.9	69.4	18.8	–	223.8
Hotel fixed charges	(16.3)	(18.5)	(13.8)	(16.6)	(29.8)	(8.5)	–	(103.5)
Hotel operating profit	22.6	9.2	26.3	12.3	39.6	10.3	–	120.3
Property operations operating profit	–	0.2	–	–	0.6	8.0	–	8.8
Central costs	–	–	–	–	–	–	(18.2)	(18.2)
Share of joint ventures and associates operating profit	–	–	–	–	13.8	–	–	13.8
Headline operating profit	22.6	9.4	26.3	12.3	54.0	18.3	(18.2)	124.7
Other operating income – Group	5.5	3.1	–	–	13.0	–	–	21.6
Other operating income – share of associates and joint ventures	–	–	–	–	17.7	–	–	17.7
Impairment	–	(0.6)	–	(2.9)	–	–	–	(3.5)
Share of interest, tax and minority interests of joint ventures and associates	–	–	–	–	(6.3)	–	–	(6.3)
Operating profit	28.1	11.9	26.3	9.4	78.4	18.3	(18.2)	154.2
Net financing costs								(24.0)
Profit before tax								130.2

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
Central costs	–	–	–	–	–	–	(13.8)	(13.8)
Share of joint ventures and associates operating profit	–	–	–	–	8.5	–	–	8.5
Headline operating profit	17.0	5.6	24.6	14.1	44.3	16.3	(13.8)	108.1
Other operating income – Group	12.8	5.9	–	–	–	9.6	–	28.3
Impairment	–	–	–	(6.5)	–	–	–	(6.5)
Share of interest, tax and minority interests of joint ventures and associates	–	–	–	–	(5.0)	–	–	(5.0)
Operating profit	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)

Segmental assets, liabilities and capital expenditure

	New York 2006 £m	Regional US 2006 £m	London 2006 £m	Rest of Europe 2006 £m	Asia 2006 £m	Australasia 2006 £m	Total Group 2006 £m
Hotel operating assets	292.3	235.9	452.0	216.1	468.8	97.4	1,762.5
Hotel operating liabilities	(60.1)	(64.7)	(67.0)	(36.1)	(126.8)	(11.6)	(366.3)
Investment in joint ventures	–	–	–	–	115.5	–	115.5
Loan to joint ventures	–	–	–	–	26.5	–	26.5
Total hotel operating net assets	232.2	171.2	385.0	180.0	484.0	85.8	1,538.2
Property operations assets	–	43.3	–	–	33.9	42.0	119.2
Property operations liabilities	–	(3.7)	–	–	(0.4)	(0.8)	(4.9)
Total property operations net assets	–	39.6	–	–	33.5	41.2	114.3
Net debt							(260.4)
Net assets							1,392.1
Capital expenditure							
Hotel operations	6.2	4.3	4.5	2.3	12.1	3.6	33.0
Property operations	–	–	–	–	–	–	–
	6.2	4.3	4.5	2.3	12.1	3.6	33.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING (CONTINUED)

Segmental assets, liabilities and capital expenditure (continued)

	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
Loan 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADMINISTRATIVE EXPENSES

The following items are included within administrative expenses:

(a) Audit Services

The auditor's remuneration for the year ended 31 December 2006 for the Group was £1.8m (2005: £1.8m). The audit fees payable to the Company's auditor, KPMG Audit Plc, for the Company and UK subsidiary undertakings statutory accounts were £1.1m (2005: £1.0m). The audit fee of the Company was £52,500 (2005: £50,000). The following fees for audit and non-audit services were paid or are payable to the Company's auditor, KPMG Audit Plc, for the years ended 31 December 2006 and 31 December 2005.

	2006	2005
	£m	£m
Audit Services		
– Statutory audit for these financial statements and other Group subsidiary financial statements	1.1	1.0
– Further assurance services relating to accounting advice	0.1	0.2
– Taxation services	0.6	0.6
Total	1.8	1.8

(b) Impairment	3.5	6.5
(c) Repairs and maintenance	29.2	28.8
(d) Depreciation	32.9	35.4
(e) Rentals payable under operating leases		
– Land and buildings	19.6	10.8
– Plant and machinery	4.0	3.8

Properties are annually reviewed for indications of impairment, and appropriate charges made when their value is less than the current carrying values. In 2006 the impairment related to the Millennium Hotel Stuttgart and the Wynfield Inn Orlando and in 2005 the impairment related to the Millennium Hotel Stuttgart only.

Rentals payable during 2006 under operating leases with regard to land and buildings includes rental relating to new lease arrangements entered into with CDLHT on four Singapore hotels. Details of these lease arrangements are given in note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. OTHER OPERATING INCOME

	Notes	2006 £m	2005 £m
Fair value adjustments of investment property	(a)	**4.9**	5.9
Business interruption insurance proceeds	(b)	**5.5**	12.8
Net gain on disposal of property:			
– Profit on sale and leaseback of three Singapore hotels	(c)	**10.1**	–
– Other	(c)	**1.1**	9.6
		21.6	28.3

(a) At the end of 2006, the Group's investment properties consisting of the 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 Tanglin Shopping Centre recorded an uplift in value of £2.6m (2005: £nil) and the Court & Tower recorded uplift in value of £2.3m (2005: £5.9m) which has been credited to the income statement in accordance with the Group's accounting policy.

(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 received in 2005 of US$25.0m (£12.8m) have been credited to the income statement.

On 29 November 2006, the Group entered into an agreement with its insurance advisor to resolve the legal action. Under that agreement, CDL Hotels USA Inc received a cash amount of US$17.5 million in December 2006. The parties to the agreement agreed to a full and final settlement of any and all claims the parties may have had against each other arising out of or related to the Group's 2001 US property insurance coverage. The final settlement amount, net of associated costs of US6.9m (£3.5m) resulted in a US10.6m (£5.5m) credit to the income statement in 2006.

(c) The net gains on property disposal in 2006 arise principally from the sale and leaseback of three Singapore hotels and for 2005 principally on assets in Australasia. Details of the sale and leaseback of the three Singapore hotels are given in notes 11 and 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. PERSONNEL EXPENSES

	2006 £m	2005 £m
Wages and salaries	**200.5**	188.7
Compulsory social security contributions	**27.9**	27.6
Contributions to defined contribution schemes	**3.6**	4.2
Defined benefit pension costs – recorded in the statement of recognised income and expense	**1.4**	2.4
Defined benefit pension costs – recorded in the income statement	**2.5**	2.7
	235.9	225.6

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

	2006 number	2005 number
Hotel operating staff	**10,291**	10,305
Management/administration	**1,404**	1,261
Sales and marketing	**570**	511
Repairs and maintenance	**597**	655
	12,862	12,732

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 50 to 56.

5. FINANCE INCOME AND EXPENSE

	2006 £m	2005 £m
Interest income	**5.5**	3.4
Interest receivable from joint ventures	**0.3**	0.1
Foreign exchange gain	–	3.2
Finance income	**5.8**	6.7
Interest expense	**(29.2)**	(32.6)
Foreign exchange loss	**(0.6)**	(3.2)
Finance expense	**(29.8)**	(35.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

	2006 £m	2005 £m
Current tax expense		
Current year	**18.2**	16.7
Adjustment for prior years	**(6.6)**	(8.5)
	11.6	8.2
Deferred tax expense (note 22)		
Origination and reversal of temporary differences	**0.3**	11.5
Increase/(reduction) in tax rate	**0.2**	2.5
Benefits of tax losses recognised	**9.0**	1.5
Under provision in respect of prior years	**1.0**	2.3
	10.5	17.8
Total income tax expense in income statement	**22.1**	26.0

The current tax expense adjustments for 2006 in respect of prior years of £6.6m comprise principally the release of a provision relating to New York state taxes totalling US$9.5m (£5.2m), following the conclusion of an audit by the US tax authorities for the years 1999 to 2003, and their acceptance of the basis on which individual entities have been combined for state tax filing purposes.

