

4 August 2005

MILLENNIUM & COPTHORNE HOTELS PLC
TRADING UPDATE AND RESULTS FOR THE SIX MONTHS ENDED
30 JUNE 2005

Millennium & Copthorne Hotels plc today presents its results for the six months ended 30 June 2005. The Group owns, asset manages and/or operates 91 hotels located in the Americas, Europe, The Middle-East, Asia and New Zealand.

The results presented today are under International Financial Reporting Standards ('IFRS') and the 2004 comparatives have been restated.

Group results

- Like for like revenue* up 8% to £281.0m (2004 restated: £260.9m)
- Group revenue up 7% to £281.0m (2004 restated: £ 263.6m)
- Like for like* Group operating profit before other operating income and expenses up 24% to £40.4m (2004 restated: £32.7m)
- Group operating profit before other operating income up 18% to £40.4m (2004: £34.3m)
- Hotel operating profit up 22% to £44.6m (2004 restated: £36.5m)
- Profit before tax excluding other operating income up 51% to £27.3m (2004 restated: £18.1m)
- Other operating income of £12.8m from final payment of Millenium Hilton insurance claim
- Profit before tax £40.1m (2004 restated: £18.6m)

** Like for like revenue and operating profit before other operating income and expenses exclude revenue of £2.7m and operating profit of £1.6m from rental income from Birkenhead Shopping Centre and Marina which were disposed of in November 2004*

Overview

- Group RevPAR for the six months in constant currency up 7.1%
 - Stronger RevPAR increases in all regions in the second quarter with Group RevPAR up 9.3%
 - Strongest performance was in New York with rates up 16.8% for the six months
 - Continuation of encouraging occupancy lead improvements in regional US
 - Good performance from Asia and London
- New management contract signed to manage a five star property in Qatar. We have now signed nine new management and franchise contracts worldwide during this half year.

Commenting today, Mr Kwek Leng Beng, Chairman said:

“We have continued our focus on driving the operational performance of our hotels to maximise returns and have delivered first half results in line with our expectations. The Group continues to benefit from a diversified global portfolio with our hotels continuing their upward trends, leaving us well positioned for the second half.”

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MILLENNIUM & COPTHORNE HOTELS PLC RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

OVERVIEW

Our results for the first half of 2005 are in line with our expectations and we are well positioned for the second half. For the six months to 30 June 2005 we recorded a pre tax profit of £40.1m (2004 restated: £18.6m). The earnings per share was 8.2p (2004 restated: 3.5p). We are declaring an interim ordinary dividend at 2.08p per share (2004: 2.08p per share).

	Three months to 30 June 2005	Three months to 30 June 2004	Six months to 30 June 2005	Six months to 30 June 2004
	£m	£m	£m	£m
		Restated		Restated
Revenue	151.5	136.6	281.0	263.6
Group operating profit before other operating income	27.0	21.3	40.4	34.3
Profit before tax excluding other operating income	19.8	14.1	27.3	18.1
Profit before tax	19.8	14.1	40.1	18.6

In our first quarter trading update on 5 May 2005 we stated that we had seen steady progress with a RevPAR growth of 4.4%. The second quarter has seen stronger RevPAR improvements across all regions over the prior year than in the first quarter. Group RevPAR for the first six months is up 7.1% on the prior year and 9.3% up in the second quarter. Group occupancies for the second quarter increased to 73.9% compared to 70.3% in the equivalent period in 2004.

New York has continued to see the strongest growth with RevPAR up 17.8% in the second quarter. In addition to a buoyant market, the renovated rooms at the Millennium Broadway have made a significant contribution to rate increases. We have also seen continued improvements in Regional US with RevPAR up 10.7%. Asia continued to show good growth with RevPAR up 8.3% and London increased RevPAR by 7.3%. Within Rest of Europe in the second quarter, Regional UK increased RevPAR by 8.9%. In France and Germany, which showed a 5.1% decline in the first quarter, RevPAR grew by 11.8%.

