Millennium & Copthorne Hotels plc Annual report and accounts 2012

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MILLENNIUM & COPTHORNE
HOTELS plc

Introduction

Our vision is to be the leading global hospitality real estate ownership group for gateway cities and emerging markets with effective, in-built and unique asset management skills.

Who we are

We are a global hospitality management and real estate group, currently serving customers at 110 hotels in over 60 attractive business and leisure destinations in Asia, Australasia, Europe, the Middle East and North America.

Our strategy

Our strategy and mission is to create value by improving hotel profitability through capital investment, consistent service delivery, lean operations and a motivated workforce.

How we make money

We earn profits through the efficient operation of our hotels and effective management of our substantial property portfolio.

In each of our distinctive brand offerings (Page 6), we aim to provide guests with consistently high levels of service at well-appointed and conveniently located hotels and hospitality outlets.

We build and generate underlying long-term value through dynamic management of our property asset portfolio (Page 22).

Lean operations and low central costs are our business hallmarks. Combined with our clearly articulated strategy and distinctive business model (Page 12), this enables us to deliver good annual returns to shareholders.

Cover photo: Suite at ONE UN New York

How we performed in 2012

"The Group overcame more challenging conditions in some markets during the second half of 2012 to deliver an overall increase in like-for-like revenues and profits for the year. This illustrates the earnings benefit of a balanced portfolio of assets in good locations, as well as our ability to respond effectively to changes in the economic climate, whilst continuing to control costs, invest in our assets and improve our attractiveness to customers."

Kwek Leng Beng, Chairman

RevPAR

+3.9%

2012: £67.32 2011: £64.81

Average room rate

+3.9%

2012: £95.08 2011: £91.48

Occupancy

+0

2012: 70.8% 2011: 70.8%

Revenue (Like-for-like)[1]

+1.1%

2012: £762.0m 2011: 753.8m

Hotel gross operating profit (reported)

£288.6m

Margin 2012: 38.5% 2011: 38.7%

Headline operating profit (Like-for-like)[1]

+6.6%

2012: £158.9m 2011: £149.0m

Net cash/(debt)

+£152.4m

2012: £52.2m 2011: (£100.2m)

Dividend per share

13.59p

2012: 13.59p 2011: 16.50p

[1] Like-for-like in constant currency terms.

RevPAR up 3.9% primarily because of higher average room rate – good performance in Singapore, Rest of Asia and London.

Revenue was up 1.1% on like-for-like, constant currency basis at £762.0m (2011: £753.8m). Reported revenue down 6.4% at £768.3m (2011: £820.5m). Like-for-like in constant currency excludes Kingsgate Hotel Parnell Auckland (lease expired in July 2012), Millennium Hotel & Resort Stuttgart (lease expired in August 2011), KL land sale (in August 2011), the three Christchurch hotels (closed in February 2011 due to earthquake damage) and Copthorne Orchid in Singapore (closed in April 2011 for development into condominiums).

Like-for-like headline operating profit in constant currency terms increased by 6.6% to £158.9m (2011: £149.0m). Reported headline operating profit down 14.7% to £163.3m (2011: £191.4m).

Asset management programme expanded from four projects (ONE UN, Grand Hyatt Taipei, London Millennium Mayfair and Millennium Seoul Hilton) to include further refurbishment at Orchard Singapore, Millennium Minneapolis, further upgrades at ONE UN and Millennium Seoul Hilton and other upgrades across the portfolio. Major works undertaken successfully at Millennium Seoul Hilton, ONE UN and Orchard Singapore. Projects commenced at Grand Hyatt Taipei and Millennium Minneapolis. Capital spending on the asset management programme is estimated at £240m.

Strong cash flow from operating activities enabled us to turn cash-positive in 2012, ending the year with zero gearing.

Final dividend of 11.51p, giving a total for the year of 13.59p (2011: 12.5p plus a special dividend of 4.0p) per share.

A global hospitality company

We operate 110 hotels in 20 countries, offering over 11 million accommodation nights to our guests every year. Our properties are located in some of the most valuable tourist and business destinations in the world, from New York and Chicago, to London and Paris, to Beijing, Hong Kong and Singapore.

Asia

With 23 hotels providing over 9,500 rooms, our Asian properties make up over 40% of our business. We are present in nine major Asian cities, including the great trading centres of Singapore and Hong Kong, and the capital cities of China, Indonesia, Malaysia, Philippines, Taiwan and Thailand.

3.5 million

Available room nights

1

2

Europe

Our European operations have 23 hotels with over 5,000 rooms in the UK, France and Germany, representing just under a quarter of the Group's business. London is our most important European city, where we operate 7 hotels in the prestigious West End locations of Mayfair, Knightsbridge, Chelsea and Kensington. We operate an additional 14 hotels under management contracts in the Middle East.

3.4 million

Available room nights

3

4

1 We offer almost a million room nights per year to Singapore's growing number of overseas visitors.

2 Grand Copthorne Waterfront Hotel Singapore – within easy reach of the Central Business District and many of Singapore's lively waterfront dining and entertainment venues.

3 London: our most important gateway city in Europe, offering over 900,000 room nights per year.

4 Millennium Hotel London Mayfair: our flagship hotel in the UK capital.

5 New York: Our third major gateway city, offering over 600,000 room nights per year.

6 Designed by renowned architects Rissman and Hirschfield and built in 1927, the historic Millennium Knickerbocker Hotel Chicago is a city landmark and the ultimate in comfort.

7 Copthorne Hotel Wellington Oriental Bay overlooks the bay in New Zealand's capital.

8 Millennium Hotel Queenstown a four-star plus hotel that captures the essence of a truly inspiring region.

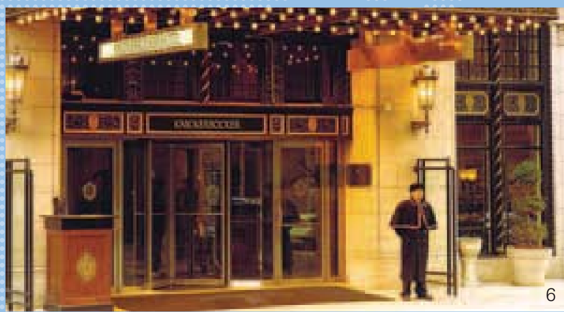
United States

New York is our third major gateway city in addition to Singapore and London, with 3 hotels on Manhattan Island. We have a further 16 hotels in other parts of the USA, including major centres such as Los Angeles, Chicago, Boston and Minneapolis, with a total national room count of over 7,000 rooms. The USA represents more than a quarter of our business.

2.6 million

Available room nights


5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Australasia

Australasia is our smallest region, making up less than 10% of the business and comprising 31 hotels providing over 4,600 rooms. Our hotels are situated in New Zealand, where we are present in all of the major cities on both islands. The majority of our properties are leisure destinations.

1.7 million

Available room nights


7


8

A valuable asset portfolio

We own most of our hotels. Many rank amongst the most iconic buildings in the world, such as Millennium Biltmore Hotel Los Angeles – original location for Hollywood's Oscars – and Millennium Bailey's Hotel – one of the oldest hotels in London. Recent additions include Grand Millennium Beijing, one of the city's most popular business hotels.

1 ONE UN New York: superb views of the New York skyline complement the luxurious comfort of our recently refurbished west wing.

2 Millennium Paris Opera: A magnificent Parisian townhouse situated in the heart of one of the key business districts in the French capital.

3 Completed in 1876, Millennium Bailey's Hotel is one of the earliest hotels to be built in central London. Established by Sir James Bailey, it retains old world charm in a modern bustling setting.

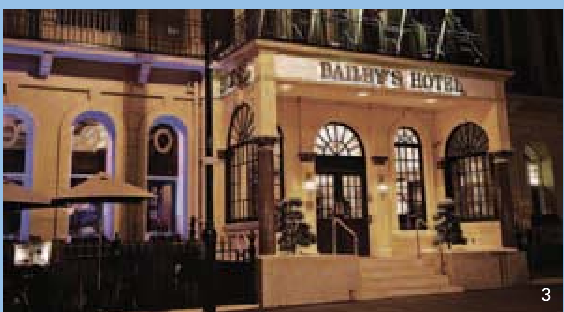
4 Grand Millennium Beijing: Consistently voted one of the best business hotels in Beijing, the hotel boasts 508 rooms and excellent facilities in the central business district.

5 The famous Crystal Room at the Millennium Biltmore Hotel – historic grandeur and modern luxury in the heart of downtown Los Angeles.

6 Copthorne Hotel and Resort Bay of Islands is set in some of New Zealand's most spectacular subtropical scenery, within the Waitangi National Trust Reserve.


1


2



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Distinctive brands

Our umbrella brand, Millennium Hotels and Resorts, offers impeccable customer service and great value. From the distinctive style and elegance of our finest Grand Millennium properties to the functional convenience of a Copthorne hotel, we always honour our promise of a great and memorable stay in a great location.

Grand Millennium

GRAND MILLENNIUM HOTELS

We have 5 Grand Millennium hotels, offering over 2,400 rooms and suites in Asia and the Middle East. Grand Millennium provides iconic five star accommodation and service to the world's most discerning business and leisure travellers.

Millennium

MILLENNIUM HOTELS AND RESORTS

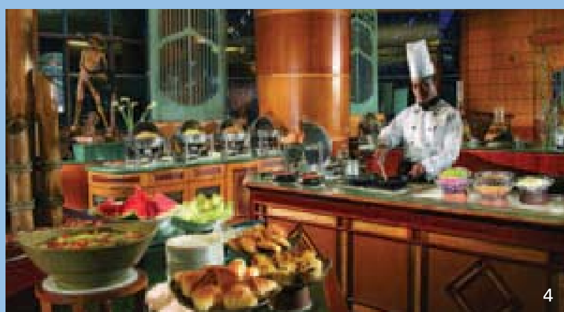
Millennium hotels are a by-word for four/five star luxury. We have 42 Millennium hotels, with over 14,000 rooms in over 30 cities and leisure destinations worldwide: from the Millennium Biltmore, voted 2012's Best Hotel in Los Angeles by LA Downtown News to the Millennium Hotel Wuxi, voted Best Hotel Near Shanghai by Time Out Magazine.

1 A warm welcome at the Grand Millennium Al Wahda in United Arab Emirates.

2 Grand Millennium Sukhumvit Bangkok was named Thailand's Leading Business Hotel in the 2012 World Travel Awards.

3 Millennium Hotel London Knightsbridge is situated in the heart of the UK capital's premier shopping district.

4 One of our excellent chefs prepares breakfast at the Millennium Hotel Sirih Jakarta.



Consolidated hotel and room count analysed by brand (at 31 December 2012)

	2012	2011	Change
Hotels			
Grand Millennium	**5**	5	–
Millennium	**42**	39	3
Copthorne	**32**	31	1
Kingsgate	**13**	14	(1)
Other M&C	**5**	5	–
Third Party	**13**	14	(1)
Total Group	**110**	108	2

	2012	2011	Change
Room count			
Grand Millennium	**2,488**	2,479	9
Millennium	**14,373**	13,756	617
Copthorne	**6,577**	6,403	174
Kingsgate	**1,326**	1,436	(110)
Other M&C	**1,885**	1,885	–
Third Party	**4,290**	5,073	(783)
Total Group	**30,939**	31,032	(93)

Copthorne

Copthorne Hotels are midscale properties in major regional business centres or resort locations in Asia, Europe, the Middle East and New Zealand. At 31 December 2012, we operated 32 Copthorne hotels worldwide, with over 6,500 rooms. Copthorne hotels are typically simple, functional and convenient, offering great value in superb locations.

Kingsgate

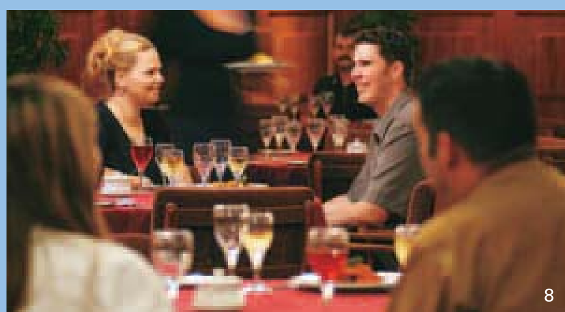
Kingsgate Hotels is one of New Zealand's major leisure hotel brands with properties in all major cities across both islands. We operate 13 Kingsgate hotels, with over 1,300 rooms. In May 2006 the first Kingsgate hotel in the United Arab Emirates was announced. Kingsgate is mainly a brand for the leisure traveller, with hotels situated in outstanding locations.

5 The city skyline provides a striking backdrop for diners at the Copthorne Hotel Dubai.

6 Welcoming a new guest at the Copthorne Orchid Hotel Penang in Malaysia.

7 Working out at the gym at Kingsgate Hotel Wellington.

8 Enjoying an evening with friends at the Kingsgate Hotel Hamilton.



Chairman's statement

The Group increased revenue per available room (RevPAR), kept firm control of costs and strengthened its financial position in 2012. Revenue and headline pre-tax profit increased on a like-for-like, constant currency basis, and our hotels achieved good operating profit margins.

Our asset management programme is building momentum and laying a strong foundation for future growth, supported by further strengthening of the management team.

Our operating strategy was consistent with previous years, with sales teams focused on achieving an optimal balance between occupancy and average room rate across the estate. Management continued to achieve good levels of profitability despite a more challenging trading environment in the second half of 2012, with some regions seeing signs of economic uncertainty affecting personal and corporate hospitality budgets. Our consolidated hotel gross operating profit margin for the year was 38.5% (2011: 38.7%).

RevPAR in constant currency terms increased by 3.4% to £67.32 (2011: £65.11) because of higher average room rates. Singapore and London both breached the annual £100 RevPAR barrier for the first time, achieving £101.14 (2011: £96.42) and £105.91 (2011: £97.92) respectively, whilst Rest of Asia delivered the strongest RevPAR growth over the year, increasing by 8.5% to £62.57 (2011: £57.69). New York RevPAR, excluding the impact of our ONE UN refurbishment, increased 2.2% to £137.56 (2011: £134.61). Including ONE UN New York RevPAR fell by 3.2%. Regional US RevPAR was up 3.1% at £39.49 (2011: £38.30). Australasia RevPAR declined by 8.7%, affected by the strengthening of the New Zealand dollar and reflecting the absence of 2011's successful Rugby World Cup tournament. Rest of Europe increased by a marginal 0.2%, mainly as a result of a flat UK economy outside of London.

Financial Performance

For the year ended 31 December 2012 like-for-like revenue increased 1.1% to £762.0m (2011: £753.8m). Headline operating profit, reflecting the trading performance of our hotels, was up 6.6% in constant currency and like-for-like at £158.9m (2011: £149.0m).

A number of factors affected year-on-year comparisons. These include:

- Closure of the Copthorne Orchid on 1 April 2011, prior to its demolition and redevelopment of the site into a condominium complex;
- Closure of the three Christchurch hotels in February 2011 following the New Zealand earthquake;
- Expiry of the lease in Stuttgart in August 2011;
- Expiry of the Kingsgate Parnell lease in Auckland in July 2012; and
- Sale of land adjacent to the Grand Millennium Kuala Lumpur ('KL') in August 2011.

Including the above factors, headline operating profit decreased by 14.7% to £163.3m (2011: £191.4m). Consequently, basic earnings per share decreased by 17.6% to 42.0p (2011: 51.0p).

Financial Position

The Group strengthened its financial position over the year. Net debt at 31 December 2011 of £100.2m reversed to a net cash position of £52.2m at 31 December 2012. At 31 December 2012, the Group had cash reserves of £396.7m (including £26.1m relating to The Glyndebourne) and £258.2m undrawn committed bank facilities. Most of the facilities are unsecured with unencumbered assets representing 87.3% of our fixed assets and investment properties.

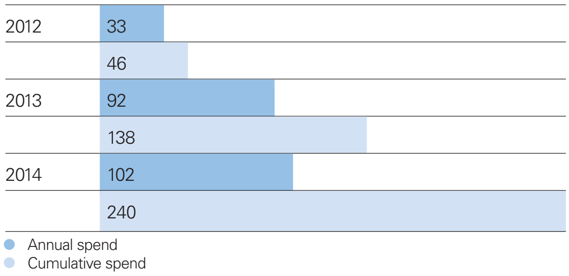
Dividend

The Board is recommending a final dividend of 11.51p (2011: 10.42p plus a special dividend of 4.0p) per share. Together with the interim dividend of 2.08p (2011: 2.08p) per share, the total dividend is 13.59p (2011: 16.5p) per share. No scrip dividend will be payable.

Asset Management

The Group considers that in the current hotel trading environment, it is vital to invest in our asset portfolio in order to enhance trading performance especially in our main gateway city properties. We had already announced in 2010 our plan to upgrade and enhance returns from four of our most important hotels – ONE UN (then the Millennium UN Plaza), Millennium London Mayfair, Grand Hyatt Taipei and Millennium Seoul Hilton. During 2012 we expanded the programme with additional projects, including Millennium Minneapolis, Orchard Hotel Singapore and further upgrades of ONE UN and Millennium Seoul Hilton. By the end of 2012 significant projects had been undertaken at Orchard Hotel Singapore, Millennium Seoul Hilton and ONE UN, with additional work commenced at Grand Hyatt Taipei and Millennnium Minneapolis. Results from those hotels where we have completed significant renovations have been in line with our expectations for higher room rates and RevPAR. This supports our original strategic vision for asset management and we therefore have no intention to dispose of key assets,

CAPEX on asset management 2012 – 2014 (£m)



especially in gateway cities. The Group will also continue to upgrade and improve its regional properties, particularly in the US and the UK. Capital budgeting for this programme stands at £240m of investment capital of which approximately £46m had been invested by 31 December 2012. Timing of this investment, beyond what has already commenced (see below), is dependent on planning and other consents.

We closed 461 rooms in the west wing of the Grand Hyatt Taipei during the third quarter of 2012, in order to commence a major upgrading of the hotel. Being our largest hotel in Asia, this has had an impact on revenue from the region in the second half of 2012. The current stage of the refurbishment is scheduled to complete during the second quarter, after which we will refurbish the east wing containing 392 rooms. The Board anticipates a strong performance from this hotel once all work is fully completed in 2014.

Construction of our new hotel in Tokyo's Ginza district is expected to commence according to plan and is scheduled to complete next year. We anticipate construction costs will total about £43m.

Our condominium development project in Singapore, The Glyndebourne, continues to make good progress. Most of the structural development is complete and architectural work is under way. In accordance with IFRS, revenue and development costs will appear in the income statement on completion, which is expected no later than 2015. Including land costs, development

Consolidated pipeline analysed by ownership type (at 31 December 2012)

	2012	2011	Change
Hotels			
Owned or leased	**1**	1	–
Managed	**19**	28	(9)
Franchised	**1**	1	–
Total Group	**21**	30	(9)

	2012	2011	Change
Room count			
Owned or leased	**322**	325	(3)
Managed	**4,923**	6,087	(1,164)
Franchised	**195**	195	–
Total Group	**5,440**	6,607	(1,167)

projects of this nature in Singapore typically attract an average profit margin of circa 20%. Of the 150 apartments for sale since the end of October 2010, buyers have signed sales and purchase agreements for 144 units as at 31 December 2012 with sales value of S$522.5m (£262.3m) representing a price of over S$2,000 (£1,004) per square foot. Sales proceeds collected to-date total S$227.7m representing 43.58% of the sales value. The Glyndebourne occupies the site of the former Copthorne Orchid hotel, which closed in April 2011.

After the close of the year, during the first quarter of 2013, we announced that we had entered into a conditional sale and purchase agreement with the South Korean company Woo Yang Industrial Development Co., Ltd to acquire 1,563.7m^2 of land adjacent to the Millennium Seoul Hilton Hotel, for KWon 29.5b (£17.2m). Completion is expected to take place in the second quarter of 2013, subject to certain terms and conditions being met. The site has considerable potential to enhance our existing operations in Seoul, detailed plans for which will be drawn up in due course.

First Sponsor Capital Limited ("FSCL")

M&C's associate, FSCL, continues to make good progress with development in Chengdu, People's Republic of China. The Group's investment in FSCL is a key part of its China strategy, enabling it to participate in hotel ownership through mixed property development. FSCL currently has plans for two hotels and a serviced apartment building that will be managed by the Group.

Progress on the Wenjiang development land site in Chengdu, purchased in November 2011 and named as Millennium Waterfront, is on track. The land is intended for residential, commercial and hotel development. The total residential component comprises 50 apartment blocks with 7,110 units. The sale of 5 blocks of 779 residential units was launched since 24 November 2012. As at 31 December 2012, 370 out of the 779 residential units launched have been sold either under option agreements or sale and purchase agreements. Development will be phased according to demand. Construction of the Millennium branded hotel with convention facilities is scheduled to commence in 2013.

As at 31 December 2012, over 98% of the residential component of Chengdu Cityspring was sold either under sale and purchase or option agreements. With the handover of the residential units sold in April 2012, FSCL recognised a pre-tax profit of US$46.2m from these residential sales, thus contributing to the significant increase in profit for the year. The 195-room M Hotel Chengdu is scheduled to open in 2013 and will be managed by the Millennium & Copthorne Group. The remaining portion of the development comprises small-office home-office (SOHO) and retail units which are available for sale or rental. The SOHO units for sale are 77% sold either under option agreements or sale and purchase agreements, with over 85% of the sales proceeds collected. These SOHO units are expected to be handed over to the buyers in mid-2013 when profit will be recognised.

For the year ended 31 December 2012, the Group has recognised £9.3m as its share of net profit after tax of FSCL relating to the residential component of Chengdu Cityspring.

Pipeline and new hotel openings

The Group's worldwide pipeline comprises 21 hotels offering 5,440 rooms mainly under management contracts. Of these, two hotels will open in China during 2013. During 2012, we opened five hotels under management contract in the Middle East and one in Taiwan. Seven proposed Middle East hotel openings have been withdrawn from the pipeline, whilst four were added in the Middle East.

Directors and management

Sean Collins, 62, joined the Board as an independent non-executive Director on 1 September 2012. A chartered accountant, Mr Collins was formerly a senior audit and advisory partner at the accounting and advisory firm, KPMG, where he had worked since 1972. He was appointed Chairman of the Group's Audit Committee on 31 October 2012, replacing Nicholas George, who had chaired the Committee since March

Consolidated pipeline analysed by brand (at 31 December 2012)

	2012	2011	Change
Hotels			
Grand Millennium	**1**	–	1
Millennium	**11**	18	(7)
Copthorne	**8**	6	2
Other M&C	**1**	6	(5)
Total Group	**21**	30	(9)

	2012	2011	Change
Room count			
Grand Millennium	**250**	–	250
Millennium	**2,780**	4,237	(1,457)
Copthorne	**2,215**	1,178	1,037
Other M&C	**195**	1,192	(997)
Total Group	**5,440**	6,607	(1,167)

Directors and management continued

2010. Mr Collins also became a member of the Remuneration Committee and Nominations Committee on 1 January 2013.

Christopher Keljik retired from the Board on 31 December 2012. He had been an independent non-executive Director since May 2006 and had been the Group's senior independent Director since June 2009. We thank Mr. Keljik for his services. Mr. Collins was appointed senior independent Director on 1 January 2013.

John Chang, 47, was appointed Chief Financial Officer on 16 June 2012. He qualified as a certified public accountant in Singapore in 1994 and was previously employed by a diversified real estate company in Singapore.

Fabrizio Gaggio, 49, was appointed Senior Vice President, Global Asset Management on 4 June 2012. He was previously Managing Director at Starhotels, one of Italy's largest owned and managed upscale hotel groups. His responsibilities include oversight of renovation and repositioning projects for the Group's hotels.

John Arnott, 56, was appointed Senior Vice President, Global Human Resources on 26 September 2012. He has an extensive career in human resources and joined the Group from a senior position in the banking sector.

Alan Scott, 62, was appointed Company Secretary on 11 October 2012, succeeding Adrian Bushnell who has left the Group. We thank Mr. Bushnell for his services. Formerly Mr. Scott held senior corporate governance positions in BT, most recently in Asia Pacific.

Employees

Our employees worked hard during 2012. On behalf of the Board, I thank them for their continuing and vital contribution to the success of the Group.

Outlook

Our focus for 2013 is to improve return on investment from the Group's existing portfolio through a number of strategic initiatives. Our strategy to enhance returns from select hotels through the asset management plan is on track. We are supporting the refurbishment process with improvements to our customer offering and a refreshed global sales and brand strategy designed to improve both revenues and return on assets. Hotel trading is likely to become increasingly competitive, both as a result of current economic uncertainty and increased supply of new hotel rooms in some gateway cities where we operate. Our strong financial position enables us to make the necessary investment to ensure that we maintain and enhance our sound competitive position within the global hospitality market.

Uncertain global economic conditions continue to cast shadows over the hospitality sector. The euro crisis, slower growth in China and the unresolved fiscal cliff in the United States all contributed to this during 2012. The Board considers that our owner/operator business model, combined with our strong balance sheet and a global spread of assets in many of the world's most significant travel destinations equips us to withstand the pressure which may result from such conditions, whilst continuing to build a foundation for future growth.

Like-for-like Group RevPAR was down 1.1% in the first six weeks of the year, with falls in each of our three main gateway cities: Singapore down 10.2%, London down 9.6% and New York down 1.6%. Whilst this reflects competitive trading conditions in some of our key markets, the period is not indicative for the year as a whole.

Kwek Leng Beng

Chairman

21 February 2013

Business review and strategy

Our mission and primary strategic aim is to provide good long term returns to shareholders by continuously improving the profitability of our hotels. We aim to do this in four ways: excellent customer service, effective sales and marketing, good cost management and application of the real estate expertise available to the Group.

The Board of Directors is responsible for strategy and measuring our progress against strategic objectives. Executive management is responsible for implementing strategy through a sustainable business model, which is simple and de-centralised, both to maximise sensitivity to local market conditions and to minimise central overhead costs.

Our focus for 2013 is to improve the Group's return on investment through a number of strategic initiatives, including improvement of hotel performance and return on capital from hotels in the United States. This will be achieved through investment in the estate, strengthening management and refreshing our sales strategy.

Globally, we are re-modelling our branding and sales approach, which will include driving a higher proportion of revenues through our re-designed e-commerce platform. Early results from our investment in the platform are encouraging.

Responsibility for hotel operations is delegated to a network of seven Regional Managers (RMs), to whom our Hotel General Managers (GMs) report. RMs are supported by specialist regional teams covering essential core disciplines such as finance, audit, sales, marketing, human resources, facilities management and procurement. The seven regions are: New York, Regional US, London, Rest of Europe (including the Middle East), Singapore, Rest of Asia and Australasia.

RMs have a broad remit to ensure high levels of customer satisfaction across all of the brand segments in which we operate. Their sales and marketing teams apply sophisticated analysis to achieve an optimum balance between hotel occupancy and room rates in all market conditions. RMs are tasked to manage costs efficiently, without losing sight of our brand promise.

The global operations management team is responsible for ensuring consistent standards across the Group in key functions such as human resources, information technology, marketing and finance.

Asset Management is a core function of the Group. We harness and direct the property skills, knowledge and relationships throughout the Group, as well as those residing in our largest shareholder, City Developments Limited of Singapore.

Where returns from an individual hotel are not competitive, we will enhance profitability through investment. Where this is not practical, we will consider a range of further options, including asset sales and alternative use such as condominiums or serviced apartments. In all cases we set competitive hurdle rates to ensure that the Group's return on investment criteria is satisfied.

Operating performance measurement – KPIs

The Group uses four key performance indicators (KPIs) to measure operating performance:

- Hotel revenue: Hotel revenue, including room sales, food and beverage sales and meetings and events.
- Occupancy: Percentage of rooms available for sale that were actually sold to our guests.
- Average Room Rate (ARR): Revenue from room sales, divided by the number of room nights sold.
- Revenue per Available Room (RevPAR): Average room rate multiplied by occupancy percentage.

GMs report their operating KPIs to RMs on a regular basis with comparison numbers for the local competititive set of each hotel. The hotel performance numbers are then consolidated into regional and Group-wide figures. Our monetary and financial KPIs are expressed in constant currency to remove the effect of foreign exchange fluctuations.

A regional breakdown of these KPIs is given on page 14 onwards. Our financial KPIs are included in the Business Review – financial (page 32).

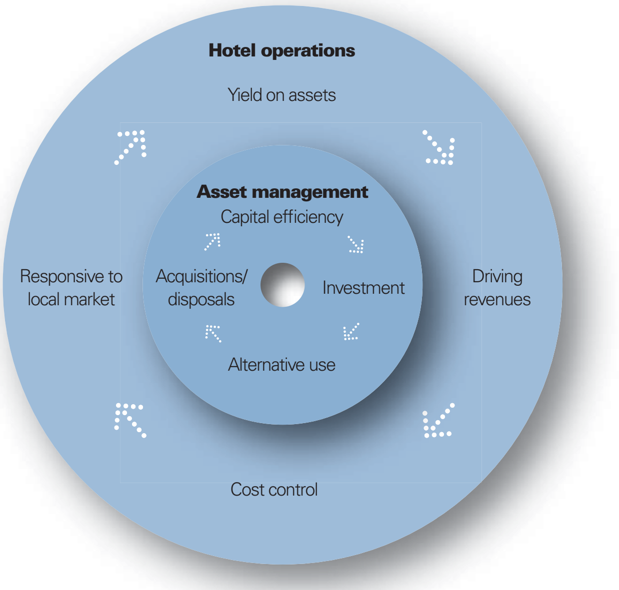
Business review and strategy continued

Operating performance overview

This review describes the main trends and factors underlying our development, operating performance and position during the year ended 31 December 2012, as well as those likely to affect the Group's future development, operating performance and position. For management reporting purposes, hotels are grouped under seven geographical areas: New York, Regional US, London, Rest of Europe (including the Middle East), Singapore, Rest of Asia and Australasia. These regions are covered individually on the following eight pages.

Our consolidated performance delivered a 3.4% improvement in Group RevPAR. This was driven by a 3.4% increase in average room rate across the estate. Occupancy was flat.

Hotel revenue was down 2.5% at £749.4m (2011: £768.5m), because of refurbishment work temporarily reducing available room numbers and because of the items discussed in the Chairman's statement, which have obscured like-for-like comparisons between 2012 and 2011. Hotel operating profit was also down in absolute terms by 7.4% at £145.7m (2011: £157.4m). However our hotel gross operating profit margins remained steady at 38.5% (2011: 38.8%).



Consolidated operating performance (Constant currency)

	2012	2011	Change
Hotel revenue	**£749.4m**	£768.5m	(2.5%)
Occupancy	**70.8%**	70.8%	–
Average room rate	**£95.08**	£91.91	+3.4%
Revenue per available room	**£67.32**	£65.11	+3.4%
Hotel operating profit	**£145.7m**	£157.4m	(7.4%)

For comparability, the following regional review is based on calculations in constant currency whereby 31 December 2011 average room rate and RevPAR have been translated at average exchange rates for the year ended 31 December 2012.

Asia

RevPAR for the Asia region increased by 6.6% to £77.97 (2011: £73.12), led by a strong performance by our hotels in the Rest of Asia region. On a like-for-like basis excluding the Copthorne Orchid, RevPAR increased by 5.8% to £77.97 (2011: £73.69).

Singapore

Singapore reported a 4.9% increase in RevPAR to £101.14 (2011: £96.42) for the year ended 31 December 2012. On a like-for-like basis, excluding the Copthorne Orchid, RevPAR increased by 2.2% to £101.14 (2011: £98.99) with an increase in room rate of 1.5% to £114.75 (2011: £113.02) and a 0.5 percentage point increase in occupancy to 88.1% (2011: 87.6%). Nearly all hotels in the country have shown RevPAR growth with the strongest increase being at Orchard following the 2011 renovation.

Cautious corporate spending in Singapore put pressure on occupancy, room rate and RevPAR during the second half of the year. Our sales teams responded quickly to new market conditions, adjusting our sales strategy to reflect a more competitive environment.

Rest of Asia

RevPAR for Rest of Asia increased by 8.5% to £62.57 (2011: £57.69) for the year ended 31 December 2012. Rate increased by 7.8% to £87.59 (2011: £81.23) and occupancy grew by 0.4 percentage points to 71.4% (2011: 71.0%). Seoul, Beijing and Jakarta all had double digit RevPAR percentage growth.

Closure of 461 rooms to allow refurbishment work at Grand Hyatt Taipei – our largest hotel in Asia by room count – had a negative impact on hotel revenue for Rest of Asia in the second half of 2012. This work is part of our asset management programme and is expected to result in stronger results from this property, once works are fully completed in June 2014.

Rest of Asia RevPAR, which takes into account the reduced number of rooms at Grand Hyatt Taipei, has increased 8.5% in the year to £62.57 (2011: £57.69). This increase is primarily due to the refurbishment of the Millennium Seoul Hilton, which required closure of 249 rooms in the second quarter of 2011 and contributed to a 20% uplift in RevPAR in 2012 compared with 2011. Part of this increase reflected normalisation of occupancy levels following the refurbishment.

Regional performance

	2012	2011	Change
Asia			
Hotel revenue	**£311.5m**	£313.0m	(0.5%)
Occupancy	**78.1%**	77.4%	0.7%*
Average room rate	**£99.83**	£94.53	5.6%
RevPAR	**£77.97**	£73.12	6.6%
Singapore			
Hotel revenue	**£152.3m**	£152.1m	0.1%
Occupancy	**88.1%**	86.9%	1.2%*
Average room rate	**£114.75**	£110.94	3.4%
RevPAR	**£101.14**	£96.42	4.9%
Rest of Asia			
Hotel revenue	**£159.2m**	£160.9m	(1.1%)
Occupancy	**71.4%**	71.0%	0.4%*
Average room rate	**£87.59**	£81.23	7.8%
RevPAR	**£62.57**	£57.69	8.5%

* % points

1 Chefs prepare a feast for guests at Millennium Hotel Chengdu in China.

2 Ready for business at one of our latest openings: Millennium Vee Hotel Taichung in Taiwan.

3 Relaxing style at the Orchard Hotel Singapore refurbished to the most luxurious standard in 2012.

4 Grand Millennium Kuala Lumpur: five star luxury for the business and leisure traveller.

Europe

European RevPAR increased by 7.7% year on year to £76.23 (2011: £70.79). The average room rate was £100.35 (2011: £94.56), an increase of 6.1%, whilst occupancy increased by 1.1 percentage points to 76.0% (2011: 74.9%).

London

London saw a RevPAR gain of 8.2% to £105.91 (2011: £97.92) for the year ended 31 December 2012. The increase was driven by a 9.2% increase in room rate to £131.15 (2011: £120.10) partially offset by a decrease in occupancy of 0.7 percentage points to 80.8% (2011: 81.5%). Management pursued a successful rate-occupancy strategy during and after the Olympic and Paralympic games period resulting in significant RevPAR growth at Millennium Mayfair, Copthorne Tara and Millennium Gloucester and a considerably stronger performance during the period than our competitive set.

Rest of Europe

RevPAR in the Rest of Europe increased by 0.2% to £48.13 (2011: £48.03) in the year ended 31 December 2012. On a like-for-like basis excluding Stuttgart, RevPAR increased 1.5% to £48.13 (2011: £47.42) in the year ended 31 December 2012.

Performance by our hotels in the UK away from London during the year reflected the poor economic conditions in Britain outside of the capital. RevPAR was almost flat, increasing by 0.2% to £42.55 (2011: £42.48), driven by a 0.6% increase in occupancy to 71.5% (2011: 70.9%) and a 0.7% decrease in average room rate to £59.49 (2011: £59.92).

RevPAR at our hotels in France and Germany increased by 8.8% to £63.47 (2011: £58.32). On a like-for-like basis excluding Stuttgart, RevPAR increased by 4.1% to £63.47 (2011: £60.98), room rate decreased by 0.9% to £89.18 (2011: £90.02) whilst occupancy increased by 3.5 percentage points to 71.2% (2011: 67.7%).

Regional performance

	2012	2011	Change
Europe			
Hotel revenue	**£178.7m**	£185.5m	(3.7%)
Occupancy	**76.0%**	74.9%	1.1%*
Average room rate	**£100.35**	£94.56	6.1%
RevPAR	**£76.23**	£70.79	7.7%
London			
Hotel revenue	**£108.4m**	£100.9m	7.4%
Occupancy	**80.8%**	81.5%	(0.7%)*
Average room rate	**£131.15**	£120.10	9.2%
RevPAR	**£105.91**	£97.92	8.2%
Rest of Europe (incl Middle East)			
Hotel revenue	**£70.3m**	£84.6m	(16.9%)
Occupancy	**71.4%**	69.3%	2.1%*
Average room rate	**£67.39**	£69.34	(2.8%)
RevPAR	**£48.13**	£48.03	0.2%

* % points

1 Millennium Hotel London Mayfair: a fine townhouse hotel in one of the most select areas of the UK capital.

2 Copthorne Tara Hotel London: ideally located in a quiet corner of Kensington and Chelsea.

3 Elegantly designed to blend the modern with the traditional, Millennium Hotel Doha offers warm Arabian hospitality in the Qatari capital.

4 The conservatory at the Millennium Gloucester Hotel London Kensington.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United States

Our hotels in the United States delivered a mixed performance in 2012. RevPAR for the region was down by 0.2% at £61.81 (2011: £61.96), with a 1.2% increase in average room rate to £97.34 (2011: £96.22) and a 0.9 percentage point fall in occupancy to 63.5% (2011: 64.4%).

New York

RevPAR performance in New York was affected by the temporary closure and refurbishment of the former Millennium UN Plaza, which began in the second quarter. The hotel was re-opened and re-branded as ONE UN close to the end of the third quarter. Over the year ended 31 December 2012, RevPAR decreased by 3.2% to £129.58 (2011: £133.80). This was due to a 5.0 percentage point decrease in occupancy to 80.5% (2011: 85.5%), mitigated by an increase in rate of 2.8% to £160.89 (2011: £156.45). New York RevPAR excluding ONE UN increased by 2.2% to £137.56 (2011: £134.61), with occupancy up 0.8 percentage points to 85.6% (2011: 84.8%) and average room rate up 1.2% to £160.70 (2011: £158.74).

Regional US

RevPAR at our US hotels outside New York grew by 3.1% over the year to £39.49 (2011: £38.30). This was driven by a 2.3% increase in average room rate to £68.22 (2011: £66.68) together with a 0.5 percentage point increase in occupancy. Performance was mixed across the estate with the most positive revenue impacts coming from Millennium Biltmore Los Angeles and Millennium Alaskan Anchorage. Revenue declines were most significant at Millennium St Louis and Millennium Minneapolis, which was affected by refurbishment work in the fourth quarter of the year.