Income tax reconciliation

	2006 %	2006 £m	2005 %	2005 £m
Profit before tax in income statement		**130.2**		95.8
Less share of profit in joint ventures and associates		**(25.2)**		(3.5)
Profit on ordinary activities excluding share of joint ventures and associates		**105.0**		92.3
Income tax on ordinary activities at the standard rate of UK tax of 30% (2005: 30%)	**30.0**	**31.5**	30.0	27.7
Net non-taxable income	**(5.2)**	**(5.5)**	(2.9)	(2.7)
Non-utilisation of tax losses arising in the year	**0.5**	**0.5**	0.3	0.3
Utilisation of brought forward tax losses	**(0.6)**	**(0.6)**	(0.7)	(0.7)
(Higher)/lower rates on overseas earnings	**(1.2)**	**(1.2)**	1.7	1.6
Overseas tax suffered	**1.5**	**1.6**	1.6	1.5
Effect of change in tax rates on opening deferred assets	**0.3**	**0.3**	2.7	2.5
Adjustment to tax charge in respect of prior years	**(5.3)**	**(5.6)**	(6.7)	(6.2)
Unrecognised deferred tax assets	**1.1**	**1.1**	2.2	2.0
	21.1	**22.1**	28.2	26.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

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

	2006	2005
Basic		
Profit for year attributable to holders of the parent (£m)	**100.1**	61.1
Weighted average number of shares outstanding (m)	**289.9**	287.0
Basic earnings per share	**34.5p**	21.3p
Diluted		
Profit for year attributable to holders of the parent (£m)	**100.1**	61.1
Weighted average number of shares outstanding in the calculation of basic earnings per share (m)	**289.9**	287.0
Effect of share options on issue	**0.7**	0.9
Weighted average number of ordinary shares (diluted)	**290.6**	287.9
Diluted earnings per share	**34.4p**	21.2p
Headline earnings per share (pence)		
Profit for year attributable to holders of the parent (£m)	**100.1**	61.1
Adjustments for:		
Other operating income (net of tax)	**(22.4)**	(13.8)
Impairment (net of tax)	**3.3**	6.5
Share of other operating income of joint ventures and associates (nil tax)	**(17.7)**	–
Adjusted profit for the year attributable to holders of the parent (£m)	**63.3**	53.8
Weighted average number of shares outstanding (m)	**289.9**	287.0
Headline earnings per share	**21.8p**	18.7p

8. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings £m	Captial work in progress £m	Plant and machinery £m	Fixtures, fittings, equipment and vehicles £m	Total £m
Cost						
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)	–	(4.8)	(12.9)	(18.0)
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
Balance at 1 January 2006		1,857.7	5.3	88.4	187.0	2,138.4
Additions		2.8	10.6	3.7	15.9	33.0
Transfer to development properties	(b)	(20.1)	(2.3)	(0.1)	(0.8)	(23.3)
Transfer to lease premium prepayment	(c)	(17.6)	–	–	–	(17.6)
Transfers		1.2	(6.6)	3.9	1.5	–
Disposal – to CDLHT	(d)	(152.7)	–	(19.9)	(31.4)	(204.0)
– other		(0.7)	–	(1.7)	(10.3)	(12.7)
Foreign exchange adjustments		(106.8)	(1.3)	(10.0)	(15.4)	(133.5)
Balance at 31 December 2006		1,563.8	5.7	64.3	146.5	1,780.3
Depreciation						
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		–	–	(4.4)	(13.0)	(17.4)
Foreign exchange adjustments		4.3	–	0.4	11.4	16.1
Balance at 31 December 2005		70.7	–	23.3	101.0	195.0
Balance at 1 January 2006		70.7	–	23.3	101.0	195.0
Charge for the year		9.3	–	4.2	19.4	32.9
Impairments		0.6	–	–	1.8	2.4
Transfer to development properties	(b)	(0.1)	–	–	(0.6)	(0.7)
Transfer to lease premium prepayment	(c)	(14.3)	–	–	–	(14.3)
Disposal – to CDLHT	(d)	(7.8)	–	(4.8)	(5.7)	(18.3)
– other		(0.6)	–	(1.6)	(8.9)	(11.1)
Foreign exchange adjustments		(4.8)	–	(1.1)	(12.1)	(18.0)
Balance at 31 December 2006		53.0	–	20.0	94.9	167.9

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Notes	Land and buildings £m	Captial work in progress £m	Plant and machinery £m	Fixtures, fittings, equipment and vehicles £m	Total £m
Carrying amounts						
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
At 1 January 2006		1,787.0	5.3	65.1	86.0	1,943.4
At 31 December 2006		**1,510.8**	**5.7**	**44.3**	**51.6**	**1,612.4**

(a) Transfer from 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.

(b) Transfer to development properties

The transfer to development properties represents the redevelopment of Four Points Sunnyvale Hotel in California into 240 residential condominiums for sale and a 250 bedroom hotel and redevelopment of land adjoining the The Regent Kuala Lumpur hotel in Malaysia.

(c) Transfer to lease premium prepayments

The transfer to lease premium prepayments represents the recognition of initial payments made in respect of operating leased land held under short leases.

(d) Disposal to CDLHT

The disposal to CDLHT in which the Group holds a 39.3% interest as at 31 December 2006 represents the property, plant and equipment element of the sale and lease back of three Singapore hotels.

(e) Land and buildings

Land and buildings includes long leasehold building assets with a book value of £355.6 m (2005: £367.6m). It also includes assets held under finance leases with a net book value of £10.6m (2005: £11.1m) 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 £5.7m (2005: £23.1m), in respect of which depreciation of £2.3m (2005: £3.5m) was charged during the year.

No interest has been capitalised within land and buildings during the year (2005: £nil). The cumulative interest within land and buildings is £4.4m (2005: £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 and in New Zealand no tax relief is available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(f) 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 £3.5m (2005: £6.5m) has been recorded within administrative expenses in the year as shown in note 2 and comprises a £2.4m charge relating to property, plant and equipment and a £1.1m charge relating to lease premium prepayment as shown in note 9. In 2006, the impairment charge and the estimated recoverable amount was based on the hotel property's value in use, determined using discount rate of 7.8% (2005: 7.0%) in relation to the Millennium Hotel & Resort Stuttgart and 14.0% in relation to the Wynfield Inn.

9. LEASE PREMIUM PREPAYMENT

	Notes	2006 £m	2005 £m
Cost			
Balance at 1 January		**91.1**	89.6
Additions		**1.6**	–
Transfer from property, plant and equipment	(a)	**17.6**	–
Disposal – CDLHT	(b)	**(8.5)**	–
Foreign exchange adjustments		**(0.6)**	1.5
Balance at 31 December		**101.2**	91.1
Amortisation			
Balance at 1 January		**9.3**	8.1
Transfer from property, plant and equipment	(a)	**14.3**	–
Impairment	(c)	**1.1**	–
Charge for the year		**1.6**	1.0
Disposal – CDLHT	(b)	**(0.9)**	–
Foreign exchange adjustments		**(0.1)**	0.2
Balance at 31 December		**25.3**	9.3
Carrying amount		**75.9**	81.8
Analysed between:			
Amount due after more than one year included in non–current assets		**74.6**	80.8
Amount due within one year included in current assets		**1.3**	1.0

(a) Transfer from property, plant and equipment

The transfer from property, plant and equipment represents the recognition of initial payments made in respect of operating leased land held under short leases.

(b) Disposal to CDLHT

The disposal to CDLHT in which the Group holds a 39.3% interest, as at 31 December 2006, represents the lease premium element of the sale and lease back of three Singapore hotels.

(c) Impairment

Refer to note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INVESTMENT PROPERTIES

	2006 **£m**	2005 £m
Valuation		
Balance at 1 January	**48.0**	43.7
Additions	**–**	0.1
Fair value adjustment	**4.9**	5.9
Disposals	**–**	(5.7)
Foreign exchange adjustments	**(3.3)**	4.0
Balance at 31 December	**49.6**	48.0

In 2005, the Group disposed of a number of units within Tanglin Shopping Centre, Singapore. No gain or loss arose on disposal. Cash proceeds were received in prior years.

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 2006, the Group's investment properties were subject to external professional valuation on an open market existing use basis as follows:

Property	**Valuer**
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 Tanglin Shopping Centre recorded an uplift in value of £2.6m (2005: £nil) and the Biltmore Court & Tower recorded uplift in value of £2.3m (2005: £5.9m) which has been credited to the income statement in accordance with the Group's accounting policy.

Further details in respect of investment property rentals are given in note 27.

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group has the following investments in joint ventures and associates:

	Effective ownership 2006	Effective ownership 2005
Joint ventures		
New Unity Holdings Limited	**50%**	50%
Fena Estate Company	**50%**	50%

As reported last year, 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 25).

	Effective ownership 2006	Effective ownership 2005
Associates		
CDL Hospitality Trusts	**39.3%**	–

	Joint Ventures 2006 £m	Associates 2006 £m	Total 2006 £m	Joint Ventures 2005 £m	Associates 2005 £m	Total 2005 £m
Share of net assets/cost						
Balance at 1 January	**29.0**	–	**29.0**	22.6	0.4	23.0
Share of profit for the year	**4.4**	**20.8**	**25.2**	3.5	–	3.5
Additions	–	**79.0**	**79.0**	–	–	–
Foreign exchange adjustments	**(3.5)**	**(2.6)**	**(6.1)**	2.9	–	2.9
Other movements	–	**(2.3)**	**(2.3)**	–	–	–
Transfer to subsidiaries	–	–	–	–	(0.4)	(0.4)
	29.9	**94.9**	**124.8**	29.0	–	29.0
Less unrealised gain on transactions with associates (see note (a) below)	–	**(9.3)**	**(9.3)**	–	–	–
Balance at 31 December	**29.9**	**85.6**	**115.5**	29.0	–	29.0
Share of profit for the year						
Analysed between:						
Operating profit before other income	**10.8**	**3.0**	**13.8**	8.5	–	8.5
Other operating income	–	**17.7**	**17.7**	–	–	–
Interest	**(1.5)**	**0.1**	**(1.4)**	(1.3)	–	(1.3)
Tax	**(1.8)**	–	**(1.8)**	(1.4)	–	(1.4)
Minority interests	**(3.1)**	–	**(3.1)**	(2.3)	–	(2.3)
	4.4	**20.8**	**25.2**	3.5	–	3.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