In line with our succession planning we have appointed new presidents in Europe, US and New Zealand. We have continued to focus on our strategy for improving the operational performance of our properties, and are mindful of the best ways to expand our on-going hotel business. We have signed nine new management and franchise contracts during this half year at Southampton and Reading in the UK, Bangkok in Thailand, Sharm el-Sheikh in Egypt, Doha in the UAE and Hokianga, New Plymouth, Wanganui and Nelson in New Zealand. At the same time we monitor closely the value of our assets and when opportunities arise to maximise value through sales or development, we will take them.

REVIEW OF OPERATIONS

Group performance

Group RevPAR for the six months to 30 June has increased by 7.1% over the same period in 2004 at constant rates of exchange. Group occupancies increased by 2.6 percentage points, while average rate increased 3.3%. As a result, at constant rates of exchange, total hotel revenues increased by £20.3m and the subsequent hotel operating profit by £6.8m to £44.6m.

Year on year revenues and profits from our non hotel operations have declined with the sale of the Birkenhead shopping centre and marina in the last quarter of 2004. Our non-hotel operating profits in 2005 are now primarily from our land bank operation in New Zealand. Operating profits here are below last year as a result of the timing of projects in 2005.

For the six months to 30 June, revenue increased to £281.0m (2004 restated: £263.6m). Operating profit before other operating income and expenses increased to £40.4m (2004 restated: £34.3m).

Like for like revenue which excludes Birkenhead increased by £20.1m to £281.0m. The like for like operating profit before other operating income and expenses increased to £40.4m. (2004 restated: £32.7m).

As stated in the first quarter trading update, the Group settled the September 11 Business Interruption/property damage insurance claim regarding the Millennium Hilton for \$85.0m. The final proceeds received and recognised in 2005 of US\$25.0m (£12.8m) are disclosed within other operating income.

As a result, Group operating profit was £53.2m (2004 restated: £34.8m) and the profit before tax increased to £40.1m (2004 restated: £18.6m).

UNITED STATES

New York

RevPAR growth in New York has been strong, built upon continued improving average rates. In the six months to 30 June, average rates have increased by 16.8% against 2004. Occupancy saw a small decline, due in part to the room renovation at the Millennium Broadway, resulting in a RevPAR improvement of 15.6%. Average rates have improved in all market segments across the hotels whilst the ratio of business to leisure has increased, further enhancing rate growth. GOP increased from 25.6% in 2004 to 28.8% in 2005.

Regional US

As anticipated improvements in our Regional US business have continued to be driven by increased volume. RevPAR has increased by 7.3% to £30.86 in the six months to 30 June with occupancy up by 8.6 percentage points. The occupancy increase has been almost universal across the region. The largest overall RevPAR improvement was at the Millennium Biltmore in Los Angeles, where a combination of occupancy and rate growth has resulted in a significant improvement in the hotel's performance.

All market segments, with the exception of exhibition, have increased revenue year on year. We still see room for further increases in occupancy and as this is achieved we will be moving towards a strategy of rate improvement. Overall GOP for the hotels has increased by 1.1 percentage points to 18.4% for the six months to June 30.

EUROPE

London

London continued during the first half to achieve ongoing growth primarily driven by volume. Every hotel increased occupancy resulting in an overall occupancy rise of 6.4 percentage points to 84.9%. As a result RevPAR increased 8.1% to £67.40 in the six months to 30 June. Further comment is made in our prospects on the impact of recent incidents in London.

Rest of Europe

RevPAR has increased by 5.8% to £51.21 with occupancy up by 1.2 percentage points to 72.5%, and average rate up 4.1% to £70.64.

Regional UK

The first half saw growth in most of our Regional UK hotels. RevPAR increased 7.6% to £51.46 through a combination of both volume and rate increases. Occupancy increased by 2.3 percentage points to 75.5% while average rate increased by 4.3% to £68.16. We have seen increased occupancies and rates at the majority of our hotels in this region.

France & Germany

Our presence in these two countries remains low with just two properties in each. RevPAR has increased by 3.2% to £50.88 through rate increases up 4.0% to £75.05. There was a small occupancy drop of 0.5 percentage points to 67.8%. Rate increased in each property although there were mixed results in terms of occupancy. Stuttgart has produced a strong performance to date as a result of improved attendances at the two musicals and our management strategy implemented in 2004.