Regional performance

	2012	2011	Change
USA			
Hotel revenue	**£214.8m**	£220.3m	(2.5%)
Occupancy	**63.5%**	64.4%	(0.9%)*
Average room rate	**£97.34**	£96.22	1.2%
RevPAR	**£61.81**	£61.96	(0.2%)
New York			
Hotel revenue	**£99.5m**	£104.2m	(4.5%)
Occupancy	**80.5%**	85.5%	(5.0%)*
Average room rate	**£160.89**	£156.45	2.8%
RevPAR	**£129.58**	£133.80	(3.2%)
Regional US			
Hotel Revenue	**£115.3m**	£116.1m	(0.7%)
Occupancy	**57.9%**	57.4%	0.5%*
Average room rate	**£68.22**	£66.68	2.3%
RevPAR	**£39.49**	£38.30	3.1%

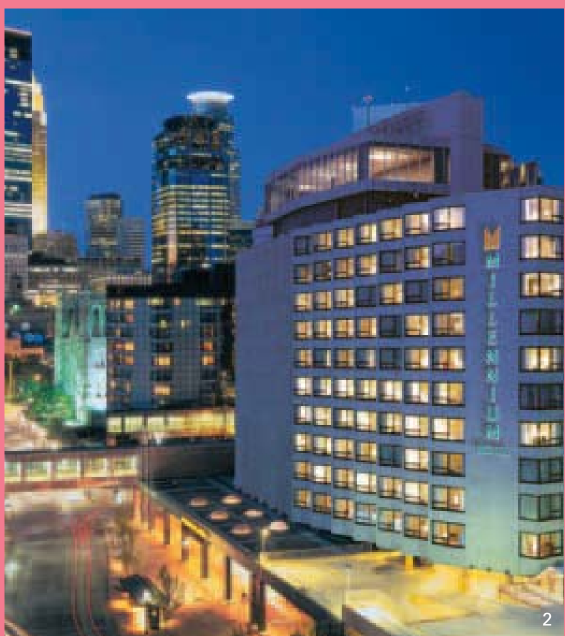
* % points

1 Mountain sunset provides the perfect backdrop at Millennium Scottsdale Resort and Villas in Arizona.

2 Millennium Hotel Minneapolis is one of the twin cities' favourite hotels. It is scheduled to re-open in April 2013 after a major refurbishment of the property.

3 Millennium Broadway Hotel is in the heart of New York's theatreland: one of the world's premier travel destinations.

4 Next to Boston's Faneuil Hall and Quincy Market, the Millennium Bostonian is ideally located to allow guests to discover everything the historic city has to offer.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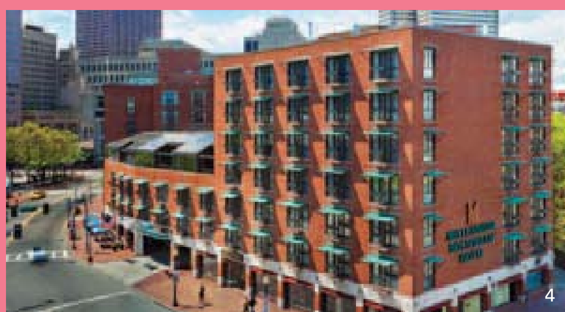
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Australasia

RevPAR for the New Zealand group decreased by 8.7% to £35.18 (2011: £38.55) for the year ended 31 December 2012. On a like-for-like basis excluding the Christchurch hotels and Kingsgate Parnell, RevPAR fell 7.5% to £35.60 (2011: £38.47).

Rates fell by 7.6% to £55.78 (2011: £60.37) and occupancy increased by 0.1 percentage points to 63.8% (2011: 63.7%). The fall in key metrics was due to a strong local currency, deterring tourists from Europe and the US, which impacted all hotels in the country. Comparison with 2011 was further affected by last year's Rugby World Cup tournament when higher rates were realised.

Of the three Christchurch hotels that were closed following the earthquake, Copthorne Hotel Christchurch City was demolished following a settlement with the insurers and owners in 2011 and is no longer on the Group's books. In November 2012, insurance settlement was received for Copthorne Hotel Christchurch Central resulting in a gain to the Group of £10.5m. Under the settlement agreement, the insurers undertake to meet the costs of demolition and site clearance. As this is a freehold property, the Group still owns the freehold land. This land was identified by the Canterbury Earthquake Recovery Authority's Central Christchurch Development Unit ("CCDU") for compulsory acquisition for the Cultural Precinct. As at December 2012, discussions were continuing with CCDU in relation to this site.

The remaining hotel, namely the Millennium Hotel Christchurch is still closed. The engineering report has indicated that the property is repairable and engineering work has commenced to establish the scope and cost of repairs but has been temporarily suspended pending further assessments. The Millennium Hotel Christchurch is insured for material damage and business interruption.

During the year, confidential settlements for the business interruption insurance claims for both Millennium Hotel Christchurch and Copthorne Hotel Christchurch Central relating to the 2011 earthquakes were reached with the Group's insurers. The Group has received the proceeds from these settlements.

On 31 July 2012, the lease for Kingsgate Parnell expired and was not renewed.

Regional performance

	2012	2011	Change
Australasia			
Hotel revenue	**£44.4m**	£49.7m	(10.7%)
Occupancy	**63.6%**	64.3%	(0.7%)*
Average room rate	**£55.29**	£59.92	(7.7%)
RevPAR	**£35.18**	£38.55	(8.7%)

* % points

1 There is always time to relax with friends at one of our New Zealand leisure destinations.

2 Copthorne Hotel Auckland City in the heart of New Zealand's "City of Sails".

3 An exquisite lakeside setting awaits guests at Copthorne Hotel & Resort Queenstown Lakefront.

4 Copthorne Hotel Wellington Oriental Bay in the New Zealand capital.


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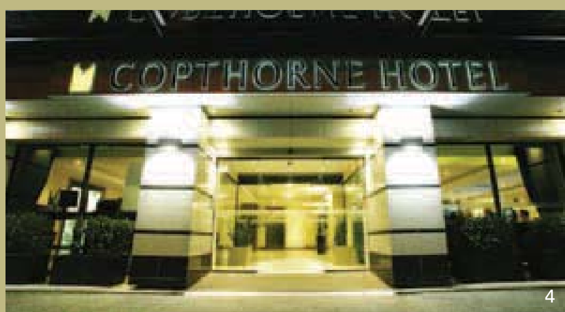

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Asset management

Asset management is a core function of the Group. As one of the world's largest owner/operator hospitality companies, we invest in our hotels to preserve and enhance the value of the property portfolio and thereby to improve long–term returns for shareholders.

Our asset management functions are led by a strong team of hospitality real estate professionals. Asset management is inextricably linked to hotel operations because we recognise that our brand and the experience that we provide for customers are key drivers of value. Investment decisions are therefore based in large part on our commitment to providing great levels of customer service as well as enhancing the fabric and value of the estate.

Many of the Group's hotels enjoy superb locations in some of the world's most attractive business and leisure destinations. We recognise the need for prudent, value-enhancing investment to maximise the profit and market share potential of these venues.

The asset management programme comprises a range of initiatives, including alternative use, re-building and refurbishment. It does not include general maintenance expense. At 31 December 2012, plans were in place to invest approximately £240m in the programme, of which approximately £46m had been invested by 31 December 2012. The asset management programme is subject to regular review by the Chief Executive Officer and the Board, with all new investment projects valued at more than £5m requiring Board approval.

A selection of the most significant projects within the programme are detailed below:

Grand Hyatt Taipei is the Group's largest hotel in Asia, with 853 rooms and occupying 14,317 sq metres in Xinyi, the Taiwanese capital's vibrant commercial centre. It is located close to the Financial Tower and is conveniently attached to the Taipei World Trade Centre and the Taipei International Convention Centre. We commenced planning a major refurbishment of this property in 2011 to include upgrading of plant and services. Renovation of the façade was completed in 2012, with work now under way to fully renovate the west wing containing 461 rooms. This is scheduled to complete during the second quarter of 2013, after which we will commence renovation of the east wing, containing 392 rooms. East wing renovation is scheduled to complete in the middle of 2014, after which the hotel will be fully open.

Millennium Seoul Hilton: Having successfully completed a major renovation of the executive floors and other parts of the hotel, the 679-room Millennium Seoul Hilton will update its main lobby and food and beverage outlets during 2013.

ONE UN New York: Formerly known as the Millennium UN Plaza, ONE UN New York offers 439 guest rooms, together with a host of additional luxury facilities. Renovation of the 154 – room west wing was completed during the third quarter of 2012 for a total investment of £17.7m. Work on the east wing will commence in October 2013 and is scheduled to complete before September 2014.

Millennium Hotel London Mayfair: Our flagship property in the UK capital has 336 rooms and occupies 4,260 sq metres in the heart of London's premier shopping and residential district. Detailed proposals are being discussed with our landlord, Grosvenor Estates, to redevelop and reposition the existing 4* Millennium hotel as a 5* hotel offering 275 rooms including 65 suites.

Millennium Hotel Minneapolis: Work commenced on renovation of the 321-room hotel at the end of 2012, requiring full closure. Re-opening is scheduled for April 2013. The hotel is superbly located within minutes of Minneapolis's theatres, museums and connected directly to the Minneapolis Convention Centre.

Millennium Hotel London Knightsbridge: Discussions have taken place with our landlord for the non-structural remodelling of the interior of Millennium Hotel London Knightsbridge during 2013. The hotel has 222 rooms and occupies 809 sq metres on Sloane Street, one of London's prime shopping streets. Work is at an early stage with both architects and designers preparing draft proposals.

Hotel and room count analysed by ownership type

As at 31 December 2012

Group

	Hotels		Change	Room Count		Change
	2012	2011		**2012**	2011	
Owned or Leased	**63**	65	(2)	**19,229**	19,946	(717)
Managed	**25**	21	4	**6,543**	5,926	617
Franchised	**11**	11	–	**1,564**	1,559	5
Investment	**11**	11	–	**3,603**	3,601	2
Total	**110**	108	2	**30,939**	31,032	(93)

Asia

	Hotels		Change	Room Count		Change
	2012	2011		**2012**	2011	
Owned or Leased	**12**	12	–	**5,508**	5,969	(461)
Managed	**5**	4	1	**1,496**	1,434	62
Franchised	**2**	2	–	**780**	780	–
Investment	**4**	4	–	**1,793**	1,791	2
Total	**23**	22	1	**9,577**	9,974	(397)

Europe

	Hotels		Change	Room Count		Change
	2012	2011		**2012**	2011	
Owned or Leased	**19**	19	–	**4,548**	4,549	(1)
Managed	**18**	14	4	**4,851**	4,263	588
Franchised	**–**	–	–	**–**	–	–
Investment	**–**	–	–	**–**	–	–
Total	**37**	33	4	**9,399**	8,812	587

United States

	Hotels		Change	Room Count		Change
	2012	2011		**2012**	2011	
Owned or Leased	**18**	18	–	**7,093**	7,092	1
Managed		–	–	**–**	–	–
Franchised	**–**	–	–	**–**	–	–
Investment	**1**	1	–	**219**	219	–
Total	**19**	19	–	**7,312**	7,311	1

Australasia

	Hotels		Change	Room Count		Change
	2012	2011		**2012**	2011	
Owned or Leased	**14**	16	(2)	**2,080**	2,336	(256)
Managed	**2**	3	(1)	**196**	229	(33)
Franchised	**9**	9	–	**784**	779	5
Investment	**6**	6	–	**1,591**	1,591	–
Total	**31**	34	(3)	**4,651**	4,935	(284)

Our risks

Like any other business, we are subject to a number of risks and uncertainties, which are influenced by both internal and external factors, often outside our control. In this section, we describe the principal risks that could have a material effect on the Group's business activities.

Risk factors

We provide information on the nature of the risk, actions taken to mitigate risk exposure and an indication of whether the type of risk is increasing, reducing or remains largely unchanged. Not all potential risks are listed below. Some risks are excluded because the Board considers them not material to the Group as a whole. Our processes aim to provide reasonable, but cannot give absolute, assurance that the risks significant to our business have been identified and addressed. 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 potential 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.

In general, the geographical spread of the Group provides a natural hedge against many of the principal risks identified on the following pages.

Management of risk

Our risk management activity is directed by the Executive Management Committee, led by the Chief Executive Officer, and is facilitated by the Head of Risk and Internal Audit. Risk registers are compiled, and periodically updated, which map the nature of the risks relative to their likelihood of occurrence and severity and associated trends.

Individual management committee members are assigned responsibility for devising risk treatment plans to eliminate, minimise or transfer risks. The Chief Executive Officer and members of the Executive Management Committee undertake regular reviews of the risk register and progress with risk management plans.

The Board has overall responsibility for the risk management process and for ensuring that our risks are managed appropriately and, either directly or through the Audit Committee, reviews the effectiveness of the Group's risk management processes and other internal controls. The Head of Risk and Internal Audit provides the Audit Committee with a quarterly update of risk management activity and the risk register.

	Risk and potential impact	Mitigating activities	Status
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, especially where a large airport, for example, is a major hub for worldwide travel. 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.	Increasing
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 risks 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.	Many of these risks are beyond the control of the Group and the time-frames for developing appropriate risk management approaches can often be very short. Management is continually vigilant to political and economic developments and seeks to identify emerging risks at the earliest opportunity. The Group implements ownership structures, internal controls and takes such steps available to it to minimise these exposures to the greatest extent possible.	Increasing
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 management systems in place designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions, such as the profit protection plans initiated during previous market down-turns.	Increasing
Human resources	Execution of the Group's strategy depends on its ability to attract, develop and retain employees with the appropriate skills, experience and aptitude.	The Group has a strong service culture supported by recognition systems, compensation and benefits arrangements, training and development programmes. The Group has appropriate systems for recruitment, reward and compensation and performance management. Labour relations are actively managed on a regional and local basis.	Stable
Management agreements	An element of the Group's strategy is to selectively increase the number of management contracts to operate hotels owned by third-parties, primarily focusing on the Middle East region. In this regard, the Group faces competition from established global and regional brands. 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 has developed a management team in the Middle East region that has the necessary skills and resources to pursue this element of the Group's strategy. A structured process for acquiring new contracts has been implemented and a priority is to ensure that the critical roles are filled and operational management is integrated into the Group system.	Increasing
Joint ventures and subsidiaries with minority shareholders	The Group has entered into a number of joint ventures in certain markets and is therefore subject to the risk of non-performance on the part of the minority partners especially when the strategic objectives of the partners are not fully aligned.	For these joint ventures, the Group has appointed representatives who are assigned responsibilities to manage the relationship with the joint venture partners in order to enhance the alignment of business objectives.	Stable

	Risk and potential impact	Mitigating activities	Status
Treasury risk	The Group trades in numerous international currencies but reports its financial results in sterling. Fluctuations in currency exchange rates may either be accretive or dilutive to the Group's reported trading results and 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. Credit risk arises from the risk of financial loss if a financial counterparty fails to meet its contractual obligations in respect of its deposits or short-term investments.	Foreign currency transactions exposure is primarily managed through funding of purchases from operating income streams arising in the same currency. Interest rate hedges are used to manage interest rate risk to the extent that the perceived cost is considered to outweigh the benefit from the flexibility of variable rate borrowings. The Group actively monitors the need and timing of such hedges. Investments in short-term instruments are with counterparties approved by the Board taking into account the counterparty's credit rating and a maximum limit as to the amount that may be deposited.	Stable
Tax risk	The Group's businesses operate in numerous tax jurisdictions. Changes in tax laws in any of those jurisdictions may have adverse consequences on the Group's profits. Similarly the Group's interpretation and application of various tax laws may be challenged. Tax authorities in many jurisdictions are increasing their focus on corporate tax affairs in order to maximise tax receipts.	The Group seeks to minimise tax risk by ensuring that appropriate accounting systems, processes and internal controls are in place to ensure that taxes are calculated accurately and paid on a timely basis, in compliance with tax legislation. A co-operative approach is undertaken in respect of provision of information to tax authorities during tax audits and investigations, and external tax advisors are engaged in each tax jurisdiction where necessary to advise on such matters, and to give guidance on the implementation of any changes in tax legislation. Full review of tax implications is carried out prior to undertaking any transactions involving new activities or structural changes, and external tax planning advice is obtained where appropriate. The Board and Audit Committee receive regular updates on tax management issues.	Stable
Compliance and litigation	The Group operates in many jurisdictions and is exposed to the risk of non-compliance with increasingly complex statutory and regulatory requirements. In addition the Group may be at risk of litigation from various parties with which it interacts, either through direct contractual arrangements or from the provision of services. In certain countries where the Group operates, particularly in emerging markets, local practices and the legal environment may be such that it is sometimes difficult for the Group to enforce its legal rights.	The Group continues to monitor changes in the regulatory environment in which it operates, identify its compliance obligations and implement appropriate compliance programmes and has processes in place to manage the risks associated with its various contractual relationships. These include comprehensive policies for ethics and business conduct, anti-corruption and bribery, gifts and hospitality and charitable donations. There is training for relevant staff.	Increasing

	Risk and potential impact	Mitigating activities	Status
Safety, health and environment	As a significant property owner and operator of hotels in multiple jurisdictions, the Group is exposed to a wide range of regulatory requirements and obligations concerning the health and safety of employees, visitors and guests. Failure to implement and maintain sufficient controls regarding health and safety issues could expose the Group to significant sanctions, both civil and criminal, financial penalties and reputational damage.	The Group has established and maintains health and safety and environmental management systems that are aligned with the requirements of ISO 14001 and OHSAS 18001. By working to British standards, the Group is committed to working to the highest standards of health and safety and to an internationally accredited system. Details of progress made in improving the Group's management systems are contained in the Corporate Social Responsibility report on pages 29 to 31.	Stable
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. 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 trend towards managing third-party properties, primarily in the Middle East region increases the risk that product quality may not be delivered in accordance with the Group's standards. This may increase the Group's exposure to litigation, increase risks to reputation, reduce revenues and become an inhibiting factor on ongoing development.	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. Management seeks to ensure maintenance of standards by developing strong working relationships with hotel owners and undertaking regular monitoring of service delivery.	Stable
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, significant 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.	The Group continues to develop property specific asset management plans which focus on the capital requirements of each property in terms of regular maintenance and product enhancement. The Group has rigorous management systems to monitor major capital projects to ensure they are properly managed and delivered on time and within budgeted parameters.	Stable
Insurance	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 market's 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.	The Group's insurance requirements are regularly reviewed to ensure that the cover obtained is appropriate to its risk profile and 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. Insurance covers are arranged with a variety of insurers to ensure that arrangements are not overly concentrated on a limited number of carriers. Choice of insurance carriers is dependent on satisfaction of a number of relevant factors including a review of the insurers' security ratings.	Stable

	Risk and potential impact	Mitigating activities	Status
Information Technology systems and infrastructure	In order to maintain its competitiveness within the market place the Group will need to ensure its IT systems deliver the necessary trading platforms and provide management with accurate and timely information.	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. Crisis management and disaster recovery plans are in place for business critical systems. Management regularly reviews IT requirements and risks to prioritise implementation of changes and improvements.	Increasing
Data privacy	A significant proportion of the Group's operating revenue is received from customers through credit card transactions and the Group has an obligation to keep secure customers' credit card and other personal details. Non-compliance with data privacy regulations, which differ by jurisdiction, could result in fines and/or other damages being incurred. Additionally, the payment card industry requires the Group to comply with data security standards (PCI-DSS) as a condition in credit card merchant agreements. Failure to comply with these standards could result in contractual penalties and withdrawal of credit card payment facilities.	During the last year the Group has committed significant resources to achievement and maintenance of the necessary IT infrastructure, operating controls and training associated with data privacy and PCI-DSS.	Increasing

Corporate social responsibility

Travel and tourism is one of the world's largest industries with significant economic, social and environmental impacts. As a large international group working within the industry, we understand that our customers, investors, employees and suppliers actively choose their relationships with us and that this choice in part depends on the degree to which we demonstrate corporate social responsibility ("CSR").

We thus recognise that delivering good long-term returns to shareholders requires us to demonstrate commitment to CSR. To this end, the Board has adopted – and reviews regularly – a number of policies, collectively referred to as Responsible Hospitality. The Board further recognises the need to communicate to stakeholders its progress on executing these policies.

Our people

Our business is to provide world class standards of hospitality. To achieve that requires knowledgeable, well-trained and skilled employees who are well-motivated and appropriately rewarded.

We aim to ensure that all of our people have the right skills and knowledge to do their jobs. We encourage them to gain industry-relevant qualifications where appropriate and to gain additional qualifications in support of career development. There is an increasing focus on the development of talent across the Group and the need to attract and retain the best people to support future growth. In June 2012, to further facilitate this aim, we introduced the Outstanding Service Experience (OSE) programme across the Group, whereby front-line employees undergo training on how to deliver outstanding service to our guests.

In addition to formal training programmes, we engage and empower our employees through a variety of means, including internal newsletters, our intranet and regular communication sessions. Conferences, workshops, social and community-related events such as staff sports sessions and outings are organised to facilitate team building and to encourage better communication across the business.

We maintain a code of high ethical standards, to which all employees are required to adhere. We have zero-tolerance to anti-competitive practices, bribery, fraud and other forms of corruption. Our 'whistle blowing' helpline ensures that any occurrence of such activity can be identified and dealt with appropriately and swiftly.

We are working to create an engaging, healthy work environment for people in which dialogue and diversity are valued and to ensuring equality of opportunity and fairness in all areas of employment. We are proud to have a diverse business and we have always valued the benefits that diversity brings.

The Group has adopted a formal human rights policy which supports our commitment to International Labour Organisation standards and the UN Global Compact on human rights and labour and to providing equal opportunities in employment without discrimination.

If our people develop health problems, we aim to support them so as to promote a swift return to work wherever possible. We aim to rehabilitate any staff member who has suffered a problem or disability that interferes with their ability to work. Where someone cannot be accommodated, we are committed to arranging a sensitively-managed departure.

For the year to 31 December 2012 we employed an average of 10,157 people, worldwide in 20 countries (2011: 10,912).

Function (number of employees)

Hotel Operations	
2012	**7,836**
2011	8,565
Management/Administration	
2012	**1,280**
2011	1,365
Sales and Marketing	
2012	**434**
2011	398
Repairs and Maintenance	
2012	**607**
2011	584

Gender (%)

Male	
2012	**55.48**
2011	53.35
Female	
2012	**44.52**
2011	46.65

Our people continued

Age – %

Below 30	
2012	**30.60**
2011	32.77
30-50	
2012	**47.07**
2011	45.88
Above 50	
2012	**22.33**
2011	21.35

A healthy workplace

Health and safety for our customers, colleagues and suppliers visiting our premises is of paramount importance to us and we strive to ensure that comprehensive processes and procedures are in place at all of our properties to ensure compliance with statutory requirements. Effective health and safety practices are encouraged through detailed policies and procedures, training, supervision and regular communication. Related performance and actions for improvement are reported quarterly to the Board by the Chief Executive Officer.

A comprehensive schedule of audits, inspections and drills is carried out both internally and by independent bodies to check awareness, compliance and readiness to deal with emergencies. Effective health and safety practices are encouraged through training, supervision and appropriate equipment. Our teams are constantly working to improve safety performance. For example in the UK, since 2008, the number of reported accidents has fallen by 39%, whilst Reporting of Injuries, Diseases and Dangerous Occurrences (RIDDORs) has fallen by 50%.

The UK region has published and launched new policies and procedures accredited to the British Standards Institute for its Occupational Health and Safety Management System, compliant with OHSAS 18001. European management is currently in the process of rolling out the system across the remaining UK hotels. Completion of this project, which is designed to ensure robust and comprehensive risk assessment and recognition across the business, is anticipated to be July 2013. These efforts have been supported by new software and management systems, specific to health and safety, resulting in tighter control of statutory/ mandatory inspections and audit trails.

Our environment

We seek to reduce the negative environmental impacts of our activities by adopting environmentally-preferable business practices. Our Responsible Hospitality policies aim to ensure operational compliance with all relevant environmental legislation in all of those countries where we operate. The European region's comprehensive environmental management system which achieved formal accreditation to the ISO 14001 standard is currently being rolled out to our remaining UK hotels.

Our UK business successfully retained the Carbon Trust Standard for its efforts on tackling climate change through measuring, managing and reducing carbon emissions. All of our Singapore hotels have attained or are pursuing Green Mark certification, an initiative established by the Building Authority of Singapore to encourage environmentally friendly buildings.

The Group continues to monitor the carbon footprint for all of its owned and managed properties. An accurate measurement of our carbon emissions is produced annually and we are working actively to reduce our energy consumption, refrigerant leakage and associated carbon emissions through internal reduction measurements and targets. Other areas we aim to focus on include minimising our water consumption and waste.

Details of our total carbon footprint are summarised below.

	LFL[1]			
Year	**2012**	2011[2]	2010[2]	+/-
Global carbon footprint (tonnes CO_2)	**276,972**	293,344	301,518	-8.1%
Emissions per room (tonnes CO_2)	**12.4**	13.1	13.5	-8.1%
	Total			
Year	**2012**	2011[2]	2010[2]	+/-
Global carbon footprint (tonnes CO_2)	**322,830**	308,142	317,595	+1.6%
Emissions per room (tonnes CO_2)	**12.4**	12.9	12.9	-3.9%

1 Like-for-like comparisons are provided to reflect movements in the Group's hotel portfolio.

2 2011 and 2010 reported numbers have been adjusted to reflect changes in carbon factors during the year.

On a like-for-like basis our total carbon emissions have reduced by 8.1% over the period. For our whole estate, emissions per room have decreased by 3.9% despite the majority of our new properties being in climates where comfort cooling is required for a large proportion of the year resulting in the requirements of both energy and refrigerant usage.

Our environment continued

In 2010, we committed to reducing the Group's energy consumption by 10% over the two-year period ending 31 December 2012. Each of the regions was tasked to implement good energy conservation practices achieved through: a combination of more energy efficient equipment; best practice ideas tailored to particular departments; changes to operating procedures and maintenance programmes; and employee engagement and effective employee training.

Because of the energy efficiency measures we have taken across the Group since 2010, we achieved an overall reduction in our energy consumption on a like-for-like basis, of up to 6.03% in 2012. In summary, it shows an encouraging result achieved by implementing the various energy conservation initiatives despite the target of 10% not being met in 2012. Moving forward, we will continue to develop and implement initiatives that help us to manage and reduce our environmental impact.

Reducing our waste

We have been working proactively to reduce, re-use and recycle materials wherever possible. Since the introduction of segregating food and paper waste from the kitchens and restaurants at our largest London hotel, 125 tonnes of waste was converted into compost rather than sent to landfill.

In many of our hotels we are switching from proprietary branded water to in-house filtered water systems, which reduces glass wastage (circa 600,000 bottles over three years in the UK) and eliminates the carbon footprint impact of bottle delivery. Collection of cooking oil in the UK is now consolidated through 'Convert 2 Green' in partnership with our logistics provider. The waste product is then converted to bio-fuel.

Some of our recycling activities can also support charities. For example, the Millennium Hotel Minneapolis has collected over 1,000 lbs of used guest soap for re-use in African countries through the Global Soap Project.

We will continue to enhance our waste management programme by reducing waste generation and increasing recycling efforts wherever possible. Much of this activity focuses on building staff awareness as well as investing in more efficient plant and equipment. Staff awareness has also been raised through quarterly environmental newsletters.

Our procurement teams continue to work on sustainability initiatives within the supply chain. Our focus includes reducing food miles, and using suppliers with a demonstrable commitment to sustainable production methods. In the UK, for example, our main fish and seafood supplier is a member of the Marine Stewardship Council, the Coastal Fish Campaign and the Project Inshore Partnership, all of which promote sustainable fishing through a range of initiatives.

Our community

Throughout the world, the Group's hotels are encouraged to provide support for their local communities in a variety of ways, from regular blood donation drives at many of our hotels to helping the homeless with food and clothing collections or providing disadvantaged young people with education or work experience. Our employees prove themselves each year to be warm-hearted and generous supporters of such initiatives.

For example, our three hotels in New York joined local charities to provide aid for people affected by Hurricane Sandy in December 2012. Millennium Broadway Hotel New York and ONE UN New York collected coats and other winter clothing, whilst Millenium Hilton joined local charities to help residents of Staten Island. The hotels' staff and guests also collected toys for local children.

In the UK, we raised approximately £21,000 for the British Heart Foundation via cash donations from staff and guests and donations of physical items such as clothes, books and furniture.

We also benefit our local communities by providing support for educational programmes and initiatives. Our Copthorne Hotel Slough-Windsor, for example, welcomed 20 GCSE hospitality and catering students from Westgate School, offering them the opportunity to watch experienced chefs and gain hands-on-experience in the kitchens. The Copthorne Hotel Hannover in Germany opens its kitchens six times a year for disadvantaged children to learn how to cook, whilst in South Korea, the Millennium Seoul Hilton partners with middle schools, high schools and colleges to give young people with single parents or no parents the opportunity to experience what it is like to work in a hotel.

At Group level we donated £16,485 during 2012 (2011: £35,000) to a range of charitable organisations.

Looking forward

We will continue to commit time and resources to refine operating practices and improve Group performance from a CSR perspective. We consider that this will enhance our reputation amongst all of our stakeholders and support our aim to add value for our shareholders.

Business review – financial

For the full year to 31 December 2012, profit before tax decreased by 11.4% to £171.3m (2011: £193.3m) due in part to the inclusion of £17.4m profit on the sale and leaseback of Studio M Hotel in May 2011 and £34.0m profit from the KL land sale in August 2011, offset by a £28.5m reduction in impairment losses.

Financial Performance – Full year overview

Headline profit before tax, the Group's measure of underlying profit before tax, decreased by 14.6% to £157.7m (2011: £184.7m). Headline operating profit decreased by 14.7% to £163.3m (2011: £191.4m). Included in the profit for 2012 is £9.3m as the Group's share of profit of FSCL relating to Chengdu Cityspring project; and for the comparative year 2011 is £17.4m profit on the sale and leaseback of Studio M Hotel and £34.0m profit from the sale of KL land.

Basic earnings per share decreased by 17.6% to 42.0p (2011: 51.0p) and headline earnings per share decreased by 19.5% to 36.8p (2011: 45.7p).

Financial Key Performance Indicators ('KPIs')

The Group uses the following financial key performance indicators to measure performance:

- Revenue
- Headline operating profit
- Headline EBITDA
- Headline profit before tax
- Profit before tax
- Headline profit after tax
- Basic earnings per share
- Headline earnings per share
- Net cash/debt
- Gearing

The Group believes that the KPIs provide useful and necessary information on underlying trends to shareholders, the investment community and are used by the Group for internal performance analysis. Since the 2011 Annual Report, the definition of headline operating profit, one of the Group's key performance indicators, has been modified to include the share of tax, interest and non-controlling interests of joint ventures and associates. The Group believes that the revised definition simplifies the presentation of headline operating profit given to the reader both on the face of the consolidated income statement and in the segmental analysis of operating results.

Reconciliation of these measures to the closest equivalent GAAP measures are shown below and in notes 5 and 11 to these financial statements.

	2012 £m	2011 £m
Revenue	**768.3**	820.5
Headline operating profit	**163.3**	191.4
Headline EBITDA	**197.9**	226.9
Headline profit before tax	**157.7**	184.7
Separately disclosed items – Group	**11.5**	(8.5)
Separately disclosed items – Share of joint ventures and associates	**2.1**	17.1
Profit before tax	**171.3**	193.3
Headline profit after tax	**130.2**	146.9
Basic earnings per share (pence)	**42.0p**	51.0p
Headline earnings per share (pence)	**36.8p**	45.7p
Net cash/(debt)	**52.2**	(100.2)
Gearing (%)	**–**	4.8%

Financial Key Performance Indicators ('KPIs') continued

Set out in the table below are the details of the items that reconcile the Headline profit before tax to statutory Profit before tax:

	2012 £m	2011 £m
Separately disclosed items – Group		
Other operating income		
Revaluation gain of investment properties	**1.8**	1.0
Other operating expense		
Revaluation deficit of investment properties	**–**	(0.1)
Separately disclosed items included in administrative expenses		
Impairment	**(1.4)**	(29.9)
Non–operating income		
Profit on sale and leaseback of Studio M Hotel	**–**	17.4
Profit on disposal of subsidiary	**–**	1.7
Gain arising on disposal of properties	**10.5**	1.2
Gain on disposal of stapled securities in CDL Hospitality Trusts ("CDLHT")	**0.6**	0.2
	11.5	(8.5)
Separately disclosed items – Share of joint ventures and associates		
Revaluation gain of investment properties	**1.4**	17.3
Profit/(loss) on disposal of business assets and subsidiaries	**0.7**	(0.2)
	2.1	17.1

Foreign currency translation

	As at 31 December		Average for 12 months January - December	
Currency (=£)	**2012**	2011	**2012**	2011
US dollar	**1.614**	1.572	**1.589**	1.606
Singapore dollar	**1.973**	2.030	**1.985**	2.011
New Taiwan dollar	**46.865**	46.644	**46.713**	46.979
New Zealand dollar	**1.966**	2.018	**1.960**	2.011
Malaysian ringgit	**4.945**	4.974	**4.913**	4.895
Korean won	**1,729.19**	1,808.82	**1,785.34**	1,771.54
Chinese renminbi	**10.066**	9.762	**9.961**	10.269
Euro	**1.218**	1.199	**1.229**	1.149
Japanese yen	**138.262**	121.892	**126.452**	127.259

The Company publishes its Group financial statements in sterling. However, the majority of the Company's subsidiaries, joint ventures and associates report their revenue, costs, assets and liabilities in currencies other than sterling. The Company translates the revenue, costs, assets and liabilities of those subsidiaries, joint ventures and associates into sterling and this translation of other currencies into sterling could materially affect the amount of these items in the Group's financial statements, even if their values have not changed in their original currencies. The above table sets out the sterling exchange rates of the other principal currencies in the Group.

Income tax expense

For the year ended 31 December 2012, the Group recorded a tax expense of £24.6m (2011: £28.2m) excluding the tax relating to joint ventures and associates giving rise to an effective tax rate of 18.4% (2011: 18.1%). The effective tax rate has been affected by a number of factors which include the following items:

- Separately disclosed items of the Group;
- Reduced tax rates applied to brought forward net deferred tax liabilities in the UK;
- Tax adjustments in respect of previous years;
- Sale of KL land in 2011; and
- Release of a dilapidation provision for the Stuttgart hotel whose lease expired on 31 August 2011.

Excluding the impact of the items noted above, the Group's underlying effective tax rate is 26.7% (2011: 27.7%).

For the year ended 31 December 2012, a charge of £8.5m (2011: £5.4m) relating to joint ventures and associates is included in the reported profit before tax.

Earnings per share

The table below reconciles basic earnings per share to headline earnings per share:

	2012 pence	2011 pence
Basic earnings per share	**42.0**	51.0
Separately disclosed items – Group	**(3.6)**	0.5
Separately disclosed items – Share of joint ventures and associates	**(0.7)**	(4.9)
Changes in tax rates on opening deferred taxes	**(0.9)**	(0.9)
Headline earnings per share	**36.8**	45.7

Dividends

The Board is recommending a final dividend of 11.51p (2011: 10.42p plus a special dividend of 4.0p) per share. Together with the interim dividend of 2.08p (2011: 2.08p) per share, the total dividend is 13.59p (2011: 16.5p) per share. Subject to approval by shareholders at the Annual General Meeting to be held on 2 May 2013, the final dividend will be paid on 17 May 2013 to shareholders on the register on 22 March 2013.

Financial position and resources

	2012 £m	2011 £m	Change £m
Property, plant and equipment and lease premium prepayment	**2,096.1**	2,091.4	4.7
Investment properties	**169.1**	173.9	(4.8)
Investments in and loans to joint ventures and associates	**469.0**	473.7	(4.7)
Other financial assets	**7.9**	7.8	0.1
Non-current assets	**2,742.1**	2,746.8	(4.7)
Current assets excluding cash	**263.9**	241.9	22.0
Provisions and other liabilities excluding interest bearing loans, bonds and borrowings	**(467.3)**	(404.5)	(62.8)
Net cash/(debt)	**52.2**	(100.2)	152.4
Deferred tax liabilities	**(228.1)**	(236.4)	8.3
Net assets	**2,362.8**	2,247.6	115.2
Equity attributable to equity holders of the parent	**2,176.0**	2,066.5	109.5
Non-controlling interests	**186.8**	181.1	5.7
Total equity	**2,362.8**	2,247.6	115.2

Non-current assets

Property, plant, equipment and lease premium prepayment

Property, plant and equipment and lease premium prepayment increased by £4.7m. The main contributor to the increase was additions of £53.9m in hotel portfolio improvements. This increase was partially offset by a £6.4m adverse exchange movements, disposal of assets with a total net book value of £8.2m and depreciation and amortisation charges of £34.6m.

The Group states land and building 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. Since 2005, external professional open market valuations on certain of the Group's hotel portfolio have taken place at each year end covering the entire Group's hotel portfolio over a three-year period. Based on external valuations conducted at 31 December 2012 on 28.5% (based on net book value) of the Group's hotel portfolio, a valuation surplus of £197.2m is estimated but this has not been recorded in the accounts. Revaluation surplus of £117.0m and £90.5m for 2010 and 2011 respectively were previously estimated but not recorded in the accounts.

Investment properties

Investment properties decreased by £4.8m due to £8.5m adverse exchange movements; additions of £1.6m which relates to the development of the land site in the Ginza district of Tokyo, Japan; £1.8m uplift in Tanglin Shopping Centre, Singapore, and other additions of £0.3m.

Non-current assets continued

Investments in and loans to joint ventures and associates

The table below reconciles the movement of investments in and loans to joint ventures and associates.

	2012 £m
Share of profits/(losses) analysed:	
– Operating profit before other operating income and expense	**49.0**
– Separately disclosed items	**2.2**
– Interest, tax and non-controlling interests	**(14.0)**
	37.2
Dilution in interest in an associate	**(2.2)**
Additions	
– CDLHT management and acquisition fees paid in stapled units	**4.9**
– Loan to FSCL (see note (a) below)	**29.6**
Dividends received from joint venture and associate	**(23.7)**
Share of other reserve movements	**0.1**
Repayment of loan by FSCL (see note (a) below)	**(31.5)**
FSCL loan due within one year (see note (a) below)	**(18.5)**
Foreign exchange adjustment	**(0.6)**
Total movement	**(4.7)**

(a) During 2011, the Group provided loans totalling £50.9m which in conjunction with a capital injection, has been used to fund the purchase and development of land sites in China. Not shown in the movement table above, in 2011 the Group also made a £18.1m short-term loan to FSCL which is shown in current assets.