	2006 £m	2005 £m
Loans due from joint ventures and associates		
Loans due from joint ventures	**26.5**	26.3
Summary information on joint ventures – 100%		
Revenue	**75.5**	66.3
Operating profit	**21.6**	17.0
Interest	**(2.9)**	(2.6)
Taxation	**(3.7)**	(2.8)
Minority interests	**(6.2)**	(4.6)
Profit for year	**8.8**	7.0
Assets		
Non–current assets	**246.0**	285.4
Current assets	**24.8**	35.5
Total assets	**270.8**	320.9
Liabilities		
Non–current liabilities	**(140.4)**	(92.7)
Current liabilities	**(18.6)**	(104.2)
Total liabilities	**(159.0)**	(196.9)
Total assets less total liabilities	**111.8**	124.0
Less minority share of net assets	**(52.0)**	(66.0)
Net assets – 100%	**59.8**	58.0
Net assets – Group 50% share	**29.9**	29.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

	2006 £m
Summary information on associates – 100%	
Revenue	9.6
Operating profit	7.7
Other operating income	45.4
Interest	0.2
Taxation	–
Minority interests	–
Profit for year	53.3
Assets	
Non–current assets	366.5
Current assets	5.3
Total assets	371.8
Liabilities	
Non–current liabilities	(91.6)
Current liabilities	(40.6)
Total liabilities	(132.2)
Total assets less total liabilities	239.6
Less minority share of net assets	–
Net assets	239.6
Net assets – 39.3% Group share before unrealised profit element	94.2
Goodwill relating to the associate	0.7
Group carrying the value before unrealised profit element	94.9

On 19 July 2006 the Group acquired a 39.1% interest in CDLHT, a hotel real estate investment trust (REIT) group. Also on that day, the Group sold long leasehold interests in three of its Singapore hotels for a consideration of S$612m to CDLHT. CDLHT also acquired the Grand Copthorne Waterfront Hotel, a Group-managed hotel, from the Group's immediate parent company City Developments Limited for S$234m.

The Group has equity accounted for this investment and the information shown above under associates represents the net assets of the CDLHT less the Group's share of unrealised gains on transactions with the REIT (see note (a)).

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

Notes

(a) In line with the Group's accounting policy, transactions with associates are eliminated to the extent of the Group's interest in the entity. The £9.3m deduction from the Group's share of the associate net assets represents the unrealised profit element from disposing the three Singapore hotels to the REIT in which the Group had a 39.1% interest (at 31 December with issue of units in partial consideration of management fees payable to the Group, the revised interest is 39.3%). Total pre-tax profit from the sale of the Group's hotels was £16.6m of which £10.1m has been recorded in the income statement under other operating income.

12. OTHER FINANCIAL ASSETS

Other financial assets included within non-current assets comprise:

	2006 £m	2005 £m
Unquoted equity investments available for sale	**3.2**	0.8
Loan notes receivable	–	1.4
	3.2	2.2

Other financial assets included within current assets comprise:

	2006 £m	2005 £m
Short term investment deposits	**7.2**	5.9

13. INVENTORIES

	2006 £m	2005 £m
Consumables	**4.6**	4.4

14. DEVELOPMENT PROPERTIES

	2006 £m	2005 £m
Development properties included above comprise		
Development land for resale	**21.3**	22.1
Development properties work in progress	**47.3**	26.4
	68.6	48.5

Transfer from property, plant and equipment

Included in development properties are transfers from property, plant and equipment representing the redevelopment of Four Points Sunnyvale Hotel in California into 240 residential condominiums for sale and a 250 bedroom hotel (£19.1m) and redevelopment of land adjoining the The Regent Kuala Lumpur hotel in Malaysia (£3.5m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Trade receivables due from joint ventures	**0.1**	–
Trade receivables	**33.9**	30.7
Other debtors	**12.4**	6.7
Prepayments and accrued income	**11.4**	11.8
Amounts receivable from hotel disposals	–	4.0
	57.8	53.2

Trade receivables are shown net of impairment amounting to £1.5m (2005: £1.6m) recognised in the current year, and arising from likely bankruptcies of customers.

16. CASH AND CASH EQUIVALENTS

	2006 £m	2005 £m
Cash at bank and in hand	**57.6**	29.9
Short term deposits	**104.7**	74.7
	162.3	104.6

17. INTEREST-BEARING LOANS, BONDS AND BORROWINGS

	2006 £m	2005 £m
Included within non-current liabilities:		
Bank loans	**104.8**	322.4
Bonds payable	**178.2**	205.4
Obligations under finance leases	**0.1**	2.3
	283.1	530.1

	2006 £m	2005 £m
Included within current liabilities:		
Bank loans and overdrafts	**85.7**	53.1
Notes payable	**41.8**	–
Bonds payable	**10.0**	–
Obligations under finance leases	**2.1**	1.8
	139.6	54.9

Further details in respect of financial liabilities are given in note 18.

18. FINANCIAL INSTRUMENTS

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 consultation with a professional credit vetting organisation. Credit granted is subject to regular review, to ensure it remains consistent with the clients' current credit worthiness 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 a fixed and floating-rate basis with a greater emphasis on floating rates presently as this flexibility is being considered to be appropriate in the context of the Group's overall geographical diversity, investment and business cycle and the stability of the income streams, cash balances and loan covenants.

Interest rate derivatives are used to manage interest rate risk, to the extent that the perceived cost is considered to outweigh the benefit obtained from the flexibility of variable rate borrowings. 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 minimised 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 is 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

18. FINANCIAL INSTRUMENTS (CONTINUED)

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 re-price.

			2006		
	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	4.94%	2.1	2.1	–	–
– US dollar	4.99%	0.8	0.8	–	–
– Korean won	3.49%	5.1	5.1	–	–
– New Taiwan dollar	0.00%	0.2	0.2	–	–
– Australian dollar	5.79%	0.7	0.7	–	–
– New Zealand dollar	6.58%	1.6	1.6	–	–
– Others	3.10%	3.2	3.2	–	–
Fixed rate:					
– Sterling	5.30%	11.0	11.0	–	–
– US dollar	4.61%	36.3	36.3	–	–
– Singapore dollar	3.03%	11.7	11.7	–	–
– New Taiwan dollar	1.26%	15.5	15.5	–	–
– Australian dollar	6.35%	47.3	47.3	–	–
– New Zealand dollar	7.61%	16.0	16.0	–	–
– Others	3.19%	8.3	8.3	–	–
Non–interest bearing:					
– US dollar	–	2.0	2.0	–	–
– Korean won	–	0.1	0.1	–	–
– Singapore dollar	–	4.8	4.8	–	–
– New Taiwan dollar	–	0.2	0.2	–	–
– Others	–	2.6	2.6	–	–
– Trade investments (US dollar)	–	3.2	–	3.2	–
– Loans to joint ventures	–	26.5	–	–	26.5
Total	–	199.2	169.5	3.2	26.5

Represented by:	
Cash and cash equivalents	162.3
Loans to joint ventures	26.5
Other financial assets (current)	7.2
Other financial assets (non–current)	3.2
	199.2

18. FINANCIAL INSTRUMENTS (CONTINUED)

2006	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	6.02%	62.5	–	36.8	25.7	–	–
– Singapore dollar	4.05%	85.7	–	48.2	–	37.5	–
– US dollar	6.03%	203.9	–	–	89.5	114.4	–
– New Zealand dollar	7.97%	16.5	–	0.6	–	15.9	–
– Malaysian ringgit	8.30%	0.1	–	0.1	–	–	–
– Korean won	5.60%	41.8	41.8	–	–	–	–
Fixed rate:							
– Singapore dollar	2.70%	10.0	10.0	–	–	–	–
Finance leases							
– Euro	2.70%	2.1	–	2.1	–	–	–
– Sterling	4.31%	0.1	–	–	–	0.1	–
Other liabilties							
Non–interest bearing:							
– US dollar	–	1.2	–	–	–	–	1.2
– Korean won	–	4.2	–	–	–	0.8	3.4
Total	–	428.1	51.8	87.8	115.2	168.7	4.6

Represented by:	
Interest–bearing loans, bonds and borrowings (non–current)	283.1
Interest–bearing loans, bonds and borrowings (current)	139.6
Other liabilities (see note 21)	5.4
	428.1

18. FINANCIAL INSTRUMENTS (CONTINUED)

			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

18. 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 liabilties							
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 21)	4.6
	589.6

18. 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.

	2006 Book value £m	**2006 Fair value £m**	2005 Book value £m	2005 Fair value £m
Financial assets				
Short-term deposits	**104.7**	**104.7**	74.7	74.7
Cash at bank and in hand	**57.6**	**57.6**	29.9	29.9
Other financial assets	**7.2**	**7.2**	5.9	5.9
Loans due from joint ventures	**26.5**	**24.8**	26.3	26.3
Equity securities	**3.2**	**3.2**	0.8	0.8
Other financial assets – loan notes	**–**	**–**	1.4	1.4
Trade and other receivables	**57.8**	**57.8**	53.2	53.2
	257.0	**255.3**	192.2	192.2
Financial liabilities				
Bank overdrafts	**(0.8)**	**(0.8)**	(0.9)	(0.9)
Short-term bank loans, bonds and notes	**(136.7)**	**(136.7)**	(52.2)	(52.2)
Long-term bank loans and bonds	**(283.0)**	**(283.0)**	(527.8)	(527.5)
Finance lease liabilities	**(2.2)**	**(2.1)**	(4.1)	(2.5)
Trade and other payables	**(102.6)**	**(102.6)**	(100.3)	(100.3)
Other non-current liabilities	**(5.4)**	**(4.4)**	(4.6)	(4.0)
	(530.7)	**(529.6)**	(689.9)	(687.4)
Total unrecognised (losses)/gains		**(0.6)**		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 by discounting 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 similar lease agreements. The estimated fair values reflect change in interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS (CONTINUED)

Estimation of fair values (continued)

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.