ASIA

We have continued our management focus in Asia on driving rates. Average rate increased by 7% to £51.80 whilst occupancy remained flat resulting in RevPAR up 7.0% to £36.99.

Our Singapore properties have grown RevPAR by 13.9% through improved rate. The refurbishment at the Orchard hotel resulted in the loss of 15,000 room nights (12,000 in quarter one) for refurbishment, as indicated in the quarter one announcement. This has impacted regional occupancy by 0.7 of a percentage point. The refurbishment is now starting to yield further improvements in average rate.

The Grand Hyatt hotel in Taipei has experienced steady growth, with higher occupancy coming through the corporate segment while the improved rate was in the full price segment. The Millennium Seoul Hilton in Korea maintained its performance and our Hong Kong joint venture hotels saw strong growth.

NEW ZEALAND

In New Zealand, where we operate under the Millennium, Copthorne and Kingsgate brands, RevPAR has increased 3.5% to £30.56. This was achieved as a result of 6.4% increase in average rate to £42.92. Occupancy remains strong with an average figure of 71.2% across the region, bolstered by a very successful recent sporting tour. The Millennium, Copthorne and Kingsgate hotels all performed well, with the Copthorne branded hotels experiencing pleasing growth and yield.

MANAGEMENT CONTRACTS

We have continued to develop the management contract side of our business, thereby increasing our visibility to existing and new customers.

United Kingdom

We announced in our May trading statement the signing of two new management contracts for hotels in the UK. We have signed a contract with Marine Development to manage a 200 bedroom 4-star luxury Millennium Hotel located in Ocean Village on the waterfront in Southampton, scheduled to open in 2007.

We also signed a management contract for a new Copthorne hotel in Reading, the 83 bedroom Kirtons Farm property close to the M4. On completion of a full refurbishment the hotel will be rebranded as the Copthorne Hotel Reading.

Asia, Middle East and New Zealand

In addition we signed two landmark, 5-star Millennium management contracts overseas in the first quarter. The first is to operate a 328 bedroom hotel in Bangkok, Thailand, scheduled to open in December 2007. The second is to operate a luxury hotel resort and residence in Sharm el Sheikh for 350 hotel bedrooms and 92 duplex apartments (scheduled to open in late 2006/early 2007). In the second quarter, we have signed one further management contract, to operate the Millennium Hotel Dohar in Qatar. This will be a 270 bedroom, 5 star property and is scheduled to open in the late autumn of 2006.

As announced in our May trading statement we have also signed management and franchise contracts for two new Copthorne and two new Kingsgate hotels in New Zealand.

CURRENT TRADING AND PROSPECTS

Group RevPAR for 4 weeks to 28 July was up 7.9%. As far as London is concerned, we saw a short term slowdown in business following the recent events and believe that, in the absence of further such incidents, we will see a gradual return to normal trading levels.

The Group continues to benefit from a diversified global portfolio with the majority of our hotels continuing their upward trends, leaving us well positioned for the second half.

Kwek Leng Beng

Chairman

4 August 2005

REVIEW OF FINANCE

Results

The total revenue for the six months was £281.0m (2004 restated: £263.6m). The Group operating profit before other operating income and other operating expenses was £40.4m (2004 restated: £34.3m). Group operating profit was £53.2m (2004 restated: £34.8m).

Joint ventures

Under IFRS the Group's share of interest paid by joint ventures and the Group's share of the taxation charge of joint ventures are now disclosed within the share of profit of joint ventures. The joint venture results for 2005 represent the joint venture in Hong Kong, which has interests in two hotel properties. The 2004 results include the USA joint venture which held the interest in The Plaza, New York. This joint venture was disposed of in October 2004.

The share of operating profits of joint ventures for the six months was £3.7m (2004 restated: £3.9m). The Group's share of the interest payable by joint ventures was £0.5m (2004: £1.8m) and the Group's share of joint venture taxation is £0.4m (2004: £0.4m).

Other operating income/expenses.