During 2012, a total loan of £49.6m was repaid by FSCL comprising £31.5m and £18.1m included in the non-current assets and current assets respectively. The Group also made an additional loan to FSCL of £29.6m during 2012. As at 31 December 2012, £18.5m is due for repayment within the next twelve months.

Liquidity and capital resources

Cash flow and net debt

At 31 December 2012, the Group's net cash was £52.2m (2011: net debt of £100.2m). A summary of the consolidated cash flow is set out below:

	2012 £m	2011 £m
Cash flows from operating activities before changes in working capital and provisions	**164.8**	207.8
Changes in working capital and provisions	**31.2**	8.6
Interest and tax paid	**(36.7)**	(49.8)
Cash generated from operating activities	**159.3**	166.6
Acquisition of property, plant and equipment, lease premium prepayment and investment properties	**(55.8)**	(107.7)
Net proceeds from sale of property, plant and equipment	**18.7**	78.7
Investment in and loans to associates	**14.6**	(93.0)
Loans from associate	**5.0**	11.3
Dividends received from joint venture and associate	**23.7**	17.8
Proceeds from sale of shares in associate	**2.8**	0.8
Dividends paid		
– to equity holders of the parent	**(24.5)**	(11.2)
– to non-controlling interests	**(4.2)**	(4.9)
Capital contribution from non-controlling interests	**–**	9.3
Proceeds from issue of share capital	**0.5**	0.9
Translation adjustments	**12.3**	(3.1)
Increase in net cash	**152.4**	65.5
Opening net debt	**(100.2)**	(165.7)
Closing net cash/(debt)	**52.2**	(100.2)

Liquidity and capital resources continued

The net cash inflow from operating activities before changes in working capital and provisions was £164.8m, a decrease of £43.0m principally reflecting lower operating profit (excluding share of profit of joint ventures and associates). This is mainly due to the inclusion of the sale of KL land in the 2011 operating profit.

Changes in working capital and provisions include the impact of redeveloping the Orchid hotel in Singapore into condominiums, with deposits and stage payments from the buyers on the apartments sold. As the development unfolds further cash calls on the buyers will be forthcoming under terms of the sale and purchase agreements. The project is expected to be self-funding.

Acquisition of property, plant and equipment, lease premium prepayment and investment properties includes £53.9m in hotel portfolio improvements, £1.6m on developing the land site in the Ginza district of Tokyo acquired in 2011 and other investment properties of £0.3m.

Analysis of net debt and gearing is provided below. Gearing is defined as net debt as a percentage of total equity attributable to equity holders of the parent.

	2012 £m	2011 £m
Cash and cash equivalents (as per the consolidated statement of cash flows)	**379.0**	275.3
Bank overdrafts (included as part of borrowings)	**17.7**	56.9
Cash and cash equivalents (as per the consolidated statement of financial position)	**396.7**	332.2
Interest-bearing loans, bonds and borrowings		
– Non-current	**(152.6)**	(311.6)
– Current	**(191.9)**	(120.8)
Net cash/(debt)	**52.2**	(100.2)

Movements in net cash/debt during the year are shown below:

	2012 £m	2011 £m
Net debt at beginning of year	**(100.2)**	(165.7)
Net increase in cash and cash equivalents (as per the consolidated statement of cash flows)	**100.7**	29.2
Net decrease in loans	**39.4**	39.4
Translation adjustments	**12.3**	(3.1)
Movements in net cash	**152.4**	65.5
Net cash/(debt) at end of year	**52.2**	(100.2)
Gearing (%)	**–**	4.8%

Financial structure

Group interest cover ratio for the year ended 31 December 2012 (excluding share of results of joint ventures and associates, other operating income and expense, non-operating income and separately disclosed items of the Group) is 22.9 times (31 December 2011: 25.5 times). The decrease in net finance costs of £1.1m principally reflects interest on additional cash generated by the Group.

At 31 December 2012, the Group had £396.7m cash and £258.2m of undrawn and committed facilities available, comprising revolving credit facilities which provide the Group with financial flexibility. Most of the facilities are unsecured with unencumbered assets representing 87.3% of fixed assets and investment properties. At 31 December 2012, total borrowing amounted to £344.5m of which £77.1m was drawn under £105.3m of secured bank facilities.

Future funding

Of the Group's total facilities of £652.2m, £290.2m matures within 12 months comprising £81.0m committed revolving credit facilities, £65.4m of uncommitted facilities and overdrafts subject to annual renewal, £136.9m unsecured bonds and £6.9m secured term loans.

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 at each Board meeting.

Governance

Board of Directors

1 Kwek Leng Beng

Chairman and Chairman of the Nominations Committee	Age: 72 Committees: N

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 in Singapore, and City Developments Limited. He is also Chairman and Managing Director of Hong Leong Finance Limited and City e-Solutions Limited and the Chairman of Hong Leong Asia Ltd.

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

Honorary 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 from Oxford Brookes University (UK) whose 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 being an active supporter of higher education in Singapore.

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 bring together people, cultures and ideas from around the world.

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$20b in diversified premium assets worldwide and stocks traded on six of the world's stock markets. He currently heads a worldwide staff strength of over 40,000 across a range of businesses in Asia-Pacific, the Middle East, Europe and North America. Mr Kwek also played a pivotal role in Las Vegas Sands Corporation's successful bid for Singapore's high profile Integrated Resorts project at Marina Bay.

At the Securities Investors Association Singapore ("SIAS") Investors' Choice Awards in October 2012, Mr Kwek (as Executive Chairman of City Developments Limited), together with Mr Kwek Leng Joo (as Managing Director of City Developments Limited), emerged joint winners as "Partners in the Office of the CEO" in the Brendan Wood International – SIAS TopGun CEO Designation Award. This award is accorded to CEOs who are best in class rated by shareholders.

2 Wong Hong Ren

Group Chief Executive Officer	Age: 61

Wong Hong Ren joined Millennium & Copthorne Hotels plc as a non-executive Director at the flotation of the Group in 1996 and has been an Executive Director since April 2001. He was appointed Chief Executive Officer of the Company on 27 June 2011. Mr Wong is Chairman of Millennium & Copthorne New Zealand Limited and CDL Investments New Zealand Limited, both of which are listed on the New Zealand stock exchange. He is also the non-executive Chairman of M&C REIT Management Limited which manages CDL Hospitality Real Estate Investment Trust, which is part of the Singapore-listed CDL Hospitality Trusts.

3 His Excellency Shaukat Aziz

Independent Non-Executive Director	Age: 63 Committees: R N

Shaukat Aziz was elected as Prime Minister of Pakistan and served from 2004 – 2007, following five years as Finance Minister from 1999.

After graduating from Gordon College, Rawalpindi in 1967, Mr. Aziz gained a MBA degree from the Institute of Business Administration, University of Karachi. An internship at Citibank marked the beginning of a 30 year career in global finance, encompassing roles in Pakistan, Greece, United States, United Kingdom, Malaysia, Philippines, Jordan, Saudi Arabia and Singapore. As Executive Vice President, he held several senior management positions in Citibank including head of institutional banking for Central Eastern Europe, the Middle East and Africa and later for Asia Pacific, followed by Chief Executive of the bank's global wealth management business.

Having presided over impressive economic growth in his country, he offers an expert view and is a frequent speaker on the challenges facing the world including structural reforms, diplomacy, geopolitics and security. He is a member of several boards and advisory boards of various commercial and non-profit entities around the world.

4 Ian Batey

Independent Non-Executive Director	Age: 77

Ian Batey was appointed to the Board in August 2011. An accomplished brand specialist, he launched his advertising agency, Batey Ads, in Singapore in 1972. Under his leadership, Batey Ads became South East Asia's largest independent advertising group, responsible for the development of many iconic Asian brands including Singapore Airlines and Raffles Hotel. The agency has since become part of Grey Singapore, a subsidiary of WPP Plc.

He has been widely recognised for his contribution to the advertising industry and to the wider community, culminating in 1999 with the first Lifetime Achievement Award to be bestowed by the Institute of Advertising Singapore.

5 Sean Collins

Senior Independent Non-Executive Director and Chairman of the Audit Committee	Age: 62 Committees: A R N

Sean Collins was appointed to the Board in September 2012. A chartered accountant, he was formerly a senior audit and advisory partner at KPMG, where he had worked since 1972. From 2009 to 2012, Mr Collins was Head of Markets, Asia Pacific, responsible for the firm's business development in the Asia Pacific region. He also led the Global Communications and Media practice for over a decade. Mr Collins has deep and extensive experience of corporate governance, financial reporting and other corporate disciplines, gained during many years as lead partner for a large number of major international clients. He is a Governor and Deputy Chairman of More House School in Surrey, England.

6 Nicholas George

Independent Non-Executive Director	Age: 59 Committees: A R

Nicholas George was appointed to the Board in June 2009. He is a Chartered Accountant and is a Director of LGT Capital Partners (UK) Limited. Notably in 2003, Mr George was a founding partner of KGR Capital, a leading Asian Fund of Funds Specialist that was sold to LGT in 2008. He currently holds the position of Chairman at euNetworks Limited and also sits on the Board of GK Goh Holdings Limited; both companies are listed on the Singapore Stock Exchange. In addition, he is a Director of Aberdeen New Dawn Investment Trust plc which is listed on the London Stock Exchange. He has over 30 years of experience in investment banking and was a Managing Director of JP Morgan Securities (previously Jardine Fleming) in Asia from 1993 to 2002 and a Managing Director of HSBC Securities in Asia from 2002 to 2003.

7 Kwek Eik Sheng

Non-Executive Director	Age: 31

Kwek Eik Sheng was appointed to the Board in May 2011. He has been with the Hong Leong Group since 2006, before joining City Developments Limited in 2009, where he is currently Head of Corporate Development.

He holds a Bachelor of Engineering in Electrical and Electronics Engineering from Imperial College of Science, Technology and Medicine and a MPhil in Finance from Judge Business School, Cambridge University.

8 Kwek Leng Peck

Non-Executive Director	Age: 56 Committees: N

Kwek Leng Peck joined Millennium & Copthorne Hotels plc prior to the flotation of the Group. He holds directorships on most of the listed companies within the Hong Leong Group, including City Developments Limited, Hong Leong Finance Limited and China Yuchai International Limited. He also serves as an Executive Director for Hong Leong Asia Limited and is the non-executive Chairman of Tasek Corporation Berhad.

9 Alexander Waugh

Independent Non-Executive Director and Chairman of the Remuneration Committee	Age: 49 Committees: A R N

Alexander Waugh was appointed to the Board in June 2009. He is a world renowned author, literary critic and composer. He has commercial experience in event management, the media industry and is the founder of a successful publishing business. He is also founding director and Chairman of Xebras Management Limited, the digital media company.

Committees

A Member of the Audit Committee
R Member of the Remuneration Committee
N Member of the Nominations Committee

Report of the Directors

In this Report of the Directors, we describe how we govern the Company, who the Board are and what the Board does.

In addition, the Business review and strategy on pages 12 to 36 and the Report on Directors' Remuneration on pages 52 to 64 form part of this Report.

Corporate governance statement

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 compliant with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 as described on pages 40 to 47 of this Report of the Directors. A copy of the Code is available from the Financial Reporting Council (www.frc.org.uk).

We will review during 2013 our compliance with the 2012 edition of the UK Corporate Governance Code.

The Directors submit their report for the financial year ended 31 December 2012. This Report of the Directors is deemed to be the 'management report' required to be published in accordance with DTR4.1.8R.

Millennium & Copthorne Hotels plc is the listed holding company for the Millennium & Copthorne group of companies; its shares are listed on the London Stock Exchange.

The principal activity of the Group is ownership and management of hotels around the world.

The Business review and strategy incorporates sections covering financial, operating, risk factors and Non-GAAP information for the year ended 31 December 2012 and is set out on pages 12 to 36. Those sections, which form part of this Report, provide information about the Group's strategy, its businesses, the financial performance during the year, the principal risks and uncertainties facing the Group and its likely development. A description of the Group's business model is included on pages 12 and 13 as required by Code provision C.1.2 of the UK Corporate Governance Code.

The role of the Board

Who we are

The Board currently comprises the Chairman, one executive Director, five independent non-executive Directors and two other non-executive Directors who, like the Chairman, are appointees of the majority shareholder, City Developments Limited. Each Director is expected to fulfil his duties for the benefit of all shareholders. The Company's Articles of Association contain provisions concerning the appointment and replacement of Directors.

Directors' biographies shown on pages 38 to 39, which form part of this report, identify the Chairman, Senior Independent Director, the Chairman 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 B.1.1. There have been no significant changes in the Chairman's external commitments since the last annual report.

Changes to the composition of the Board from 1 January 2012 are as follows:

New Directors	Date of appointment
Sean Collins	1 September 2012
Directors who retired	Date of retirement
Richard Hartman	3 May 2012
Christopher Keljik	31 December 2012

Sean Collins, having been appointed as a Director by the Board during the year, will retire at the 2013 Annual General Meeting and will be proposed for re-appointment as required by the Articles of Association of the Company. All of the other Directors will be proposed for re-appointment this year in accordance with the UK Corporate Governance Code.

Details of the share interests of Directors are shown on pages 63 and 64. No changes to these interests occurred between the year end and the date of this report.

The role of the Board continued

Board meetings

The number of meetings of the Board, held during the year are shown below together with attendance details of each Director.

Directors	Meetings Eligible to attend	 Attended
Kwek Leng Beng (Chairman)	7	7
Wong Hong Ren	7	7
Shaukat Aziz	7	6
Ian Batey	7	4
Sean Collins[1]	2	2
Nicholas George	7	7
Richard Hartman[2]	2	1
Christopher Keljik	7	7
Kwek Leng Peck	7	3
Kwek Eik Sheng	7	6
Alexander Waugh	7	7

Notes:
1 Sean Collins joined the Board on 1 September 2012.
2 Richard Hartman stepped down from the Board at the AGM on 3 May 2012.

Our role

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's principal focus is on:

Strategy
Investment
Oversight and control
Corporate governance

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. Certain matters which are reserved for the Board have been delegated to its standing committees with specific delegated authority.

Millennium & Copthorne Hotels plc Board		
Audit Committee	Remuneration Committee	Nominations Committee

Committee activities are set out further in the reports of each committee's chairman which are deemed to be part of this report. The terms of reference for these committees are available, on request, from the Company Secretary and on the Group's website at www.millenniumhotels.com/corporate/investor-centre

The Company Secretary acts as secretary to all standing committees of the Board.

Reserved matters which require Board approval include:

Ethics, group-wide business policies and practices
Strategy, management and long-term plans
Annual budgets
Capital expenditure, acquisitions, significant property transactions and investments
Major contracts and expenditure proposals
Internal control systems, corporate governance, compliance and communication

The Board also oversees internal controls, operating and financial performance and reviews the risk register.

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 succession planning.

A written statement defining the respective responsibilities of the Chairman and Chief Executive Officer has been agreed and approved by the Board.

The Chairman

The Chairman provides leadership for the Board on all aspects of its role. His key duties are to:

- Formulate and set the strategic direction and organisational structure of the Group, subject to the Board's approval;
- Set a clear vision for the Group;
- Take the lead to appoint the Chief Executive Officer and following the appointment to mentor the Chief Executive Officer as and when required;
- Balance the interests of management and the Board as well as the needs of shareholders and management;
- Act as a liaison between management and the Board as well as between the Company and its shareholders;
- Manage communications and information dissemination processes between the Company and its shareholders and work closely with the Company's public relations team to achieve this objective;
- Establish the agenda and manage Board meetings;
- Offer advice and tap the collective wisdom and experience of Board members;
- Take a proactive role in the appointment of Directors and, following such appointments, oversee the development of individual Directors; and
- Develop the top management team in particular the Chief Executive Officer and establish a succession plan both for the Chairman and Chief Executive Officer positions.

The Chief Executive Officer

The Chief Executive Officer has ultimate responsibility, reporting to the Board, for the day-to-day running of the Group. He is responsible for leading the management and the operational activities and performance of the Group, including the effective delivery of the strategy and the business plan, as agreed by the Board, while managing the risks. His duties are to:

- Receive the strategic vision of the Group from the Board of Directors and to find creative solutions to implement such strategic vision, develop the strategic plan, business plan and budget and deliver the same to the satisfaction of the Board;
- Lead and act as an advocate for the Executive Management Committee;
- Oversee the execution of the strategic vision and plans, and assess the Group's performance in meeting them;
- Promote the growth of the Group;
- Develop the management team and establish a succession plan for key management appointments;
- Act on the feedback of the Chairman;
- Be responsible for the day-to-day management of the Group's business and affairs and to ensure that all issues that arise are resolved in an efficient and timely manner; and
- Lead the management team to improve performance in every division.

Role of the non-executive Directors

The majority of the Board is made up of independent non-executive Directors who have wide ranging international experience at senior levels in areas of finance, investment banking, fund management, media, brands and international affairs. They provide strong, independent judgement to the deliberations of the Board, particularly in the areas of strategy, finance and governance.

Sean Collins, as the Senior Independent Director, is available to meet with our institutional shareholders and shareholder representative bodies and to discuss any matters where it would be inappropriate for discussions to be held with either the Chairman or the Chief Executive Officer. He is also a sounding board for the Chairman and is an intermediary for other Board members when necessary.

Independent non-executive Directors have rolling contracts and appointments are subject to termination by either party giving one month's notice. Appointment and any subsequent re-appointment is subject at all times to the Articles of Association of the Company and any necessary shareholder ratification.

On appointment, each independent non-executive Director receives a letter of appointment setting out the terms of the appointment, including committee memberships, fees to be paid, matters such as confidentiality of information, potential conflicts and share dealing restrictions.

Training and information

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. There is the opportunity for non-executive Directors to meet separately with the Chairman.

Training and information continued

The Chairman, in conjunction with the Company Secretary, is also responsible for ensuring that 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.

The Board has established agreed procedures for managing potential conflicts of interest. These procedures and any potential conflicts authorised in accordance with section 175(4) Companies Act 2006, as permitted by the Company's Articles of Association, are reviewed by the Board at least annually. The Board is satisfied that the procedures for managing potential conflicts remain effective.

Evaluation process

During the year, an independent externally facilitated Board evaluation was conducted by Linstock, with the Directors completing on-line questionnaires. The evaluation process focused on key themes including:

- Board composition, expertise and dynamics.
- Time management and Board support.
- The operation of Board committees.
- Strategic oversight.
- Risk management and internal controls.
- Succession planning and human resource management.

A report was produced identifying a number of priorities to improve performance. The Board discussed the report at the Board meeting in September 2012 and agreed on the following actions:

Key areas	Actions
Focus on core issues	A programme has been established for the Board to receive regular presentations from senior executives
Time management	Agendas have been prioritised with greater focus on policy matters
Strategy and people	Attention is being given to articulating clearly the Group's strategic direction, reviewing the culture and ensuring the right individuals are in place to drive the strategy

An internal questionnaire for the next Board evaluation will be distributed in June 2013 which will include questions to assess progress against the above actions.

The results will be discussed by the Board in late summer 2013.

The performance of executive and non-executive Directors is assessed annually by the Chairman. During the year, the Chairman and independent non-executive Directors met without the executive Directors in attendance. Evaluation of the Chairman is conducted by the independent non-executive Directors led by the Senior Independent Director.

Indemnities

The Company has provided each of its Directors with a qualifying third-party indemnity, as defined in section 234 of the Companies Act 2006. In addition, the Company has provided qualifying pension scheme indemnities to the Directors of Millennium & Copthorne Pension Trustee Limited which acts as trustee to the Group's UK pension plan. These indemnities remain in force as at the date of this report. During the year, the Company has maintained cover for its Directors and Officers and those of its subsidiary companies under a Directors' and Officers' liability insurance policy, as permitted by section 233 of the Companies Act 2006.

Ethics and business conduct

The Group has in place policies which outline the standards of behaviour required of all employees when acting on the Group's behalf which include acting professionally, with honesty, integrity, objectivity and in compliance with all applicable legal and regulatory requirements. The Board of Directors has implemented an anti-bribery policy which prohibits the offering, the giving, the solicitation or the acceptance of any bribe, whether cash or other inducement. Whistle-blowing procedures are in place to enable employees to raise concerns about any activity they consider to be unlawful, is a breach of authority, falls below accepted standards or practice, amounts to improper conduct or could damage the Group's reputation. 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 24 days (2011: 24 days). At the year end, the Company had £nil trade creditors (2011: £nil).

Corporate social responsibility

Details of the Group's wider approach to managing its CSR can be found on pages 29 to 31 which include details of charitable donations made during the year. The CSR report is deemed to be part of this Report. 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. To ensure the delivery of the Board's policies in respect of health, safety, and the environment, Wong Hong Ren, in his capacity as Chief Executive Officer, has been identified as the Board member responsible for these areas.

Employees

We operate in 20 countries and value highly the rich ethnic and cultural diversity of our people by nurturing a working environment that recognises, develops and values people with different views, styles and approaches.

Our 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.

Further details on employee involvement are included in the CSR report on pages 29 to 31.

Risk management

Significant short and long-term risks have been identified and assessed and 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 24 to 28.

Financial risk management

An indication of the Group's financial risk management objectives in respect of the use of financial instruments and its exposures to credit risk, interest rate risk and foreign currency risk is set out in Our risks on pages 24 to 28, and in note 22 to the consolidated financial statements.

Going concern

Information on the principal risks and uncertainties that the Group faces throughout its global operations are included in Our risks on pages 24 to 28. The financial position of the Group, its cash flows, liquidity position and debt facilities are described in Business review – financial on pages 32 to 36. In addition, note 22 to the consolidated financial statements sets out the Group's policies and processes for measuring and managing risk from its use of financial instruments in relation to credit risk, liquidity risk and market risk (both currency and interest rate-related). Further details of the Group's cash balances and borrowings are included in notes 20 and 21 to the consolidated financial statements.

In assessing whether the Group is a going concern, the Directors follow a review process which is consistent with the principles set out in the guidance published by the Financial Reporting Council: "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009".

Cash flow forecasts for the Group have been prepared for a period in excess of twelve months from the date of approval of these consolidated financial statements. These forecasts reflect an assessment of current market conditions. The forecasts completed on this basis show that the Group will be able to operate within the current committed debt facilities and show continued compliance with the financial covenants. In addition, management has considered various mitigating actions that could be taken in the event that market conditions are worse than their current assessment. Such measures include further reduction in costs and in capital expenditure.

On the basis of the exercise as described above and the available committed debt facilities, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the financial statements of the Group and the Company.

Internal control system

The Board is responsible for the Group's system of internal control, including the Company's financial reporting process and the Group's process for preparation of consolidated accounts, 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 Our risks on pages 24 to 28.

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 reviewed by the Audit Committee on behalf of 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 executive management 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 the Audit Committee, the Chief Executive Officer, senior management of the Group 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 Group'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 region are set by the executive management team and reviewed by the Board on a geographical basis in the light of overall objectives; and
- Within the financial and overall objectives for the Group, agreed by the Board, the day-to-day management is delegated to the Chief Executive Officer and executive management. The executive management team receives a monthly summary of the results from the business 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.

Shareholders and Annual General Meeting

Share capital

The issued share capital of the Company, together with details of the movements in the Company's share capital during the year, are shown in note 29 to the consolidated financial statements.

Details of shares issued pursuant to the Group's share-based incentive schemes are shown in the notes to the consolidated financial statements on pages 124 to 126.

Rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, a copy of which can be obtained from Companies House. A copy is also available on request from the Company Secretary and on the Group's website at
www.millenniumhotels.com/corporate/investor-centre

Amendments to the Company's Articles of Association can be made by Special resolution of the shareholders.

At the Company's annual general meeting in May 2012, the Directors were authorised to allot shares up to a nominal amount of £31,756,392 and to allot such shares up to this nominal amount in connection with a rights issue and otherwise to allot shares for cash on a non pre-emptive basis up to a nominal amount of £4,763,458. In addition, the Company was authorised to make market purchases of up to 10% of the Company's issued share capital. All of these authorities remained in effect as at 31 December 2012.

The voting rights attached to the Company's ordinary shares are not restricted and there are no restrictions on the transfer of the Company's shares. None of the Company's shares carries special rights with regard to control of the Company. Neither the Company nor its Directors are aware of any agreements between shareholders that could result in restrictions on the transfer of shares or on voting rights.

Substantial shareholdings

As at 21 February 2013, the Company had received details of the following material shareholdings in its issued share capital:

	Number of shares	% of issued share capital
City Developments Limited	179,556,624	55.33
Schroders plc†	15,490,857	4.77
Aberdeen Asset Managers Limited#	16,352,673	5.04
Prudential plc*	12,141,915	3.74

† the interests of Schroders plc include the notifiable interest of:-

Schroder Investment Management Limited	15,151,069	4.67

* the interests of Prudential plc include the notifiable interest of:–

The Prudential Assurance Company Limited	12,127,405	3.74

the interests of Aberdeen Asset Managers Limited include the notifiable interests of:

Aberdeen Global – Asian Smaller Companies fund	9,802,172	3.02

Save as disclosed below, no changes to the material shareholdings listed have been reported to the Company between 31 December 2012 and the date of this report.

As at 31 December 2012, the notified material interests of Aberdeen Asset Management plc were as follows:

	Number of shares	% of issued share capital
Aberdeen Asset Management plc	15,451,769	4.76

Communication with shareholders

General presentations are made after the announcement of final and half-yearly results. There is a programme of meetings with 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.

Communication with shareholders continued

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.

Auditor

In accordance with Section 489 of the Companies Act 2006, 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 the 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 10.00 am on Thursday, 2 May 2013 at the Millennium Hotel London Mayfair, Grosvenor Square, London W1K 2HP.

A detailed explanation of each item of non-routine business to be considered at the annual general meeting is included with the Notice of Meeting.

By order of the Board

Alan Scott
Company Secretary

21 February 2013

Audit Committee Chairman's report

Our members

I took over as Chairman of the Audit Committee from Nicholas George on 31 October 2012 and wish to thank him for his chairing of the Committee over the past three years. Christopher Keljik ceased to be a member of the Committee when he stepped down from the Board on 31 December 2012 and I would also like to thank him for his contribution to the work of the Committee. Attendance for scheduled 2012 meetings is shown below:

Committee members in 2012

	Meetings	
Member	Eligible to attend	Attended
Sean Collins[1] (Chairman)	2	2
Nicholas George	5	5
Christopher Keljik	5	5
Alexander Waugh	5	5

Note
1 Sean Collins joined the Committee on 1 September 2012.

In addition to the scheduled meetings in the year, there were also a number of ad hoc meetings. Although not members of the Committee, the Chief Executive Officer, Chief Financial Officer, Company Secretary and Head of Internal Audit, attend each meeting, as does the lead audit partner from our external auditor, who is not present when we discuss their performance and/or remuneration. Senior management from the Group's financial function are also normally invited to attend.

The Board believes that between them the members of the Committee have broad commercial knowledge and significant business experience. The Board has determined that both Nicholas George and I have recent relevant financial experience as required by the provisions of the UK Corporate Governance Code.

After each Committee meeting, I report to the Board on the main issues that the Committee has discussed.

Our role

Our terms of reference are available on request from the Company Secretary and on the Group's website at www.millenniumhotels.com/corporate/investor-centre

External audit

KPMG Audit Plc has been the Company's auditor since 1996. We consider the appointment and re-appointment of the external auditor and review their terms of appointment and negotiate fees on behalf of the Company prior to making recommendations and re-appointment through the Board to the shareholders to consider at each annual general meeting.

We are responsible for reviewing the independence and objectivity of the external auditor and have reported to the Board that we consider that the auditor's independence and objectivity has been maintained. We consider that the external auditor retain its independence on the basis of comparing the present audit to non-audit service fees which in accordance with Company policy restricts the engagement of KPMG in relation to non-audit services.

The external auditor is required to rotate its lead partner every five years and other partners that are responsible for the Group and subsidiary audits every seven years. The lead audit partner, Stephen Masters, currently responsible for our audit is completing his second year.

We agree the detailed scope of the external audit prior to the commencement of the work and review the scope and results of the audit and its cost effectiveness.

Given its performance and the cost effectiveness of the service it provides, we do not consider it necessary this year to require the external auditor to tender for the audit. We will continue to review this, particularly in view of the recent revisions to the UK Corporate Governance Code.

Details of fees paid to KPMG and its associates are shown in note 6 to the accounts.

To analyse audit effectiveness, the Committee meets with management to discuss the performance of the external auditor without them being present. Separate meetings are also held with the external auditor without the presence of any member of executive management.

Internal audit

We monitor and review the effectiveness of the internal audit function; agree its annual work plan and review whether the function has the proper resources to enable it to satisfactorily complete such work plans. We review status reports from Internal Audit and consider management's response to any major finding, providing support, if necessary, for any follow-up action required and ensure that the function obtains free and unrestricted access to all Group activities, records, property and personnel necessary to fulfill its agreed objectives.

The Head of Internal Audit produces a risk based Global Internal Audit work plan of hotel audits and function by region and reports on regional and global patterns that affects the Group as well as specific issues of interest in relation to systems and controls.

Internal controls and risks

We are responsible for reviewing, and conduct an annual review of, the effectiveness of the Group's system of internal control and risk management procedures.

Accepting that risk is an inherent part of doing business, we review the Group's risk management strategy to ensure that any required remedial action on any identified weaknesses is taken. This includes a quarterly review of the risk register which contains the significant risks faced by the Group and identifies their potential impact and likelihood. Where specific actions are agreed to mitigate risks to a level deemed acceptable, these are agreed within specific timeframes for delivery and are monitored closely until fully implemented.

The system of internal controls audited by Internal Audit (and commented on by the external auditor from time to time) encompass all controls including those relating to financial reporting processes, operational and compliance controls and those relating to risk management processes.

We ensure that arrangements are in place for employees to raise concerns, in confidence, about possible fraud risk or wrong doing in financial reporting or other matters. Where a whistleblowing incident occurs, this is investigated by Internal Audit on a confidential basis and in a proportionate manner. Appropriate actions are recommended and undertaken which are reported to the Committee.

Financial reporting

We monitor the integrity, prior to submission to the Board, of periodic financial statements, annual accounts, reports to shareholders and any other public announcement concerning the Group's financial position, corporate governance statements and statements on the Group's system of internal controls and report our views to the Board to assist in its approval of the results announcements and the annual report.

What we have done

We reviewed and agreed a revised policy during the year on the provision of non-audit services by the auditor. The updated policy is consistent with the Auditing Practices Board's Ethical Standards No.5 – Non Audit Services. The policy is aimed at ensuring that the provision of non audit services does not have an impact on the external auditor's independence and objectivity. Our policy also identifies some types of engagement that the external auditor must not undertake. It requires that individual engagements above a certain fee level may only be undertaken with the appropriate authority of the Committee. We receive regular reports on the non-audit fees being provided and the cumulative total of non-audit fees periodically. The majority of non-audit work undertaken by KPMG during the year related to tax related services where it was more cost effective to utilise their services. A copy of the policy is available, on request, from the Company Secretary and on the Group's website.

www.millenniumhotels.com/corporate/investor-centre

We have held regular private meetings with the Head of Internal Audit to complement the reports and discussions at Audit Committee meetings and to ensure that appropriate action is taken on issues arising from reports, including monitoring management's responsiveness to the findings and recommendations of the internal auditors.

We have also considered the performance of the Internal Audit function and have carried out a review with the purpose of improving its effectiveness. As a result, PricewaterhouseCoopers LLP has been appointed in a co-sourcing capacity to improve the risk-based approach to internal audit that we are seeking.

During the year we carried out a review and revised the whistleblowing policy to enhance confidentiality.

What we have done continued

In addition to the above we reviewed, analysed, discussed and promoted action plans to tackle various risks pertinent to our industry and operations during the year. These included: an enhanced global training programme for anti-bribery and developing risk mitigation tools pertinent to the same, supporting new training for UK and EU competition law; approving development plans for certain properties under asset management risk; adopting preliminary mitigation plans to address IT risks; enhancing PCI security generally; obtaining improved coverage for cyber insurance; achieving ISO 14001 and OHSAS 18001 for one of our UK operations (with the intention of rolling out best practice nationally in 2013 and sharing best practice globally); and developing a standardised set of global operational procedures.

We also monitored tax based restructuring and the disclosure of asset values and received updates on the Bribery Act compliance, policies and processes to ensure that the procedures in place are adequate, as well as reports on material litigation facing the Group, treasury matters, ethics and whistleblowing, health and safety and the environment.

We reviewed: the inter-company charges and the accounting treatment of our associates, such as CDL Hospitality Trusts, the controls around significant capital expenditure projects, the impairment policy, the Group's approach to taxation, going concern reports and the annual report, together with half year and quarterly results for recommendation to the Board.

The Committee is increasing its focus on corporate governance matters and has considered the implications for the Group of the 2012 edition of the UK Corporate Governance Code.

Effectiveness

During the year, we carried out, through an externally facilitated evaluation conducted by Linstock, an effectiveness review of the Committee which concluded that the Committee was effective in terms of our expertise and use of our time; further that we had been provided with sufficient resources to carry out our duties. We have agreed the following priorities for 2013:

- Establishing a shortlist of annual objectives.
- Increased questioning of external audit.
- More engagement with senior management of key functions, including presentations by Treasury, IT and HR at meetings of the Committee.
- Improving the effectiveness of internal audit.

Sean Collins
Chairman of the Audit Committee
21 February 2013

Nominations Committee Chairman's report

Our members

The office of chairman of the Nominations Committee must be filled by the Chairman of the Board or an independent non-executive Director. At the request of the Board, I chair the Committee, although I would not participate in any discussion concerning the appointment of my successor.

The Nominations Committee comprises a majority of independent non-executive Directors and meets as necessary, but at least twice a year. The Company Secretary, and where appropriate, at the invitation of the Chairman, the Chief Executive Officer, Senior Vice-President Global Human Resources and other professional advisers, attend meetings.

The Committee met four times in 2012. The membership of the Committee throughout 2012 and attendance at meetings is set out below. Christopher Keljik ceased to be a member of the Committee when he stepped down from the Board on 31 December 2012. He was succeeded by Sean Collins.

Committee members in 2012

	Meetings	
Members	Eligible to attend	Attended
Kwek Leng Beng (Chairman)	4	4
Shaukat Aziz	4	4
Christopher Keljik	4	4
Kwek Leng Peck	4	4
Alexander Waugh	4	4

Our role

On behalf of the Board, we review the structure, size and composition of the Board, consider 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 future. We are responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise. We do not use an external search consultancy or open advertising, when identifying candidates for non-executive Director vacancies, as we believe the experience of the Committee members and their knowledge of the markets, business and the sector in which we operate is sufficient.

Our terms of reference are available, on request, from the Company Secretary and on the Group's website at:
www.millenniumhotels.com/corporate/investor-centre

Diversity

In noting the recommendations of the Davies Report, we support the principle that diversity can serve to strengthen a Group and we will continue to incorporate diversity – in all of its aspects, including gender – as an objective criterion for the selection of future Board members. Selection of female candidates to join the Board will be, in part, dependent on the pool of available female candidates with the necessary skill base and qualifications. The ultimate decision will be based on merit and the contribution the chosen candidate will bring to the working of the Board.

Review of the year

During the year, we reviewed:

- the composition of the Board and recommended the appointment of Sean Collins as an independent non-executive Director to strengthen the Board's overall financial expertise. Sean brings valuable experience, having formerly been a senior audit and advisory partner at KPMG where he worked for more than 30 years; and
- potential candidates for the role of Senior Independent Director to succeed Christopher Keljik and recommended to the Board the appointment of Sean Collins who took over as Senior Independent Director on 1 January 2013.

We also considered the succession planning for, and appointments to, other senior management positions and made recommendations to the Board which resulted in the appointment of:

- Fabrizio Gaggio as Senior Vice President, Global Asset Management on 4 June 2012;
- John Chang as Chief Financial Officer on 15 June 2012;
- John Arnott as Senior Vice President, Global Human Resources on 26 September 2012; and
- Alan Scott as Company Secretary, in succession to Adrian Bushnell, on 11 October 2012.

Kwek Leng Beng
Chairman of the Nominations Committee
21 February 2013

Report on Directors' remuneration

Review of the Year

The Remuneration Committee has reviewed its terms of reference, role and remit following an independent externally facilitated Board evaluation conducted by Linstock and the appointment in November 2012 of Kepler Associates as its independent remuneration consultants in place of New Bridge Street, after a competitive tender. The Committee agrees the reward packages of executive Directors and has established new guidelines to identify a broader range of individuals whose reward packages will be reviewed and approved by the Committee, and the circumstances in which it will also review packages below that level for new recruits, or termination arrangements.

I would like to thank Christopher Keljik, who stepped down from the Committee at the end of the year, for the outstanding contribution he made to the work of the Committee and to welcome Sean Collins who joined the Committee on 1 January 2013. I am pleased to report that the Committee now benefits from the support of John Arnott, who joined the Company as Senior Vice President, Global Human Resources in September 2012.

Following review, the Committee has decided that its approach to reward continues to be fit for purpose for the coming year and no significant changes have been made to the remuneration policy.

Performance over the past year has delivered headline profit before tax of £157.7m, which is outside the financial targets set by the Committee for the Chief Executive Officer's bonus. This demonstrates the degree of challenge set by the Committee in determining the targets. To reflect the achievement of non-financial personal objectives, Wong Hong Ren was awarded a bonus of £156,000 which is 64% of the personal element (16% of the maximum opportunity). Additionally, the Committee has agreed to pay Wong Hong Ren a discretionary bonus of £200,000 for his exceptional efforts in securing the profitability of First Sponsor and in recognition of the progress made on our asset management programme and, in particular, the renovation and re-positioning of ONE UN, formerly known as the Millennium UN Plaza, making a total bonus of £356,000.

EPS growth over the three years to 31 December 2012 was 81%. As a result, LTIP awards granted in 2010 will vest in full.

The Committee has decided, following its annual review of executive remuneration, that the salary of Wong Hong Ren should remain unchanged at £650,000. His current salary was set in June 2011 when he became Chief Executive Officer. The Committee considers, inter alia, the pay and conditions of all employees when determining salary increases for executive Directors and senior managers. Salary increases for direct reports to the Chief Executive Officer, and other Senior Vice-Presidents or equivalents, are consistent with salary increases for other employees.

The Committee remains mindful of the Best Practice Provisions on the Design of Performance Related Remuneration under Schedule A of the UK Corporate Governance Code. This report continues to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The 2011 Directors' Remuneration Report was approved with a vote of 84% at the 2012 AGM.