Other financial instruments disclosures

Gains and losses on hedges	2006 £m	2005 £m
Derivatives recognised as financial liabilities at 1 January	–	–
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 1 January	–	5.4
Gains recognised in the year recycled to income statement	–	(4.0)
Derivatives realised during the year	–	(1.4)
Hedging derivatives recognised as financial liabilities at 31 December	–	–

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.

	2006 £m	2005 £m
Expiring in one year or less	**69.2**	7.5
Expiring after more than one year but not more than two years	**61.7**	30.8
Expiring after more than two years but not more than five years	**25.5**	60.1
Hedging derivatives recognised as financial liabilities at 31 December	**156.4**	98.4

Security

Included within the Group's total bank loans and overdrafts of £190.5m (2005: £375.5m) are £145.7m (2005: £375.3m) of secured loans. Of total bonds and notes payable of £229.9m (2005: £205.4m), £41.8m (2005: £45.9m) are secured bonds.

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

19. 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.

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 2006. The contributions of the Group were 20.6% of pensionable salary until April 2006 when the contribution rate reduced to 20.5% of pensionable salary (2005: 20.6%). In addition, during the year the Group agreed an enhanced contribution to address the plan's deficit that resulted in an additional £1.1m per annum to be paid commencing April 2006. The contributions of employees were from 3% to 5% (2005: 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 discount rate and the rates of increase in salaries and pensions.

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 cost method. The most recent valuation was carried out on 31 December 2006. The contributions of the Company were 17% (2005: 13%) 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.

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 cost method. The most recent valuation was carried out on 31 December 2006. The contributions of the Company were 6% (2005: 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.

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

	2006 UK	**2006 Korea**	**2006 Taiwan**	2005 UK	2005 Korea	2005 Taiwan
Inflation rate	**3.10%**	**2.30%**	–	2.90%	3.00%	–
Discount rate	**5.23%**	**5.00%**	**2.50%**	4.80%	5.70%	3.50%
Rate of salary increase	**3.60%**	**5.00%**	**3.00%**	3.40%	5.00%	3.00%
Rate of pension increases	**3.10%**	–	–	2.90%	–	–
Annual expected return on plan assets	**6.17%**	**4.00%**	**2.50%**	5.77%	4.00%	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. The expected annual return on UK plan assets for 2006 of 6.17% has been calculated using a 6.48% return on equity (representing 75% of plan assets) and a 5.23% return on bonds (representing 25% of plan assets).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. EMPLOYEE BENEFITS (CONTINUED)

Amounts recognised in the balance sheet are as follows:

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Present value of funded obligations	**31.5**	**5.9**	**6.3**	**0.4**	**44.1**	29.5	6.2	6.5	0.4	42.6
Fair value of plan assets	**(21.3)**	**(6.3)**	**(1.5)**	**–**	**(29.1)**	(18.9)	(6.3)	(1.4)	–	(26.6)
Plan deficit/(surplus)	**10.2**	**(0.4)**	**4.8**	**0.4**	**15.0**	10.6	(0.1)	5.1	0.4	16.0

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

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Balance at 1 January	**29.5**	**6.2**	**6.5**	**0.4**	**42.6**	21.7	8.3	5.5	0.4	35.9
Current service cost	**0.5**	**1.1**	**0.3**	**–**	**1.9**	0.7	1.1	0.3	–	2.1
Interest cost	**1.4**	**0.4**	**0.2**	**–**	**2.0**	1.2	0.4	0.2	–	1.8
Benefits paid	**(0.4)**	**(2.6)**	**(0.3)**	**–**	**(3.3)**	(0.4)	(2.3)	(0.6)	–	(3.3)
Experience losses/(gains)	**0.5**	**1.1**	**0.2**	**–**	**1.8**	6.3	(2.5)	0.7	–	4.5
Foreign exchange adjustments	**–**	**(0.3)**	**(0.6)**	**–**	**(0.9)**	–	1.2	0.4	–	1.6
Balance at 31 December	**31.5**	**5.9**	**6.3**	**0.4**	**44.1**	29.5	6.2	6.5	0.4	42.6

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

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Balance at 1 January	**18.9**	**6.3**	**1.4**	**–**	**26.6**	15.4	5.5	1.7	–	22.6
Expected return on plan assets	**1.1**	**0.2**	**0.1**	**–**	**1.4**	1.0	0.2	–	–	1.2
Total contributions	**1.3**	**2.6**	**0.5**	**–**	**4.4**	0.6	2.2	0.3	–	3.1
Benefits paid	**(0.4)**	**(2.6)**	**(0.4)**	**–**	**(3.4)**	(0.4)	(2.3)	(0.6)	–	(3.3)
Experience gains/(losses)	**0.4**	**–**	**–**	**–**	**0.4**	2.3	(0.2)	–	–	2.1
Foreign exchange adjustments	**–**	**(0.2)**	**(0.1)**	**–**	**(0.3)**	–	0.9	–	–	0.9
Balance at 31 December	**21.3**	**6.3**	**1.5**	**–**	**29.1**	18.9	6.3	1.4	–	26.6
Actual return of plan assets	**1.6**	**0.2**	**–**	**–**	**1.8**	3.3	–	–	–	3.3

19. EMPLOYEE BENEFITS (CONTINUED)

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

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Equity	**16.0**	**–**	**–**	**–**	**16.0**	14.7	–	–	–	14.7
Bonds	**5.2**	**–**	**–**	**–**	**5.2**	4.2	–	–	–	4.2
Cash	**0.1**	**6.3**	**1.5**	**–**	**7.9**	–	6.3	1.4	–	7.7
	21.3	**6.3**	**1.5**	**–**	**29.1**	18.9	6.3	1.4	–	26.6

The expense recognised in the income statement is as follows:

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Current service cost	**0.5**	**1.1**	**0.3**	**–**	**1.9**	0.7	1.1	0.3	–	2.1
Interest cost on obligation	**1.4**	**0.4**	**0.2**	**–**	**2.0**	1.2	0.4	0.2	–	1.8
Expected return on plan assets	**(1.1)**	**(0.2)**	**(0.1)**	**–**	**(1.4)**	(1.0)	(0.2)	–	–	(1.2)
	0.8	**1.3**	**0.4**	**–**	**2.5**	0.9	1.3	0.5	–	2.7

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

	2006 £m	2005 £m
Cost of sales	**1.2**	1.3
Administrative expenses	**1.3**	1.4
	2.5	2.7

19. EMPLOYEE BENEFITS (CONTINUED)

The Group expects to contribute £4.8m to the plans in 2007.

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

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Actual return less expected return on plan assets	**0.5**	**–**	**(0.1)**	**–**	**0.4**	2.3	(0.2)	–	–	2.1
Experience gains/(losses) on plan liabilities	**1.6**	**(0.9)**	**–**	**–**	**0.7**	(0.5)	0.3	–	–	(0.2)
Changes in demographic and financial assumptions underlying the present value of plan liabilities	**(2.1)**	**(0.2)**	**(0.2)**	**–**	**(2.5)**	(5.8)	2.2	(0.7)	–	(4.3)
	–	**(1.1)**	**(0.3)**	**–**	**(1.4)**	(4.0)	2.3	(0.7)	–	(2.4)

Actuarial losses recognised directly in equity are as follows:

	2006 £m	2005 £m
Cumulative at 1 January	**5.7**	3.3
Actuarial losses recognised during the year	**1.5**	2.4
Cumulative at 31 December	**7.2**	5.7

The actuarial loss recognised in the statement of recognised income and expense during 2006 was £1.4m (2005: £2.4m).

The principal cause for the UK Plan actuarial loss in both 2005 and 2006 is the 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 retirement age of 65, are as follows:

	2006 Years	2005 Years
Males	**22**	20
Females	**25**	23

19. EMPLOYEE BENEFITS (CONTINUED)

Trend analysis

	2006 UK £m	2006 Korea £m	2006 Taiwan £m	2006 Other £m	2006 Total £m
Present value of funded obligations	31.5	5.9	6.3	0.4	44.1
Fair value of plan assets	(21.3)	(6.3)	(1.5)	–	(29.1)
Plan deficit/(surplus)	10.2	(0.4)	4.8	0.4	15.0
Experience gains/(losses) on plan liabilities	(0.5)	(1.1)	(0.2)	–	(1.8)
Experience gains/(losses) on plan assets	0.5	–	(0.1)	–	0.4

	2005 UK £m	2005 Korea £m	2005 Taiwan £m	2005 Other £m	2005 Total £m
Present value of funded obligations	29.5	6.2	6.5	0.4	42.6
Fair value of plan assets	(18.9)	(6.3)	(1.4)	–	(26.6)
Plan deficit/(surplus)	10.6	(0.1)	5.1	0.4	16.0
Experience gains/(losses) on plan liabilities	(6.3)	2.5	(0.7)	–	(4.5)
Experience gains/(losses) on plan assets	2.3	(0.2)	–	–	2.1

	2004 UK £m	2004 Korea £m	2004 Taiwan £m	2004 Other £m	2004 Total £m
Present value of funded obligations	21.7	8.3	5.5	0.4	35.9
Fair value of plan assets	(15.4)	(5.5)	(1.7)	–	(22.6)
Plan deficit	6.3	2.8	3.8	0.4	13.3
Experience gains/(losses) on plan liabilities	(2.3)	(1.5)	0.3	–	(3.5)
Experience gains/(losses) on plan assets	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.