The other operating income of £12.8m in the period represents business interruption proceeds following the settlement of the New York Millenium Hilton insurance dispute. Further details of other operating income/expenses in the current and comparative periods are set out in note 2.

Finance expenses/income

Group interest receivable and similar income was £3.5m (2004: £1.3m).

The Group interest payable was £19.4m (2004: £19.2m). Interest payable increased in comparison to last year due to higher average interest rates during the period and a cost of £0.9m associated with the planned termination of the US interest hedging arrangements. However, this increase was largely offset by a reduction in net debt.

The net interest cost for the period was £15.9m (2004: £17.9m), which was covered 2.5 times (2004: 1.9 times) by Group operating profit before other operating income/expenses.

Taxation

We have reported a tax charge of £13.0m (including £0.4m attributable to joint ventures).

The tax expense for the six months ended 30 June 2005 and 30 June 2004 was calculated based on the estimated average annual effective income tax rate (excluding the estimated tax expense relating to the Millenium Hilton insurance proceeds and other operating income). The estimated tax rate calculated on this basis is 25.3% (restated six months to 30 June 2004: 20.5%).

The estimated tax charge relating to the insurance proceeds has been calculated separately and has been recognised in full in the six month period ended 30 June 2005. The taxation arising in respect of these insurance proceeds is estimated at £6.0m.

Capital expenditure

The cash outflow on capital expenditure for the period was £13.9m (2004: £6.4m).

Dividends and earnings per share

The directors are proposing an interim ordinary dividend of 2.08p per share (2004: 2.08p per share). The interim ordinary dividend will be paid on 5 October 2005 to shareholders on the register as at close of business on 12 August 2005. The Group will again be offering shareholders the option of a scrip dividend.

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

The basic earnings per share was 8.2p (2004 restated: 3.5p).

Treasury

Net borrowings of the Group comprise interest bearing loans and bonds net of cash and cash equivalents and other current financial assets. Net borrowings as at 30 June 2005 were £512.3m (31 December 2004: £478.9m).

Cash flow and gearing

Net cash inflow from operating activities was £19.3m (2004: £21.7m). There was an overall net decrease in cash and cash equivalents of £3.6m (2004: net increase of £11.5m) which, together with a translation gain of £4.1m (2004: loss £2.1m), gives rise to cash balances at 30 June 2005 of £91.2m (December 2004: £90.7m).

The Group gearing as at 30 June 2005 was 43% (31 December 2004 restated: 41%).

David Cashman
Group Chief Financial Officer
4 August 2005

Consolidated interim income statement
For the six months ended 30 June 2005 (unaudited)

	<i>Note</i>	6 months ended 30 June 2005 £m Unaudited	6 months ended 30 June 2004 £m Unaudited	Year ended 31 December 2004 £m Unaudited
Revenue		281.0	263.6	551.0
Cost of sales		(125.4)	(119.7)	(246.2)
Gross profit		155.6	143.9	304.8
Administrative expenses		(115.2)	(109.6)	(219.6)
Group operating profit before other operating income and expenses		40.4	34.3	85.2
Other operating income	2(a)	12.8	0.5	55.0
Other operating expenses	2(b)	-	-	(15.2)
Group operating profit		53.2	34.8	125.0
Share of profit of joint ventures and associates				
- operating profit		3.7	3.9	7.8
- interest		(0.5)	(1.8)	(3.2)
- taxation		(0.4)	(0.4)	(0.8)
		2.8	1.7	3.8
Finance expenses		(19.4)	(19.2)	(41.5)
Finance income		3.5	1.3	5.8
Profit before tax		40.1	18.6	93.1
Income tax expense	4	(12.6)	(3.4)	(31.4)
Profit for the period		27.5	15.2	61.7
Attributable to:				
Equity holders of the parent		23.4	9.9	50.9
Minority interest		4.1	5.3	10.8
Profit for the period		27.5	15.2	61.7
Basic earnings per share (pence)	5	8.2	3.5	17.9
Diluted earnings per share (pence)	5	8.1	3.5	17.8