Alexander Waugh
Chairman of the Remuneration Committee
21 February 2013

The Remuneration Committee

This section describes the membership and role of the Committee

Our members

Alexander Waugh chairs the Remuneration Committee which comprises all independent non-executive Directors. Christopher Keljik stood down from the Committee when he retired from the Board on 31 December 2012. The chairman of the Audit Committee, Sean Collins, joined the Committee on 1 January 2013, in recognition of the relationship between risk and remuneration. All other members served throughout the year. Alexander Waugh is also a member of the Audit Committee. The Remuneration Committee met four times in 2012 and attendance is shown below:

Committee members in 2012

	Meetings	
Member	Eligible to attend	Attended
Alexander Waugh (Chairman)	4	4
Shaukat Aziz	4	4
Christopher Keljik	4	4
Nicholas George	4	4

The Chairman and Chief Executive Officer are invited to attend meetings as appropriate but they are excluded when their own performance and remuneration is being discussed.

Our role

The Remuneration Committee has delegated authority from the Board to consider and approve the salaries, incentives and other benefit arrangements of the executive Directors and senior management and to oversee the Group's share-based incentive arrangements. In particular, the Committee agrees the framework for the remuneration of the Chairman, the executive Directors and certain senior executives. This includes the policy for all cash remuneration, executive share plans, service contracts and termination arrangements. The Committee approves new executive share plans and any changes and makes recommendations to the Board which require shareholder approval. The Committee determines the basis on which awards are granted to all other executives.

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

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

Our terms of reference are available, on request, from the Company Secretary and on the Group's website at www.millenniumhotels.com/corporate/investor-centre

Remuneration principles

The Committee believes that to promote the long-term success of the Group a sound remuneration policy must attract, retain and motivate the high calibre executives required to manage the Group in a demanding environment. The policy of the Committee is to provide remuneration that is comparable to that of other international companies in terms of size and complexity. We believe that pay must reflect performance and a significant proportion is therefore based on the achievement of both Group and individual performance targets.

Performance targets are designed to be stretching and to align the interests of executives and shareholders while ensuring that inappropriate risk taking is neither encouraged nor rewarded.

The Senior Vice-President Global Human Resources ensures that the Committee is aware of pay and conditions throughout the Group and that these are taken into account when framing executive remuneration.

A similar approach is taken to assessing appropriate reward levels for all employees across the Group, including the Chief Executive Officer. Reward is intended to attract and retain the necessary skills for today's business and the talent to deliver increased future shareholder value. This entails ensuring individual performance and potential is differentiated and competitively rewarded. As a global group, in a sector with ready global mobility, the more senior the role, the more reward needs to reflect the global market, whilst reward for the majority of employees is set with greater consideration of local market conditions and practices.

The Committee plans to maintain a regular dialogue with key shareholders through its Chairman and the Senior Vice-President Global Human Resources, in order to ensure that their views are appropriately taken into account in determining remuneration policy.

Remuneration principles continued

The total remuneration of executive Directors and senior management for the year ahead will continue to comprise:

Element of pay	Purpose and link to strategy	Operation	Maximum	Performance targets	Changes in 2013 financial year
Salary	Fixed cash compensation is determined based on the value of the individual, level of responsibility, individual performance and experience.	Base salary levels are reviewed annually (unless in the opinion of the Committee earlier review is necessary) but they are not necessarily increased. Increases are normally effective for 12 months from 1 April. In reviewing salaries, account is taken of market conditions, significant changes in role, salary changes across the whole workforce, budgets, and periodically what Directors in similar international companies are paid.	Annual increases are linked to those of the wider workforce, except where there has been a significant change in role.	Not applicable.	No change.
Bonus	Variable cash-based incentive to drive operational performance using: one or more stretching financial targets linked to the Group's strategic objectives; and personal objectives and individual contribution. The Committee reviews the performance targets annually to ensure that they are challenging and closely linked to the Group's strategic objectives. Annual bonuses are non-pensionable. The aim is to align the interests of executives and shareholders whilst ensuring that inappropriate risk taking is neither encouraged nor rewarded.	Financial performance targets are designed to be stretching and are closely aligned with targeted financial performance. In the event that bonuses are found to have been paid on the basis of any material over-statement of financial performance, the Committee will consider appropriate means of redress, including bonus "clawback". The Committee may consider the payment of a special bonus in circumstances where individuals have had a direct role in generating substantial additional value for shareholders.	For the Chief Executive Officer maximum bonus potential is 150% of base salary, and for other executive Directors (if any) 100% of base salary.	75% of bonus is based on growth in headline profit before tax to incentivise operational performance. – Stretch bonus would be paid for 105% or more of the financial target. – Threshold (0% payout) is 95% of the financial target. – Between the two, performance will attract a pro-rata bonus calculated on a straight line basis. Headline profit before tax is one of our key performance indicators and has a direct impact on shareholder value. 25% is based on personal performance and contribution.	For 2013, 60% of bonus will be based on growth in headline profit before tax and 40% on personal measurable performance and contribution objectives. This is to reflect a more balanced approach to the range of critical goals the Chief Executive Officer needs to deliver for the longer term benefit of the shareholders.

Remuneration principles continued

Element of pay	Purpose and link to strategy	Operation	Maximum	Performance targets	Changes in 2013 financial year
Performance share awards	Share-based incentive schemes are designed to link remuneration to the future long-term performance of the Group. Variable share-based incentives are linked to 3-year growth in Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance.	The Long-Term Incentive Plan ("LTIP") for the executive Directors and other senior executives was approved by shareholders in 2006. Awards of performance shares are made annually with vesting dependent on the achievement of performance conditions over three years. There is no re-testing. Deferred share bonus awards may be granted to an individual over a portion of his or her bonus as the Committee may determine. No such awards have been made to date, or are intended to be made in 2013. The Company has a share option scheme, established in 2003. No options have been granted since 2005 and it is currently not intended that any further options will be granted under this scheme. The operation of share-based incentives is regularly reviewed by the Committee to ensure that it aligns with best market practice and with the particular circumstances of the Company. The Company operates a Sharesave Scheme for all UK based employees.	The maximum value of an award of performance shares is 150% of base salary (200% in exceptional circumstances). The value of any deferred share bonus award may not be more than the cash bonus that would otherwise have been paid for the year.	Performance share awards vest on the third anniversary of grant, subject to performance. From 2011, 50% is subject to an EPS growth target and 50% is subject to relative TSR performance, both measured over a period of three financial years beginning with the financial year in which the award is granted. EPS growth target: – 100% vests for growth of an average of RPI plus 10% p.a. or more. – 25% vests for growth of an average of RPI plus 4% p.a. – 25% – 100% pro-rated. Comparative TSR performance: – 100% for upper quartile or above. – 25% for median. – on a straight line basis between median and upper quartile. The Company's TSR performance is compared against the TSR of each company within a comparator group comprising those companies within the FTSE250 index. Deferred share bonus awards are not subject to any further performance conditions.	No change.
Pension	Provide retirement benefits. Promote long-term retirement planning.	Fixed cash contributions to a Company sponsored pension plan or cash contribution to the executive.	20% of base salary in lieu of participation in the Group's pension plans.	Not applicable.	No change.
Other benefits	Help recruit and retain through the provision of cost effective benefits consistent with market practice.	Other benefits comprise one or more of the following: a motor vehicle and driver, or an appropriate allowance, and insurances for life, personal accident, disability and family medical cover.	Full cost of annual policy is currently £36,000.	Not applicable.	No change.

Remuneration principles continued

The Committee reviews annually the reward packages for established employees who report to the Chief Executive Officer and any other Senior Vice-Presidents and equivalents not reporting to the Chief Executive Officer, and approves any changes. It also monitors reward packages for new hires and termination arrangements for this band of executives. Lower aggregate reward quantum operate below Board level, driven by market comparatives and the relative impact of each role.

Long-term incentives are restricted to these most senior executives and hotel general managers who have the greatest potential to influence long-term Group performance and to other individuals in exceptional cases to support long term retention, based on outstanding performance and future potential.

The Committee is now monitoring reward for all other personnel by employee population with particular reference to the effectiveness of variable bonus schemes.

Fixed and variable remuneration

The composition of the Chief Executive Officer's remuneration package is as follows:

Component	
Base salary	£650,000
Pension	20% of base salary in lieu of participation in Group pension plans
Other benefits	Taxable value of annual benefits provided (e.g. £36,000)
Annual cash bonus	
Maximum	150% of base salary (maximum opportunity)
Target	75% of base salary (target opportunity)
Below threshold	0% of base salary
Long term incentive	
Maximum	150% of base salary (maximum vesting level)
Target	37.5% of base salary (threshold vesting level)
Below threshold	0% vesting

Service agreements

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

Termination payments

The Company's normal policy is to limit payments to Directors on termination to those entitled under their service agreement, bonus agreement and the rules of any employee share plan. Under normal circumstances, all leavers are entitled to receive termination payments in lieu of notice equal to base salary only. There is no automatic entitlement to bonus or LTIP as part of the termination arrangements, and the value of any termination arrangement will be at the discretion of the Remuneration Committee, having regard to all relevant factors, including ensuring the full benefit of mitigation is obtained. The Committee has established a mitigation policy in the event of early termination of a Director's contract and aims to avoid rewarding poor performance.

In the event that an executive leaves for reasons of death, ill-health, injury, disability, retirement or redundancy, or such other reason that the Committee determines, outstanding LTIP awards will be time pro-rated and will be performance-tested at the date of cessation (or if the Committee decides, at the normal time). For all other leavers, outstanding awards normally lapse.

Upon a change of control, LTIPs will vest early to the extent the Committee determines taking account of pro-rating to reflect the performance period that has elapsed and the extent to which performance conditions have been met, unless the Committee determines that awards should not be pro-rated for time.

The Committee retains discretion to alter these provisions on a case by case basis, following a review of circumstances and to ensure fairness for both shareholders and participants

Wong Hong Ren's service agreement entitles him, on the termination of his contract by the employing company, to payment in lieu of base salary for a period twelve months from notice of termination. There is an obligation on him to seek alternative income from employment and any instalment payments would be reduced by the amount of that income. He is not entitled to any bonus or LTIP award, benefits or any payment in respect of holiday entitlement that might become due during the period for which the payment in lieu is made.

Non-executive Directors' letter of appointment

Fees paid to non-executive Directors are determined by the Board as a whole taking account of time commitment and responsibilities. Fees cease immediately in the event of the non-executive ceasing to be a Director. Non-executive Directors 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 Peck and Kwek Eik Sheng as Directors under the terms of the Co-operation Agreement dated 18 April 1996, as amended.

The independent non-executive Directors each have rolling letters of appointment which may be terminated by either party on one month's notice.

The basic fee for a non-executive Director is £45,000 per year (2011: £45,000). Sean Collins receives a fee of £50,000 as the Senior Independent Director.

There are additional fees for chairing a Board Committee, details of which are given below:

Committee	Additional Chairman's fee
Audit Committee	£10,000
Remuneration Committee	£10,000

Directors service agreements and letters of appointment

The dates on which Directors' initial service agreements/letters of appointment commenced and the current expiry dates are as follows:

Name	Date of contract	Notice periods/unexpired term
Chairman and executive Directors		
Kwek Leng Beng	–	Nominee of majority shareholder
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.
Non-executive Directors		
Kwek Leng Peck	–	Nominee of majority shareholder
Shaukat Aziz	16 June 2009	Rolling letters of appointment terminable by either party on one month's notice
Ian Batey	15 August 2011	
Sean Collins	1 September 2012	
Nicholas George	16 June 2009	
Alexander Waugh	16 June 2009	
Kwek Eik Sheng	–	Nominee of majority shareholder

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 executives' knowledge and experience, to the benefit of the Group. Fees payable to executive Directors in connection with external appointments would be retained by them with the approval of the Committee.

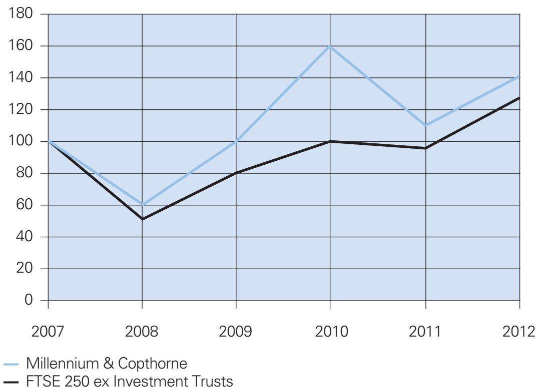
Committee evaluation

During the year, Linstock conducted on behalf of the Committee an externally facilitated evaluation, with members completing on-line questionnaires. The review identified a number of priorities, which resulted in the appointment of a global head of Human Resources, a review of the Committee's terms of reference, role and remit and the decision to schedule a strategic review of the remuneration policy into the Committee's 2013 programme.

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 250, the Directors consider this index to be the most appropriate broad equity market index against which the Company's performance should be compared for these purposes. Performance is measured by Total Shareholder Return (share price growth plus dividends reinvested).

Total shareholder return ("TSR')



Total shareholder return ("TSR') continued

The graph shows the value, by the end of 2012, of £100 invested in ordinary 30p shares of Millennium & Copthorne Hotels plc on 31 December 2007 compared with £100 invested in the FTSE250. The other points plotted are the values at the financial year-ends.

Advisers

The Committee received advice during the year on remuneration issues from independent remuneration consultants New Bridge Street (which is ultimately owned by Aon Corporation) and Kepler Associates who replaced New Bridge Street in November 2012. The Committee carried out an initial review and, following a tender exercise and presentations by two of the candidates, the Committee appointed Kepler Associates.

The independent remuneration consultants attended Committee meetings when major remuneration issues were discussed.

The Company also separately received from New Bridge Street advice on the accounting treatment of share options required by IFRS2: Share-based payments. Other than this, neither New Bridge Street (including any other part of Aon Corporation) nor Kepler Associates provided any other services to the Company.

Fees paid to the above consultants were as follows:

Name of consultant	Activities	Amount £'000
New Bridge Street	Advice to Remuneration Committee	34
Kepler Associates	Advice to Remuneration Committee	4
New Bridge Street	Advice on IFRS 2 – accounting for share–based payments	2

The Committee regularly consults the Senior Vice President, Global Human Resources and the Company Secretary.

Audited information

Directors' remuneration

2012 £'000	Salary	Benefits[14]	Pension	Bonus	**Total remuneration**	LTIPs	**Total remuneration inc LTIPs**
Chairman							
Kwek Leng Beng[1,2]	219	–	–	–	**219**	–	**219**
Executive Director							
Wong Hong Ren[11, 13]	650	36	130	356	**1,172**	1,113	**2,285**
Non-executive Directors							
Shaukat Aziz	45	–	–	–	**45**	–	**45**
Ian Batey	45	–	–	–	**45**	–	**45**
Sean Collins[3]	17	–	–	–	**17**	–	**17**
Nicholas George[4]	54	–	–	–	**54**	–	**54**
Christopher Keljik[5]	50	–	–	–	**50**	–	**50**
Kwek Eik Sheng	47	–	–	–	**47**	–	**47**
Kwek Leng Peck[2]	52	–	–	–	**52**	–	**52**
Alexander Waugh	55	–	–	–	**55**	–	**55**
Former Director							
Richard Hartman[12]	16	–	–	–	**16**	2,291	**2,307**
Total	1,250	36	130	356	**1,772**	3,404	**5,176**

2011 £'000	Salary	Benefits[14]	Pension	Bonus	**Total remuneration**	LTIPs	**Total remuneration inc LTIPs**
Chairman							
Kwek Leng Beng[1,2]	219	–	–	–	**219**	–	**219**
Executive Directors[5]							
Richard Hartman[6]	173	–	–	38	**211**	–	**211**
Wong Hong Ren[2]	536	16	67	670	**1,289**	–	**1,289**
Non–executive Directors							
Shaukat Aziz	45	–	–	–	**45**	–	**45**
Ian Batey[7]	17	–	–	–	**17**	–	**17**
Nicholas George	55	–	–	–	**55**	–	**55**
Christopher Keljik	50	–	–	–	**50**	–	**50**
Kwek Eik Sheng [8]	29	–	–	–	**29**	–	**29**
Kwek Leng Peck[2]	63	–	–	–	**63**	–	**63**
Alexander Waugh	50	–	–	–	**50**	–	**50**
Former Directors							
Kwek Leng Joo[2,9]	39	–	–	–	**39**	–	**39**
Connal Rankin[10]	27	–	–	–	**27**	–	**27**
Total	1,303	16	67	708	**2,094**	–	**2,094**

Notes

1 The Group owns a flat in London used by the Chairman for business purposes only.

2 Salaries and fees are shown inclusive of sums receivable by the Directors from the Company and any of its subsidiary undertakings.

3 Sean Collins joined the Board on 1 September 2012 . He became chairman of the Audit Committee on 31 October 2012.

4 Nicholas George stood down as chairman of the Audit Committee on 31 October 2012.

5 Christopher Keljik stood down from the Board on 31 December 2012.

6 Richard Hartman who was Chief Executive Officer until 27 June 2011 and retired as a non-executive Director on 3 May 2012, agreed to provide consultancy services to the Group, as and when required, for which he would be paid a consultancy fee of £1,600 per day. No such consultancy services were provided during the 2011 and 2012 financial years.

7 Ian Batey joined the Board on 15 August 2011.

8 Kwek Eik Sheng joined the Board on 6 May 2011.

9 Kwek Leng Joo stood down from the Board on 6 May 2011; he continues to hold directorships in various Group companies.

10 Connal Rankin stood down from the Board on 27 June 2011.

11 The LTIP award of 56,936 shares made on 16 September 2010 is due to time-vest on 16 September 2013. Based on the Company's EPS growth for the three years ended 31 December 2012, the Committee has determined that the LTIP vests in full. The figure in the table is an estimate of the value using the average price of a Millennium & Copthorne Hotels plc share for the three months to 31 December 2012 which was £4.923.

12 Based on the Company's EPS growth for the three years ended 31 December 2011, the Committee determined that the LTIP award of 478,955 shares made on 30 March 2009 would vest in full on 30 March 2012. The price of a Millennium & Copthorne Hotels plc share was £4.783.

13 Based on the Company's EPS growth for the three years ended 31 December 2011, the Committee determined that the LTIP award of 174,165 shares made on 30 March 2009 would vest in full on 30 March 2012. The price of a Millennium & Copthorne Hotels plc share was £4.783.

14 Benefits comprise a motor vehicle and driver.

Audited information continued

The total remuneration, including gains on the exercise of share options (2012: £nil, 2011: £564,000) and the market value of vested LTIP awards of £1,113,000 (2011: £nil), paid to the highest paid Director was £2,285,000 (2011: £1,853,000).

Base salary

Wong Hong Ren's salary has been £650,000 since his appointment as Chief Executive Officer on 27 June 2011. The Committee has determined that his salary should remain at this level for a further year, unless in the opinion of the Committee earlier review is necessary.

Pensions

Wong Hong Ren receives a cash allowance in lieu of participation in the Group's pension plans. The cash allowance is equal to 20% of base salary and is inclusive of contributions made by the Company to Singapore's Central Provident Fund ("CPF") on Mr Wong's behalf. During the year the cash allowance (including CPF contribution) amounted to £130,000.

Annual bonus

For 2012, Wong Hong Ren's bonus opportunity of up to 150% of salary was based 75% on growth in headline profit before tax, and 25% on personal performance and contribution. He received a bonus for 2012 of 24% of his salary, reflecting the achievement of non-financial personal objectives. The headline profit before tax targets set by the Committee were not met. The table below shows performance against target in each area, and how the bonus payout was calculated. Wong Hong Ren was the only executive Director in office during the year.

	Proportion of total bonus available	
Performance measure	% of maximum	% of salary
Headline profit before tax	75%	112.5%
Personal performance[1]	25%	37.5%
Total	**100%**	**150%**

Actual performance achieved	
Headline profit before tax	<95% of Plan
Personal performance[1]	64%

Resulting bonus outturn	£'000	% of maximum	% of salary
Headline profit before tax	–	–	–
Personal performance[1]	156	16	24
Total	**156**	**16**	**24**

Note:

1 Personal performance – objectives included building a strong and sustainable management team; driving sales to grow EBITDA; developing Group strategy and developing and improving hotels' product.

In addition, Wong Hong Ren received a discretionary bonus of £200,000 for his exceptional efforts in securing the profitability of First Sponsor and in recognition of the progress made on the asset management programme and, in particular, the renovation and re-positioning of ONE UN, formerly known as the Millennium UN Plaza, making a total bonus for the year of £356,000 (55% of salary) (2011: £670,000).

Long-term incentives

i Millennium & Copthorne Hotels plc Long-Term Incentive Plan

The Millennium & Copthorne Hotels Long-Term Incentive Plan was adopted in 2006. Under the terms of the LTIP, the Company is permitted to make both Performance Share Awards of shares worth up to a maximum of 150% of salary (up to 200% in exceptional circumstances) and Deferred Share Bonus Awards (worth no more than the cash bonus that would otherwise have been paid for the year). The levels 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. LTIP awards are not subject to re-testing.

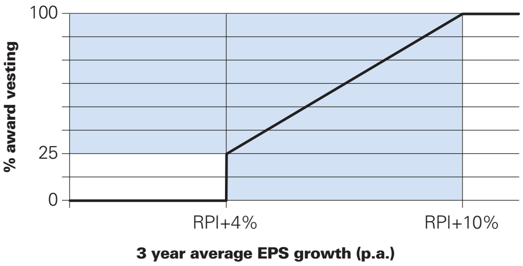
No deferred bonus awards were made during the year.

Performance conditions

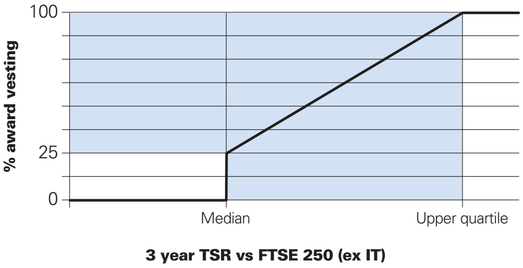
Performance Share Awards made under the LTIP from 2011 are subject to performance conditions comprising both EPS growth and relative TSR performance. Performance Share Awards will vest on the third anniversary of the award being made, with up to half subject to growth of the Company's EPS exceeding RPI by targets as set out in the vesting schedule shown below. The remaining half of each Performance Share Award is subject to a performance condition that compares the Company's TSR against the TSR of each company within a comparator group comprising those companies within the FTSE 250 index (excluding investment trusts) over a period of three financial years beginning with the financial year in which the Award is granted.

Performance conditions continued

EPS vesting schedule (%)



TSR vesting schedule (%)



The EPS targets were considered appropriately challenging in light of current and expected future general economic and trading conditions and provide a good balance to the relative TSR-based conditions.

Prior to 2011, Performance Share Awards vested based entirely on growth in the Company's EPS, in real terms, over a period of three consecutive financial years after award. Performance Share Awards made in 2009 and 2010 vested on the third anniversary of the award being made, subject to the vesting schedule shown in the table below.

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%

Awards vesting during the year

Having considered the extent to which performance conditions had been met in respect of LTIP awards made on 30 March 2009, the Committee determined that the performance conditions based on the Company's EPS growth for the three years ended 31 December 2011 were met, and so the awards time-vested in full on 30 March 2012. Consequently, 174,165 shares were received by Wong Hong Ren and 478,955 by Richard Hartman. The market value of a Millennium & Copthorne Hotels plc share on the vesting date was £4.783.

The LTIP award made on 16 September 2010 is due to time-vest on 16 September 2013. Based on the Company's EPS growth for the three years ended 31 December 2012, the Committee has determined that 100% of the award vests at 31 December 2012.

Performance against targets is subject to third party verification.

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).

Options granted under the 2003 Scheme were subject to the achievement of stretching performance targets. EPS targets were chosen at the time of the grant as the Committee believed that participants in the 2003 Scheme should be incentivised to deliver significant earnings growth which, in turn, should return substantial shareholder value. The EPS performance conditions in respect of all outstanding share options have been met. Accordingly, all share options are fully exercisable and have been exercised by Directors who have no options outstanding.

No further awards have been made under the terms of the 2003 Scheme since 2005. It is currently not intended that further awards will be made under the 2003 Scheme.

Performance conditions continued

iii Millennium & Copthorne Hotels plc 2006 Sharesave Scheme

The Company also operates the Millennium & Copthorne Hotels Sharesave Scheme which is an Inland Revenue approved scheme and under which the UK-based executive Directors and Group employees are eligible to participate. No Director participates in this plan currently.

Funding

Awards of share-based incentives are made for nil consideration and are either satisfied by the issue of new shares or through market purchase of shares. LTIP awards made in 2010 will be satisfied via the Millennium & Copthorne Hotels plc Employment Benefit Trust 2006 (the "EBT"). As at 31 December 2012 the EBT held 397,834 shares in trust representing approximately 0.123% of the Company's issued share capital. All awards made under the Company's share schemes conform to institutional dilution guidelines.

The market price of a Millennium & Copthorne Hotels plc ordinary share at 31 December 2012 was £5.050 and the range during the year was £3.896 to £5.180. Aggregate gains made by Directors on the exercise of share options in 2012 was £nil (2011: £564,000). The aggregate value of Directors' LTIP awards which vested during and at the end of the year was £3,404,000 (2011: £nil).

Directors' interests in share-based incentives

Performance conditions attaching to the Company's Long-Term Incentive Plan are as detailed on pages 61 and 62.

Long-Term Incentive Awards

Name of Director	Date awarded	Awards held at 1 January 2012	Awards made during the year	Awards vested	Awards lapsed	**Awards held at 31 December 2012**	Market price of shares on date of award	Performance period end	Vesting date	Market price at vesting	Monetary value of vested award '000
Wong Hong Ren											
	30.03.2009 [a]	174,165	–	174,165	–	**–**	£1.6950	31.12.2011	30.03.2012	£4.783	£833
	16.09.2010 [b]	56,936	–	56,936	–	**–**	£5.2550	31.12.2012 [b]	16.09.2013	£4.923	£280
	28.11.2011 [c]	256,430	–	–	–	**256,430**	£3.9410	31.12.2013	28.11.2014	–	–
	16.08.2012 [c]	–	203,898	–	–	**203,898**	£4.8570	31.12.2014	16.08.2015	–	–
Richard Hartman [d]											
	30.03.2009 [a]	478,955	–	478,955	–	**–**	£1.6950	31.12.2011	30.03.2012	£4.783	£2,291

Notes

a The number of shares subject to awards was calculated using the middle market price of a Millennium & Copthorne Hotels plc share for the 5 days prior to the grant. Vesting is linked to growth in EPS in real terms over a period of three consecutive years. This award vested in full, based on the Company's EPS growth for the three years ended 31 December 2011. The awards time vested on 30 March 2012.

b The number of shares subject to awards was calculated using the middle market price of a Millennium & Copthorne Hotels plc share for the 5 days prior to the grant. Vesting is linked to growth in EPS in real terms over a period of three consecutive years. Based on the Company's EPS growth for the three years ended 31 December 2012, the Committee has determined that the LTIP vests in full. The market price at vesting is an estimate of the value using the average price of a Millennium & Copthorne Hotels plc share for the three months to 31 December 2012 which was £4.923. The award will time-vest on 16 September 2013.

c The number of shares subject to awards was calculated using the middle market price of a Millennium & Copthorne Hotels plc share for the 5 days prior to the grant. 50% of each award of shares is linked to growth in EPS in real terms over three consecutive years and 50% is linked to TSR compared with companies in the FTSE250. The awards will vest subject to meeting the two performance conditions.

d Richard Hartman retired as Chief Executive Officer on 27 June 2011 and stood down from the Board on 3 May 2012. Long-term incentive awards made to Mr Hartman were unaffected by his retirement and vesting was subject to applicable performance conditions in accordance with the rules of the Long-Term Incentive Plan.

Directors' Share Interests

The interests of Directors holding office at the end of the year, and their families, in the ordinary shares of Millennium & Copthorne Hotels plc at 31 December 2012 and 31 December 2011 or at date of appointment if later, were as follows:

	Number of shares	
	Beneficial holdings	
	31 December 2012	31 December 2011
Chairman		
Kwek Leng Beng[1]	**–**	–
Executives		
Wong Hong Ren	**250,270**	158,499
Non-Executives		
Shaukat Aziz	**–**	–
Ian Batey	**–**	–
Sean Collins[2]	**–**	–
Nicholas George	**5,000**	5,000
Christopher Keljik[3]	**30,464**	30,464
Kwek Eik Sheng[1]	**–**	–
Kwek Leng Peck[1]	**–**	–
Alexander Waugh	**–**	–

Notes:

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

2 Sean Collins joined the Board on 1 September 2012

3 Christopher Keljik stepped down from the Board on 31 December 2012.

There have been no changes to Directors' interests between 31 December 2012 and the date of this report.

On behalf of the Board

Alexander Waugh
Chairman of the Remuneration Committee
21 February 2013

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 they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies 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 financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the Directors, the names of whom are set out on pages 38 and 39 of this Annual Report, confirms that to the best of his knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and the profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The statement of Directors' Responsibilities was approved by the Board of Directors on 21 February 2013.

Wong Hong Ren
Chief Executive Officer
21 February 2013

Report of the auditor

We have audited the financial statements of Millennium & Copthorne Hotels plc for the year ended 31 December 2012 set out on pages 68 to 144. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 65, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulations.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 44 and 45, in relation to going concern;
- the part of the Corporate Governance statement on page 40 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Stephen Masters (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
21 February 2013

Consolidated financial statements

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Revenue	5	**768.3**	820.5
Cost of sales		**(305.7)**	(318.3)
Gross profit		**462.6**	502.2
Administrative expenses	6	**(335.8)**	(361.1)
Other operating income	7	**1.8**	1.0
Other operating expense	7	**–**	(0.1)
		128.6	142.0
Share of profit of joint ventures and associates	15	**37.2**	37.5
Operating profit		**165.8**	179.5
Analysed between:			
Headline operating profit		**163.3**	191.4
Net revaluation gain of investment properties	7	**1.8**	0.9
Impairment	7	**(1.4)**	(29.9)
Separately disclosed items – share of joint ventures and associates	7	**2.1**	17.1
Non-operating income		**11.1**	20.5
Analysed between:			
Profit on sale and leaseback of Studio M Hotel	7	**–**	17.4
Profit on disposal of subsidiary	7	**–**	1.7
Gain arising on disposal of properties	7	**10.5**	1.2
Gain on disposal of stapled securities in CDLHT	7	**0.6**	0.2
Finance income		**6.6**	5.5
Finance expense		**(12.2)**	(12.2)
Net finance expense	9	**(5.6)**	(6.7)
Profit before tax	5	**171.3**	193.3
Income tax expense	10	**(24.6)**	(28.2)
Profit for the year		**146.7**	165.1
Attributable to:			
Equity holders of the parent		**135.0**	160.9
Non-controlling interests		**11.7**	4.2
		146.7	165.1
Basic earnings per share (pence)	11	**42.0p**	51.0p
Diluted earnings per share (pence)	11	**41.8p**	50.8p

The financial results above derive from continuing activities.

Notes on pages 75 to 136 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit for the year		**146.7**	165.1
Other comprehensive income/(expense):			
Foreign currency translation differences – foreign operations		**(5.5)**	(25.8)
Foreign currency translation differences – equity accounted investees		**0.8**	(3.7)
Net gain on hedge of net investments in foreign operations		**3.0**	3.9
Defined benefit plan actuarial losses	23	**(3.7)**	(2.3)
Share of joint ventures and associates other reserve movements		**0.1**	(4.8)
Effective portion of changes in fair value of cashflow hedges		**0.3**	0.3
Income tax on income and expense recognised directly in equity	10	**0.6**	2.4
Other comprehensive expense for the year, net of tax		**(4.4)**	(30.0)
Total comprehensive income for the year		**142.3**	135.1
Total comprehensive income attributable to:			
Equity holders of the parent		**132.4**	129.6
Non-controlling interests		**9.9**	5.5
Total comprehensive income for the year		**142.3**	135.1

Notes on pages 75 to 136 form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Property, plant and equipment	12	**2,051.7**	2,044.1
Lease premium prepayment	13	**44.4**	47.3
Investment properties	14	**169.1**	173.9
Investments in joint ventures and associates	15	**439.9**	422.8
Loans due from associate		**29.1**	50.9
Other financial assets	16	**7.9**	7.8
		2,742.1	2,746.8
Current assets			
Inventories	17	**3.8**	4.0
Development properties	18	**172.6**	148.3
Lease premium prepayment	13	**1.4**	1.4
Trade and other receivables	19	**67.6**	70.1
Loans due from associate		**18.5**	18.1
Cash and cash equivalents	20	**396.7**	332.2
		660.6	574.1
Total assets		**3,402.7**	3,320.9
Non-current liabilities			
Loans due to associate		**(16.4)**	(11.8)
Interest–bearing loans, bonds and borrowings	21	**(152.6)**	(311.6)
Employee benefits	23	**(17.2)**	(17.5)
Provisions	24	**(7.5)**	(7.8)
Other non-current liabilities	25	**(238.0)**	(186.7)
Deferred tax liabilities	26	**(228.1)**	(236.4)
		(659.8)	(771.8)
Current liabilities			
Interest-bearing loans, bonds and borrowings	21	**(191.9)**	(120.8)
Trade and other payables	27	**(154.6)**	(146.0)
Other current financial liabilities		**(2.4)**	(0.9)
Provisions	24	**(6.3)**	(7.6)
Income taxes payable		**(24.9)**	(26.2)
		(380.1)	(301.5)
Total liabilities		**(1,039.9)**	(1,073.3)
Net assets		**2,362.8**	2,247.6

Notes on pages 75 to 136 form an integral part of these financial statements.

	Note	2012 £m	2011 £m
Equity			
Issued share capital		**97.4**	95.3
Share premium		**843.0**	844.3
Translation reserve		**262.6**	262.5
Cash flow hedge reserve		**(0.2)**	(0.5)
Treasury share reserve	30	**(2.2)**	(2.2)
Retained earnings		**975.4**	867.1
Total equity attributable to equity holders of the parent		**2,176.0**	2,066.5
Non-controlling interests		**186.8**	181.1
Total equity		**2,362.8**	2,247.6

These financial statements were approved by the Board of Directors on 21 February 2013 and were signed on its behalf by:

Kwek Leng Beng
Chairman

Wong Hong Ren
Chief Executive Officer

Registered No: 3004377

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital £m	Share premium £m	Translation reserve £m	Cash flow hedge reserve £m	Treasury share reserve £m	Retained earnings £m	Total excluding non-controlling interests £m	Non-controlling interests £m	Total equity £m
Balance as at 1 January 2011	94.0	844.7	290.4	(0.8)	(2.2)	721.4	1,947.5	171.2	2,118.7
Profit	–	–	–	–	–	160.9	160.9	4.2	165.1
Total other comprehensive income	–	–	(27.9)	0.3	–	(3.7)	(31.3)	1.3	(30.0)
Total comprehensive income for the year	–	–	(27.9)	0.3	–	157.2	129.6	5.5	135.1
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividends – equity holders	–	–	–	–	–	(31.3)	(31.3)	–	(31.3)
Issue of shares in lieu of dividends	1.2	(1.2)	–	–	–	20.1	20.1	–	20.1
Dividends – non-controlling interests	–	–	–	–	–	–	–	(4.9)	(4.9)
Share-based payment transactions (net of tax)	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Share options exercised	0.1	0.8	–	–	–	–	0.9	–	0.9
Contribution by non-controlling interests	–	–	–	–	–	–	–	9.3	9.3
Total contributions by and distributions to owners	1.3	(0.4)	–	–	–	(11.5)	(10.6)	4.4	(6.2)
Total transactions with owners	1.3	(0.4)	–	–	–	(11.5)	(10.6)	4.4	(6.2)
Balance as at 31 December 2011	95.3	844.3	262.5	(0.5)	(2.2)	867.1	2,066.5	181.1	2,247.6
Balance as at 1 January 2012	**95.3**	**844.3**	**262.5**	**(0.5)**	**(2.2)**	**867.1**	**2,066.5**	**181.1**	**2,247.6**
Profit	**–**	**–**	**–**	**–**	**–**	**135.0**	**135.0**	**11.7**	**146.7**
Total other comprehensive income	**–**	**–**	**0.1**	**0.3**	**–**	**(3.0)**	**(2.6)**	**(1.8)**	**(4.4)**
Total comprehensive income for the year	**–**	**–**	**0.1**	**0.3**	**–**	**132.0**	**132.4**	**9.9**	**142.3**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividends – equity holders	**–**	**–**	**–**	**–**	**–**	**(52.5)**	**(52.5)**	**–**	**(52.5)**
Issue of shares in lieu of dividends	**1.7**	**(1.7)**	**–**	**–**	**–**	**28.0**	**28.0**	**–**	**28.0**
Dividends – non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4.2)**	**(4.2)**
Share-based payment transactions (net of tax)	**–**	**–**	**–**	**–**	**–**	**1.1**	**1.1**	**–**	**1.1**
Share options exercised	**0.4**	**0.4**	**–**	**–**	**–**	**(0.3)**	**0.5**	**–**	**0.5**
Total contributions by and distributions to owners	**2.1**	**(1.3)**	**–**	**–**	**–**	**(23.7)**	**(22.9)**	**(4.2)**	**(27.1)**
Total transactions with owners	**2.1**	**(1.3)**	**–**	**–**	**–**	**(23.7)**	**(22.9)**	**(4.2)**	**(27.1)**
Balance as at 31 December 2012	**97.4**	**843.0**	**262.6**	**(0.2)**	**(2.2)**	**975.4**	**2,176.0**	**186.8**	**2,362.8**

Notes on pages 75 to 136 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012 £m	2011 £m
Cash flows from operating activities		
Profit for the year	**146.7**	165.1
Adjustments for:		
Depreciation and amortisation	**34.6**	35.5
Share of profit of joint ventures and associates	**(37.2)**	(37.5)
Separately disclosed items – Group	**(11.5)**	8.5
Equity settled share-based transactions	**2.0**	1.3
Finance income	**(6.6)**	(5.5)
Finance expense	**12.2**	12.2
Income tax expense	**24.6**	28.2
Operating profit before changes in working capital and provisions	**164.8**	207.8
Decrease/(increase) in inventories, trade and other receivables	**2.8**	(3.5)
(Increase)/decrease in development properties	**(21.2)**	1.0
Increase in trade and other payables	**54.6**	12.4
Decrease in provisions and employee benefits	**(5.0)**	(1.3)
Cash generated from operations	**196.0**	216.4
Interest paid	**(9.2)**	(9.0)
Interest received	**5.2**	3.3
Income tax paid	**(32.7)**	(44.1)
Net cash generated from operating activities	**159.3**	166.6
Cash flows from investing activities		
Dividends received from joint venture and associate	**23.7**	17.8
Decrease/(increase) in loans due from associate	**19.5**	(68.3)
Increase in investment in associate	**(4.9)**	(24.7)
Proceeds from sale of shares in associate	**2.8**	0.8
Net proceeds from sale of property, plant and equipment	**18.7**	78.7
Acquisition of property, plant and equipment, lease premium prepayment and investment properties	**(55.8)**	(107.7)
Net cash generated from/(used in) investing activities	**4.0**	(103.4)
Balance carried forward	**163.3**	63.2

Notes on pages 75 to 136 form an integral part of these financial statements.