The charge to the income statement in the year was £0.6m (2005: £0.6m).

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 2005 and 2006. The adoption of IFRS 2 is equity neutral for equity-settled transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (Continued)

(i) Millennium & Copthorne Hotels plc Long Term Incentive Plan

Performance Share Awards under this scheme are awarded to executive directors and senior management of the Group.

Date of Award	Awards outstanding as at 1 Jan 2006	Awards awarded during the year	Awards vested during the year	Awards forfeited during the year	Awards expired during the year	Awards outstanding as at 31 Dec 2006	Exercise Period
01.09.2006	–	266,152	–	–	–	266,152	01.09.2009– 31.08.2010

(ii) 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 2006	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 2006	Credited to share capital £'000	Credited to share premium £'000	Exercise Period
Part I										
10.03.2003	1.9350	63,822	–	23,255	1,292	–	39,275	7	38	10.03.2006 – 09.03.2013
16.03.2004	2.9167	62,049	–	10,284	1	–	51,764	3	27	16.03.2007 – 15.03.2014
24.03.2005	3.9842	52,703	–	7,529	7,529	–	37,645	2	28	24.03.2008 – 23.03.2015
Part II										
10.03.2003	1.9350	1,126,129	–	125,657	453,230	–	547,242	38	205	10.03.2006 – 09.03.2013
16.03.2004	2.9167	594,720	–	41,143	220,658	–	332,919	12	108	16.03.2007 – 15.03.2014
24.03.2005	3.9842	676,248	–	143,065	180,458	–	352,725	43	529	24.03.2008 – 23.03.2015
		2,575,671	–	350,933	863,168	–	1,361,570	105	935	

19. EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (Continued)

(iii) 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 2006	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 2006	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	–	–	–	2	28	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	–	–	–	2	28	23.10.2003 – 22.10.2010
20.03.2001	4.3500	48,272	–	41,376	6,896	–	–	13	168	20.03.2004 – 19.03.2011
15.03.2002	3.2250	26,356	–	17,829	–	–	8,527	5	52	15.03.2005 – 14.03.2012
		105,212	–	74,325	15,851	–	15,036	22	276	

								Proceeds on exercise of options during the year		
Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2006	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 2006	Credited to share capital £'000	Credited to share premium £'000	Exercise Period
Part B										
05.03.1999	4.8321	40,436	–	–	–	40,436	–	–		05.03.2002 – 04.03.2006
19.11.1999	3.9856	47,670	–	47,670	–	–	–	14	176	19.11.2002 – 18.11.2006
17.03.2000	3.3500	18,369	–	10,414	7,955	–	–	3	32	17.03.2003 – 16.03.2007
23.10.2000	3.9500	5,570	–	5,570	–	–	–	2	20	23.10.2003 – 22.10.2007
14.03.2001	4.3250	120,231	–	–	50,867	–	69,364	–	–	14.03.2004 – 13.03.2008
20.03.2001	4.3500	131,714	–	74,190	30,810	20,690	6,024	22	300	20.03.2004 – 19.03.2008
15.03.2002	3.2250	150,418	–	33,119	28,358	–	88,941	10	97	15.03.2005 – 14.03.2009
		514,408	–	170,963	117,990	61,126	164,329	51	625	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. EMPLOYEE BENEFITS (CONTINUED)

Share-based payments (Continued)

(iv) Millennium & Copthorne Hotels Sharesave Scheme and 2006 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 2006	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 2006	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
09.05.2000	3.1000	4,134	–	–	–	4,134	–	–	–	01.07.2005 – 31.12.2005
08.05.2001	3.1360	22,161	–	10,435	5,811	–	5,915	3	30	01.07.2006 – 31.12.2006
21.05.2002	2.9200	10,341	–	–	–	10,341	–	–	–	01.07.2005 – 31.12.2005
21.05.2002	2.9200	21,074	–	–	1,586	–	19,488	–	–	01.07.2007 – 31.12.2007
28.04.2003	1.5040	122,244	–	98,000	10,302	–	13,942	29	118	01.07.2006 – 31.12.2006
28.04.2003	1.5040	109,417	–	12,679	27,300	9,161	60,277	4	15	01.07.2008 – 31.12.2008
20.04.2004	2.3400	49,363	–	–	4,347	–	45,016	–	–	01.07.2007 – 31.12.2007
20.04.2004	2.3400	28,499	–	–	139	2,794	25,566	–	–	01.07.2009 – 31.12.2009
23.03.2005	3.0800	67,407	–	–	16,236	–	51,171	–	–	01.07.2008 – 31.12.2008
23.03.2005	3.0800	39,479	–	–	8,368	–	31,111	–	–	01.07.2010 – 31.12.2010
19.06.2006	3.2500	–	73,728	–	1,840	–	71,888	–	–	01.08.2009 – 31.01.2010
19.06.2006	3.2500	–	43,677	–	4,953	–	38,724	–	–	01.08.2011 – 31.01.2012
		474,119	117,405	121,114	80,882	26,430	363,098	36	163	

The weighted average share price at the date of exercise of share options in the year was £4.70 (2005: £3.86).

The options outstanding at the year end have an exercise price in the range £1.504 to £3.25 and a weighted average contractual life of 6.08 years.

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)

19. EMPLOYEE BENEFITS (CONTINUED)

Measurement of fair value (Continued)

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

2006 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 rates
LTIP (directors)	01.09.2006	67,834	4.5175	Nil	4.293	3	–	1.70%	–
LTIP (non-directors)	01.09.2006	198,318	4.5175	Nil	4.293	3	–	1.70%	–
Sharesave Scheme (3 year)	01.08.2006	73,728	4.120	3.250	1.283	3.25	24.6%	1.87%	4.74%
Sharesave Scheme (5 year)	01.08.2006	43,677	4.120	3.250	1.620	5.25	32.3%	1.87%	4.71%

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 rates
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)	23.05.2005	43,341	3.955	3.080	1.659	5.25	33.6%	1.58%	4.79%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. EMPLOYEE BENEFITS (CONTINUED)

Measurement of fair value (Continued)

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.

20. PROVISIONS

	2006	2005
	£m	£m
Balance at 1 January	**2.0**	2.4
Utilised during the year	**(0.3)**	(0.4)
Balance at 31 December	**1.7**	2.0
Analysed taken:		
Non-current	**1.3**	1.6
Current	**0.4**	0.4
	1.7	2.0

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

21. OTHER NON-CURRENT LIABILITIES

	2006	2005
	£m	£m
Deferred property taxes	**1.4**	2.2
Other liabilities	**5.4**	4.6
	6.8	6.8

22. DEFERRED TAXATION

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

	At 1 January 2006 £m	Charged/ (credited) to income statement £m	Credited to reserves £m	Other movements £m	Foreign exchange adjustments £m	**At 31 December 2006 £m**
Deferred tax liabilities						
Property assets	268.7	(3.2)	(2.2)	(3.4)	(19.6)	**240.3**
Deferred tax assets						
Tax losses	(23.0)	12.8	–	–	1.5	**(8.7)**
Employee benefits	(4.6)	–	(0.4)	–	–	**(5.0)**
Other	(1.2)	0.9	–	(2.1)	0.4	**(2.0)**
	(28.8)	13.7	(0.4)	(2.1)	1.9	**(15.7)**
Total	239.9	10.5	(2.6)	(5.5)	(17.7)	**224.6**

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.

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:

	2006 £m	2005 £m
Deductible temporary differences	**1.1**	2.0
Tax losses	**0.6**	(1.2)
	1.7	0.8
Adjustments in respect of prior year due to:		
– Deductible temporary differences	**2.0**	–
– Tax losses	**5.0**	6.5
	8.7	7.3

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.

22. DEFERRED TAXATION (CONTINUED)

The tax losses with expiry dates are as follows:

	2006 £m	2005 £m
Expiry dates		
– within 1 to 5 years	**0.3**	1.5
– after 5 years	–	2.9
– no expiry date	**29.7**	21.8
	30.0	26.2

At 31 December 2006, a deferred tax liability of £27.4m (2005: £3.1m) 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.

The principal reason for the £24.3m increase in the liability is a £23.3m impact in selling three Singapore hotels. Details of the sale are given in notes 11 and 29.