**Consolidated interim statement of recognised income and expense
For the six months ended 30 June 2005**

		6 months ended 30 June 2005 £m Unaudited	6 months ended 30 June 2004 £m Unaudited	Year ended 31 December 2004 £m Unaudited
Foreign exchange translation differences		39.2	(30.3)	(45.6)
Cash flow hedges: amounts recycled to income statement		3.5	-	-
Actuarial gains and losses arising in respect of defined benefit pension schemes		(1.7)	(1.6)	(3.3)
Revaluation of property, plant and equipment				
- Group		-	-	12.7
- Joint ventures		-	-	17.7
Taxation charge arising:				
- On revaluation of hotel assets		-	-	(1.1)
- On defined benefit pension schemes		0.4	0.5	1.0
Income and expense for the period recognised directly in equity		41.4	(31.4)	(18.6)
Profit for the period		27.5	15.2	61.7
Total recognised income and expense for the period	6	68.9	(16.2)	43.1
First time adoption of IAS 39	7e	(5.4)	-	-
Total recognised income and expense		63.5	(16.2)	43.1
Attributable to:				
Equity holders of the parent		53.5	(15.7)	29.5
Minority interest		10.0	(0.5)	13.6
Total recognised income and expense		63.5	(16.2)	43.1

Consolidated interim balance sheet
As at 30 June 2005 (unaudited)

	<i>Note</i>	30 June 2005 £m Unaudited	30 June 2004 £m Unaudited	31 December 2004 £m Unaudited
Assets				
Property, plant and equipment		1,880.9	1,863.0	1,821.9
Lease premium prepayment		89.6	90.7	90.5
Investment properties		44.3	85.9	43.7
Investments in joint ventures and associates		44.8	44.4	40.7
Loans due from joint ventures and associates		23.8	31.7	22.3
Other non-current financial assets		2.7	2.6	2.8
Total non-current assets		<u>2,086.1</u>	<u>2,118.3</u>	<u>2,021.9</u>
Assets held for sale	3	9.3	-	14.5
Inventories		4.0	3.6	3.9
Development properties		44.6	17.0	32.3
Trade and other receivables		64.9	66.1	49.8
Cash and cash equivalents		91.2	49.9	90.7
Other current financial assets		3.9	0.3	4.1
Total current assets		<u>217.9</u>	<u>136.9</u>	<u>195.3</u>
Total assets		<u>2,304.0</u>	<u>2,255.2</u>	<u>2,217.2</u>
Liabilities				
Interest-bearing loans, bonds and borrowings		314.4	685.0	248.0
Employee benefits		15.9	11.7	13.3
Other non-current liabilities		6.2	7.1	6.7
Provisions		2.2	2.6	2.4
Deferred tax liabilities		233.6	194.7	216.5
Total non-current liabilities		<u>572.3</u>	<u>901.1</u>	<u>486.9</u>
Interest-bearing loans, bonds and borrowings		293.0	21.0	325.7
Trade and other payables		98.7	92.8	99.0
Income taxes payable		22.9	15.7	22.6
Other financial liabilities – hedging derivatives		1.9	-	-
Total current liabilities		<u>416.5</u>	<u>129.5</u>	<u>447.3</u>
Total liabilities		<u>988.8</u>	<u>1,030.6</u>	<u>934.2</u>
Net assets		<u>1,315.2</u>	<u>1,224.6</u>	<u>1,283.0</u>
Equity				
Issued capital		86.0	85.5	85.9
Share premium		847.4	846.5	846.1
Revaluation reserves		246.0	247.3	246.0
Retained earnings		6.5	(62.7)	(17.4)
Total equity attributable to equity holders of the parent	6	<u>1,185.9</u>	<u>1,116.6</u>	<u>1,160.6</u>
Minority interest		129.3	108.0	122.4
Total equity	6	<u>1,315.2</u>	<u>1,224.6</u>	<u>1,283.0</u>

Consolidated statement of cash flows
For the six months ended 30 June 2005 (unaudited)