	Note	2012 £m	2011 £m
Balance brought forward		**163.3**	63.2
Cash flows from financing activities			
Proceeds from issue of share capital		**0.5**	0.9
Repayment of borrowings		**(66.8)**	(89.7)
Drawdown of borrowings		**28.3**	51.1
Payment of transaction costs related to loans and borrowings		**(0.9)**	(0.8)
Dividends paid to non-controlling interests		**(4.2)**	(4.9)
Increase in loan due to associate		**5.0**	11.3
Capital contribution from non-controlling interests		**–**	9.3
Dividends paid to equity holders of the parent	28	**(24.5)**	(11.2)
Net cash used in financing activities		**(62.6)**	(34.0)
Net increase in cash and cash equivalents		**100.7**	29.2
Cash and cash equivalents at beginning of the year		**275.3**	251.5
Effect of exchange rate fluctuations on cash held		**3.0**	(5.4)
Cash and cash equivalents at end of the year		**379.0**	275.3
Reconciliation of cash and cash equivalents			
Cash and cash equivalents shown in the consolidated statement of financial position		**396.7**	332.2
Bank overdrafts included in borrowings		**(17.7)**	(56.9)
Cash and cash equivalents for consolidated statement of cash flows		**379.0**	275.3

Notes on pages 75 to 136 form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 21 February 2013. The Company is a limited company incorporated in England and Wales whose shares are publicly traded. The registered office is located at Victoria House, Victoria Road, Horley, Surrey RH6 7AF, United Kingdom.

2.1 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for investment properties 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 headline operating profit, other operating income and expense, non-operating income and other separately disclosed items of the Group together with separately disclosed items of joint ventures and associates. 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 fitted measures used by other companies. The Directors intend to follow such presentation on a consistent basis. The financial statements are presented in the Company's functional currency of sterling, rounded to the nearest hundred thousand.

Since the 2011 Annual Report, the definition of headline operating profit, one of the Group's key performance indicators, has been modified to include the share of tax, interest and non-controlling interests of joint ventures and associates. The Group believes that the revised definition simplifies the presentation of headline operating profit given to the reader both on the face of the consolidated income statement and in the segmental analysis of operating results. Comparatives in the consolidated income statement and operating segment information for 31 December 2011 have been restated to reflect the change in definition.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRSs as adopted by the EU, 'IFRS'.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Investments in associates and jointly controlled entities (equity accounted investees)

The Group's investment in its associates and joint ventures is accounted for using the equity method. An associate is an entity 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.

Under the equity method, the investment in associates and joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate and joint venture. Goodwill relating to the associate and joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

2.1 Basis of preparation continued

The income statement reflects the share of the results of operations of the associate and joint venture. Where there has been a change recognised directly in the equity of the associate and joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The share of profit of associates and joint ventures is shown on the face of the income statement. This is the profit attributable to equity holders of the associates and joint ventures and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates and joint ventures.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates and joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates and joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and joint ventures and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over associates and joint ventures, the Group measures and recognises any remaining investment at its fair value. Any differences between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the income statement.

Upon loss of joint control and provided the former jointly-controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly-controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in the income statement. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

(iii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRSs as of 1 January 2012:

Amendments to IFRS 7 – Financial Instruments: Disclosures

Amendments to IAS 12 – Income Taxes

The adoption of these accounting standards has not had a significant impact on the consolidated financial statements of the Group.

2.3 Summary of significant accounting policies

A Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the date through the income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' either in the income statement or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured and its subsequent settlement shall be accounted for within equity.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed, and are allocated to each of the Group's hotels that are expected to benefit from the combination. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Transaction costs directly attributable to the acquisition are charged to the income statement.

B Foreign currency

(i) Foreign currency translation

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in foreign currencies other than the functional currency 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

On consolidation, 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.

2.3 Summary of significant accounting policies continued

(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 or partial disposal of the foreign operation.

C 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 remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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

D 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 forecast 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 forecast 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 is still 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.

2.3 Summary of significant accounting policies continued

(iii) Hedge of net investment in foreign operations

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 within translation reserve. The ineffective portion is recognised immediately in the income statement.

E Property, plant and equipment and depreciation

(i) Recognition and measurement

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 property, plant and equipment is 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.

(ii) Depreciation

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
Software	up to 8 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.

(iii) Subsequent costs

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 stated at their deemed costs as at 1 January 2008 and subsumed into the costs of the hotel buildings. Subsequent renewals and replacements of such stocks and new supplies upon initial hotel opening are written off as incurred to the income statement.

F Leases

(i) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The leased asset is initially recorded at the lower of fair value and the present value of minimum lease payments.

The equivalent liability, categorised as appropriate, is included within current or non-current liabilities. 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.

2.3 Summary of significant accounting policies continued

Rentals payable by the Group under operating leases are charged to the income statement on a straight-line basis over the lease term even if payments are not made on the same basis. In cases where rents comprise a fixed and a variable element, the fixed element only is charged to the income statement on a straight-line basis with the variable amounts being charged as they become due. Lease incentives received are recognised as an integral part of the total lease expense.

Rentals receivable by the Group as lessor under operating leases, including the sub-letting of retail outlets within hotel properties, are credited to the income statement on a straight-line basis over the lease term even if the receipts are not made on such a basis. Costs, including depreciation incurred in earning the lease income, are recognised as an expense.

(ii) Lease premium

On occasion the Group makes and receives initial payments on entering both into long and short leases of land and buildings. Where payment for leased land is equivalent to the purchase of the freehold interest, the lease is classified as a finance lease. All other payments for leases of land are classified as operating.

On the statement of financial position, financial lease payment attributable to the land is recorded as property, plant and equipment and for operating leases, the land is recorded as a lease premium prepayment. Both lease types are charged to the income statement on a straight-line basis over the term of the lease. Interest attributable to funds to finance the purchase of lease of land is capitalised gross of tax relief and added to the cost of lease.

In the case of lease premiums received, these are reflected on the statement of financial position as deferred income, appropriately classified between current and non-current liabilities and are credited to the income statement on a straight-line basis over the term of the lease.

G Impairment

The carrying amounts of the Group's assets, other than investment properties, inventories, employee benefit assets and deferred tax assets are reviewed 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. Where permissible under IFRS, 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.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement.

H Investment properties

Investment properties held by the Group 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 in accordance with IAS 40 'Investment Property'.

An external independent valuer, 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

2.3 Summary of significant accounting policies continued

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.

The Group's associate undertaking, CDLHT, holds hotel assets which are leased to both the Group and external third parties with lease rentals and related charges varying according to the agreements involved. For the purposes of the preparation of the Group's financial statements, to the extent that these assets held by CDLHT qualify to be accounted for as investment properties in accordance with IAS 40, the Group equity accounts for its share of CDLHT's fair value change within its overall share of profits from associates. Such share of fair value change is recorded as a share of other operating income/expenses of associates in the Group's income statement. Where in the Group's view, the indicators of the lease arrangement are of an owner-occupied property, the property is accounted for in the Group's financial statements as part of CDLHT's property, plant and equipment with the Group's share of CDLHT's results for the period incorporating an appropriate depreciation charge.

I 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.

J Development properties

Development properties are stated at the lower of cost and net realisable value and are held-for-sale in the short term and are therefore classified as current assets. The cost of development properties includes interest and other related expenditure incurred in order to get the asset ready for its intended use. Borrowing costs payable on loans funding a development property are also capitalised, on a specific identification basis, as part of the cost of the development property until the completion of development. Payments received from purchasers arising from pre-sales of the property units prior to the completion are included as deferred income under other financial liabilities in the statement of financial position.

K 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.

L 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.

M 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 substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet 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: (i) the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and (ii) 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.

2.3 Summary of significant accounting policies continued

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: (i) the Group has a legally enforceable right to offset current tax assets against current tax liabilities; (ii) the Group intends to settle net; and (iii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

N 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.

The Group recognises actuarial gains and losses within the consolidated statement of comprehensive income in the period in which they occur.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than post-employment plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit 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 the terms of the Group's obligations.

(iv) Share-based payment transactions

The share-based incentive schemes allow the Group's employees to acquire shares of Millennium & Copthorne Hotels plc.

The cost of equity-settled transactions with employees for awards granted after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 23.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether

2.3 Summary of significant accounting policies continued

or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 11).

O Provisions

A provision is recognised on 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. Further details on provisions are given in note 24.

P Revenue and its recognition

Revenue comprises:

- Income from the ownership and operation of hotels – recognised at the point at which the accommodation and related services are provided;
- Management fees – earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and/or an incentive fee, which is generally based on the hotel's profitability; recognised when earned on an accrual basis under the terms of the contract;
- Franchise fees – received in connection with licensing of the Group's brand names, usually under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of room revenue; recognised when earned on an accrual basis under the terms of the agreement;
- REIT manager's management fees – earned from CDLHT and recognised on an accrual basis based on the applicable formula as described in note 33;
- 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
- Development property sales – recognised when the significant risks and rewards of ownership have passed, which is usually when legal title transfers depending on jurisdictions.

2.3 Summary of significant accounting policies continued

Q 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.

R Operating segment information

Disclosure of segmental information is principally presented in respect of the Group's geographical segments. The segments reported reflect the operating information included in internal reports that the Chief Operating Decision Maker ("CODM"), the Board, regularly reviews. Further details are given in note 5.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Discrete financial information is reported to and is reviewed by the CODM on a geographical basis. Operating segments have Chief Operating Officers ("COOs") or equivalent who are directly accountable for the functioning of their segments and maintain regular contact with the Chief Executive Officer and Chairman of the CODM to discuss the operational and financial performance. The CODM makes decisions about allocation of resources to the regions managed by the COOs.

Segment results that are reported to the CODM 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, cash and cash equivalents, net finance expense, taxation balances and corporate expenses.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

S Non-current assets held-for-sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to property, plant and equipment and lease premium prepayment, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

T 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 any impairment.

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

U 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.

3 Accounting estimates and judgements

Management has discussed with the Audit Committee the 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 IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies 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 judgements 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. Key estimates and judgements have been made in the following areas:

Asset carrying values

Management performs an assessment at each balance sheet date of assets across the Group where risk of impairment has been identified. Key judgement areas include the carrying values of property, plant and equipment and investment properties, investments in and loans to associates and joint ventures, and development properties. The recovery of these assets is dependent on future cash flows being receivable and the provision of future services or goods by third parties.

Where risk of impairment has been identified an impairment review has been performed on property, plant and equipment, lease premium prepayments and investments in and loans to joint ventures and associates held across the Group on a cash generating basis. Where appropriate, external evaluations are also undertaken. The impairment review is performed on a 'value in use' basis which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and appropriate growth rates. The discount rates used reflect appropriate sensitivities involved in the assessment. Discount rates used for impaired properties are disclosed in note 12.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and Strategy on pages 12 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review – Financial on pages 32 to 36 and in the key performance indicators on pages 32 and 33. In addition, note 22 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group has considerable financial resources and plans for refinancing maturing facilities are under way.

Cash flow forecasts for the Group have been prepared for a period in excess of twelve months from the date of approval of these consolidated financial statements. These forecasts reflect an assessment of current market conditions. The forecasts completed on this basis show that the Group will be able to operate within the current committed debt facilities and show continued compliance with the financial covenants. In addition, management has considered various mitigating actions that could be taken in the event that market conditions are worse than their current assessment. Such measures include further reduction in costs and in capital expenditure. On the basis of the exercise as described above and the available committed debt facilities, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the financial statements of the Group and the Company.

In assessing whether the Group is a going concern, the Directors follow a review process which is consistent with the principles set out in the guidance published by the Financial Reporting Council: "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009".

3 Accounting estimates and judgements continued

Defined benefit pension plans

The Group operates a number of defined benefit pension plans. As set out in note 23, 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. In reviewing the work of the independent actuary, management is required to exercise judgement to satisfy themselves that appropriate weight had been afforded to macro economics factors. Details of the assumptions used are set out in note 23.

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 measureable.

Investment in CDLHT

In 2006, the Group acquired a 39.1% interest in CDLHT, a stapled security listed on Singapore Exchange Securities Trading Limited, comprising a hotel real estate investment trust ("REIT") and a business trust. The business trust is dormant. The Group's interest in CDLHT at 31 December 2012 was 35.3%. CDLHT is not considered to be a special purpose entity under Standing Interpretations Committee 12: Consolidation – Special Purpose Entities and the Group does not have, by virtue of its unit holdings, the power to control a majority of the voting rights of the units of CDLHT. However, as further noted in note 33, the Group acts as REIT Manager (through a wholly-owned company) under the terms of the trust deed constituting the REIT. The Directors have therefore given careful consideration to the Group's interest in and relationship with CDLHT for the purposes of assessing whether it should be consolidated in accordance with IAS 27 'Consolidation and Separate Financial Statements'.

A subsidiary of the Group, M&C REIT Management Limited, in its capacity as REIT Manager, has the power to govern the financial and operating policies of the REIT. However, there are certain substantive kick-out rights that prevent the Group from exercising the power to control the majority of the Board of the REIT Manager so as to be able to govern the financial and operating policies of the REIT.

Management have judged that the Group does not therefore control CDLHT and it is not a subsidiary of the Group. Because of the significant influence that the Group has by way of its holding of 35.3% of CDLHT units and representation on the Board of the REIT Manager, the Group equity accounts for its interest in CDLHT as an associate.

Lease backs from CDLHT

In July 2006 the Group completed the sale of long leasehold interest in three of its Singapore hotels to CDLHT, an associate and comprising a REIT and a business trust. These hotels were the Orchard Hotel (including the connected shopping centre) and M Hotel which were both sold on 75-year leases and Copthorne King's Hotel for the remaining 61 years of a 99-year lease. CDLHT also acquired the Grand Copthorne Waterfront Hotel, a Group managed hotel from CDL under a 75-year lease together with a conference centre. All four hotels excluding the shopping centre were leased back to the Group for an initial term of 20 years, each renewable at the Group's option for an additional term of 20 years. The conference centre lease was for five years from July 2006 and was renewed for a further five years during 2011.

In May 2011, the Group completed the sale of the remaining term of a 99-year long leasehold interest (commencing February 2007) in the Studio M Hotel Singapore to CDLHT. The hotel was leased back for an initial term of 20 years, renewable at the Group's option for three consecutive terms totalling 50 years.

3 Accounting estimates and judgements continued

Under the terms of the master lease agreements for the four hotels acquired in 2006, and in May 2011 for the Studio M Hotel, the Group is obliged to pay CDLHT an annual rental for the duration of the term (initial and extended term) of each lease agreement comprising the following:

- A fixed rent and service charge for each hotel; and
- A variable rent computed based on the sum of 20% (30% for Studio M) of each hotel's revenue and 20% of each hotel's gross operating profit for the prevailing financial year, less the sum of the fixed rent and the service charge. Should the calculation of the variable rent yield a negative figure, the variable rent is deemed to be zero.

Although the Group has the option to lease each building asset for a further period of 20-50 years, there remains a substantial proportion of the asset's economic life for which the Group will not benefit from the asset. In addition, the present value of the minimum lease payments over the potential term of the leases do not constitute substantially all of the fair value of the leased assets, and the variable rent structure is such that the Group does not retain significant risks and rewards of ownership of the assets. Accordingly, the Group has classified the lease-back arrangements as operating leases in accordance with IAS 17 'Leases'.

Any prepaid operating land lease income arising from the sale of hotels is recognised on the statement of financial position as deferred income, and is amortised over the 75-year term of the lease. At 31 December 2012, an amount of £116.8m (2011: £115.2m) is recognised in the statement of financial position as deferred income, £115.1m (2011: £113.5m) in non-current liabilities and £1.7m (2011: £1.7m) in trade and other payables and an amount of £1.7m (2011: £1.7m) has been credited to the 2012 consolidated income statement.

In relation to profit recorded on disposals in 2011, and in accordance with the Group's accounting policy, unrealised gains resulting from transactions between the Group and associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. In the case of the sale and leaseback of the Studio M Hotel on 3 May 2011 to CDLHT for a cash consideration of S$154.0m (£75.7m), it gave rise to a total realised pre-tax profit from the disposal of S$35.4 (£17.4m). Total unrealised pre-tax profit from the disposal of S$19.1m (£9.4m) has been credited to the statement of financial position as investment in joint ventures and associates, arising from the Group's then 35.1% interest in the stapled securities of CDLHT.

Investment properties

The Group holds a number of investment properties and accounts for such properties in accordance with the accounting policy set out in note 2.3H. CDLHT owns hotel assets which are leased to both the Group and external third parties with lease rentals and related charges varying according to the agreement involved. The Group accounts for such hotel assets in its financial statements in accordance with the accounting policy set out in note 2.3H.

Judgement is required in assessing whether the relevant hotel assets held by CDLHT are owner-occupied or not, for the purposes of assessing whether IAS 40 'Investment Property' is applicable and whether therefore, accounting for the relevant hotels as investment properties is appropriate for the purposes of the Group's financial statements. The question of whether or not a property is owner-occupied is a matter of judgement, involving consideration of various factors such as, the length of the agreement involved, the powers of intervention and level of influence on financial and operating decisions held by the Group or CDLHT, and the extent of the Group or CDLHT's interest in the profits and cash flows generated by the relevant properties.

Where the indicators are such that on balance, CDLHT is, in the Group's opinion, shown to be a passive investor, the relevant hotel property is accounted for in accordance with IAS 40 and the Group accounts for its share of the fair value change through the income statement as a share of other operating income/expense of the associate. Where indicators are of an owner-occupied property, the hotel is classified as part of CDLHT's property, plant and equipment with the Group's share of CDLHT's results for the period incorporating an appropriate depreciation charge.

3 Accounting estimates and judgements continued

Land leases classification

The Group holds a number of hotels with leases of land that are determined to have an indefinite economic life. These are classified as a finance lease, even if at the end of the lease term title does not pass to the lessee. In determining the lease of land status as to finance or operating lease the following factors were considered:

- transfer of ownership
- purchase options
- present value of minimum lease payments in comparison to fair value of land

4 New standards and interpretations not yet adopted

The following EU-endorsed new standards and amendments to standards have been issued, but are not yet effective:

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosures of Interests in Other Entities

IFRS 13 Fair Value Measurement

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

Amendments to IAS 19 Employee Benefits

Amendments to IAS 27 Separate Financial Statements

Amendments to IAS 28 Investments in Associates and Joint Ventures

Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Except for IFRS 10 and Amendments to IAS 19 (“IAS 19R”), the adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group. Management are still assessing the potential impact of IFRS 10 on the consolidated financial statements of the Group and it is estimated that had IAS 19R been applied in 2012, the net pension expense reported for the UK Scheme within the consolidated income statement would have increased by around £0.15m.

5 Operating segment information

Disclosure of segmental information is principally presented in respect of the Group’s geographical segments.

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, cash and cash equivalents, net finance expense, taxation balances and corporate expenses.

Geographical segments

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

- New York
- Regional US
- London
- Rest of Europe (including the Middle East)
- Singapore
- Rest of Asia
- Australasia

5 Operating segment information continued

The segments reported reflect the operating segment information included in the internal reports that the Chief Operating Decision Maker ("CODM"), which is the Board, regularly reviews.

The reportable segments are aligned with the structure of the Group's internal organisation which is based according to geographical region. Discrete financial information is reported to and is reviewed by the CODM on a geographical basis. Operating segments have Chief Operating Officers ("COOs") or equivalent who are directly accountable for the functioning of their segments and who maintain regular contact with the Chief Executive Officer and Chairman of the CODM to discuss the operational and financial performance. The CODM makes decisions about allocation of resources to the regions managed by the COOs.

Segment results

	2012								
	New York £m	Regional US £m	London £m	Rest of Europe £m	Singapore £m	Rest of Asia £m	Australasia £m	Central costs £m	Total Group £m
Revenue									
Hotel	**99.5**	**115.3**	**108.4**	**70.3**	**152.3**	**159.2**	**44.4**	**–**	**749.4**
Property operations	**–**	**1.6**	**–**	**–**	**2.2**	**0.1**	**15.0**	**–**	**18.9**
Total revenue	**99.5**	**116.9**	**108.4**	**70.3**	**154.5**	**159.3**	**59.4**	**–**	**768.3**
Hotel gross operating profit	**24.3**	**22.0**	**61.8**	**17.2**	**81.6**	**61.2**	**20.5**	**–**	**288.6**
Hotel fixed charges[1]	**(18.5)**	**(18.9)**	**(14.9)**	**(12.3)**	**(48.1)**	**(23.9)**	**(6.3)**	**–**	**(142.9)**
Hotel operating profit	**5.8**	**3.1**	**46.9**	**4.9**	**33.5**	**37.3**	**14.2**	**–**	**145.7**
Property operating profit/(loss)	**–**	**(1.0)**	**–**	**–**	**1.3**	**–**	**5.9**	**–**	**6.2**
Central costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(23.7)**	**(23.7)**
Share of joint ventures and associates profit	**–**	**–**	**–**	**–**	**13.4**	**17.1**	**4.6**	**–**	**35.1**
Headline operating profit/(loss)	**5.8**	**2.1**	**46.9**	**4.9**	**48.2**	**54.4**	**24.7**	**(23.7)**	**163.3**
Add back depreciation and amortisation	**5.0**	**6.5**	**4.7**	**3.6**	**0.2**	**11.3**	**2.1**	**1.2**	**34.6**
Headline EBITDA[2]	**10.8**	**8.6**	**51.6**	**8.5**	**48.4**	**65.7**	**26.8**	**(22.5)**	**197.9**
Depreciation and amortisation									**(34.6)**
Net finance expense									**(5.6)**
Headline profit before tax									**157.7**
Separately disclosed items – Group[3]									**11.5**
Separately disclosed items – Share of joint ventures and associates									**2.1**
Profit before tax									**171.3**

1 Hotel fixed charges include depreciation, amortisation of lease premium prepayments, property rent, taxes and insurance, operating lease rentals and management fees.

2 EBITDA is earnings before interest, tax, depreciation and amortisation.

3 See note 7 for details of the Group's separately disclosed items.

5 Operating segment information continued

	2011								
	New York £m	Regional US £m	London £m	Rest of Europe £m	Singapore £m	Rest of Asia £m	Australasia £m	Central costs £m	Total Group £m
Revenue									
Hotel	103.2	114.9	100.9	86.9	151.1	159.8	48.4	–	765.2
Property operations	–	1.4	–	–	2.4	44.3	7.2	–	55.3
Total revenue	103.2	116.3	100.9	86.9	153.5	204.1	55.6	–	820.5
Hotel gross operating profit	30.1	21.8	56.2	22.0	83.4	60.6	22.0	–	296.1
Hotel fixed charges[1]	(18.1)	(18.2)	(14.0)	(9.4)	(47.7)	(21.6)	(10.5)	–	(139.5)
Hotel operating profit	12.0	3.6	42.2	12.6	35.7	39.0	11.5	–	156.6
Property operating profit/(loss)	–	(0.8)	–	–	(0.2)	34.0	2.6	–	35.6
Central costs	–	–	–	–	–	–	–	(21.2)	(21.2)
Share of joint ventures and associates profit	–	–	–	–	13.4	3.2	3.8	–	20.4
Headline operating profit/(loss)	12.0	2.8	42.2	12.6	48.9	76.2	17.9	(21.2)	191.4
Add back depreciation and amortisation	4.7	7.5	5.1	3.8	1.3	9.8	2.4	0.9	35.5
Headline EBITDA[2]	16.7	10.3	47.3	16.4	50.2	86.0	20.3	(20.3)	226.9
Depreciation and amortisation									(35.5)
Net finance expense									(6.7)
Headline profit before tax									184.7
Separately disclosed items – Group[3]									(8.5)
Separately disclosed items – Share of joint ventures and associates									17.1
Profit before tax									193.3

1 Hotel fixed charges include depreciation, amortisation of lease premium prepayments, property rent, taxes and insurance, operating lease rentals and management fees.
2 EBITDA is earnings before interest, tax, depreciation and amortisation.
3 See note 7 for details of the Group's separately disclosed items.

5 Operating segment information continued

Segmental assets, liabilities and capital expenditure

	2012							
	New York £m	Regional US £m	London £m	Rest of Europe £m	Singapore £m	Rest of Asia £m	Australasia £m	Total Group £m
Hotel operating assets	**352.3**	**270.8**	**436.3**	**186.5**	**148.5**	**629.4**	**149.2**	**2,173.0**
Hotel operating liabilities	**(12.8)**	**(46.1)**	**(21.6)**	**(22.0)**	**(142.6)**	**(42.7)**	**(12.4)**	**(300.2)**
Investment in and loans due from joint ventures and associates	**–**	**–**	**–**	**–**	**184.6**	**97.5**	**62.6**	**344.7**
Loans due to associate	**–**	**–**	**–**	**–**	**–**	**(16.4)**	**–**	**(16.4)**
Total hotel operating net assets	**339.5**	**224.7**	**414.7**	**164.5**	**190.5**	**667.8**	**199.4**	**2,201.1**
Property operating assets	**–**	**28.2**	**–**	**–**	**171.1**	**74.1**	**72.1**	**345.5**
Property operating liabilities	**–**	**(0.3)**	**–**	**–**	**(123.6)**	**(0.7)**	**(1.2)**	**(125.8)**
Investment in and loans due from joint ventures and associates	**–**	**–**	**–**	**–**	**47.7**	**95.1**	**–**	**142.8**
Total property operating net assets	**–**	**27.9**	**–**	**–**	**95.2**	**168.5**	**70.9**	**362.5**
Deferred tax liabilities								**(228.1)**
Income taxes payable								**(24.9)**
Net cash								**52.2**
Net assets								**2,362.8**
Capital expenditure	**20.6**	**5.4**	**2.7**	**4.8**	**0.4**	**19.3***	**2.6**	**55.8**

	2011							
	New York £m	Regional US £m	London £m	Rest of Europe £m	Singapore £m	Rest of Asia £m	Australasia £m	Total Group £m
Hotel operating assets	342.5	278.1	438.3	188.1	144.5	625.0	150.1	2,166.6
Hotel operating liabilities	(11.7)	(41.5)	(25.8)	(21.2)	(140.1)	(47.6)	(7.7)	(295.6)
Investment in and loans due from joint ventures and associates	–	–	–	–	174.2	95.0	63.2	332.4
Loans due to associate	–	–	–	–	–	(11.8)	–	(11.8)
Total hotel operating net assets	330.8	236.6	412.5	166.9	178.6	660.6	205.6	2,191.6
Property operating assets	–	28.9	–	–	146.8	81.1	73.5	330.3
Property operating liabilities	–	(0.1)	–	–	(69.4)	(0.7)	(0.7)	(70.9)
Investment in and loans due from joint ventures and associates	–	–	–	–	69.0	90.4	–	159.4
Total property operating net assets	–	28.8	–	–	146.4	170.8	72.8	418.8
Deferred tax liabilities								(236.4)
Income taxes payable								(26.2)
Net debt								(100.2)
Net assets								2,247.6
Capital expenditure	2.1	3.3	3.7	2.5	0.3	93.3*	2.5	107.7

*Includes investment property in Japan of £1.6m (2011: £81.1m)

5 Operating segment information continued

Geographic information

	2012 £m	2011 £m
Revenue from external customers		
United States	**216.3**	219.5
United Kingdom	**154.7**	147.4
Singapore	**154.6**	153.4
New Zealand	**59.4**	55.6
South Korea	**54.1**	49.3
Taiwan	**44.1**	52.3
China	**24.3**	21.2
Malaysia	**17.1**	16.7
France	**15.0**	15.8
Philippines	**10.3**	10.5
Indonesia	**6.7**	6.6
Other	**6.6**	7.6
Germany	**5.1**	20.4
Malaysia (sale of land)	**–**	44.2
Total revenue per consolidated income statement	**768.3**	820.5

The revenue information above is based on the location of the business. The £768.3m (2011: £820.5m) revenue is constituted of £749.4m (2011: £765.2m) of hotel revenue and by £18.9m (2011: £55.3m) of property operations revenue. The property operations revenue comprises £nil (2011: £44.2m) from Malaysia, £15.0m (2011: £7.2m) from New Zealand, £2.2m (2011: £2.4m) from Singapore and other countries £1.7m (2011: £1.5m).

	2012 £m	2011 £m
Non-current assets		
United States	**630.4**	632.9
United Kingdom	**567.5**	567.7
Singapore	**422.6**	426.5
Taiwan	**239.4**	237.3
China	**194.6**	197.3
New Zealand	**157.1**	156.8
South Korea	**151.4**	146.3
Hong Kong	**97.5**	95.0
Japan	**71.9**	79.8
Malaysia	**70.1**	67.4
Australia	**46.5**	47.2
France	**39.9**	41.6
Philippines	**37.9**	37.8
Indonesia	**15.1**	12.9
Other	**0.2**	0.3
Total non-current assets per consolidated statement of financial position	**2,742.1**	2,746.8

Non-current assets for this purpose consist of property, plant and equipment, lease premium prepayment, investment properties, investments in joint ventures and associates, loans due from associate and other financial assets.

6 Administrative expenses

The following items are included within administrative expenses:

	2012 £m	2011 £m
(a) Included in administrative expenses is the auditor's remuneration, for audit and non-audit services as follows:		
Auditor's remuneration		
Statutory audit services:		
– Annual audit of the Company and consolidated financial statements	**0.4**	0.4
– Audit of subsidiary companies	**1.4**	1.3
	1.8	1.7
Non-audit related services:		
– Tax compliance	**0.5**	0.2
– Tax advisory	**0.9**	0.5
– Other non-audit services	**0.1**	0.1
	1.5	0.8
Total	**3.3**	2.5

In addition to the above, fees in respect of the annual audit of the Millennium & Copthorne UK pension plan were £0.01m (2011: £0.01m).

	2012 £m	2011 £m
(b) Impairment (note 7)	**1.4**	29.9
(c) Repairs and maintenance	**35.9**	35.9
(d) Depreciation	**33.2**	34.1
(e) Lease premium amortisation	**1.4**	1.4
(f) Rental paid/payable under operating leases		
– land and buildings	**50.0**	52.1
– plant and machinery	**5.0**	5.6

Rental paid/payable under operating leases with regard to land and buildings includes rentals relating to the lease arrangements with CDLHT on five Singapore hotels (2011: five Singapore hotels) and a conference centre. Details of these lease arrangements and rents payable thereon are given in note 31.

7 Separately disclosed items

	Notes	2012 £m	2011 £m
Other operating income			
Revaluation gain of investment properties	a	**1.8**	1.0
Other operating expense			
Revaluation deficit of investment properties	a	**–**	(0.1)
Separately disclosed items included in administrative expenses			
Impairment	b	**(1.4)**	(29.9)
Non-operating income			
Profit on sale and leaseback of Studio M Hotel	c	**–**	17.4
Profit on disposal of subsidiary	d	**–**	1.7
Gain arising on disposal of properties	e	**10.5**	1.2
Gain on disposal of stapled securities in CDLHT	f	**0.6**	0.2
		11.1	20.5
Separately disclosed items – Group		**11.5**	(8.5)
Separately disclosed items – share of joint ventures and associates			
Revaluation gain of investment properties	g	**1.4**	17.3
Profit/(loss) on disposal of business assets and subsidiaries	h	**0.7**	(0.2)
		2.1	17.1

a Revaluation of investment properties

At the end of 2012, the Group's investment properties were subject to external professional valuation on an open-market existing use basis. Based on these valuations, together with such considerations as the Directors consider appropriate, the Tanglin Shopping Centre recorded an uplift in value of £1.8m (2011: £1.0m) and Biltmore Court & Tower recorded no change in value (2011: decrease in value of £0.1m).

b Impairment

As at the end of 2012, the Directors undertook their annual review of the carrying value of hotels and property assets for indication of impairment and where appropriate, external valuations were also undertaken. As a result of this review, no impairment charge was made for the hotels and property assets for the year ended 31 December 2012. As for the financial year ended 31 December 2011, a total impairment charge of £29.4m was made, consisting of £15.8m in relation to eight Regional UK hotels in Rest of Europe, £8.2m for four hotels in Regional US, £1.0m in relation to one hotel in New Zealand and £4.4m in relation to land in India within Rest of Asia.

A £1.4m (2011: £0.5m) impairment charge was made during the year ended 31 December 2012 relating to interest on shareholder loans to the Group's 50% investment in Bangkok.

c Profit on sale and leaseback of Studio M Hotel

On 3 May 2011, the Group completed the sale and leaseback of Studio M Hotel to its REIT associate CDLHT for cash consideration of S$154.0m (£75.7m), and this gave rise to a total realised pre-tax profit from the disposal of S$35.4m (£17.4m). Total unrealised pre-tax profit from the disposal was S$19.1m (£9.4m) which had been credited to the balance sheet as investment in joint ventures and associates, arising from the Group's then 35.1% interest in the stapled securities of CDLHT.

7 Separately disclosed items continued

d Profit on disposal of subsidiary

During the year ended 31 December 2011, the Group recorded a £1.7m gain from the disposal of CDL Hotels (Phils.) Corporation, a Philippines based company principally providing management services to Grand Plaza Hotel Corporation, owner of The Heritage Hotel Manila in the Philippines.

e Gain arising on disposal of properties

In 2012, a settlement was reached with the insurers in relation to Copthorne Hotel Christchurch Central which is one of the hotels affected by the New Zealand earthquake. A gain of £10.5m which was the difference between the compensation received and the carrying value of the freehold building was recognised by the Group.

In 2011, another hotel which was also affected by the New Zealand earthquake namely the Copthorne Hotel Christchurch City was demolished and, accordingly, the net book value was fully written down. A settlement was reached with the insurers and owner on the building and assets and the funds were received in 2011. Consequently, £1.2m was recognised as a gain arising on disposal of leasehold property in the income statement.

f Gain on disposal of stapled securities in CDLHT

During the year ended 31 December 2012, the Group disposed of 2,849,000 (2011: 760,000) stapled securities in CDLHT for S$5.6m or £2.8m (2011: S$1.6m or £0.8m) which net of the carrying value of the stapled securities and the dilution impact totalling S$4.4m or £2.2m (2011: S$1.2m or £0.6m) resulted in a net gain of S$1.2m or £0.6m (2011: S$0.4m or £0.2m).

g Revaluation gain of investment properties

For the year ended 31 December 2012, the Group's share of CDLHT's net revaluation surplus of investment properties was £2.4m (2011: £10.5m).

At the end of 2012, certain properties of FSCL were subject to annual valuation and as a result of this exercise, an impairment loss of £1.0m was recorded (2011: uplift of £6.8m).

h Profit/(loss) on disposal of business assets and subsidiaries

For the year ended 31 December 2012, FSCL recorded a profit on disposal of assets from its confectionery manufacturing operations in Chengdu to a third party. The Group's share of the profit is £0.7m.

For the year ended 31 December 2011, the Group's share of FSCL's losses from the disposal of subsidiaries was £0.2m.

8 Personnel expenses

	2012 £m	2011 £m
Wages and salaries	**222.9**	225.8
Compulsory social security contributions	**34.7**	33.5
Contributions to defined contribution schemes	**10.3**	9.9
Defined benefit pension cost – recorded in the statement of comprehensive income	**3.7**	2.3
Defined benefit pension costs – recorded in the income statement	**2.0**	2.3
Equity-settled share-based payment transactions	**2.0**	1.3
	275.6	275.1

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

	2012 Number	2011 Number
Hotel operating staff	**7,836**	8,565
Management/administration	**1,280**	1,365
Sales and marketing	**434**	398
Repairs and maintenance	**607**	584
	10,157	10,912

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 52 to 64.

9 Net finance expense

	2012 £m	2011 £m
Interest income	**5.4**	3.7
Interest receivable from joint ventures	**0.5**	0.5
Foreign exchange gain	**0.7**	1.3
Finance income	**6.6**	5.5
Interest expense	**(10.4)**	(10.1)
Foreign exchange loss	**(1.8)**	(2.1)
Finance expense	**(12.2)**	(12.2)
Net finance expense	**(5.6)**	(6.7)

10 Income tax expense

	2012 £m	2011 £m
Current tax		
Corporation tax charge for the year	**32.7**	46.3
Adjustment in respect of prior years	**(1.7)**	(7.5)
Total current tax expense	**31.0**	38.8
Deferred tax (note 26)		
Origination and reversal of timing differences	**0.2**	(8.9)
Effect of change in tax rate on opening deferred taxes	**(3.0)**	(2.8)
Benefits of tax losses recognised	**(0.2)**	3.1
Over provision in respect of prior years	**(3.4)**	(2.0)
Total deferred tax credit	**(6.4)**	(10.6)
Total income tax charge in the consolidated income statement	**24.6**	28.2
UK	**4.1**	(2.0)
Overseas	**20.5**	30.2
Total income tax charge in the consolidated income statement	**24.6**	28.2

For the year ended 31 December 2012, the Group recorded a tax expense of £24.6m (2011: £28.2m) excluding the tax relating to joint ventures and associates, giving rise to an effective tax rate of 18.4% (2011: 18.1%). The effective tax rate has been affected by a number of factors which include the following items:

- Separately disclosed items of the Group;
- Reduced tax rates applied to brought forward net deferred tax liabilities in the UK;
- Tax adjustments in respect of previous years;
- Sale of KL land in 2011; and
- Release of a dilapidation provision for the Stuttgart hotel which expired on 31 August 2011.

Excluding the impact of the items noted above, the Group's underlying effective tax rate is 26.7% (2011: 27.7%).

For the year ended 31 December 2012, a charge of £8.5m (2011: £5.4m) relating to joint ventures and associates is included in the reported profit before tax.

Effect of changes in tax rates

The credit in 2012 of £3.0m (2011: £2.8m credit) relates to a reduction in the tax rate in the UK (2011: UK) on opening deferred taxes. With regard to the UK, a reduction to 24% in the rate applicable from 1 April 2012, and a further reduction to 23% in the rate applicable from 1 April 2013 were substantially enacted during the year and this has reduced the deferred tax liability as at 31 December 2012, now calculated at 23%.

The UK budget on 21 March 2012 also announced further annual reductions in rate by 1% to 22% by 1 April 2014. The UK Government's autumn statement on 5 December 2012 announced further annual reductions in rate by 1% to 21% by 1 April 2014. If enacted, such further reductions in rate would further reduce the future tax charge and deferred tax liabilities, the impact of which has not been fully assessed but is not anticipated to have a material impact on the financial statements.

10 Income tax expense continued

Adjustments in respect of prior years

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 efficacy of the legal processes in the relevant tax jurisdictions in which the Group operates.