23. TRADE AND OTHER PAYABLES

	2006 £m	2005 £m
Trade creditors	**16.4**	16.1
Amount owed to parent	**1.7**	0.2
Other creditors including taxation and social security:		
– Social security and PAYE	**4.4**	4.7
– Value added tax and similar sales taxes	**9.1**	8.4
– Other creditors	**10.5**	12.4
Accruals and deferred income	**58.4**	56.3
Rental and other deposits	**2.1**	2.2
	102.6	100.3

24. RECONCILIATION OF EQUITY

	Share captial £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
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
Balance at 1 January 2006	86.5	847.6	36.3	–	279.9	1,250.3
Total recognised income and expense	–	–	(73.9)	–	99.0	25.1
Dividends (*see below*)	–	–	–	–	(22.3)	(22.3)
Issue of shares in lieu of dividends	0.9	(0.9)	–	–	13.2	13.2
Share options exercised	0.2	2.0	–	–	–	2.2
Equity settled transactions	–	–	–	–	0.6	0.6
Balance at 31 December 2006	87.6	848.7	(37.6)	–	370.4	1,269.1

	2006 pence	2005 pence	**2006 £m**	2005 £m
Final ordinary dividend paid	**5.62**	4.17	**16.2**	11.9
Final special dividend paid	–	6.25	–	17.9
Interim dividend paid	**2.08**	2.08	**6.1**	5.9
	7.70	12.50	**22.3**	35.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. RECONCILIATION OF EQUITY (CONTINUED)

After the balance sheet date, the directors proposed the following final ordinary dividend, which has not been provided for:

	2006 pence	2005 pence	2006 £m	2005 £m
Final ordinary dividend proposed	**6.42**	5.62	**18.7**	16.2
Final special dividend proposed	**4.00**	–	**11.7**	–

In respect of dividends paid in 2006 totalling £22.3m (2005: £35.7m), the Group offered shareholders the option of a scrip dividend. This resulted in dividend cash payments in 2006 of £9.1m (2005: £31.5m). The balance of £13.2m (2005: £4.2m) 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.

25. MINORITY INTERESTS

	2006 £m	2005 £m
Balance at 1 January	**127.5**	114.8
Total recognised income and expense	**(2.3)**	14.4
Dividends paid	**(2.2)**	(2.3)
Transfer from share of associates	–	0.6
Balance at 31 December	**123.0**	127.5

26. SHARE CAPITAL

	Number of 30p shares authorised	Number of 30p shares allotted, called up and fully paid
Balance at 1 January 2006	1,000,000,000	288,176,088
Issue of ordinary shares on exercise of share options	–	717,335
Issue of ordinary shares in lieu of dividends	–	2,937,103
Balance at 31 December 2006	1,000,000,000	291,830,526

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 2,170,185 ordinary shares had been issued. Share options are exercisable between now and 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 325p on expiry of the savings contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL COMMITMENTS

	2006 £m	2005 £m
(a) Capital commitments at the end of the financial year for which no provision has been made:		
Contracted	**12.9**	6.4
(b) Total commitments under non-cancellable operating lease rentals are payable as follows:		
– less than one year	**30.4**	16.9
– between one and five years	**104.7**	60.5
– more than five years	**320.2**	162.1
	455.3	239.5

(c) The Group leases out its property under operating leases. The future minimum lease Payments under non-cancellable leases are as follows:

	2006 £m	2005 £m
Leases expiring in		
– less than one year	**6.8**	5.5
– between one and five years	**14.1**	8.7
– more than five years	**11.7**	4.9
	32.6	19.1

During the year ended 31 December 2006, £3.4m was recognised as rental income in the income statement (2005: £3.7m) and £0.3m in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property (2005: £0.6m)

28. CONTINGENCIES AND SUBSEQUENT EVENTS

(a) 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.

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

29. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 30), joint ventures and associates (see note 11) and with its directors and executive officers.

Transactions with ultimate holding company, related subsidiaries and associates

The Group also has a related party relationship with certain subsidiaries of Hong Leong Investment Holding 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 2006 the Group had the following transactions with those subsidiaries as noted below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTIES (CONTINUED)

Transactions with ultimate holding company, related subsidiaries and associates (continued)

City Developments Limited and City e-Solutions Limited recharge, on an arm's length basis, certain expenses borne on behalf of the Group. The net amount recharged during the year was £nil (2005: £1.8m). The amount outstanding at 31 December 2006 is £nil (2005: £nil).

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary undertaking of the Group, on normal commercial terms. Interest income of £nil (2005: £nil) was received during the year. As at 31 December 2006 £5.6m (2005: £4.6m) of cash was deposited with Hong Leong Finance Limited.

Richfield Hospitality Inc (formerly 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 £0.3m (2005: £1.6m) was charged by Swan Inc during the year and, at 31 December 2006, £nil (2005: £0.2m) was due to Swan Inc.

During 2006 Hong Leong Management Services Pte Ltd charged £0.5m for providing advice to the Group on CDL Hospitality Trusts matters and a further £0.3m for general legal advice. At 31 December 2006 £0.8m was owing by the Group.

As described in the business review on page 24 of the annual report, on 26 May 2006, the Group announced its intention to sell long leasehold interests in three of its Singapore hotels for a consideration of S$612m (£210.6m) to CDLHT. These hotels were the Orchard Hotel (including the connected shopping centre), M Hotel and Copthorne King's Hotel. On 19 July 2006, the Group completed the sale of these three assets to CDLHT: both Orchard and M Hotels on a 75-year lease and King's for the remaining 61 years of a 99-year leasehold interest. CDLHT has also acquired the Grand Copthorne Waterfront Hotel, a Group-managed hotel, from the Group's immediate parent company City Developments Limited for S$234.1m (£80.5m). CDLHT has, in turn, entered into an agreement on 19 July 2006 to lease all four hotels back to the Group. The Group entered into a further agreement (Management Agreement) with CDLHT to manage its assets for which it receives a management fee.

The CDLHT float completed on 19 July 2006 the Group received cash of £210.6m from the disposal of its hotels. To gain an additional platform for the Group's growth and to demonstrate its commitment to CDLHT, the Group re-invested £78.0m on the same day for a 39.1% interest in CDLHT. The Group acted as sponsor for the CDLHT flotation. The 39.1% stake has been treated as an associate and equity accounted for. In accordance with the Management Agreement, the Group acts as H-REIT Manager and HBT Trustee-Manager with the fees of both having a performance-based element. The H-REIT manager is entitled to receive a base fee of 0.25% per annum of the value of the H-REIT Deposited Property as well as additional performance fee of 5.0% per annum of H-REIT's Net Property Income in the relevant financial year. 80% of the H-REIT Manager's fees will be paid in stapled securities for the first five years. For the period 19 July 2006 to 31 December 2006 the 80% element of the fees paid in stapled securities totalled S$3.1m (£1.0m) and issue thereof raised the Group's stake to 39.3%. The 20% fee balance payable in cash of S$0.8m (£0.3m) is outstanding at 31 December 2006.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 0.0038 per cent of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to 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 executive officers 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.

29. RELATED PARTIES (CONTINUED)

Transactions with key management personnel (Continued)

Executive officers also participate in the Group's share option programme (note 19).

The key management personnel compensations are as follows:

	2006 £m	2005 £m
Short-term employee benefits	**2.8**	4.7
Other long-term benefits	**0.1**	0.1
Termination payments	–	0.1
Share-based payment	**0.7**	0.6
	3.6	5.5

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

	2006 £m	2005 £m
Directors*	**1.7**	3.8
Executives	**1.9**	1.7
	3.6	5.5

* The directors' remuneration reported in the "Directors' Remuneration Report" (see pages 50 to 56) focuses, so far as concerns pension benefits, on changes in accrued benefits rather than the profit and loss charge for individuals. In context of this analysis, the amount above reflects benefits paid.

30. SIGNIFICANT INVESTMENTS

The companies listed below are those which were part of the Group at 31 December 2006 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
Anchorage-Lakefront Limited Partnership	100%	USA	Hotel owner and operator
Bostonian Hotel Limited Partnership	100%	USA	Hotel owner and operator
CDL (New York) LLC	100%	USA	Hotel owner
CDL Hotels (Chelsea) Limited	100%	England and Wales	Hotel owner and operator
CDL Hotels (Korea) Ltd	100%	Korea	Hotel owner and operator
CDL Hotels (Malaysia) Sdn. Bhd	100%	Malaysia	Hotel owner and operator
CDL Hotels (UK) Limited	100%	England and Wales	Hotel owner and operator
CDL Hotels USA Inc	100%	USA	Hotel investment holding company
CDL Investments New Zealand Limited	45%	New Zealand	Investment and property/ management company