	6 months ended 30 June 2005 £m Unaudited	6 months ended 30 June 2004 £m Unaudited	Year ended 31 December 2004 £m Unaudited
Cash flows from operating activities			
Profit for the period	27.5	15.2	61.7
<i>Adjustments for:</i>			
Depreciation and amortisation	17.5	18.4	37.1
Property, plant and equipment written off	-	-	0.2
Share of profit of joint ventures and associates	(2.8)	(1.7)	(3.8)
Impairment losses for property, plant and equipment	-	-	15.2
Profit on sale of property, plant and equipment	-	(0.5)	(3.2)
Gain on sale of joint venture	-	-	(51.8)
Employee stock options	0.2	0.2	0.4
Investment income	(3.5)	(1.3)	(5.8)
Interest expense	19.4	19.2	41.5
Income tax expense	12.6	3.4	31.4
Operating profit before changes in working capital and provisions	70.9	52.9	122.9
Increase in stocks, trade and other receivables	(19.8)	(12.2)	(6.9)
(Increase)/decrease in development properties	(12.5)	1.3	2.4
(Decrease)/increase in trade and other payables	(0.3)	(2.0)	4.0
Decrease in provisions and employee benefits	0.2	0.2	0.4
Cash generated from the operations	38.5	40.2	122.8
Net interest paid	(13.6)	(17.2)	(35.5)
Income taxes paid	(5.6)	(1.3)	(10.5)
Net cash from operating activities	19.3	21.7	76.8
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	6.0	1.5	45.1
Change in other current financial assets	0.2	4.1	0.3
Disposal of joint venture	5.3	-	90.8
Acquisition of property, plant and equipment	(13.9)	(6.4)	(25.4)
Net cash from investing activities	(2.4)	(0.8)	110.8

Consolidated statement of cash flows (continued)
For the six months ended 30 June 2005 (unaudited)

	6 months ended 30 June 2005 £m Unaudited	6 months ended 30 June 2004 £m Unaudited	Year ended 31 December 2004 £m Unaudited
Cash flows from financing activities			
Proceeds from the issue of share capital	1.4	1.4	1.4
Purchase of shares from minority interests	-	(4.2)	(5.9)
Repayment of borrowings	(117.5)	(198.0)	(396.9)
Drawdown of borrowings	128.7	195.3	273.1
Payment of finance lease liabilities	(0.9)	(0.7)	(1.6)
Payment of finance costs	(0.3)	(0.5)	(0.6)
Dividends paid to minorities	(2.1)	(1.2)	(1.6)
Equity dividends paid	(29.8)	(1.5)	(3.0)
Net cash from financing activities	<u>(20.5)</u>	<u>(9.4)</u>	<u>(135.1)</u>
Net (decrease)/increase in cash and cash equivalents	(3.6)	11.5	52.5
Cash and cash equivalents at beginning of period	90.7	40.5	40.5
Effect of exchange rate fluctuations on cash held	4.1	(2.1)	(2.3)
Cash and cash equivalents at period end	<u>91.2</u>	<u>49.9</u>	<u>90.7</u>

Key operating statistics
For the six months ended 30 June 2005 (unaudited)

	6 months ended 30 June 2005	6 months ended 30 June 2004	6 months ended 30 June 2004	Year ended 31 December 2004
	Reported currency	Constant currency	Reported currency	Reported currency
Occupancy (%)				
New York	82.8	83.7	83.7	84.0
Regional US	64.9	56.3	56.3	61.2
USA	69.0	63.1	63.1	66.9
London	84.9	78.5	78.5	83.5
Rest of Europe	72.5	71.3	71.3	72.8
Europe	78.0	74.5	74.5	77.6
Asia	71.4	71.4	71.4	73.2
New Zealand	71.2	73.2	73.2	71.5
Group	72.1	69.5	69.5	71.8
Average room rate (£)				
New York	113.79	97.40	100.66	108.77
Regional US	47.55	51.10	52.81	52.91
USA	65.72	66.44	68.66	70.43
London	79.39	79.45	79.45	79.79
Rest of Europe	70.64	67.86	67.44	66.67
Europe	74.86	73.28	73.05	72.93
Asia	51.80	48.42	46.93	46.76
New Zealand	42.92	40.33	38.02	38.77
Group	61.71	59.76	59.68	60.59
RevPAR (£)				
New York	94.22	81.52	84.25	91.37
Regional US	30.86	28.77	29.73	32.38
USA	45.35	41.92	43.32	47.12
London	67.40	62.37	62.37	66.62
Rest of Europe	51.21	48.38	48.08	48.54
Europe	58.39	54.59	54.42	56.59
Asia	36.99	34.57	33.51	34.23
New Zealand	30.56	29.52	27.83	27.72
Group	44.49	41.53	41.48	43.50
Gross operating profit %				
New York	28.8		25.6	28.9
Regional US	18.4		17.3	21.0
USA	22.9		20.9	24.4
London	48.2		50.6	51.2
Rest of Europe	29.8		29.1	30.0
Europe	38.1		38.7	39.5
Asia	36.2		35.7	35.4
New Zealand	42.1		42.0	41.6
Group	32.8		32.4	33.6