Income tax reconciliation

	2012 £m	2011 £m
Profit before income tax in consolidated income statement	**171.3**	193.3
Less share of profits of joint ventures and associates[1]	**(37.2)**	(37.5)
Profit on ordinary activities excluding share of joint ventures and associates	**134.1**	155.8
Income tax on ordinary activities at the standard rate of UK tax of 24.5% (2011: 26.5%)	**32.8**	41.3
Tax exempt income	**(10.3)**	(4.4)
Non-deductible expenses	**6.3**	8.5
Recognition of deferred tax on share of undistributed associate's profit	**–**	0.6
Current year losses for which no deferred tax asset was recognised	**0.8**	1.1
Unrecognised deferred tax assets	**0.6**	(2.1)
Recognition of previously unrecognised tax losses	**–**	(0.9)
Effect of tax rates on separately disclosed items	**1.0**	(3.3)
Other effect of tax rates in foreign jurisdictions	**1.5**	(0.3)
Effect of change in tax rate on opening deferred taxes	**(3.0)**	(2.8)
Other adjustments to tax charge in respect of prior years[2]	**(5.1)**	(9.5)
Income tax expense per consolidated income statement	**24.6**	28.2

1 The effective rate of tax for joint ventures and associates before separately disclosed items is 17.0% (2011: 11.7%). This is lower than the standard rate of UK tax of 24.5% (2011: 26.5%), due to lower rates of corporation tax being applicable in the jurisdictions in which the entities operate and the effects of tax exempt income.

2 Comprising £1.7m credit (2011: £7.5m credit) in respect of current tax and £3.4m credit (2011: £2.0m credit) in respect of deferred tax.

Income tax on income and expense recognised directly in equity

	2012 £m	2011 £m
Taxation credit arising on defined benefit pension schemes	**0.8**	0.6
Taxation (expense)/credit other	**(0.2)**	1.8
	0.6	2.4

11 Earnings per share

Earnings per share are calculated using the following information:

	2012	2011
(a) Basic		
Profit for the year attributable to holders of the parent (£m)	**135.0**	160.9
Weighted average number of shares in issue (m)	**321.6**	315.6
Basic earnings per share (pence)	**42.0p**	51.0p
(b) Diluted		
Profit for the year attributable to holders of the parent (£m)	**135.0**	160.9
Weighted average number of shares in issue (m)	**321.6**	315.6
Potentially dilutive share options under Group's share option schemes (m)	**1.4**	1.3
Weighted average number of shares in issue (diluted) (m)	**323.0**	316.9
Diluted earnings per share (pence)	**41.8p**	50.8p
(c) Headline earnings per share (pence)		
Profit for the year attributable to holders of the parent (£m)	**135.0**	160.9
Adjustments for:		
Separately disclosed items – Group (net of tax and non-controlling interests) (£m)	**(11.4)**	1.7
Share of separately disclosed items of joint ventures and associates (net of tax and non-controlling interests) (£m)	**(2.1)**	(15.7)
Changes in tax rates on opening deferred tax (£m)	**(3.0)**	(2.8)
Adjusted profit for the year attributable to holders of the parent (£m)	**118.5**	144.1
Weighted average number of shares in issue (m)	**321.6**	315.6
Headline earnings per share (pence)	**36.8p**	45.7p
(d) Diluted headline earnings per share (pence)		
Adjusted profit for the year attributable to holders of the parent (£m)	**118.5**	144.1
Weighted average number of shares in issue (diluted) (m)	**323.0**	316.9
Diluted headline earnings per share (pence)	**36.7p**	45.5p

12 Property, plant and equipment

	Note	Land and buildings £m	Capital work in progress £m	Fixtures, fittings and equipment £m	Plant and machinery and vehicles £m	Total £m
Cost						
Balance at 1 January 2011		2,222.1	12.6	118.3	197.4	2,550.4
Additions		1.6	13.4	3.4	8.0	26.4
Transfer to development properties		(41.6)	–	(6.5)	(1.0)	(49.1)
Transfers		(5.2)	(9.9)	4.3	10.8	–
Disposal – to REIT		(15.0)	–	(4.9)	(5.6)	(25.5)
Disposal – other		(2.8)	–	(5.0)	(19.9)	(27.7)
Written off		–	–	(14.0)	(44.5)	(58.5)
Foreign exchange adjustments		(30.8)	(0.1)	(3.3)	(2.8)	(37.0)
Balance at 31 December 2011		2,128.3	16.0	92.3	142.4	2,379.0
Balance at 1 January 2012		2,128.3	16.0	92.3	142.4	2,379.0
Additions		8.8	19.8	10.5	14.8	53.9
Transfers		2.0	(7.5)	0.4	5.1	–
Disposal – other		(8.8)	–	(1.1)	(16.4)	(26.3)
Written off		(0.9)	–	(2.3)	(0.9)	(4.1)
Foreign exchange adjustments		(5.6)	(0.1)	(1.2)	(2.0)	(8.9)
Balance at 31 December 2012		**2,123.8**	**28.2**	**98.6**	**143.0**	**2,393.6**
Accumulated depreciation						
Balance at 1 January 2011		163.9	–	39.6	161.2	364.7
Charge for the year		11.7	–	6.0	16.4	34.1
Impairment	a	28.2	1.2	–	–	29.4
Transfer to development properties		(1.1)	–	–	(1.0)	(2.1)
Transfers		0.6	–	(0.8)	0.2	–
Disposal – to REIT		–	–	(0.2)	(0.3)	(0.5)
Disposal – other		(1.3)	–	(5.0)	(19.9)	(26.2)
Written off		–	–	(14.0)	(44.5)	(58.5)
Foreign exchange adjustments		(2.3)	–	(1.6)	(2.1)	(6.0)
Balance at 31 December 2011		199.7	1.2	24.0	110.0	334.9
Balance at 1 January 2012		199.7	1.2	24.0	110.0	334.9
Charge for the year		13.0	–	4.1	16.1	33.2
Transfers		–	–	(0.5)	0.5	–
Disposal – other		(0.3)	–	(1.7)	(16.1)	(18.1)
Written off		(0.4)	–	(2.8)	(0.9)	(4.1)
Foreign exchange adjustments		(2.4)	–	(0.1)	(1.5)	(4.0)
Balance at 31 December 2012		**209.6**	**1.2**	**23.0**	**108.1**	**341.9**
Carrying amounts						
At 31 December 2012		**1,914.2**	**27.0**	**75.6**	**34.9**	**2,051.7**
At 31 December 2011		1,928.6	14.8	68.3	32.4	2,044.1

12 Property, plant and equipment continued

a Impairment

Property, plant and equipment are reviewed for impairment based on each cash generating unit ("CGU"). The CGUs are individual hotels. The carrying value of individual hotels was compared to the recoverable amount of the hotels, which was predominantly based on value-in-use. For 2012, where indicators of impairment were present, the Group estimated value-in-use through creation of discounted cash flow models, based on future trading performance expected by management. The underlying basis for the impairment model involves each hotel's projected cash flow for the financial year ending 31 December 2013, extrapolated to incorporate individual assumptions in respect of revenue growth (principally factoring in room rate and occupancy growth) and major expense lines. Where appropriate, the Directors sought guidance on value through a registered independent appraiser with an appropriately recognised professional qualification and recent experience in the location and category of the hotel being valued.

On the basis of both external and internal valuations in 2012, the Group recorded no impairment charge. For 2011, the Group recorded an impairment charge of £29.4m. The £29.4m impairment charge was made in relation to eight Regional UK hotels, four Regional US hotels and one New Zealand hotel all primarily as a result of reduced trading performance, and land in India following a decision not to proceed with building two hotels as a result of changing market conditions.

b Land and buildings

Land and buildings includes long leasehold building assets with a book value of £431.0m (2011: £445.0m). The net book value of land and buildings held under short leases was £39.4m (2011: £54.3m), in respect of which depreciation of £3.5m (2011: £5.7m) was charged during the year.

Interest of £0.8m (2011: £nil) has been capitalised within land and buildings during the year. The cumulative capitalised interest within land and buildings is £5.2m (2011: £4.4m).

c Pledged assets

At year-end, the net book value of assets pledged as collateral for secured loans was £288.4m (2011: £288.6m). The security for the loans is by way of charges on the properties of Group companies concerned.

d Key assumptions used by the external appraisers

The key assumptions used were as follows:

Pre-tax discount rate – The discount rate is based on the country in which the hotel is located and is adjusted for risks associated with the hotel. Discount rates ranged from 9.5% to 15.0% in the US, 8.5% to 12.5% in Europe, 9.5% to 14% in Asia and 10.8% to 14% in New Zealand.

Occupancy rate – The occupancy growth rates ranged from 0% to 18% in the US, 0% to 19% in Europe, 0% to 2% in Asia and 0% to 1% in New Zealand.

Average room rate – The average room rate growth ranged from 0% to 15% in the US, 3% to 13% in Europe, 1% to 17% in Asia and 1% to 4% in New Zealand.

e Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used, most notably the discount rates and revenue growth assumptions. Based on the Group's sensitivity analysis, a reasonable possible change in a single factor could result in impairment in certain hotels in Regional UK, Regional US, Asia and New Zealand as their fair value currently exceeds their carrying value only by a small percentage.

13 Lease premium prepayment

	2012 £m	2011 £m
Cost		
Balance at 1 January	**51.4**	76.5
Disposal (note a)	**–**	(26.2)
Foreign exchange adjustments	**(1.7)**	1.1
Balance at 31 December	**49.7**	51.4
Amortisation		
Balance at 1 January	**2.7**	3.2
Charge for the year	**1.4**	1.4
Disposal (note a)	**–**	(2.0)
Foreign exchange adjustments	**(0.2)**	0.1
Balance at 31 December	**3.9**	2.7
Carrying amount	**45.8**	48.7
Analysed between:		
Amount due after more than one year included in non-current assets	**44.4**	47.3
Amount due within one year included in current assets	**1.4**	1.4
	45.8	48.7

a Disposal

The disposals in 2011 comprise the sale of Studio M Hotel and the disposal of a leasehold interest in Copthorne Hotel Christchurch.

14 Investment properties

Investment properties owned by the Group comprise offices and a shopping-cum-office complex, a land site allocated for the future construction of condominiums (Sunnyvale residences) and a land site in the Ginza district of Tokyo, Japan.

Movements in the year analysed as:

	2012			2011		
	Completed investment property £m	**Investment properties under construction £m**	**Total £m**	Completed investment property £m	Investment property under construction £m	Total £m
Balance at 1 January	**87.7**	**86.2**	**173.9**	88.3	6.6	94.9
Subsequent expenditure	**0.1**	**1.8**	**1.9**	0.2	81.1	81.3
Adjustment to fair value	**1.8**	**–**	**1.8**	0.9	–	0.9
Foreign exchange adjustment	**1.2**	**(9.7)**	**(8.5)**	(1.7)	(1.5)	(3.2)
Balance at 31 December	**90.8**	**78.3**	**169.1**	87.7	86.2	173.9

Analysed as:

	2012				2011			
	Offices and a shopping-cum-office complex	**Investment properties under construction**			Offices and a shopping-cum-office complex	Investment properties under construction		
	£m	**Residential £m**	**Hotel £m**	**Total £m**	£m	Residential £m	Hotel £m	Total £m
Completed investment property	**90.8**	**–**	**–**	**90.8**	87.7	–	–	87.7
Investment property under construction	**–**	**6.5**	**71.8**	**78.3**	–	6.5	79.7	86.2
Balance at 31 December	**90.8**	**6.5**	**71.8**	**169.1**	87.7	6.5	79.7	173.9

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 2012, those Group investment properties were subject to external professional valuation on an open market existing use basis by the following accredited independent valuers:

Properties	Valuers
Tanglin Shopping Centre, Singapore	DTZ Debenham Tie Leung (SEA) Pte Ltd
Biltmore Court & Tower, Los Angeles	Sequoia Hotel Advisors, LLC
Sunnyvale residences	Sequoia Hotel Advisors, LLC
Land site in Ginza, Tokyo	Jones Lang LaSalle KK

Based on these valuations together with such considerations as the Directors consider appropriate, the Tanglin Shopping Centre recorded an uplift in value of £1.8m and the other investment properties recorded no change. In 2011, Tanglin Shopping Centre recorded an uplift in value of £1.0m, Biltmore Court & Tower recorded a decrease in value of £0.1m and no change in fair value for the other properties.

Further details in respect of investment property rentals are given in note 31.

15 Investments in joint ventures and associates

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

	Effective Group interest 2012	2011
Joint ventures		
New Unity Holdings Limited	**50.0%**	50.0%
Fena Estate Company Limited	**50.0%**	50.0%
Associates		
CDL Hospitality Trusts ("CDLHT") – see note (a) below	**35.3%**	35.2%
First Sponsor Capital Limited ("FSCL")	**39.3%**	39.3%

	Joint ventures 2012 £m	**Associates 2012 £m**	**Total 2012 £m**	Joint ventures 2011 £m	Associates 2011 £m	Total 2011 £m
Share of net assets/cost						
Balance at 1 January	**95.0**	**327.8**	**422.8**	89.5	307.3	396.8
Share of profit for the year	**9.2**	**28.0**	**37.2**	6.9	30.6	37.5
Additions (see note (b))	**–**	**4.9**	**4.9**	–	24.7	24.7
Gain on dilution of investment (see note (c))	**–**	**(2.2)**	**(2.2)**	–	(0.6)	(0.6)
Unrealised profit on sale of Studio M hotel to CDLHT (see note (d))	**–**	**–**	**–**	–	(9.4)	(9.4)
Dividends received	**(4.1)**	**(19.6)**	**(23.7)**	–	(17.8)	(17.8)
Foreign exchange adjustments	**(2.5)**	**3.3**	**0.8**	(1.4)	(2.3)	(3.7)
Other movements	**–**	**0.1**	**0.1**	–	(4.7)	(4.7)
Balance at 31 December	**97.6**	**342.3**	**439.9**	95.0	327.8	422.8
Share of profit for the year						
Operating profit before separately disclosed items	**16.3**	**32.7**	**49.0**	13.9	14.9	28.8
Separately disclosed items (see note (e))	**–**	**2.2**	**2.2**	–	19.5	19.5
Interest, tax and non-controlling interests	**(7.1)**	**(6.9)**	**(14.0)**	(7.0)	(3.8)	(10.8)
Analysed between:						
Interest	**–**	**(1.4)**	**(1.4)**	–	(1.7)	(1.7)
Tax	**(2.7)**	**(5.8)**	**(8.5)**	(2.6)	(2.8)	(5.4)
Non-controlling interests	**(4.4)**	**0.3**	**(4.1)**	(4.4)	0.7	(3.7)
Share of profit for the year	**9.2**	**28.0**	**37.2**	6.9	30.6	37.5

Notes

a CDLHT is quoted on the Singapore Exchange Securities Trading Limited and as at 31 December 2012 its share price was S$1.880 (2011: S$1.545). For the Group's 35.3% (2011: 35.2%) interest, this equates to a market capitalisation of £350.7m (2011: £258.2m).

b Additions
The Group received stapled units in CDLHT in lieu of payment of management fees and an acquisition fee amounting to £4.9m in 2012 (2011: £5.4m) and in 2012 invested £nil (2011: £19.3m) in FSCL.

c Gain on dilution of investment
During the year ended 31 December 2012, the Group disposed of 2,849,000 stapled securities in CDLHT for S$5.6m (£2.8m) which net of the carrying value of the stapled securities and the dilution impact totalling S$4.4m (£2.2m) resulted in a net gain of S$1.2m (£0.6m).

During the year ended 31 December 2011, the Group disposed of 760,000 stapled securities in CDLHT for S$1.6m (£0.8m) which net of the carrying value of the stapled securities and the dilution impact totalling S$1.2m (£0.6m) resulted in a net gain of S$0.4m (£0.2m).

d On 3 May 2011, the Group completed the sale and leaseback of the Studio M Hotel to CDLHT for cash consideration of S$154.0m (£75.7m), and this gave rise to a total realised pre-tax profit from the disposal of S$35.4m (£17.4m) which was recorded for the year ended 31 December 2011. Total unrealised pre-tax profit from the disposal is S$19.1m (£9.4m) which has been credited to the balance sheet as investment in joint ventures and associates, arising from the Group's then 35.1% interest in the stapled securities of CDLHT.

e Separately disclosed items
For the year ended 31 December 2012, the Group's share of CDLHT's net revaluation surplus of investment properties was £2.4m. Certain properties of FSCL were subject to annual valuation and as a result of this exercise, an impairment loss of £0.9m was recorded. FSCL recorded a profit on disposal of assets from its confectionery manufacturing operations in Chengdu to a third party. The Group's share of the profit is £0.7m.

During the year ended 31 December 2011, certain investment properties of FSCL were transferred to development properties at fair value. At 31 December 2011, the investment properties were subject to external professional valuation on an open-market existing use basis. The Group's share of the uplift in the value of the transferred properties and the investment properties at the end of the year was £9.2m. The Group's share of CDLHT's net revaluation surplus of investment properties was £10.5m. In addition, FSCL recorded £0.2m of losses from the disposal of subsidiaries.

15 Investments in joint ventures and associates continued

	2012 £m	2011 £m
Summary information on joint ventures – 100%		
Revenue	**104.1**	99.4
Expenses	**(85.7)**	(85.6)
Profit for the year	**18.4**	13.8
Assets		
Non-current assets	**298.3**	306.1
Current assets	**62.2**	68.6
Total assets	**360.5**	374.7
Liabilities		
Non-current liabilities	**(70.2)**	(87.0)
Current liabilities	**(27.3)**	(36.7)
Total liabilities	**(97.5)**	(123.7)
Total assets less total liabilities	**263.0**	251.0
Less non-controlling share of net assets	**(68.1)**	(61.0)
Net assets – 100%	**194.9**	190.0
Summary information on associates – 100%		
Revenue	**148.3**	78.4
Surplus on revaluation of investment properties	**25.1**	48.3
Other operating expenses	**(0.4)**	(0.4)
Expenses	**(99.9)**	(41.8)
Profit for the year	**73.1**	84.5
Assets		
Non-current assets	**1,066.1**	1,029.2
Current assets	**307.3**	341.4
Total assets	**1,373.4**	1,370.6
Liabilities		
Non-current liabilities	**(240.5)**	(281.4)
Current liabilities	**(236.5)**	(228.4)
Total liabilities	**(477.0)**	(509.8)
Total assets less total liabilities	**896.4**	860.8
Less non-controlling share of net assets	**(5.3)**	(5.9)
Net assets – 100%	**891.1**	854.9

At 31 December 2012, the Group's share of the total capital commitments of joint ventures amounted to £nil (2011: £nil). At 31 December 2012, the Group's joint ventures and associates had no significant contingent liabilities (2011: £nil).

16 Other financial assets

	2012 £m	2011 £m
Other financial assets included within non-current assets comprise:		
Unquoted equity investments available-for-sale	**4.6**	4.6
Deposits receivable	**3.3**	3.2
	7.9	7.8

17 Inventories

	2012 £m	2011 £m
Consumables	**3.8**	4.0

18 Development properties

	2012 £m	2011 £m
Development properties comprise:		
Development land for resale		
– New Zealand landbank	**42.3**	43.7
Development property		
– Zenith	**29.2**	29.5
– Glyndebourne (redevelopment of Copthorne Orchid hotel)	**101.1**	75.1
	172.6	148.3

19 Trade and other receivables

	2012 £m	2011 £m
Trade receivables due from joint ventures and associates	**0.9**	0.6
Trade receivables	**31.0**	36.0
Other receivables	**11.7**	12.6
Prepayments and accrued income	**24.0**	20.9
	67.6	70.1

Trade receivables are shown net of an impairment allowance of £1.6m (2011: £1.2m) relating to the likely insolvencies of customers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

20 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**99.5**	148.3
Short-term deposits	**297.2**	183.9
Cash and cash equivalents on the statement of financial position	**396.7**	332.2
Overdraft bank accounts included in borrowings	**(17.7)**	(56.9)
Cash and cash equivalents shown in the cash flow statement	**379.0**	275.3

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in note 22.

21 Interest-bearing loans, bonds and borrowings

	2012 £m	2011 £m
Included within non-current liabilities:		
Bank loans	**124.9**	172.9
Bonds payable	**27.7**	138.7
	152.6	311.6
Included within current liabilities:		
Bank loans and overdrafts	**55.2**	78.5
Bonds payable	**136.7**	42.3
	191.9	120.8

Further details in respect of financial liabilities are given in note 22.

22 Financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, and the Group's policies and processes for measuring and managing risk.

22 Financial instruments continued

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Exposure to credit risk is monitored on an ongoing basis, with credit checks 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 client's current creditworthiness and appropriate to the anticipated volume of business.

Investments are allowed only in liquid short-term instruments within approved limits, with investment counterparties approved by the Board, such that the exposure to a single counterparty is minimised.

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

The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2012 £m	2011 £m
Cash at bank and in hand (see note 20)	**99.5**	148.3
Short-term deposits (see note 20)	**297.2**	183.9
Unquoted equity investments available-for-sale (see note 16)	**4.6**	4.6
Deposits receivable (see note 16)	**3.3**	3.2
Trade receivables (see note 19)	**31.0**	36.0
Trade receivables due from joint ventures and associates (see note 19)	**0.9**	0.6
Other receivables (see note 19)	**11.7**	12.6
Loans due from associate	**47.6**	69.0
	495.8	458.2

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying value	
	2012 £m	2011 £m
New York	**5.5**	5.5
Regional US	**5.5**	3.1
London	**0.3**	0.3
Rest of Europe	**4.5**	5.4
Singapore	**6.7**	11.8
Rest of Asia	**2.8**	7.6
Australasia	**5.7**	2.3
	31.0	36.0

22 Financial instruments continued

The ageing of trade receivables at the reporting date was:

	Gross receivable		Impairment allowance		Carrying value	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Not past due	**21.3**	26.6	**–**	–	**21.3**	26.6
Past due 0 – 30 days	**4.0**	6.3	**(0.6)**	–	**3.4**	6.3
Past due 31 – 60 days	**2.7**	2.0	**(0.2)**	(0.5)	**2.5**	1.5
Past due 61 – 90 days	**3.7**	0.7	**(0.1)**	(0.1)	**3.6**	0.6
More than 90 days	**0.9**	1.6	**(0.7)**	(0.6)	**0.2**	1.0
	32.6	37.2	**(1.6)**	(1.2)	**31.0**	36.0

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 £m	2011 £m
Balance at 1 January	**1.2**	1.1
Impairment recognised	**0.4**	0.1
Balance at 31 December	**1.6**	1.2

22 Financial instruments continued

	Total £m	Contractual maturities of financial assets 2012: 6 months or less £m	6 months – 1 year £m	1-5 years £m	More than 5 years £m
Financial assets					
Fixed rate:					
Sterling	**37.9**	**37.9**	–	–	–
US dollar	**33.8**	**33.8**	–	–	–
Korean won	**21.2**	**21.2**	–	–	–
Singapore dollar	**142.7**	**142.7**	–	–	–
New Taiwan dollar	**24.4**	**24.4**	–	–	–
Australian dollar	**11.5**	**11.5**	–	–	–
New Zealand dollar	**45.3**	**45.3**	–	–	–
Malaysian ringgit	**8.6**	**8.6**	–	–	–
Euro	**13.8**	**13.8**	–	–	–
Others	**11.8**	**11.8**	–	–	–
Floating rate:					
US dollar	**47.6**	–	**18.5**	**29.1**	–
Non-interest bearing:					
Sterling	**1.9**	**1.9**	–	–	–
US dollar	**18.4**	**13.8**	–	–	**4.6**
Korean Won	**0.2**	**0.2**	–	–	–
Singapore dollar	**25.1**	**21.8**	–	–	**3.3**
New Taiwan dollar	**0.3**	**0.3**	–	–	–
Malaysian ringgit	**1.1**	**1.1**	–	–	–
Euro	**0.4**	**0.4**	–	–	–
Others	**6.2**	**6.2**	–	–	–
	452.2	**396.7**	**18.5**	**29.1**	**7.9**

Represented by:	
Cash and cash equivalents	**396.7**
Loans due from associate	**47.6**
Other financial assets (non-current)	**7.9**
	452.2

22 Financial instruments continued

		Contractual maturities of financial assets 2011			
	Total £m	6 months or less £m	6 months – 1 year £m	1-5 years £m	More than 5 years £m
Financial assets					
Fixed rate:					
Sterling	30.7	30.7	–	–	–
US dollar	15.1	15.1	–	–	–
Korean won	12.0	12.0	–	–	–
Singapore dollar	130.0	130.0	–	–	–
New Taiwan dollar	33.1	33.1	–	–	–
Australian dollar	11.0	11.0	–	–	–
New Zealand dollar	7.5	7.5	–	–	–
Malaysian ringgit	11.1	11.1	–	–	–
Euro	14.2	14.2	–	–	–
Others	16.7	16.7	–	–	–
Floating rate:					
US dollar	69.0	–	18.1	50.9	–
Non-interest bearing:					
Sterling	2.9	2.9	–	–	–
US dollar	19.1	14.5	–	–	4.6
Singapore dollar	26.4	23.2	–	0.1	3.1
New Taiwan dollar	0.6	0.6	–	–	–
Malaysian ringgit	1.1	1.1	–	–	–
Euro	2.3	2.3	–	–	–
Others	6.2	6.2	–	–	–
	409.0	332.2	18.1	51.0	7.7
Represented by:					
Cash and cash equivalents	332.2				
Loans due from associate	69.0				
Other financial assets (non-current)	7.8				
	409.0				

22 Financial instruments continued

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments using the interest rates prevailing as at the reporting date.

			Contractual maturities of financial liabilities				
31 December 2012	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6-12 months £m	1-2 years £m	2-5 years £m	More than 5 years £m
Floating rate financial liabilities							
Secured loans	**76.6**	**89.2**	**2.1**	**2.1**	**37.2**	**47.8**	**–**
Unsecured loans	**85.8**	**86.9**	**0.2**	**30.6**	**9.8**	**46.3**	**–**
Unsecured bonds	**164.4**	**166.1**	**62.6**	**75.2**	**0.3**	**28.0**	**–**
Bank overdrafts	**17.7**	**17.8**	**0.1**	**17.7**	**–**	**–**	**–**
Trade and other payables							
Trade payables	**20.5**	**20.5**	**20.5**	**–**	**–**	**–**	**–**
Amounts owed to associates	**3.7**	**3.7**	**3.7**	**–**	**–**	**–**	**–**
Other creditors	**6.7**	**6.7**	**6.7**	**–**	**–**	**–**	**–**
Interest rate swaps designated as cash flow hedges	**0.1**	**0.1**	**0.1**	**–**	**–**	**–**	**–**
Forward cross currency contracts designated as cash flow hedges	**2.3**	**2.3**	**2.3**	**–**	**–**	**–**	**–**
Non-current liabilities							
Loan due to associate	**16.4**	**17.9**	**0.4**	**0.4**	**0.9**	**16.2**	**–**
Other non-current liabilities	**9.4**	**9.4**	**–**	**0.1**	**0.1**	**8.1**	**1.1**
	403.6	**420.6**	**98.7**	**126.1**	**48.3**	**146.4**	**1.1**

22 Financial instruments continued

			Contractual maturities of financial liabilities				
31 December 2011	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6-12 months £m	1-2 years £m	2-5 years £m	More than 5 years £m
Floating rate financial liabilities							
Secured loans	83.0	95.8	2.4	9.4	10.4	73.6	–
Unsecured loans	111.5	114.9	0.6	15.0	13.5	85.8	–
Unsecured bonds	181.0	183.3	25.5	18.5	139.3	–	–
Bank overdrafts	56.9	57.2	0.2	57.0	–	–	–
Trade and other payables							
Trade payables	21.1	21.1	21.1	–	–	–	–
Amounts owed to associates	3.7	3.7	3.7	–	–	–	–
Other creditors	16.1	16.1	16.1	–	–	–	–
Interest rate swaps designated as cash flow hedges	0.3	0.3	–	–	0.3	–	–
Forward cross currency contracts designated as cash flow hedges	0.6	0.6	–	–	0.6	–	–
Non-current liabilities							
Loan due to associate	11.8	14.2	0.4	0.4	0.9	12.5	–
Other non-current liabilities	7.0	7.0	–	–	0.8	5.6	0.6
	493.0	514.2	70.0	100.3	165.8	177.5	0.6

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.

	2012 £m	2011 £m
Expiring in one year or less	**50.0**	22.3
Expiring after more than one year but not more than two years	**49.3**	69.1
Expiring after more than two years but not more than five years	**158.9**	92.9
Total undrawn committed borrowing facilities	**258.2**	184.3

Security

Included within the Group's total bank loans and overdrafts of £180.1m (2011: £251.4m) are £77.1m (2011: £83.5m) of secured loans and overdrafts. Total bonds payable of £164.4m (2011: £181.0m) are unsecured.

Loans and bonds are secured on land and buildings with a carrying value of £288.4m (2011: £288.6m) and an assignment of insurance proceeds in respect of insurances over the mortgaged properties.

At 31 December 2012, the Group had £258.2m (2011: £184.3m) of undrawn and committed facilities available, comprising committed revolving credit facilities which provide the Group with financial flexibility.

Of the Group's total facilities of £652.2m, £290.2m matures during 2013, comprising £81.0m committed revolving credit facilities (of which £50.0m is currently undrawn), £65.4m of uncommitted facilities and overdrafts subject to annual renewal, £136.9m unsecured bonds and £6.9m secured term loans. Plans for the refinancing of maturing facilities are under way.

22 Financial instruments continued

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of 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.

(i) Foreign currency risk

The Group is exposed to foreign currency risk on revenue, purchases, borrowings and cash deposits denominated in currencies other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily US dollars, Singapore dollars, New Zealand dollars, New Taiwan dollars, Korean won, Chinese renminbi, Japanese yen and Euro.

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 the investment.

To mitigate foreign currency translation exposure, an appropriate proportion of net assets are designated as hedged against corresponding financial liabilities in the same currency.

Net investment hedging

The Group has US$165.0m (2011: US$175.0m) US dollar loans, S$50.0m (2011: S$202.0m) Singapore dollar loans and JPY2,373.3m (2011: JPY2,373.3m) Japanese yen loans designated as hedges of corresponding respective proportions of its net investment in foreign operations whose functional currency are US dollars, Singapore dollars and Japanese yen. The risk being hedged is the foreign currency exposure on the carrying amount of the net assets of the foreign operation upon consolidation. The fair value of the hedging instruments as at 31 December 2012 was £144.7m (2011: £230.3m).

There was no ineffectiveness recognised in the consolidated income statement that arose from hedges of net investments in foreign operations.

An analysis of borrowings by currency and their fair values as at 31 December is given below:

	31 December 2012		31 December 2011	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Singapore dollar	**25.3**	**25.3**	99.4	99.4
US dollar	**178.1**	**178.1**	177.1	177.1
New Zealand dollar	**33.9**	**33.9**	31.8	31.8
Chinese renminbi	**43.3**	**43.3**	51.7	51.7
Japanese yen	**63.9**	**63.9**	72.4	72.4
	344.5	**344.5**	432.4	432.4

22 Financial instruments continued

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. Further details of foreign exchange derivatives in place at 31 December 2012 are provided below.

Cash flow hedges

A number of forward cross currency swaps were executed in February 2010 to hedge the foreign currency risk in respect of the repayment in February 2013 of a US$30m loan using Korean won. This loan was extended to a subsidiary in Korea, whose functional currency is Korean won. The proceeds of the US dollar loan were converted into Korean won on inception, and the risk being hedged is the variability of the cash flow associated with the repayment of the US$30m loan principal on its maturity date in February 2013, arising from movement of Korean won against the US dollar over that three-year period.

The hedges are designated as cash flow hedges, which are considered to be highly effective.

The carrying value of the hedging instruments is restated to its fair value at each reporting date, with the effective portion of changes in fair value since inception being taken to a cash flow hedge reserve. The loss recognised in other comprehensive income during the year in respect of the change in fair value of these hedging instruments was £1.6m (2011: £0.2m gain).

Amounts recognised in equity are recycled to the income statement to offset gains and losses when the underlying debt instrument is retranslated at the exchange rate applicable at each period end, and there was no ineffectiveness recognised in the year as a charge in the consolidated income statement.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
Sterling	**2012**	2011	**2012**	2011
US dollar	**1.589**	1.606	**1.614**	1.572
Singapore dollar	**1.985**	2.011	**1.973**	2.030
New Taiwan dollar	**46.713**	46.979	**46.865**	46.644
New Zealand dollar	**1.960**	2.011	**1.966**	2.018
Malaysian ringgit	**4.913**	4.895	**4.945**	4.974
Korean won	**1,785.34**	1,771.54	**1,729.19**	1,808.82
Chinese renminbi	**9.961**	10.269	**10.066**	9.762
Euro	**1.229**	1.149	**1.218**	1.199
Japanese yen	**126.452**	127.259	**138.262**	121.892

22 Financial instruments continued

Sensitivity analysis

With respect to the Group's foreign currency exposure, and assuming that all other variables, in particular interest rates, remain constant, it is estimated that a 10% strengthening of sterling against the following currencies at 31 December 2012 (31 December 2011: 10%) would have increased/(decreased) equity and profit before tax by the amounts shown below:

	31 December 2012		31 December 2011	
	Equity £m	**Profit before tax £m**	Equity £m	Profit before tax £m
US dollar	**12.8**	**(0.8)**	29.8	0.2
Singapore dollar	**11.4**	**(5.3)**	45.9	(7.1)
New Taiwan dollar	**–**	**(0.5)**	–	(1.1)
New Zealand dollar	**–**	**(3.7)**	–	(1.0)
Malaysian ringgit	**–**	**(0.6)**	–	(3.9)
Korean won	**–**	**(1.4)**	–	(1.0)
Euro	**–**	**0.2**	–	(0.7)
Chinese renminbi	**(1.0)**	**–**	(1.2)	0.2
Hong Kong dollar	**–**	**(1.5)**	(0.7)	(1.5)
Japanese yen	**–**	**–**	–	0.1
Thai baht	**(1.4)**	**(0.1)**	(1.3)	(0.1)
	21.8	**(13.7)**	72.5	(15.9)

A 10% weakening of sterling against the above currencies at 31 December 2012 (31 December 2011: 10%) would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk and interest rate swaps

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 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 from the flexibility of variable rate borrowings, and the Group actively monitors the need and timing for such derivatives. Where used, interest rate derivatives are classified as cash flow hedges and stated at fair value within the Group's consolidated statement of financial position. Further details of interest rate derivatives in place at 31 December 2012 are provided below.

Cash flow hedges

Borrowings at floating rates expose the Group to interest rate risk. The Group has entered into a number of interest rate swaps to fix the interest relating to the payment of quarterly interest charges arising on floating rate unsecured bonds totalling US$50m, and designated these as cash flow hedges. The risk being hedged is the variability of cash flows arising from movements in interest rates. The hedges are in place until the bonds mature in March 2013. The fair value of the interest rate swaps as at 31 December 2012 was a £0.1m liability (2011: £0.3m liability).

The cash flows occur on a quarterly basis until the loan balance matures in March 2013 and the hedges are designated as cash flow hedges, which are considered to be highly effective. The carrying value of the hedging instruments is restated to its fair value at each reporting date, with the effective portion of changes in fair value since inception being taken to a cash flow hedge reserve. The gain recognised in other comprehensive income during the year in respect of the change in fair value of these hedging instruments was £0.2m (2011: £0.1m). There was no ineffectiveness recognised in the consolidated income statement that arose from this cash flow hedge.

Cash flow sensitivity analysis for variable rate instruments

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of one percentage point in the average interest rates applicable to variable rate instruments for the year would have increased/decreased the Group's profit before tax for the year as shown below:

	Year ended 31 December 2012		Year ended 31 December 2011	
	1% increase £m	**1% decrease £m**	1% increase £m	1% decrease £m
Variable rate financial assets	**2.6**	**(2.6)**	2.3	(2.3)
Variable rate financial liabilities	**(2.8)**	**2.8**	(3.7)	3.7
Cash flow sensitivity (net)	**(0.2)**	**0.2**	(1.4)	1.4

(d) Fair value

Set out below is a comparison of the 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.

	2012 Book value £m	**2012 Fair value £m**	2011 Book value £m	2011 Fair value £m
Financial assets				
Cash and cash equivalents				
Cash at bank and in hand	**99.5**	**99.5**	148.3	148.3
Short-term deposits	**297.2**	**297.2**	183.9	183.9
Available-for-sale financial assets				
Unquoted equity investments available-for-sale	**4.6**	**4.6**	4.6	4.6
Loans and receivables				
Deposits receivable	**3.3**	**3.8**	3.2	3.8
Trade receivables	**31.0**	**31.0**	36.0	36.0
Trade receivables due from joint ventures and associates	**0.9**	**0.9**	0.6	0.6
Other receivables	**11.7**	**11.7**	12.6	12.6
Short-term loan due from associate	**18.5**	**18.5**	18.1	18.1
Long-term loan due from associate	**29.1**	**29.1**	50.9	50.9
	495.8	**496.3**	458.2	458.8
Financial liabilities				
Bank overdrafts	**(17.7)**	**(17.7)**	(56.9)	(56.9)
Short-term loans, bonds and borrowings	**(174.2)**	**(174.2)**	(63.9)	(63.9)
Long-term loans, bonds and borrowings	**(152.6)**	**(152.6)**	(311.6)	(311.6)
Trade payables	**(20.5)**	**(20.5)**	(21.1)	(21.1)
Amounts owed to associates	**(3.7)**	**(3.7)**	(3.7)	(3.7)
Other creditors	**(6.7)**	**(6.7)**	(16.1)	(16.1)
Long-term loan due to associate	**(16.4)**	**(16.4)**	(11.8)	(11.8)
Other non-current liabilities	**(9.4)**	**(9.0)**	(7.0)	(6.8)
Interest rate swaps designated as cash flow hedges	**(0.1)**	**(0.1)**	(0.3)	(0.3)
Forward cross currency contracts designated as cash flow hedges	**(2.3)**	**(2.3)**	(0.6)	(0.6)
	(403.6)	**(403.2)**	(493.0)	(492.8)

22 Financial instruments continued

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 changes in interest rates.

Trade and other receivables/payables

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

Interest rates used for determining fair value

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

Available-for-sale financial assets – unquoted equity investments

Fair value is estimated using appropriate valuation techniques.