30. SIGNIFICANT INVESTMENTS (CONTINUED)

	Effective Group interest	Country of incorporation	Principal Activity
CDL West 45th Street LLC	100%	USA	Hotel owner
Chicago Hotel Holdings, Inc	100%	USA	Hotel owner and operator
City Hotels Pte. Ltd	100%	Singapore	Hotel owner and operator
Copthorne Hotel (Birmingham) 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 (Newcastle) 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 investment holding company
Copthorne Hotel Holdings Limited	100%	England and Wales	Hotel investment holding company
Copthorne Orchid Hotel Singapore Pte. Ltd	100%	Singapore	Hotel owner and operator
Gateway Regal Holdings LLC	100%	USA	Hotel owner and operator
Grand Plaza Hotel Corporation	66%	Philippines	Hotel owner and operator and investment holding company
Harbour View Hotel Pte. Ltd	100%	Singapore	Hotel owner
Hong Leong Development Limited	80%	Taiwan	Hotel owner and operator
Hong Leong Hotels Pte Ltd.	100%	Cayman Islands	Hotel owner and operator
Hospitality Group Limited	49%	New Zealand	Hotel investment holding company
Kingsgate Hotel Pty. Ltd.	43%	Australia	Property owner
Kings Tanglin Shopping Pte. Ltd.	100%	Singapore	Property owner
London Britannia Hotel Limited	100%	England and Wales	Hotel owner and operator
London Tara Hotel Limited	100%	England and Wales	Hotel owner and operator
M&C Crescent Interests, LLC	100%	USA	Property owner
M&C Hotels France SAS	100%	France	Hotel owner
Millennium & Copthorne Hotels New Zealand Limited	100%		Hotel investment holding company
Millennium & Copthorne International Limited	100%	Singapore	Hotels and resorts management
RHM-88, LLC	100%	USA	Hotel owner and operator
WHB Biltmore LLC	100%	USA	Hotel owner and operator
Joint ventures			
New Unity Holdings Limited	50%	British Virgin Islands	Investment holding company
Associates			
CDL Hospitality Trusts*	39%	Singapore	Real Estate Investment Trust

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%.

*Initially a 39.1% interest which increased to 39.3% at 31 December 2006 as a result of the Group receiving newly issued units in the Trust as partial consideration of management fees payable.

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

31. ACCOUNTING ESTIMATES AND JUDGMENTS

Management discussed, with the Audit Committee, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The preparation of financial statements under IFRSs requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 judgements 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 valuations 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 19, the calculation of the present value of the Group's defined benefit obligations at each period end 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.

KEY OPERATING STATISTICS

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 Reported currency	2005 Constant currency*	2005 Reported currency
Occupancy %			
New York	**86.5**		84.5
Regional US	**67.3**		66.2
TOTAL US	**71.7**		70.4
London	**87.0**		84.8
Rest of Europe	**73.3**		72.8
TOTAL EUROPE	**79.4**		78.1
Asia	**76.1**		73.7
Australasia	**69.6**		69.6
TOTAL GROUP	**74.4**		73.0
Average Room Rate (£)			
New York	**143.34**	128.28	129.42
Regional US	**51.33**	49.19	49.63
TOTAL US	**76.98**	70.90	71.53
London	**85.63**	80.20	80.20
Rest of Europe	**71.05**	69.67	69.83
TOTAL EUROPE	**78.14**	74.74	74.82
Asia	**59.07**	53.58	52.40
Australasia	**39.72**	39.81	43.43
TOTAL GROUP	**67.92**	63.59	64.01
Rev PAR (£)			
New York	**123.99**	108.40	109.36
Regional US	**34.55**	32.56	32.86
TOTAL US	**55.19**	49.91	50.36
London	**74.50**	68.01	68.01
Rest of Europe	**52.08**	50.72	50.84
TOTAL EUROPE	**62.04**	58.37	58.43
Asia	**44.95**	39.49	38.62
Australasia	**27.65**	27.71	30.23
TOTAL GROUP	**50.53**	46.42	46.73
Gross Operating Profit Margin (%)			
New York	**37.7**		34.2
Regional US	**23.7**		20.8
TOTAL US	**30.3**		26.8
London	**47.6**		48.4
Rest of Europe	**29.9**		31.8
TOTAL EUROPE	**38.1**		39.2
Asia	**39.6**		36.7
Australasia	**41.9**		42.0
TOTAL GROUP	**36.0**		34.4

* For comparability the 31 December 2005 Average Room Rate and RevPAR have been translated at 31 December 2006 exchange rates.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Investments	(D)	**1,523.3**	1,402.0
Current assets			
Amounts owed by subsidiary undertakings falling due within one year		**15.4**	13.0
Corporation tax		**0.4**	–
Other debtors		**0.2**	–
Cash at bank and in hand		**14.2**	0.7
		30.2	13.7
Creditors: amounts falling due within one year	(E)	**(106.7)**	(4.9)
Net current (liabilities)/assets		**(76.5)**	8.8
Creditors: amounts falling due after more than one year	(F)	**(442.5)**	(409.8)
Net assets		**1,004.3**	1,001.0
Capital and reserves			
Called up share capital	(G), (H)	**87.6**	86.5
Share premium account	(H)	**848.7**	847.6
Profit and loss account	(H)	**68.0**	66.9
Equity shareholders' funds	(H)	**1,004.3**	1,001.0

These financial statements were approved by the Board of directors on 22 February 2007 and were signed on its behalf by:

Kwek Leng Beng
CHAIRMAN

Wong Hong Ren
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 the 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 dealt with in the accounts of Millennium & Copthorne Hotels plc, determined in accordance with the Act was £10.7m (2005: £21.6m).

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 cash flow statement of Millennium & Copthorne Hotels plc.

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 income statement as they arise at each period end.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(A) ACCOUNTING POLICIES (CONTINUED)

Share based payment

FRS 20 requires that the fair value of share options granted to employees be recognised as an expense with a corresponding increase in equity. However, during the current and prior year, the Company had no employees and only issued share options to employees of its operating subsidiaries. Consequently, no profit and loss change has been recorded in the current or prior year.

Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are appropriately authorised and approved for payment and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the financial statements.

(B) DIRECTORS' REMUNERATION AND EMPLOYEES

Details of directors' remuneration in the current and prior year is given on pages 50 to 56 of the Directors' remuneration report.

The Company had no employees.

Details of share options issued by the Company are given in note 19 to the consolidated financial statements and note (G).

The Company is a member 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 19 to the consolidated financial statements.

(C) DIVIDENDS

Details of dividends paid and proposed in the current and prior year are given in note 24 to the Group 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 2006	1,096.0	306.0	1,402.0
Additions	48.8	90.8	139.6
Foreign exchange adjustments	(18.3)	–	(18.3)
At 31 December 2006	1,126.5	396.8	1,523.3

There were no provisions made against investments in subsidiary undertakings.

The Company's subsidiary undertakings at 31 December 2006 are listed below. All of the subsidiary undertakings have coterminous year ends.

Subsidiary name	Effective Interest	Country of incorporation	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

	2006 £m	2005 £m
Bank loans	**84.9**	–
Bonds payable	**10.0**	–
Amounts owed to parent and fellow subsidiary undertakings	**7.1**	0.8
Corporation tax	–	1.5
Other creditors	**0.4**	0.4
Accruals and deferred income	**4.3**	2.2
	106.7	4.9

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

	2006	2005
	£m	£m
Bank loans	–	205.5
Bonds payable	**177.8**	159.8
Amounts owed to parent and fellow subsidiary undertakings	**264.7**	44.5
	442.5	409.8

Bank loans and bonds are repayable as follows:

	2006	2005
	£m	£m
Between one and two years	**25.9**	194.2
Between two and five years	**151.9**	171.1
	177.8	365.3

(G) SHARE CAPITAL

	Number of 30p shares authorised	Number of 30p shares allotted, called up and fully paid
Balance at 1 January 2006	1,000,000,000	288,176,088
Issue of ordinary shares on exercise of share options	–	717,335
Issue of ordinary shares in lieu of dividends	–	2,937,103
Balance at 31 December 2006	1,000,000,000	291,830,526

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 2,170,185 ordinary shares had been issued. Share options are exercisable between now and 24 March 2015 at between 150p and 483p.

During the year Millennium & Copthorne Hotels plc issued invitations to UK employees under the 2006 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 325p 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 2006 £m**	Total 2005 £m
Balance at 1 January	86.5	847.6	66.9	**1,001.0**	1,008.8
Profit for the financial year	–	–	10.7	**10.7**	21.6
Dividends	–	–	(22.3)	**(22.3)**	(35.7)
Issue of shares in lieu of dividends	0.9	(0.9)	13.2	**13.2**	4.2
Share options exercised	0.2	2.0	–	**2.2**	2.1
Foreign exchange adjustments	–	–	(0.5)	**(0.5)**	–
Balance at 31 December	87.6	848.7	68.0	**1,004.3**	1,001.0

(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 no provision has 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. Limited 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.