Notes to the consolidated interim financial statements

1. Basis of preparation

Millennium & Copthorne Hotels plc (the "Company") is a company domiciled in the United Kingdom. The consolidated interim financial statements of the Company for the six months ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the Company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs"). This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs.

Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied, as set out in the Group's quarterly financial information for the three month period ended 31 March 2005, when the first annual IFRS financial statements are prepared for the year ending 31 December 2005. In particular, the directors have assumed that IAS 19: Employee Benefits (as amended) will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS financial statements for the year ending 31 December 2005.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2005.

The consolidated interim financial statements do not include all of the information required for full annual financial statements and none of the financial information included within the consolidated interim financial statements has been subject to audit.

The comparative figures for the financial year ended 31 December 2004 are not the Company's statutory accounts for the financial year. These accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Other operating income/other operating expenses

	6 months ended 30 June 2005	6 months ended 30 June 2004	Year ended 31 December 2004
	£m	£m	£m
	Unaudited	Unaudited	Unaudited
(a) Other operating income			
(i) Business interruption insurance proceeds	12.8	-	-
(ii) Profit on disposal of fixed assets	-	0.5	3.2
(iii) Profit on disposal of joint venture	-	-	51.8
	<hr/> 12.8	<hr/> 0.5	<hr/> 55.0
(b) Other operating expenses			
Impairment of US hotel properties	<hr/> -	<hr/> -	<hr/> (15.2)

3. **Assets held for sale**

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

- Commercial property assets held in Sydney, comprising part of the former Millennium Sydney hotel property and the adjoining retail and conference centre: this asset is expected to be sold during the second half of 2005 and it is presented as held for sale at 30 June 2005.
- Kingsgate Hotel Greenlane, Auckland: this asset was sold in January 2005

No impairment loss was required to be recognised in the prior or current period in respect of these properties. The total carrying amount of assets held for sale as at 30 June 2005 is £9.3m.

4. **Income taxes**

Income tax expense for the six month period presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The current tax expense for the six months ended 30 June 2005 and 2004 was calculated based on the estimated average annual effective income tax rate (excluding the estimated tax expense relating to the Millenium Hilton business interruption insurance proceeds and other operating income set out in note 2). The estimate annual effective income tax rate calculated on this basis is 25.3% (restated six months ended 30 June 2004: 20.5%).

In the six months to 30 June 2005, the average annual effective income tax rate has been applied to profits excluding the Millenium Hilton business interruption insurance proceeds. The tax charge relating to the insurance proceeds income has been calculated separately and has been recognised in full in the six month period ended 30 June 2005. The taxation arising in respect of these insurance proceeds is estimated at £6.0m.

5. **Earnings per share**

Six months ended 30 June

The basic earnings per share of 8.2p (2004: earnings per share of 3.5p) are based on a profit attributable to equity holders of the parent of £23.4m (2004: profit of £9.9m) and a weighted average number of shares in issue of 286.6 million (2004: 283.4 million) being the average number of shares in issue in the period.

The diluted earnings per share of 8.1p (2004: earnings per share of 3.5p) are based on a weighted average number of shares in issue of 287.6 million (2004: 284.1 million) being the average number of shares in issue in the period adjusted for the exercise of dilutive share options.