Fair value hierarchy

As at 31 December 2012, the Group held certain financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Assets measured at fair value	**2012 £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
Available-for-sale financial assets				
Unquoted equity investments available-for-sale	**4.6**	**–**	**–**	**4.6**
	2011 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available-for-sale financial assets				
Unquoted equity investments available-for-sale	4.6	–	–	4.6

22 Financial instruments continued

Liabilities measured at fair value	**2012 £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
Other current financial liabilities				
Interest rate swaps designated as cash flow hedges	**0.1**	**–**	**0.1**	**–**
Forward cross currency contracts designated as cash flow hedges	**2.3**	**–**	**2.3**	**–**
	2.4	**–**	**2.4**	**–**

Liabilities measured at fair value	2011 £m	Level 1 £m	Level 2 £m	Level 3 £m
Other current financial liabilities				
Interest rate swaps designated as cash flow hedges	0.3	–	0.3	–
Forward cross currency contracts designated as cash flow hedges	0.6	–	0.6	–
	0.9	–	0.9	–

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measures.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company's objective for managing its capital is to ensure that Group entities will be able to continue as a going concern while maximising the return to shareholders, as well as sustaining the future development of its business. In order to maintain or adjust the capital structure, the Group may alter the total amount of dividends paid to shareholders, return capital to shareholders, issue new shares, draw down additional debt or reduce debt.

The Group's capital structure consists of debt, which includes the loans and borrowings disclosed in note 21, cash and cash equivalents disclosed in note 20 and the equity attributable to the parent, comprising share capital, reserves and retained earnings, as disclosed in the consolidated statement of changes in equity. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 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 pension arrangements in the United Kingdom operate under the 'Millennium & Copthorne Pension Plan', which was set up in 1993. The plan operates a funded defined benefit arrangement together with a defined contribution plan, both with different categories of membership. The defined benefit section of the plan was closed to new entrants in 2001 and at the same time rights to a guaranteed minimum pension ("GMP") under the defined contribution scheme also ceased.

The contributions required are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 5 April 2011 and this has been updated on an approximate basis to 31 December 2012. The contributions of the Group during the year were 5.0% of pensionable salary, plus enhanced contributions of £3.0m per annum to reduce the Plan's deficit.

23 Employee benefits continued

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.

At 31 December 2011 the defined contribution plan section relating to GMP underpin did not have sufficient assets to meet the GMP liabilities. There was a deficit of £2.4m on the £7.5m defined contribution plan assets relating to those members with a GMP. As such this section of the plan is now accounted for as a defined benefit scheme under IAS 19 as it exhibits the traits of a defined benefit plan. The impact of this in 2011 is shown in the analysis below which in summary is to introduce £7.5m into both UK plan assets and UK plan liabilities and, additionally, to record an actuarial loss of £2.4m within defined benefit losses. At 31 December 2012, the plan has been included as part of the overall defined benefit scheme and not separately disclosed.

South Korea

The Group operates a defined benefit pension plan for its employees in South Korea. The contributions required are determined by an external qualified actuary using the projected unit credit method. The most recent valuation was carried out on 31 December 2012. 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 in Taiwan. The contributions required are determined by an external qualified actuary using the projected unit credit method. The most recent valuation was carried out on 31 December 2012. The contributions of the Group were 6% (2011: 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:

	2012 UK	**2012 South Korea**	**2012 Taiwan**	2011 UK	2011 South Korea	2011 Taiwan
Inflation rate	**2.9%**	**–**	**–**	3.1%	–	–
Discount rate*	**4.4%**	**3.8%**	**1.8%**	4.7%	4.8%	1.9%
Rate of salary increase	**3.4%**	**5.0%**	**3.0%**	3.6%	4.0%	2.5%
Rate of pension increases	**2.9%**	**–**	**–**	3.1%	–	–
Rate of revaluation	**2.1%**	**–**	**–**	2.1%	–	–
Annual expected return on plan assets	**5.1%**	**4.2%**	**1.8%**	5.1%	4.2%	1.8%

* The discount rate used in respect of the UK pension scheme of 4.4% (2011: 4.7%) was based on the yield of the Merrill Lynch over-15 year AA rated corporate bond index.

The assumptions used by the actuaries 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 values of the schemes' liabilities are derived from cash flow projections over long periods and are inherently uncertain. The expected annual return on UK defined benefit plan assets for 2012 of 5.1% (2011: 5.1%) has been calculated using a 5.4% (2011: 5.4%) return on equity representing 67% (2011: 63%) of plan assets and a 4.4% (2011: 4.7%) return on cash and bonds representing 33% (2011: 37%) of plan assets.

23 Employee benefits continued

Amounts recognised on the balance sheet are as follows:

	2012 UK £m	2012 South Korea £m	2012 Taiwan £m	2012 Other £m	2012 Total £m	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Other £m	2011 Total £m
Present value of funded obligations	**50.6**	**3.4**	**10.1**	**1.4**	**65.5**	46.5	2.6	9.0	0.9	59.0
Fair value of plan assets	**(41.8)**	**(3.1)**	**(3.4)**	**–**	**(48.3)**	(35.5)	(3.0)	(3.0)	–	(41.5)
Plan deficit/(surplus)	**8.8**	**0.3**	**6.7**	**1.4**	**17.2**	11.0	(0.4)	6.0	0.9	17.5

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

	2012 UK £m	2012 South Korea £m	2012 Taiwan £m	2012 Other £m	2012 Total £m	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Other £m	2011 Total £m
Balance at 1 January	**46.5**	**2.6**	**9.0**	**0.9**	**59.0**	35.9	5.8	8.9	0.9	51.5
Current service cost	**0.7**	**0.4**	**0.2**	**0.1**	**1.4**	0.7	0.9	0.2	0.2	2.0
Interest cost	**2.2**	**0.1**	**0.2**	**0.1**	**2.6**	1.9	0.2	0.1	0.1	2.3
Benefits paid, death in service insurance premiums and expenses	**(1.8)**	**(0.3)**	**(0.2)**	**–**	**(2.3)**	(1.3)	(0.6)	(0.1)	–	(2.0)
Settlement	**–**	**–**	**–**	**–**	**–**	–	(4.0)	–	–	(4.0)
Curtailment loss	**–**	**–**	**–**	**–**	**–**	–	0.1	–	–	0.1
Actuarial losses/(gains)	**3.0**	**0.4**	**1.0**	**0.5**	**4.9**	1.8	0.2	–	(0.1)	1.9
Other[1]	**–**	**–**	**–**	**–**	**–**	7.5	–	–	–	7.5
Foreign exchange adjustments	**–**	**0.2**	**(0.1)**	**(0.2)**	**(0.1)**	–	–	(0.1)	(0.2)	(0.3)
Balance at 31 December	**50.6**	**3.4**	**10.1**	**1.4**	**65.5**	46.5	2.6	9.0	0.9	59.0

1 Refer to details on UK pension arrangements on pages 119 to 120.

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

	2012 UK £m	2012 South Korea £m	2012 Taiwan £m	2012 Total £m	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Total £m
Balance at 1 January	**35.5**	**3.0**	**3.0**	**41.5**	26.1	6.2	2.5	34.8
Expected return on plan assets	**1.9**	**0.1**	**–**	**2.0**	1.7	0.2	0.1	2.0
Group contributions	**4.9**	**0.3**	**0.6**	**5.8**	1.8	1.2	0.6	3.6
Members' contributions	**0.1**	**–**	**–**	**0.1**	0.1	–	–	0.1
Benefits paid	**(1.8)**	**(0.3)**	**(0.2)**	**(2.3)**	(1.3)	(0.6)	(0.1)	(2.0)
Settlement	**–**	**–**	**–**	**–**	–	(3.9)	–	(3.9)
Experience gains/(losses)	**1.2**	**–**	**–**	**1.2**	(0.4)	–	–	(0.4)
Other[1]	**–**	**–**	**–**	**–**	7.5	–	–	7.5
Foreign exchange adjustments	**–**	**–**	**–**	**–**	–	(0.1)	(0.1)	(0.2)
Balance at 31 December	**41.8**	**3.1**	**3.4**	**48.3**	35.5	3.0	3.0	41.5
Actual return on plan assets	**3.1**	**0.1**	**–**	**3.2**	1.3	0.2	0.1	1.6

1 Refer to details on UK pension arrangements on pages 119 to 120.

23 Employee benefits continued

The Group expects £2.5m in contributions to be paid to the defined benefit plans in 2013.

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

	2012 UK £m	**2012 South Korea £m**	**2012 Taiwan £m**	**2012 Total £m**	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Total £m
Equities	**28.1**	**–**	**–**	**28.1**	24.1	–	–	24.1
Bonds	**13.4**	**–**	**–**	**13.4**	11.0	–	–	11.0
Cash	**0.3**	**3.1**	**3.4**	**6.8**	0.4	3.0	3.0	6.4
	41.8	**3.1**	**3.4**	**48.3**	35.5	3.0	3.0	41.5

The expense recognised in the income statement is as follows:

	2012 UK £m	**2012 South Korea £m**	**2012 Taiwan £m**	**2012 Other £m**	**2012 Total £m**	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Other £m	2011 Total £m
Current service cost	**0.7**	**0.4**	**0.2**	**0.1**	**1.4**	0.7	0.9	0.2	0.1	1.9
Interest cost on obligation	**2.2**	**0.1**	**0.2**	**0.1**	**2.6**	1.9	0.2	0.1	0.1	2.3
Expected return on plan assets	**(1.9)**	**(0.1)**	**–**	**–**	**(2.0)**	(1.7)	(0.2)	(0.1)	–	(2.0)
Curtailment loss	**–**	**–**	**–**	**–**	**–**	–	0.1	–	–	0.1
	1.0	**0.4**	**0.4**	**0.2**	**2.0**	0.9	1.0	0.2	0.2	2.3

Total cost is recognised within the following items in the income statement:

	2012 £m	2011 £m
Cost of sales	**0.7**	1.1
Administrative expenses	**1.3**	1.2
	2.0	2.3

The gains or losses recognised in the consolidated statement of comprehensive income are as follows:

	2012 UK £m	**2012 South Korea £m**	**2012 Taiwan £m**	**2012 Other £m**	**2012 Total £m**	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Other £m	2011 Total £m
Actual return less expected return on plan assets	**1.2**	**–**	**–**	**–**	**1.2**	(0.4)	–	–	–	(0.4)
Experience (losses)/gains on plan liabilities[1]	**(0.7)**	**(0.4)**	**(0.1)**	**(0.6)**	**(1.8)**	(2.0)	–	(0.1)	0.1	(2.0)
Changes in demographic and financial assumptions underlying the present value of plan liabilities	**(2.3)**	**–**	**(0.9)**	**0.1**	**(3.1)**	0.2	(0.2)	0.1	–	0.1
Defined benefit plan actuarial (losses)/gains	**(1.8)**	**(0.4)**	**(1.0)**	**(0.5)**	**(3.7)**	(2.2)	(0.2)	–	0.1	(2.3)

1 In 2011 the UK plan experience loss of £2.0m includes a £2.4m deficit on defined contribution plan assets referred to on page 120. At 31 December 2012, the plan has been included as part of the overall defined benefit scheme and not separately disclosed.

23 Employee benefits continued

Actuarial losses recognised directly in equity are as follows:	2012 £m	2011 £m
Cumulative as at 1 January	**13.1**	10.8
Actuarial losses recognised during the year	**3.7**	2.3
Cumulative as at 31 December	**16.8**	13.1

The principal causes for the UK Plan actuarial loss in 2012 were the decrease in the discount rate partially offset by the fall in expected future inflation and return on assets. The principal causes for the UK Plan actuarial loss in 2011 were positive impacts from reduced inflation and a change to Consumer Prices Index net of unfavourable fall in equities and taking into account the £2.4m impact of a GMP underpin from the DC Scheme, refer to page 120.

Mortality rates used reflect 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:

	2012 Years	2011 Years
Males	**25**	25
Females	**27**	27

Trend analysis

	2012 UK £m	2012 South Korea £m	2012 Taiwan £m	2012 Other £m	2012 Total £m
Present value of funded obligations	**50.6**	**3.4**	**10.1**	**1.4**	**65.5**
Fair value of plan assets	**(41.8)**	**(3.1)**	**(3.4)**	**–**	**(48.3)**
Plan deficit	**8.8**	**0.3**	**6.7**	**1.4**	**17.2**
Actuarial losses on plan liabilities	**(3.0)**	**(0.4)**	**(1.0)**	**(0.5)**	**(4.9)**
Experience gains on plan assets	**1.2**	**–**	**–**	**–**	**1.2**

	2011 UK £m	2011 South Korea £m	2011 Taiwan £m	2011 Other £m	2011 Total £m
Present value of funded obligations	46.5	2.6	9.0	0.9	59.0
Fair value of plan assets	(35.5)	(3.0)	(3.0)	–	(41.5)
Plan deficit/(surplus)	11.0	(0.4)	6.0	0.9	17.5
Actuarial (losses)/gains on plan liabilities	(1.8)	(0.2)	–	0.1	(1.9)
Experience losses on plan assets	(0.4)	–	–	–	(0.4)

	2010 UK £m	2010 South Korea £m	2010 Taiwan £m	2010 Other £m	2010 Total £m
Present value of funded obligations	35.9	5.8	8.9	0.9	51.5
Fair value of plan assets	(26.1)	(6.2)	(2.5)	–	(34.8)
Plan deficit/(surplus)	9.8	(0.4)	6.4	0.9	16.7
Actuarial losses on plan liabilities	(0.3)	(0.2)	(0.6)	–	(1.1)
Experience gains on plan assets	2.3	–	–	–	2.3

23 **Employee benefits** continued

	2009 UK £m	2009 South Korea £m	2009 Taiwan £m	2009 Other £m	2009 Total £m
Present value of funded obligations	34.7	5.4	7.3	0.7	48.1
Fair value of plan assets	(22.2)	(5.7)	(2.1)	–	(30.0)
Plan deficit/(surplus)	12.5	(0.3)	5.2	0.7	18.1
Actuarial (losses)/gains on plan liabilities	(7.4)	(0.1)	0.3	(0.2)	(7.4)
Experience gains on plan assets	0.9	–	–	–	0.9

	2008 UK £m	2008 South Korea £m	2008 Taiwan £m	2008 Other £m	2008 Total £m
Present value of funded obligations	26.6	5.8	7.7	0.6	40.7
Fair value of plan assets	(19.3)	(6.6)	(2.0)	–	(27.9)
Plan deficit/(surplus)	7.3	(0.8)	5.7	0.6	12.8
Actuarial gains on plan liabilities	6.7	–	0.4	–	7.1
Experience losses on plan assets	(6.1)	–	(0.1)	–	(6.2)

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 Report on Directors' remuneration.

In accordance with the Group's accounting policy 2.3N (iv) on share-based payment transactions, the fair value of share options and long-term incentive awards 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 share options and long-term incentive awards.

The charge to the income statement for the year was £2.0m (2011: £1.3m).

The Group applied IFRS 2 to its active employee share-based payment arrangements at 1 January 2005 except for arrangements granted before 7 November 2002.

(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 2012	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 2012	Credited to share capital £'000	Credited to share premium £'000	Vesting date
30.03.2009	1,075,746	–	(1,058,794)	(16,952)	–	–	318	–	30.03.2012
16.09.2010	517,765	–	(1,666)	(3,334)	–	512,765	–	–	16.09.2013
28.11.2011	941,126	–	–	–	–	941,126	–	–	28.11.2014
16.08.2012	–	673,455	–	–	–	673,455	–	–	16.08.2015
	2,534,637	**673,455**	**(1,060,460)**	**(20,286)**	**–**	**2,127,346**	**318**	**–**	

23 Employee benefits continued

(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 2012	Options exercised during the year	Options expired during the year	Options forfeited during the year	Options outstanding as at 31 Dec 2012	Credited to share capital £'000	Credited to share premium £'000	Exercise period
Part 1 (Approved)									
10.03.2003	1.9350	7,708	(7,708)	–	–	–	2	13	10.03.2006 – 09.03.2013
16.03.2004	2.9167	10,285	–	–	–	10,285	–	–	16.03.2007 – 15.03.2014
24.03.2005	3.9842	7,529	(7,529)	–	–	–	2	28	24.03.2008 – 23.03.2015
Part II (Unapproved)									
16.03.2004	2.9167	9,415	–	–	–	9,415	–	–	16.03.2007 – 15.03.2014
24.03.2005	3.9842	79,968	(39,656)	–	–	40,312	12	146	24.03.2008 – 23.03.2015
		114,905	**(54,893)**	**–**	**–**	**60,012**	**16**	**187**	

(iii) Millennium & Copthorne Hotels plc 2006 Sharesave Scheme

Share options under this scheme are granted to UK based executive Directors and employees.

								Proceeds on exercise of options during the year		
Date of grant of options	Exercise price per share £	Options outstanding as at 1 Jan 2012	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 2012	Credited to share capital £'000	Credited to share premium £'000	Exercise period
Period										
19.06.2006	3.2500	792	–	(792)	–	–	–	–	2	01.08.2011 – 31.01.2012
26.03.2007	5.2000	6,169	–	(629)	–	–	5,540	–	3	01.07.2012 – 31.12.2012
20.03.2008	3.2800	5,032	–	–	–	(5,032)	–	–	–	01.07.2011 – 31.12.2011
20.03.2008	3.2800	4,505	–	–	(1,433)	–	3,072	–	–	01.07.2013 – 31.12.2013
01.04.2009	1.5400	147,914	–	(131,031)	(8,911)	(1,319)	6,653	39	162	01.08.2012 – 31.01.2013
01.04.2009	1.5400	42,474	–	–	–	(10,162)	32,312	–	–	01.08.2014 – 31.01.2015
01.04.2010	3.3000	24,530	–	–	(8,360)	–	16,170	–	–	01.08.2013 – 31.01.2014
01.04.2010	3.3000	4,050	–	–	(2,072)	–	1,978	–	–	01.08.2015 – 31.01.2016
19.04.2011	4.1800	35,254	–	–	(10,961)	(345)	23,948	–	–	01.08.2014 – 31.01.2015
19.04.2011	4.1800	9,120	–	–	(1,771)	–	7,349	–	–	01.08.2016 – 31.01.2017
19.04.2012	3.8800	–	56,277	–	(1,853)	–	54,424	–	–	01.08.2015 – 31.01.2016
19.04.2012	3.8800	–	13,681	–	–	–	13,681	–	–	01.08.2017 – 31.01.2018
		279,840	**69,958**	**(132,452)**	**(35,361)**	**(16,858)**	**165,127**	**39**	**167**	

The weighted average share price at the date of exercise of share options in the year was £4.79 (2011: £5.09).

The options outstanding at the year end have an exercise price in the range of £1.54 to £5.20 (2011: £1.54 to £5.20) and a weighted average contractual life of 1.89 years (2011: 1.62 years).

23 Employee benefits continued

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

2012 Awards/options	Date of grant	Awards/ 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 – EPS element (Directors)	**16.08.2012**	**101,949**	**4.78**	**–**	**4.49**	**3.00**	**–**	**2.57%**	**–**
LTIP – EPS element (non-Directors)	**16.08.2012**	**234,779**	**4.78**	**–**	**4.49**	**3.00**	**–**	**2.57%**	**–**
LTIP – TSR element (Directors)*	**16.08.2012**	**101,949**	**4.78**	**–**	**2.65**	**3.00**	**27.1%**	**2.57%**	**0.19%**
LTIP – TSR element (non-Directors)*	**16.08.2012**	**234,778**	**4.78**	**–**	**2.65**	**3.00**	**27.1%**	**2.57%**	**0.19%**
Sharesave Scheme (3 year)	**19.04.2012**	**56,277**	**4.81**	**3.88**	**1.47**	**3.25**	**39.0%**	**2.59%**	**0.68%**
Sharesave Scheme (5 year)	**19.04.2012**	**13,681**	**4.81**	**3.88**	**1.76**	**5.25**	**42.7%**	**2.59%**	**1.18%**

2011 Awards/options	Date of grant	Awards/ 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 – EPS element (Directors)	28.11.2011	128,215	3.91	–	3.63	3.00	–	2.55%	–
LTIP – EPS element (non-Directors)	28.11.2011	342,348	3.91	–	3.63	3.00	–	2.55%	–
LTIP – TSR element (Directors)*	28.11.2011	128,215	3.91	–	1.28	3.00	31.0%	2.55%	0.60%
LTIP – TSR element (non-Directors)*	28.11.2011	342,348	3.91	–	1.28	3.00	31.0%	2.55%	0.60%
Sharesave Scheme (3 year)	19.04.2011	37,411	5.32	4.18	2.03	3.25	46.0%	1.88%	1.72%
Sharesave Scheme (5 year)	19.04.2011	9,120	5.32	4.18	2.18	5.25	41.0%	1.88%	2.50%

* 50% of the new LTIP options granted in 2012 and 2011 are conditional upon the market performance of the Group.

Measurement of fair value

The LTIP and Sharesave awards, which are subject to an EPS performance condition, were valued using the Black-Scholes valuation method. The LTIP awards which are subject to a share price related performance condition (i.e. TSR) were valued using the Monte Carlo valuation method.

The option pricing model involves six variables:

- Exercise price
- Share price at grant
- Expected term
- Expected volatility of share price
- Risk-free interest rate
- Expected dividend yield

24 Provisions

	Dilapidation £m	Legal £m	Onerous lease £m	Beijing indemnity £m	Total £m
Balance at 1 January 2012	–	7.4	0.4	7.6	15.4
Additions	1.5	–	–	–	1.5
Utilised	–	(2.6)	(0.2)	–	(2.8)
Foreign exchange adjustments	–	(0.2)	–	(0.1)	(0.3)
Balance at 31 December 2012	**1.5**	**4.6**	**0.2**	**7.5**	**13.8**
Analysed as:					
Non-current provision	–	–	–	7.5	7.5
Current provision	1.5	4.6	0.2	–	6.3
	1.5	**4.6**	**0.2**	**7.5**	**13.8**

Provision for legal fees as at 31 December 2012 of £4.6m (2011: £7.4m) relates to disputes in several US hotels. The Group also provided £7.5m (2011: £7.6m) of tax indemnity to the former shareholders of Grand Millennium Hotel Beijing in which it acquired an additional 40% interest in 2010. A provision for onerous lease of £0.2m (2011: £0.4m) has been recognised as the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for dilapidation costs of £1.5m was made in the year in respect of the expected cost to be incurred on termination of a leasehold asset.

25 Other non-current liabilities

	2012 £m	2011 £m
Deferred income	**230.5**	179.7
Other liabilities	**7.5**	7.0
	238.0	186.7

Note 3 (section entitled 'Lease backs from CDLHT') explains how prepaid operating land lease income is recognised as deferred income. At 31 December 2012, an amount of £116.8m (2011: £115.2m) is recognised in the statement of financial position as deferred income, £115.1m (2011: £113.5m) in non-current liabilities and £1.7m (2011: £1.7m) in trade and other payables (see note 27).

Deferred income at 31 December 2012 also includes £115.4m (2011: £66.2m) of deposits and progress payments received for sale of condominiums under the redevelopment of the Copthorne Orchid Hotel which is due for completion by 2015.

26 Deferred taxation

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

		Charged/(credited) to income statement					
	At 1 January 2012 £m	Change in tax rate £m	Other adjustment to opening provision £m	Current year movement £m	Charged to reserves £m	Exchange on translation £m	**At 31 December 2012 £m**
Deferred tax liabilities							
Property assets[1]	258.5	(3.3)	(3.4)	(0.4)	–	(2.4)	**249.0**
Share of profits of associate	0.7	–	(0.7)	–	–	–	**–**
	259.2	(3.3)	(4.1)	(0.4)	–	(2.4)	**249.0**
Deferred tax assets							
Tax losses	(11.8)	–	0.5	(0.2)	–	0.2	**(11.3)**
Employee benefits[2]	(6.4)	0.3	(0.6)	1.7	0.4	–	**(4.6)**
Others	(4.6)	–	0.8	(1.1)	–	(0.1)	**(5.0)**
	(22.8)	0.3	0.7	0.4	0.4	0.1	**(20.9)**
Deferred tax liabilities	236.4	(3.0)	(3.4)	–	0.4	(2.3)	**228.1**

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

2 Employee benefits comprise defined benefit pension schemes and share-based payment arrangements. In relation to £0.4m charged to reserves in 2012, there is a £0.6m credit relating to defined benefit pension schemes and a £1.0m charge relating to share-based payment arrangements.

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.

	2012 £m	2011 £m
Deductible temporary differences	**0.6**	(2.1)
Tax losses	**0.8**	0.2
	1.4	(1.9)
Adjustments due to:		
– Deductible temporary differences in respect of prior year	**1.2**	3.9
– Tax losses in respect of prior year	**13.5**	13.2
	16.1	15.2

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 the respective countries in which certain subsidiaries operate.

The gross tax losses with expiry dates are as follows:

	2012 £m	2011 £m
Expiry dates:		
– within 1 to 5 years	**20.2**	17.9
– after 5 years	**–**	1.6
– no expiry date	**56.2**	53.0
	76.4	72.5

26 Deferred taxation continued

At 31 December 2012, a deferred tax liability of £9.1m (2011: £7.4m) relating to undistributed reserves of overseas subsidiaries, associates and joint ventures of £600.3m (2011: £575.1m) has not been recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

27 Trade and other payables

	2012 £m	2011 £m
Trade payables	**20.5**	21.1
Amounts owed to associates	**3.7**	3.7
Other creditors including taxation and social security:		
– Social security and other taxes	**4.4**	4.6
– Value added tax and similar sales taxes	**14.7**	12.4
– Other creditors	**6.7**	16.1
Accruals	**84.8**	69.3
Deferred income	**16.3**	15.1
Rental and other deposits	**3.5**	3.7
	154.6	146.0

As explained in note 25, included in deferred income is an amount of £1.7m (2011: £1.7m) relating to prepaid operating land lease income by CDLHT.

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 22.

28 Dividends

	2012 pence	2011 pence	2012 £m	2011 £m
Final ordinary dividend paid	**10.42**	7.92	**33.0**	24.8
Final special dividend paid	**4.00**	–	**12.7**	–
Interim ordinary dividend paid	**2.08**	2.08	**6.8**	6.5
Total dividends paid	**16.50**	10.00	**52.5**	31.3

Subsequent to 31 December 2012, the Directors declared the following final dividend, which has not been provided for:

	2012 pence	2011 pence	2012 £m	2011 £m
Final ordinary dividend	**11.51**	10.42	**37.4**	33.0
Final special dividend	**–**	4.00	**–**	12.7

In respect of 2011 final and special dividends which were paid in 2012 of £45.7m, the Group offered shareholders the option of a scrip dividend. Together with the 2012 interim dividend, this resulted in a total cash dividend payments in 2012 of £24.5m. The balance of £28.0m has been credited to reserves upon issue of the related share capital.

In respect of dividends paid in 2011 totalling £31.3m, the Group offered shareholders the option of a scrip dividend. The total cash dividend payments was £11.2m. The balance credited to reserves upon issue of the related share capital was £20.1m.

29 Share capital

	Number of 30p shares allotted, called up and fully paid
Balance at 1 January 2012	317,563,130
Issue of ordinary shares on exercise of share options	1,246,139
Issue of ordinary shares in lieu of dividends	5,739,044
Balance at 31 December 2012	**324,548,313**

All of the share capital is equity share capital. Ordinary shares issued in lieu of dividends have been accounted for as a bonus issue of shares.

At the year end, options over 225,139 ordinary shares remain outstanding and are exercisable between now and 31 January 2018 at exercise prices between £1.54 and £5.20. In addition, awards made under the LTIP up to 2,127,346 ordinary shares remain unvested and may potentially vest between 16 September 2013 and 16 August 2015.

During the year Millennium & Copthorne Hotels plc issued invitations to UK employees under the Sharesave Scheme to enter into a three-year savings contract or a five-year savings contract with an option to purchase shares at an option price of £3.88 on expiry of the savings contract.

30 Reserves

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow instruments related to the hedged transactions that have not yet occurred (net of tax).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Group's net investment in foreign operations (net of tax).

Treasury share reserve

An employee benefit trust established by the Group held 397,834 shares at 31 December 2012 (2011: 399,500) to satisfy the vesting of awards under the LTIP. During the year nil shares (2011: nil) were purchased by the trust. At 31 December 2012, the cost of shares held by the trust was £2,166,010 (2011: £2,175,081), whilst the market value of these shares at 31 December 2012 was £2,009,062 (2011: £1,623,967). Shares held by the trust are treated as treasury shares which are deducted from equity and excluded from the calculations of earnings per share.

31 Financial commitments

	2012 £m	2011 £m
(a) Capital commitments at the end of the financial year which are contracted but not provided for	**59.1**	4.6

The Group's share of the capital commitments of joint ventures and associates is shown in note 15.

31 Financial commitments continued

(b) Total commitments under non-cancellable operating lease rentals are payable by the Group as follows:

	2012 £m	2011 £m
– less than one year	**24.5**	25.2
– between one and five years	**93.9**	93.1
– more than five years	**307.0**	300.8
	425.4	419.1

Included in the above are the following commitments of the Group under non-cancellable operating lease rentals that relate to the fixed portion due to CDLHT over the remaining tenure of the initial 20-year lease term that commenced in July 2006 in respect of four REIT hotels (excluding the Studio M Hotel), the initial 20-year lease term that commenced in May 2011 in respect of Studio M Hotel and the fixed rental for the remaining term of a five-year lease from July 2011 in respect of a conference centre. The amounts due are as follows:

	2012 £m	2011 £m
– less than one year	**16.3**	15.8
– between one and five years	**64.6**	63.2
– more than five years	**148.1**	159.5
	229.0	238.5

(c) The Group leases out its properties under operating leases. The future minimum lease rentals receivable by the Group under non-cancellable leases are as follows:

	2012 £m	2011 £m
– less than one year	**6.8**	7.3
– between one and five years	**14.2**	17.3
– more than five years	**11.3**	9.5
	32.3	34.1

Future minimum lease rentals receivable under non-cancellable leases includes all future rentals receivable up to the period when those leases expire or become cancellable. The future rentals receivable in prior year included only leases of hotel spaces in UK. As a result of a review of the Group's contracts, it was determined that these should include leases of hotel spaces, car-parks, shop units and residential apartments. Accordingly, the comparatives have been represented.

During the year ended 31 December 2012, £5.4m was recognised as rental income in the income statement (2011: £5.4m) and £0.5m (2011: £0.5m) in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties.

32 Contingencies and subsequent events

(a) In the course of its operations the Group is routinely exposed to potential liabilities for claims made by employees and contractual or tortious claims made by third parties. No material losses are anticipated from such exposures. There were no contingent liabilities or guarantees other than those arising in the ordinary course of business and on these no material losses are anticipated. The Group has insurance cover up to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise the Group generally carries its own risk. The Group believes that the accruals and provisions carried on the balance sheet are sufficient to cover these risks.

32 Contingencies and subsequent events continued

(b) CDL Hotels (Korea) Ltd, a wholly-owned subsidiary of the Company has entered into a conditional sale and purchase agreement with Woo Yang Industrial Development Co., Ltd to acquire a plot of land with a total area of 1,563.7m^2, adjacent to the Millennium Seoul Hilton hotel in South Korea, for a cash consideration of KWon 29.5b (£17.2m). The Millennium Seoul Hilton is owned by the Group. Completion is expected to take place in the second quarter of 2013 and is subject to certain terms and conditions being met. The Group will develop detailed plans to build hospitality facilities on the site complementary to the Millennium Seoul Hilton, following further studies with architects and other external consultants. Other than the above transaction, there are no events subsequent to the balance sheet date which require adjustments to or disclosure within these consolidated financial statements.

33 Related parties

Identity of related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions with related parties were entered into in the normal course of business and at arm's length.

The Group has a related party relationship with its joint ventures, associates and with its Directors and executive officers.

Transactions with ultimate holding company and other related companies

The Group has a related party relationship with certain subsidiaries of Hong Leong Investment Holding Pte. Ltd. ("Hong Leong") which is the ultimate holding and controlling company of Millennium & Copthorne Hotels plc and holds 55% (2011: 55%) of the Company's shares via City Developments Limited ("CDL"), the intermediate holding company of the Group. During the year ended 31 December 2012, the Group had the following transactions with those subsidiaries.

Fees paid/payable by the Group to Hong Leong Management Services Pte. Ltd ("HLMS"), a subsidiary of Hong Leong amounted to £0.8m (2011: £1.0m). At 31 December 2012, £0.5m (2011: £1.5m) of fees payable was outstanding.

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary of Hong Leong, on normal commercial terms. Interest income of £0.08m (2011: £0.04m) was received during the year. As at 31 December 2012, £29.6m (2011: £17.9m) of cash was deposited with Hong Leong Finance Limited.

Fees paid/payable by the Group to CDL were £1.5m (2011: £1.3m) which included rentals paid for the Grand Shanghai restaurant and Kings Centre; property management fees for the Tanglin Shopping Centre in Singapore; and car parking, leasing commission and professional services. In addition, £0.2m (2011: £0.5m) of fees were paid to CDL Management Services Pte Ltd., a subsidiary of CDL in relation to The Glyndebourne luxury condominium development in Singapore. At 31 December 2012, £nil (2011: £nil) of fees payable was outstanding.

Richfield Hospitality Inc ("RHI") a company owned 85% by City e-Solutions Limited (CES), a subsidiary of CDL, and 15% by the Group, provided management services to the Group. A total of £0.3m (2011: £0.1m) was charged by RHI during the year and as at 31 December 2012, £0.1m (2011: £0.2m) was due to RHI. Fees for taxation services amounting to £0.03m (2011: £0.01m) were charged by CDL Hotels USA Inc., a subsidiary of the Group, to RHI.

The Group provided a total of £0.02m (2011: £0.02m) hotel management services to a joint venture company of HL Global Enterprises Limited, a subsidiary of Hong Leong. As at 31 December 2012, £nil (2011: £nil) was due to the Group.

The Group provided accounting and management services to CES and CDL Hospitality Trusts ("CDLHT") totalling £0.08m (2011: £0.04m). At 31 December 2012, £0.03m (2011: £nil) of fees payable was outstanding. During the year, the Group also provided staff support to South Beach Consortium Pte Ltd, a joint venture company of CDL for £0.1m of which £0.1m was outstanding at the end of December 2012.

33 Related parties continued

HL Suntek Insurance Brokers Pte Ltd ("Suntek"), an associate of Hong Leong provided insurance services to the Group totalling £0.1m during the year. As at 31 December 2012, there was no amount outstanding to Suntek.

Transactions with associates and joint ventures

In July 2006 the Group completed the sale of long leasehold interest in three of its Singapore hotels to CDLHT, an associate and comprising a hotel real estate investment trust ("REIT") and a business trust. These hotels were the Orchard Hotel (including the connected shopping centre), and M Hotel which were both sold on 75-year leases and Copthorne King's Hotel for the remaining 61 years of a 99-year lease. CDLHT also acquired the Grand Copthorne Waterfront Hotel, a Group managed hotel from CDL under a 75 year lease. All four hotels excluding the shopping centre were leased back to the Group for an initial term of 20 years, each renewable at the Group's option for an additional term of 20 years.

In May 2011 the Group completed the sale of the remaining term of a 99-year long leasehold interest (commencing February 2007) in the Studio M Hotel Singapore to CDLHT. The hotel was leased back for an initial term of 20 years, renewable at the Group's option for three consecutive terms totalling 50 years.

Under the terms of the master lease agreements for the four hotels acquired in 2006, and for the Studio M Hotel in May 2011, the Group is obliged to pay CDLHT an annual rental for the duration of the term (initial and extended term) of each lease agreement comprising the following:

- A fixed rent and a service charge for each hotel; and
- A variable rent computed based on the sum of 20% (30% for Studio M) of each hotel's revenue and 20% of each hotel's gross operating profit for the prevailing financial year, less the sum of the fixed rent and the service charge. Should the calculation of the variable rent yield a negative figure, the variable rent is deemed to be zero.

The rents paid/payable under the leases referred to above for the relevant year are as follows:

	2012 £m	2011 £m
Copthorne King's Hotel	**4.8**	4.8
Orchard Hotel	**14.0**	13.6
M Hotel	**8.4**	8.2
Grand Copthorne Waterfront Hotel	**12.6**	12.0
Studio M Hotel	**5.5**	3.6
	45.3	42.2

In addition to the lease of the five hotels mentioned above, the Group also leased a conference centre from CDLHT at a fixed rent of £0.4m (2011: £0.3m). This lease was for five years from July 2006 and has been renewed for a further 5 years.

A subsidiary of the Group, M&C REIT Management Limited acts as REIT Manager and Business Trust Manager with their fees having a performance-based element. The 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% per annum of H-REIT's net property income in the relevant financial year. 80% of the H-REIT Manager's fees are paid in stapled securities. In addition acquisition fees are payable, 100% in stapled securities and/or cash at a rate of 1.0% of the value of new properties deposited with H-REIT. For the relevant year Manager's fees paid in stapled securities totalled £4.9m (2011: £4.6m), acquisition fees paid in stapled units £nil (2011: £0.8m), the balance payable in cash was £1.2m (2011: £1.2m). At 31 December 2012, £0.3m (2011: £0.2m) is outstanding. Interest receivable of £0.1m (2011: £0.1m) accrued in the year on the rent deposit paid to the REIT.

RHR Capital Pte. Ltd, a 100% subsidiary of the Group, provided shareholder loans of US$108.0m to FSCL, an associate in 2011. For the year ended 31 December 2012, a further loan of US$47.0m was provided and US$78.0m was repaid resulting in a total loan outstanding as at 31 December 2012 of US$77.0m (£47.7m). The loan attracts

33 Related parties continued

interest of 3% per annum and interest of US$2.3m or £1.4m (2011: US$0.4m or £0.3m) was charged in the year. As at 31 December 2012, interest of £nil (2011: £0.3m) was outstanding.

In November 2011, subsidiaries of FSCL provided loans totalling RMB115m (£11.8m) via a three-year trust agreement to Beijing Fortune Hotel Co Ltd, a 70% subsidiary of the Group. In the year ended 31 December 2012, FSCL provided a further RMB50m loan. The total loan outstanding as at 31 December 2012 was RMB165m (£16.4m).

City Hotels Pte. Ltd, a 100% subsidiary of the Group, provided a shareholder loan facility of 550m Thai baht (£11.1m) (2011: 503m Thai baht (£10.3m)) to Fena Estate Company Limited ("Fena"), its 50% owned joint venture. At 31 December 2012 and 2011 all of this facility was fully drawn. The loan attracts interest of 4.5% (2011: 4.5%) per annum and interest of £0.5m (2011: £0.5m) was accrued for in the year. This interest is rolled up into the carrying value of the loan. The total loan outstanding as at 31 December 2012, including rolled up interest, was 680m Thai baht (£13.7m) (2011: 609.6m Thai baht (£12.5m)).