GROUP FINANCIAL RECORD

	2006 £m	2005 £m	2004 £m	UK GAAP – not restated under IFRS 2003 £m	2002 £m
INCOME STATEMENT					
Revenue	**646.3**	595.2	551.0	523.1	567.5
Group operating profit	**129.0**	121.4	125.0	54.8	96.3
Share of profit of joint ventures and associates	**25.2**	3.5	1.7	7.0	12.6
Net financing costs	**(24.0)**	(29.1)	(35.7)	(43.1)	(48.7)
Income tax expense	**(22.1)**	(26.0)	(31.4)	(1.9)	(14.4)
Profit for period	**108.1**	69.8	59.6	16.8	45.8
CASH FLOW					
Cash generated from operations	**144.5**	116.1	122.8	93.1	122.2

BALANCE SHEET

	2006 £m	2005 £m	2004 £m	2003 £m	UK GAAP – not restated under IFRS 2002 £m
Property, plant, equipment and lease premium prepayment	**1,687.0**	2,024.2	1,898.7	2,011.4	2,096.1
Investment properties	**49.6**	48.0	43.7	90.3	89.3
Investments and loans in joint ventures and associates	**142.0**	55.3	45.3	78.3	104.1
Other financial assets	**3.2**	2.2	2.8	2.8	2.3
Non-current assets	**1,881.8**	2,129.7	1,990.5	2,182.8	2,291.8
Current assets excluding cash	**139.5**	113.0	105.6	79.4	91.3
Borrowings net of cash	**(260.4)**	(480.4)	(483.0)	(685.3)	(675.5)
Deferred tax liabilities	**(224.6)**	(239.9)	(208.1)	(196.9)	(46.4)
Provisions and other liabilities	**(144.2)**	(144.6)	(144.0)	(125.3)	(194.9)
NET ASSETS	**1,392.1**	1,377.8	1,261.0	1,254.7	1,466.3
Share capital and share premium	**936.3**	934.1	932.0	930.6	930.4
Reserves	**332.8**	316.2	214.2	206.9	420.5
Total equity attributable to equity holders	**1,269.1**	1,250.3	1,146.2	1,137.5	1,350.9
Minority interests	**123.0**	127.5	114.8	117.2	115.4
TOTAL EQUITY	**1,392.1**	1,377.8	1,261.0	1,254.7	1,466.3

GROUP FINANCIAL RECORD

KEY OPERATING STATISTICS

				UK GAAP – not restated under IFRS	
	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Gearing %	**21%**	38%	42%	53%	50%
Earnings per share (pence)	**34.5p**	21.3p	17.9p	3.9p	13.4p
Dividends per share (pence)	**7.70p**	12.50p	4.13p	6.25p	12.50p
Gross operating profit margin (%)	**36.0%**	34.4%	33.6%	32.1%	35.1%
Occupancy (%)	**74.4%**	73.0%	71.8%	65.1%	67.2%
Average room rate (£)	**£67.92**	£64.01	£60.59	£61.60	£65.73
RevPAR (£)	**£50.53**	£46.73	£43.50	£40.10	£44.17

It is not possible to show comparative results for a full 5 years because IFRSs accounting policies only came into existence from 1 January 2004, the effective date of transition to IFRSs. Details of previously reported figures are given in note 33 to the 2005 consolidated financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2007 Annual General Meeting of Millennium & Copthorne Hotels plc will be held at the Millennium Hotel London Mayfair, Grosvenor Square, London W1K 2HP on 3 May 2007 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 approve the directors' report for the year ended 31 December 2006.

2 To approve the Accounts for the year ended 31 December 2006 together with the auditors' report on those Accounts.

3 To declare a final dividend for the year ended 31 December 2006 of 10.42p per share to be paid on 18 May 2007 to shareholders on the register at close of business on 23 March 2007.

4 To appoint Christopher Keljik as a director in accordance with the Company's Articles of Association.

5 To appoint Peter Papadimitropoulos as a director in accordance with the Company's Articles of Association.

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

7 To re-appoint John Sclater retiring by rotation as a director in accordance with the Company's Articles of Association.

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, at a remuneration to be determined by the directors.

SPECIAL BUSINESS

To consider and, if thought fit, pass resolutions 9 to 12 as ordinary resolutions and resolutions 13 and 14 as special resolutions.

ORDINARY RESOLUTIONS

9 THAT the Directors' Remuneration Report for the year ended 31 December 2006, as set out on pages 50 to 56 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 2008.

NOTICE OF ANNUAL GENERAL MEETING

11 THAT the Company be authorised for the purposes of Companies Act 1985 Part XA to make donations to European Union (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 2008.

(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 2008 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 £29,183,052 (approximately 97,276,842 ordinary shares) being 33⅓% of the ordinary share capital of 30p each in issue on 22 February 2007.

SPECIAL RESOLUTIONS

13 **Disapplication of pre-emption right**s

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 £4,377,458 approximately 14,591,526 ordinary shares) being 5% of the ordinary share capital in issue on 22 February 2007.

NOTICE OF ANNUAL GENERAL MEETING

14 **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 29,183,053 (representing 10% of the ordinary share capital in issue on 22 February 2007);

(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 2008 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
23 March 2007

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 14. 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 1 May 2007, 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 1 May 2007 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 in the top right-hand corner of 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 1 May 2007. 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 1 May 2007. 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 3 May 2007 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 Uncertificated Securities Regulations 2001.

MILLENNIUM & COPTHORNE HOTELS WORLDWIDE

Millennium & Copthorne Hotels plc operates in major gateway cities in 17 countries with a portfolio of 108 hotels.

THE AMERICAS

United States

Comfort Inn Vail/Beaver Creek
El Dorado, Santa Fé
Millenium Hilton Hotel New York
Millennium Biltmore Hotel Los Angeles
Millennium Bostonian Hotel Boston
Millennium Alaskan Hotel Anchorage
Millennium Harvest House Boulder
Millennium Airport Hotel Buffalo
Millennium Hotel Cincinnati
Millennium Hotel Durham
Millennium Hotel Minneapolis
Millennium Hotel New York Broadway
Millennium UN Plaza Hotel New York
Millennium Hotel St. Louis
Millennium Knickerbocker Hotel Chicago
Millennium Maxwell House Nashville
Millennium Resort Scottsdale McCormick Ranch
Sunnyvale*
Pine Lake Trout Club, Chagrin Falls
Wynfield Inn Orlando Convention Center
Best Western Lakeside

EUROPE AND MIDDLE EAST

France

Millennium Hotel Paris Charles de Gaulle
Millennium Hotel Paris Opéra

Germany

Copthorne Hotel Hannover
Millennium Hotel & Resort Stuttgart

UK

Copthorne Hotel Aberdeen
Copthorne Hotel Birmingham
Copthorne Hotel Cardiff Caerdydd
Copthorne Hotel Doncaster*
Copthorne Hotel London Gatwick
Copthorne Hotel & Resort Effingham Park London Gatwick
Copthorne Hotel Manchester
Copthorne Hotel Merry Hill Dudley
Copthorne Hotel Newcastle
Copthorne Hotel Plymouth
Copthorne Hotel Sheffield*
Copthorne Hotel Slough Windsor
Copthorne Hotel Reading
Copthorne Hotel at Chelsea Football Club
Copthorne Tara Hotel London Kensington
Millennium Bailey's Hotel London Kensington
Millennium Gloucester Hotel London Kensington
Millennium Hotel Glasgow
Millennium Hotel London Knightsbridge
Millennium Hotel London Mayfair
Millennium Hotel at Chelsea Football Club
Millennium Madejski Hotel Reading
Millennium Hotel Southampton Ocean Village*

Egypt

The Coral Beach Diving Hotel
Millennium Hotel & Resort Montazah, Sharm el Sheikh*
Millennium Oy Oun Hotel, Sharm el Sheikh*

Qatar

Millennium Hotel Doha*

United Arab Emirates

Millennium Airport Hotel Dubai
Millennium Hotel Hotel Abu Dhabi
Millennium Hotel Sharjah
Millennium Executive Suites*
Kingsgate Abu Dhabi*
Millennium Towers Dubai Hotel and Apartments*

MILLENNIUM & COPTHORNE HOTELS WORLDWIDE

ASIA

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

AUSTRALASIA

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

* Not open

CORPORATE OFFICES

EUROPE

Millennium & Copthorne Hotels plc
Corporate Headquarters
Scarsdale Place
Kensington
London, W8 5SR
UK

Tel	00 [44] (0) 20 7872 2444
Fax	00 [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	00 [1] 212 789 0700
Fax	00 [1] 212 789 7660
Email	mhrmarketing@mhrmail.com

ASIA

Millennium & Copthorne International Ltd
390 Havelock Road
#02-01 King's Centre
Singapore 169622

Tel	00 [65] 6737 1928
Fax	00 [65] 6735 8924
Email	sales@millenniumhotels.com.sg

AUSTRALASIA

Millennium & Copthorne Hotels New Zealand Limited
Level 13, 280 Centre
280 Queen Street
Auckland 1
New Zealand

Tel	00 [64] (9) 309 4411
Fax	00 [64] (9) 309 3244
Email	sales.marketing@millenniumhotels.co.nz

GLOBAL SALES OFFICES

EUROPE

Germany	00 [49] (0) 6151 905 710
France	00 [33] (1) 4949 1659

THE AMERICAS

US	00 [1] (866) 866 8086
New York	00 [1] (212) 789 0700

ASIA

Hong Kong	00 [852] 2921 8328
Japan	00 [81] (3) 3509 7021
Singapore	00 [65] 6737 1928
Taipei	00 [886] (2) 2729 0580
Beijing	00 [86] (10) 8450 6883

AUSTRALASIA

Sydney	00 [61] (2) 9358 5080

INTERNATIONAL RESERVATIONS NUMBERS

EUROPE AND MIDDLE EAST

Please dial the following toll free number: 0800 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
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 Paulo	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
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 1 65 15 05

AUSTRALASIA

Australia	1 800 124 420
New Zealand	0800 808 228

For further information
Please visit our website 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.

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

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Epigram