In addition, the Group has provided a further US$2.0m (£1.4m) (2011: US$2.0m (£1.3m)) operator loan facility to Fena which was fully drawn down at 31 December 2012. The loan attracts interest of 0.75% per annum (2011: 0.75%) which is rolled up into the carrying value of the loan. The carrying value of the loan outstanding as at 31 December 2012, including rolled up interest, was US$2.2m (£1.4m) (2011: US$2.1m (£1.3m)).

Management fees were charged to Fena in respect of maintenance and other services at the Grand Millennium Sukhumvit Bangkok totalling £0.5m (2011: £0.5m), of which £0.5m (2011: £0.3m) was outstanding at 31 December 2012. Management fees were charged to Phuket Square Company Limited, a joint venture company of CDL, in respect of maintenance and other services at the Millennium Resort Patong of £0.5m (2011: £0.4m) of which £nil (2011: £nil) was outstanding at 31 December 2012.

The Group has a related party relationship with Mr Ali Al Zaabi, a minority shareholder of its operations in the Middle East. The Group paid £0.4m (2011: £0.2m) to Mr Al Zaabi for remuneration and other expenses. As at 31 December 2012, £0.2m (2011: £0.1m) was owed to Mr Al Zaabi. In addition £0.1m (2011: £0.1m) of management and incentive fees were charged to the Kingsgate Abu Dhabi Hotel which is owned by Mr Al Zaabi. As at 31 December 2012 £0.2m (2011: £0.3m) was outstanding.

Transactions with key management personnel

The beneficial interest of the Directors in the ordinary shares of the Company was 0.09% (2011: 0.07%).

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers, and contributes to a post-employment defined contribution plan depending on the date of commencement of employment. 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.

Executive officers also participate in the Group's share option programme, Long-Term Incentive Plan and the Group's Sharesave schemes.

The key management personnel compensation is as follows:

	2012 £m	2011 £m
Short-term employee benefits	**4.1**	5.0
Other long-term benefits	**0.2**	0.1
Share-based payment	**2.0**	1.3
	6.3	6.4
Directors	**2.3**	1.9
Executives	**4.0**	4.5
	6.3	6.4

34 Significant investments

The companies listed below are those which were part of the Group at 31 December 2012 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
Beijing Fortune Hotel Co Ltd	70%	People's Republic of China	Hotel owner and operator
Bostonian Hotel Limited Partnership	100%	USA	Hotel owner
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%	Republic of 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	47%	New Zealand	Investment and property management company
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 operator and investment holding company
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	94%	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	Hotels investment holding company
Copthorne Hotel Holdings Limited	100%	England and Wales	Hotels investment holding company
Copthorne Orchid Hotel Singapore Pte Ltd	100%	Singapore	Property owner and developer
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 operator
Hong Leong Ginza TMK	70%	Japan	Property owner
Hong Leong Hotel Development Limited	81%	Taiwan	Hotel owner and operator
Hong Leong Hotels Pte Ltd	100%	Cayman Islands	Investment holding company
Hospitality Group Limited	49%	New Zealand	Holding company
Hospitality Holdings Pte Ltd	100%	Singapore	Investment holding company
King's 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

34 Significant investments continued

	Effective Group interest	Country of incorporation	Principal activity
M&C Hotel Interest, Inc	100%	USA	Hotel management services company
M&C Hotels France SAS	100%	France	Hotel owner
M&C REIT Management Limited	100%	Singapore	REIT investment management services
Millennium & Copthorne Hotels New Zealand Limited	70%	New Zealand	Hotel investment holding company
Millennium & Copthorne International Limited	100%	Singapore	Hotels and resorts management
Millennium & Copthorne Middle East Holdings Limited	51%	Hong Kong	Hotel management service company
Quantum Limited	49%	New Zealand	Holding company
Republic Hotels & Resorts Limited	100%	Singapore	Hotel operator and investment holding company
Republic Iconic Hotel Pte Ltd	100%	Singapore	Hotel owner and operator
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
Fena Estate Company Limited	50%	Thailand	Investment holding company
Associates			
CDL Hospitality Trusts	35.3%	Singapore	See note below
First Sponsor Capital Limited	39.3%	British Virgin Islands	Investment holding company

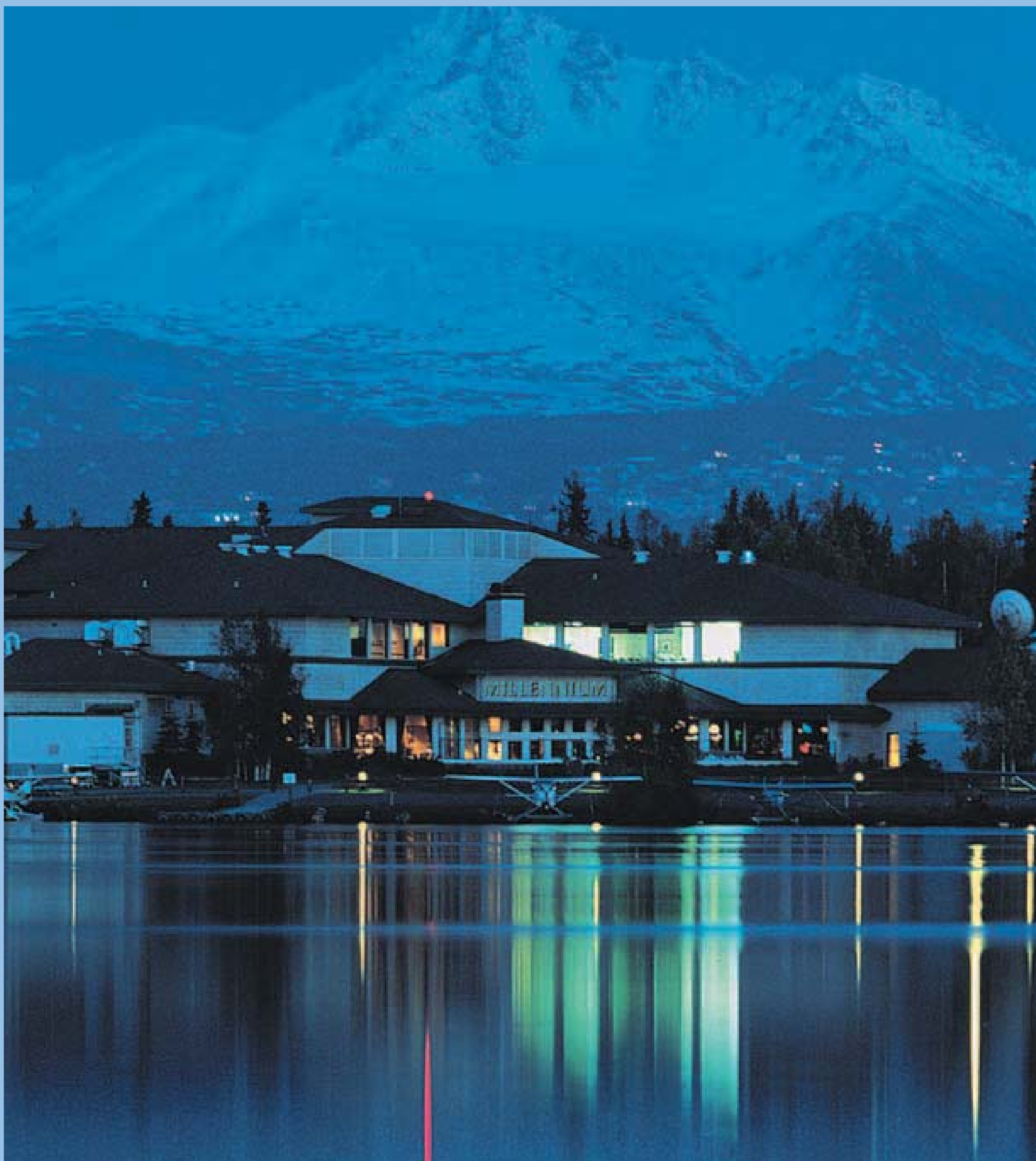
Due to non-controlling interest shareholdings held within intermediary parent undertakings, the Group's effective shareholding in certain subsidiary undertakings in which it has control is less than 50%.

Note

CDL Hospitality Trusts is a stapled group comprising CDL Hospitality Real Estate Investment Trust ("H-REIT"), a real estate investment trust, and CDL Hospitality Business Trust ("HBT"), a business trust. H-REIT has an investment strategy of investing, directly or indirectly, in a diversified portfolio of income-producing real estate which is primarily used for hospitality and/or hospitality-related purposes, whether wholly or partially, and real-estate related assets in relation to the foregoing.

HBT is a business trust which is dormant. It exists primarily as a "master lessee of last resort" and will become active if H-REIT is unable to appoint a master lessee for any of the hotels in its portfolio at the expiry of the relevant master lease agreement or for a newly-acquired hotel. HBT may also become active if it undertakes certain hospitality and hospitality-related development projects, acquisitions and investments which may not be suitable for H-REIT.

Company financial statements



Company balance sheet

As at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Tangible assets	(D)	**2.1**	0.2
Investments	(E)	**1,696.1**	1,736.2
		1,698.2	1,736.4
Current assets			
Amounts owed by subsidiary undertakings falling due within one year		**34.9**	10.8
Other debtors		**0.5**	0.5
Cash at bank and in hand		**37.0**	33.5
		72.4	44.8
Creditors: amounts falling due within one year	(F)	**(169.8)**	(117.0)
Net current liabilities		**(97.4)**	(72.2)
Creditors: amounts falling due after more than one year	(G)	**(440.6)**	(579.2)
Net assets		**1,160.2**	1,085.0
Capital and reserves			
Called up share capital	(H), (I)	**97.4**	95.3
Share premium account	(I)	**843.0**	844.3
Profit and loss account	(I)	**222.0**	147.6
Own share reserve	(I)	**(2.2)**	(2.2)
Shareholders' funds	(I)	**1,160.2**	1,085.0

These financial statements were approved by the Board of Directors on 21 February 2013 and were signed on its behalf by:

Kwek Leng Beng
Chairman

Wong Hong Ren
Chief Executive Officer

Registered No: 3004377

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.

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 408 of the Companies Act 2006 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 £97.1m (2011: £32.8m).

Under FRS 1 (revised) 'Cash Flow Statements', 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.

The consolidated financial statements of the Group contain financial instruments disclosures and comply with FRS 29 'Financial Instruments Disclosures'. Consequently the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

The Company is also exempt under the terms of the revised FRS 8 'Related Party Disclosures' from disclosing related party transactions with wholly-owned subsidiaries within the Group.

Investments

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

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and are depreciated to their residual values on a straight line basis over their useful economic lives.

Capital expenditure on computer software development is recorded separately within fixed assets as capital work in progress. Once the project is completed the balance is transferred to computer software. Capital work in progress is not depreciated.

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.

A Accounting policies continued

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation 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 currency

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

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

The Directors have reviewed the accounting treatment of the unhedged part of the investment and decided it is appropriate to recognise this at historical cost.

Share-based payment

Where the Company is the settling entity for employees of subsidiaries who receive share-based payments, but the beneficiary of the services is the subsidiary, the Company recognises the fair value of the employee services received by the subsidiary as an increase in the investment in the subsidiary.

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.

Treasury shares held by employee benefit trust

Transactions of the Company sponsored employee benefits trust are included in the Company financial statements. In particular, the trust's repurchase of shares in the Company are debited directly to equity.

B Directors' remuneration and employees

Details of Directors' remuneration in the current and prior year are given on pages 52 to 64 of the Report on Directors' Remuneration.

The average number of employees excluding Directors during the year was nil (2011: nil).

Details of share options issued by the Company are given in note 23 to the consolidated financial statements and note (H).

The Company is the principal employer of the UK Group pension scheme, the Millennium & Copthorne Pension Plan, which provides benefits based on final pensionable pay. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the scheme has been accounted for, in these financial statements as if it were a defined contribution scheme (as permitted by FRS 17 'Retirement benefits'). Details of the plan are given in note 23 to the consolidated financial statements.

C Dividends

Details of dividends paid and proposed in the current and prior year are given in note 28 to the consolidated financial statements.

D Tangible assets

	Capital work in progress £m
Cost at 1 January 2012	0.2
Additions	1.9
Cost at 31 December 2012	**2.1**

E Investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Group settled arrangements £m	Total £m
Cost and net book value at 1 January 2012	1,323.4	407.3	5.5	1,736.2
Reductions	(4.6)	(35.5)	–	(40.1)
Additions	–	–	0.6	0.6
Foreign exchange adjustments	(0.1)	(0.5)	–	(0.6)
Cost and net book value at 31 December 2012	**1,318.7**	**371.3**	**6.1**	**1,696.1**

E Investments continued

There were no provisions made against investments in subsidiary undertakings.

The Company's significant subsidiary undertakings at 31 December 2012 are listed below. All of the subsidiary undertakings have coterminous year ends.

Significant subsidiary name	Effective interest in ordinary shares	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 Trustee Limited	100%	England and Wales	Trustee company
Millennium Hotels London Limited	100%	England and Wales	Hotel investment
M&C Hotels Holdings Limited	100%	England and Wales	Investment holding
M&C Hotels Holdings USA Limited	100%	Cayman Islands	Investment holding
Millennium & Copthorne Pension Trustee Limited	100%	England and Wales	Trustee company

F Creditors: amounts falling due within one year

	2012 £m	2011 £m
Bank loans	**–**	51.6
Bonds payable	**135.7**	42.3
Amounts owed to subsidiary undertakings	**25.6**	13.9
Other payables	**1.2**	1.9
Corporation tax	**5.2**	5.0
Accruals and deferred income	**2.1**	2.3
	169.8	117.0

G Creditors: amounts falling due after more than one year

	2012 £m	2011 £m
Bank loans	**–**	15.5
Bonds payable	**27.7**	138.7
Amounts owed to subsidiary undertakings	**412.9**	425.0
	440.6	579.2

Bank loans and bonds are repayable as follows:–

	2012 £m	2011 £m
Between one and two years	**–**	138.7
Between two and five years	**27.7**	15.5
	27.7	154.2

H Share capital

	Number of 30p shares, allotted, called up and fully paid
Balance at 1 January 2012	317,563,130
Issue of ordinary shares on exercise of share options	1,246,139
Issue of ordinary shares in lieu of dividends	5,739,044
Balance at 31 December 2012	**324,548,313**

All of the share capital is equity share capital. Ordinary shares issued in lieu of dividends have been accounted for as a bonus issue of shares.

At the year end options over 225,139 ordinary shares remain outstanding and are exercisable between now and 31 January 2018 at exercise prices between £1.54 and £5.20. In addition, awards made under the Long-Term Incentive Plan up to 2,127,346 ordinary shares remain unvested and may potentially vest between 16 September 2013 and 16 August 2015.

During the year Millennium & Copthorne Hotels plc issued invitations to UK employees under the Sharesave Scheme to enter into a three-year savings contract or a five-year savings contract with an option to purchase shares at an option price of £3.88 on expiry of the savings contract.

I Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Profit and loss account £m	Own share reserve £m	**Total 2012 £m**	Total 2011 £m
Balance at 1 January	95.3	844.3	147.6	(2.2)	**1,085.0**	1,060.9
Profit for the financial year	–	–	97.1	–	**97.1**	32.8
Dividends paid to equity holders	–	–	(52.5)	–	**(52.5)**	(31.3)
Issue of shares in lieu of dividends	1.7	(1.7)	28.0	–	**28.0**	20.1
Share options exercised	0.4	0.4	(0.3)	–	**0.5**	0.9
Hedging reserve adjustment	–	–	0.2	–	**0.2**	–
Share–based payment transactions (net of tax)	–	–	1.9	–	**1.9**	1.4
Foreign exchange adjustments	–	–	–	–	**–**	0.2
Balance at 31 December	97.4	843.0	222.0	(2.2)	**1,160.2**	1,085.0

J Contingent liabilities, commitments and subsequent events

In the course of managing its investments, the Company is routinely exposed to potential liabilities for contractual or tortious claims by third parties. The Company has insurance cover up to certain limits for major claims in connection with legal liabilities in the course of its operations. Otherwise the Company carries its own risk. The Company believes that the provisions carried on the balance sheet are sufficient to cover these risks.

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.

K Ultimate holding and controlling company

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

The intermediate 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.

L Related parties

For the year ended 31 December 2012, fees paid/payable by the Company to HLMS, a subsidiary of Hong Leong Investment Holdings Pte. Ltd. amounted to £0.8m (2011: £1.0m). At 31 December 2012, £0.5m (2011: £1.5m) of fees payable was outstanding.

Further information

Key operating statistics

Owned or leased hotels*	**Year ended 2012 Reported currency**	Year ended 2011 Constant currency	Year ended 2011 Reported currency
Occupancy (%)			
New York	**80.5**		85.5
Regional US	**57.9**		57.4
Total US	**63.5**		64.4
London	**80.8**		81.5
Rest of Europe	**71.4**		69.3
Total Europe	**76.0**		74.9
Singapore	**88.1**		86.9
Rest of Asia	**71.4**		71.0
Total Asia	**78.1**		77.4
Australasia	**63.6**		64.3
Total Group	**70.8**		70.8
Average room rate (£)			
New York	**160.89**	156.45	154.86
Regional US	**68.22**	66.68	66.00
Total US	**97.34**	96.22	95.24
London	**131.15**	120.10	120.10
Rest of Europe	**67.39**	69.34	71.37
Total Europe	**100.35**	94.56	95.58
Singapore	**114.75**	110.94	109.54
Rest of Asia	**87.59**	81.23	81.10
Total Asia	**99.83**	94.53	93.83
Australasia	**55.29**	59.92	58.38
Total Group	**95.08**	91.91	91.48

Owned or leased hotels*	**Year ended 2012 Reported currency**	Year ended 2011 Constant currency	Year ended 2011 Reported currency
RevPAR (£)			
New York	**129.58**	133.80	132.44
Regional US	**39.49**	38.30	37.91
Total US	**61.81**	61.96	61.33
London	**105.91**	97.92	97.92
Rest of Europe	**48.13**	48.03	49.44
Total Europe	**76.23**	70.79	71.55
Singapore	**101.14**	96.42	95.20
Rest of Asia	**62.57**	57.69	57.60
Total Asia	**77.97**	73.12	72.58
Australasia	**35.18**	38.55	37.56
Total Group	**67.32**	65.11	64.81
Gross operating profit margin (%)			
New York	**24.4**		29.2
Regional US	**19.1**		19.0
Total US	**21.6**		23.8
London	**57.0**		55.7
Rest of Europe	**24.5**		25.3
Total Europe	**44.2**		41.6
Singapore	**53.6**		55.2
Rest of Asia	**38.4**		37.9
Total Asia	**45.8**		46.3
Australasia	**46.2**		45.5
Total Group	**38.5**		38.7

For comparability, the 31 December 2011 average room rate and RevPAR have been translated at average exchange rates for the year ended 31 December 2012.

* excluding managed, franchised and investment hotels.

Group financial record

	2012 £m	2011 £m	2010 £m	Restated 2009 £m	Restated 2008 £m
Income statement					
Revenue	**768.3**	820.5	743.7	654.0	702.9
Group operating profit	**165.8**	179.5	118.9	89.2	81.4
Non-operating income	**11.1**	20.5	15.6	–	31.4
Net finance expense	**(5.6)**	(6.7)	(5.9)	(7.3)	(10.0)
Income tax expense	**(24.6)**	(28.2)	(30.7)	(7.3)	(31.9)
Profit for the year	**146.7**	165.1	97.9	74.6	70.9
Cash flow					
Cash generated from operations	**196.0**	216.4	196.0	111.2	147.1
Statement of financial position					
Property, plant, equipment and lease premium prepayment	**2,096.1**	2,091.4	2,257.2	2,070.3	2,164.3
Investment properties	**169.1**	173.9	94.9	83.3	79.3
Investments and loans in joint ventures and associates	**439.9**	422.8	396.8	326.4	338.7
Loans due from associate	**29.1**	50.9	–	–	–
Other financial assets	**7.9**	7.8	6.9	6.4	6.7
Non-current assets	**2,742.1**	2,746.8	2,755.8	2,486.4	2,589.0
Current assets excluding cash	**263.9**	241.9	177.6	133.2	131.5
Net cash/(debt)	**52.2**	(100.2)	(165.7)	(202.5)	(285.1)
Deferred tax liabilities	**(228.1)**	(236.4)	(251.8)	(230.6)	(258.1)
Provisions and other liabilities	**(467.3)**	(404.5)	(397.2)	(282.8)	(296.4)
Net assets	**2,362.8**	2,247.6	2,118.7	1,903.7	1,880.9
Share capital and share premium	**940.4**	939.6	938.7	938.5	938.4
Reserves	**1,235.6**	1,126.9	1,008.8	813.8	799.1
Total equity attributable to equity holders	**2,176.0**	2,066.5	1,947.5	1,752.3	1,737.5
Non-controlling interests	**186.8**	181.1	171.2	151.4	143.4
Total equity	**2,362.8**	2,247.6	2,118.7	1,903.7	1,880.9

	2012	2011	2010	2009	2008
Key operating statistics					
Gearing	**–**	5%	9%	12%	16%
Earnings per share	**42.0p**	51.0p	30.9p	22.9p	21.3p
Dividends per share[1]	**13.59p**	16.50p	10.00p	6.25p	6.25p
Hotel gross operating profit margin	**38.5%**	38.7%	37.1%	34.2%	38.2%
Occupancy	**70.8%**	70.8%	71.4%	68.3%	71.2%
Average room rate (£)	**£95.08**	£91.48	£85.52	£78.51	£80.32
RevPAR (£)	**£67.32**	£64.81	£61.06	£53.62	£57.19

1 Dividends per share includes ordinary dividends and special dividends

Major Group properties

Asia

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Grand Millennium Beijing Fortune Plaza, 7 Dongsanhuan Middle Road Chaoyang District, Beijing 100020 PRC	Leasehold to year 2046 (hotel), Leasehold to year 2056 (underground car park)	9,268	508	70
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	50
JW Marriot Hotel Hong Kong Pacific Place, 88 Queensway, Hong Kong	75-year term from 18.04.1985 and may be renewable for a further 75 years	10,690	602	26
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	7,349	401	80
Copthorne Orchid Hotel Penang Tanjung Bungah, 11200 Penang, Malaysia	Freehold	10,329	307	100
Grand Millennium Kuala Lumpur 160 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia	Freehold	7,620	459	100
The Heritage Hotel Manila Roxas Boulevard at corner of EDSA Pasay City, Metropolitan Manila, Philippines	Fee simple	9,888	450	66
Millennium Seoul Hilton 395 Namdeemun-ro-5-Ga, Chung-gu, Seoul, South Korea	Freehold	18,760	679	100
Grand Hyatt Taipei Taipei World Trade Centre Sung Shou Road, Taipei, Taiwan	50-year term extendable for another 30 years wef 07.03.1990	14,317	853	81
Grand Millennium Sukhumvit Bangkok Sukhumvit Soi 21, Asoke Road Bangkok, Thailand	30-year term from 02.02.2005 with option to renew for a further term of 30 years	5,053	325	50

Europe

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Copthorne Hotel Aberdeen 122 Huntly Street, Aberdeen AB10 1SU, Scotland	Freehold	1,302	87	83
Copthorne Hotel Birmingham Paradise Circus, Birmingham B3 3HJ, England	Freehold	2,188	211	100
Copthorne Hotel Cardiff-Caerdydd Copthorne Way, Culverhouse Cross, Cardiff CF5 6DH, Wales	Freehold	26,305	135	100
Copthorne Hotel Effingham 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 Hannover Würzburger Strasse 21, 30800 Hannover-Laatzen, Germany	Short leasehold to year 2014	13,165	222	100
Copthorne Hotel Manchester Clippers Quay, Salford Quays, Manchester M50 3SN, England	Leasehold to year 2135	9,800	166	100
Copthorne Hotel Merry Hill-Dudley The Waterfront, Level Street, Brierley Hill, Dudley, West Midlands DY5 1UR, England	Freehold	13,734	138	100
Copthorne Hotel Newcastle The Close, Quayside, Newcastle upon Tyne NE1 3RT, England	Freehold	9,200	156	94
Copthorne Hotel Plymouth Armada Way, Plymouth PL1 1AR, England	Leasehold to year 2110	1,853	135	100
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	7,535	833	100

Europe continued

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Millennium Bailey's Hotel London Kensington 140 Gloucester Road, London SW7 4QH, England	Freehold	1,923	211	100
Millennium Gloucester Hotel & Conference Centre 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	116	100
Millennium Hotel London Knightsbridge 17 Sloane Street, Knightsbridge, London SW1X 9NU, England	Leasehold to year 2091	809	222	100
Millennium Hotel London Mayfair Grosvenor Square, Mayfair, London W1K 2HP, England	Leasehold to year 2096	4,260	336	100
Millennium Hotel Paris Opéra 12 Boulevard Haussmann, 75009 Paris, France	Freehold	1,093	163	100
Millennium Hotel Paris Charles de Gaulle Zone Hoteliere, Allée du Verger, 95700 Roissy-en-France, France	Freehold	11,657	239	100

North America

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Millennium Alaskan Hotel Anchorage 4800 Spenard Road, Anchorage, AK 99517, USA	Freehold	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

North America continued

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Millennium Harvest House Boulder 1345 28th Street Boulder, CO 80302, USA	Freehold	64,019	269	100
Millennium Hotel Buffalo 2040 Walden Avenue Buffalo, NY 14225, USA	Leased to year 2022 (with one 10-year option)	31,726	300	100
Millennium Knickerbocker Hotel Chicago 163 East Walton Place, Chicago, IL 60611, USA	Freehold	2,007	306	100
Millennium Hotel Cincinnati 150 West Fifth Street, Cincinnati, OH 45202, USA	Freehold	6,839	872	100
Millennium Hotel Durham 2800 Campus Walk Avenue, Durham, NC 27705, USA	Freehold	42,814	316	100
Millennium Hotel Minneapolis 1313 Nicollet Mall, Minneapolis, MN 55403, USA	Leased to year 2030	4,537	321	100
Millennium Maxwell House Nashville 2025 Rosa L. Parks Boulevard, Nashville TN 37228, USA	Leased to year 2030 (with two 10-year options)	36,421	287	100
Millennium Broadway Hotel New York 145 West 44th Street, New York, NY10036, USA	Freehold	2,122	750	100
ONE UN New York 1 UN Plaza, 44th Street at 1st Avenue, New York 10017, USA	East tower freehold/ West tower leased to year 2079	4,554	439	100
Millennium Hotel St. Louis 200 South 4th Street, St Louis, MO 63102-1804, USA	Freehold	17,033	780	100
Millennium Scottsdale Resort and Villas 7401 North Scottsdale Road, Scottsdale, AZ 85208, USA	Leased to year 2033 (with two 10-year options)	32,819	125	100
Millenium Hilton 55 Church Street, New York, NY 10007, USA	Freehold	1,680	569	100

North America continued

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Maingate Lakeside Resort 7769 W Irlo Bronson Memorial Highway, Kissimmee, FL 34747, USA	Freehold	93,796	475	100
Comfort Inn Near Vail Beaver Creek 161 West Beaver Creek Boulevard, Avon, CO 81620, USA	Freehold	11,209	146	100
Eldorado Hotel & Spa 309 West San Francisco Street, Santa Fe, NM 87501, USA	Indirect interest	7,349	219	20
Pine Lake Trout Club 17021 Chillicothe Road, Chagrin Falls OH 44023, USA	Freehold	331,121	6	100

Australasia

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Copthorne Hotel Auckland City 150 Anzac Avenue Auckland, New Zealand	Perpetual/Leasehold Land	2,495	110	49
Copthorne Hotel Auckland Harbour City 196-200 Quay Street Auckland, New Zealand	Freehold	2,407	187	70
Copthorne Hotel & Resort Bay of Islands Tau Henare Drive, Paihia, New Zealand	Leasehold to year 2021 (with a 30-year option)	62,834	180	34
Copthorne Hotel & Resort Queenstown Lakefront Corner Adelaide Street & Frankton Road, Queenstown, New Zealand	Freehold	18,709	240	70
Copthorne Hotel Wellington Oriental Bay 100 Oriental Parade, Wellington, New Zealand	Freehold	3,904	118	49
Kingsgate Hotel Dunedin 10 Smith Street, Dunedin, New Zealand	Freehold	2,193	55	49
Kingsgate Hotel Greymouth 32 Mawhera Quay, Greymouth, New Zealand	Freehold/Perpetual leasehold land	2,807	98	70

Australasia continued

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Kingsgate Hotel Palmerston North 110 Fitzherbert Avenue Palmerston North, New Zealand	Freehold	15,514	151	49
Kingsgate Hotel Te Anau 20 Lakefront Drive, Te Anau, New Zealand	Freehold	8,819	94	70
Copthorne Hotel & Apartments Queenstown Lakeview 88 Frankton Road, Queenstown, New Zealand	Freehold	4,713	85	49
Copthorne Hotel Rotorua Fenton Street, Rotorua, New Zealand	Freehold	35,935	136	49
Millennium Hotel Queenstown Corner Frankton Road & Stanley St., Queenstown, New Zealand	Freehold	7,453	220	49
Millennium Hotel Rotorua Corner Eruera & Hinemaru Streets, Rotorua, New Zealand	Freehold/Perpetual leasehold land	10,109	227	70

Owned by CDLHT:

Asia

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Copthorne King's Hotel Singapore* 403 Havelock Road, Singapore	20-year lease commencing 19.07.2006, extendable for a further 20 years	5,637	310	35
Grand Copthorne Waterfront Hotel Singapore* 392 Havelock Road, Singapore	20-year lease commencing 19.07.2006, and extendable for a further 20 years	10,860	574	35
M Hotel Singapore* 81 Anson Road, Singapore	20-year lease commencing 19.07.2006 and extendable for a further 20 years held by CDLHT and a freehold reversionary interest held by the Group	2,134	413	35

Asia continued

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Novotel Clarke Quay 177A River Valley Road, Singapore	97 years and 30 days leasehold commencing from 2 April 1980	12,925	403	35
Orchard Hotel Singapore* 442 Orchard Road, Singapore	20-year lease commencing 19.07.06 and extendable for a further 20 years held by CDLHT and a freehold reversionary interest held by the Group	8,588#	656	35
Studio M Hotel Singapore* 3 Nanson Road, Singapore	20-year lease commencing 03.05.2011 and extendable for a further 50 years	2,932	360	35

Australia

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Novotel Hotel Brisbane 200 Creek Street Brisbane, Queensland	Strata volumetric freehold	6,235	296	35
Mercure & Ibis Hotel Brisbane 85-87 North Quay/ 27-35 Turbot Street Brisbane, Queensland	Interconnected at ground level, situated on one freehold title	3,845	194/218	35
Mercure Hotel Perth 10 Irwin Street Perth, Western Australia	Strata freehold	757	239	35
Ibis Hotel Perth 334 Murray Street Perth, Western Australia	Freehold	1,480	192	35

* Leased by the Group from CDLHT
\# Includes Orchard Hotel Shopping Arcade

New Zealand

Hotels	Tenure	Approximate site area (sq. metres)	Number of rooms	Effective Group interest (%)
Rendezvous Grand Hotel Auckland Corner of Vincent Street and Mayoral Drive Auckland, New Zealand	Freehold	5,910	452	35

Investment Properties	Tenure	Approximate lettable strata area (sq. metres)	Effective Group interest (%)
Tanglin Shopping Centre A shopping-cum-office complex situated at Tanglin Road, Singapore, within the Orchard Road tourist district representing 83 strata-titled units and also 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 21,133 square metres Class "B" lettable office space within the Biltmore hotel structure and the Tower which has 12,156 square metres of Class "A" office space. 299 car park spaces are allocated to the two office spaces.	Freehold	34,289	100
Owned by First Sponsor Capital Limited:			
Humen International Cloth Centre Located in Boyong Village, Guangdong Province, China. Comprising 145 commercial units and 11 serviced apartments.	Leasehold to year 2063	3,466	39
Chengdu Cityspring Located in Chengdu Hi-Tech Industrial Development Zone, Sichuan Province, China. Comprising a block of commercial building with retail shops, serviced office units, office units and a 195-room hotel; and retail space in an adjacent commercial building.	Leasehold to year 2049	42,384	39
Humen Wangwu Located in Shijiao District, Guangdong Province, China. Comprising levels 1 to 3 of an office building	Located on a parcel of development land with no land use rights	1,547	39

Millennium & Copthorne hotels worldwide

ASIA

China
Copthorne Hotel Qingdao
Grand Millennium Beijing
Millennium Hotel Chengdu
Millennium Harbourview Hotel Xiamen
Millennium Hongqiao Hotel Shanghai
Millennium Hotel Wuxi

Hong Kong
Hotel Nikko Hong Kong
JW Marriott Hotel Hong Kong

Indonesia
Millennium Hotel Sirih Jakarta

Malaysia
Copthorne Orchid Hotel Penang
Grand Millennium Kuala Lumpur

Philippines
The Heritage Hotel Manila

Singapore
Copthorne King's Hotel Singapore
Grand Copthorne Waterfront Hotel Singapore
M Hotel Singapore
Orchard Hotel Singapore
Studio M Hotel Singapore

South Korea
Millennium Seoul Hilton

Taiwan
Grand Hyatt Taipei
Millennium Vee Hotel Taichung

Thailand
Grand Millennium Sukhumvit Bangkok
Millennium Resort Patong, Phuket

AUSTRALASIA

New Zealand
Copthorne Hotel Auckland City
Copthorne Hotel Auckland Harbour City
Copthorne Hotel Commodore Christchurch Airport
Copthorne Hotel Grand Central New Plymouth
Copthorne Hotel Wellington Oriental Bay
Copthorne Hotel & Resort Bay of Islands
Copthorne Hotel & Resort Hokianga
Copthorne Hotel & Resort Queenstown Lakefront
Copthorne Hotel & Apartments Queenstown Lakeview
Copthorne Hotel Rotorua
Copthorne Hotel & Resort Solway Park Wairarapa
Kingsgate Hotel Autolodge Paihia
Kingsgate Hotel Brydone Oamaru
Kingsgate Hotel Dunedin
Kingsgate Hotel Greymouth
Kingsgate Hotel Hamilton
Kingsgate Hotel Palmerston North
Kingsgate Hotel Wellington
Kingsgate Hotel Te Anau
Kingsgate Hotel The Avenue Wanganui
Kingsgate Hotel Whangarei
Millennium Hotel Queenstown
Millennium Hotel Rotorua
Millennium Hotel & Resort Manuels Taupo

MIDDLE EAST

Iraq
Copthorne Hotel Baranan

Jordan
Millennium Hotel Amman

Kuwait
Al-Jahra Copthorne Hotel & Resort

Oman
Millennium Resort Mussanah

Qatar
Copthorne Hotel Doha
Kingsgate Hotel Doha
Millennium Hotel Doha

United Arab Emirates
Copthorne Hotel Dubai
Grand Millennium Dubai
Grand Millennium Al Wahda Abu Dhabi
Kingsgate Hotel Abu Dhabi
Millennium Airport Hotel Dubai
Millennium Hotel Abu Dhabi
Millennium Plaza Hotel Dubai

EUROPE

France
Millennium Hotel Paris Charles de Gaulle
Millennium Hotel Paris Opéra

Germany
Copthorne Hotel Hannover

UK
Copthorne Hotel Aberdeen
Copthorne Hotel Birmingham
Copthorne Hotel Cardiff-Caerdydd
Copthorne Hotel Effingham Gatwick
Copthorne Hotel London Gatwick
Copthorne Hotel Manchester
Copthorne Hotel Merry Hill-Dudley
Copthorne Hotel Newcastle
Copthorne Hotel Plymouth
Copthorne Hotel Sheffield
Copthorne Hotel Slough-Windsor
Copthorne Tara Hotel London Kensington
Millennium Bailey's Hotel London Kensington
Millennium Gloucester Hotel & Conference Centre London Kensington
Millennium Hotel Glasgow
Millennium Hotel London Knightsbridge
Millennium Hotel London Mayfair
Millennium & Copthorne Hotels at Chelsea Football Club
Millennium Madejski Hotel Reading

THE AMERICAS

USA
Millennium Alaskan Hotel Anchorage
Millennium Biltmore Hotel Los Angeles
Millennium Bostonian Hotel Boston
Millennium Broadway Hotel New York
Millennium Harvest House Boulder
Millennium Hotel Buffalo
Millennium Hotel Cincinnati
Millennium Hotel Durham
Millennium Knickerbocker Hotel Chicago
Millennium Maxwell House Hotel Nashville
Millennium Hotel Minneapolis
Millennium Scottsdale Resort and Villas
Millennium Hotel St Louis
ONE UN New York
Millenium Hilton
Maingate Lakeside Resort
Comfort Inn Near Vail Beaver Creek
Eldorado Hotel & Spa
Pine Lake Trout Club

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Shareholder information

Analysis of shareholders as at 31 January 2013

Number of shares	Number of holders	Percentage of holders	Total number of shares held	Percentage of issued share capital
1 – 10,000	675	74.67%	866,914	0.27%
10,001 – 25,000	63	6.97%	1,035,152	0.32%
25,001 – 50,000	34	3.76%	1,193,166	0.37%
50,001 – 100,000	36	3.98%	2,596,169	0.80%
100,001 – 500,000	50	5.53%	12,122,765	3.73%
500,001 – 1,000,000	15	1.66%	10,202,819	3.14%
1,000,001 – Highest	31	3.43%	296,531,328	91.37%
Total	904	100.00%	324,548,313	100.00%

We are committed to providing information to our shareholders to enable them to assess the Group's performance and financial position. Information on the daily share price can be found on our website www.millenniumhotels.co.uk which provides information about the Group's properties and room availability together with announcements made by the Group.

Electronic communication

Registering for online communication gives shareholders more control of their shareholding. The registration process is via our registrar's secure website www.shareview.com.

Once registered shareholders are able to:

- elect how we communicate with them;
- amend their details;
- amend the way dividends are received; and
- buy or sell shares online.

This does not mean shareholders can no longer receive paper copies of documents. We are able to offer a range of services and tailor communication to meet our shareholders' needs.

Registered office

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Registered in England and Wales No: 3004377

Corporate headquarters

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

Financial calendar for 2013

Dividend record date	22 March
First quarter's results announcement	2 May
Annual general meeting	2 May
2012 final dividend payment	17 May
Interim results announcement	7 August
2013 interim dividend payment	4 October
Third quarter's results announcement	6 November

Stockbroker

Credit Suisse Securities Limited

Auditor

KPMG Audit Plc

Solicitor

Hogan Lovells LLP

Principal bankers

Bank of America Merrill Lynch
DBS Bank Ltd
Mizuho Corporate Bank Ltd
Oversea-Chinese Banking Corporation Ltd
Royal Bank of Scotland plc
Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi UFJ, Ltd
The Hongkong and Shanghai Banking Corporation Ltd

Registrar

Equiniti Limited

Further information

We value feedback and welcome comments and questions you may have regarding this publication.

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