6. Reconciliation of equity (unaudited)

	Share capital £m	Share premium £m	Reval reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Balance at 1 January 2004	84.8	845.8	247.3	-	-	(45.6)	1,132.3	117.2	1,249.5
Total recognised income and expense	-	-	21.6	(40.7)	-	48.6	29.5	13.6	43.1
Dividends to shareholders	-	-	-	-	-	(11.7)	(11.7)	-	(11.7)
Dividends paid - minority interests	-	-	-	-	-	-	-	(1.6)	(1.6)
Issue of shares in lieu of dividends	0.9	(0.9)	-	-	-	8.7	8.7	-	8.7
Minority interest attributable to joint venture	-	-	-	-	-	-	-	(2.1)	(2.1)
Share options exercised	0.2	1.2	-	-	-	-	1.4	-	1.4
Equity settled transactions	-	-	-	-	-	0.4	0.4	-	0.4
Purchase of minority interest	-	-	-	-	-	-	-	(4.7)	(4.7)
Transfer of realised profit									
- annual depreciation charge	-	-	(0.5)	-	-	0.5	-	-	-
- Profit on disposal of fixed assets	-	-	(22.4)	-	-	22.4	-	-	-
Balance at 31 December 2004	85.9	846.1	246.0	(40.7)	-	23.3	1,160.6	122.4	1,283.0
Balance at 1 January 2005	85.9	846.1	246.0	(40.7)	-	23.3	1,160.6	122.4	1,283.0
First time adoption of IAS39	-	-	-	-	(4.0)	(1.4)	(5.4)	-	(5.4)
Balance restated at 1 January 2005	85.9	846.1	246.0	(40.7)	(4.0)	21.9	1,155.2	122.4	1,277.6
Total recognised income & expense for the period	-	-	-	33.3	3.5	22.1	58.9	10.0	68.9
Dividends to shareholders	-	-	-	-	-	(29.8)	(29.8)	-	(29.8)
Dividends paid – minority interests	-	-	-	-	-	-	-	(2.1)	(2.1)
Minority interest attributable to joint venture	-	-	-	-	-	-	-	(1.0)	(1.0)
Issue of share options	0.1	1.3	-	-	-	-	1.4	-	1.4
Equity settled transactions	-	-	-	-	-	0.2	0.2	-	0.2
Balance at 30 June 2005	86.0	847.4	246.0	(7.4)	(0.5)	14.4	1,185.9	129.3	1,315.2

7. Explanation of the transition to IFRS

(a) Explanation of transition to IFRSs

(i) Accounting policies

The IFRS accounting policies adopted in this interim statement are consistent with those published in the Group's quarterly announcement for the three month period ended 31 March 2005, dated 5 May 2005. These accounting policies have been consistently applied in preparing the consolidated interim financial statements for the six months ended 30 June 2005, the comparative information for the six months ended 30 June 2004, the financial statements for the year ended 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

The Group has applied the transition adoption rules of IAS 32: Financial Instruments (Disclosure and presentation) and IAS 39: Financial Instruments (Recognition and measurement). The Group has therefore applied these standards, and the related accounting policies only with effect for the current period from 1 January 2005 and not within the 2004 comparative financial periods.

(ii) Transition to IFRS

An explanation of how the transition from UK GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows for the year ended 31 December 2004 is set out in Group's quarterly announcement for the three month period ended 31 March 2005. The transition adjustments in respect of the financial position at 30 June 2004 and the financial performance to the period then ended are set out in notes 7(b) to 7(f).

(b) Balance sheet at 30 June 2004 (unaudited)

	UK GAAP £m	Lease premium pre payment £m (d)i	Assets held for sale £m (d)iii	New Zealand land bank sales £m (d)iv	Employee benefits £m (d)v	Deferred taxes £m (d)vii	Dividend £m (d)viii	Translation reserve reclass £m	IFRS £m
Assets									
Property, plant and equipment	1,955.6	(92.6)	-	-	-	-	-	-	1,863.0
Lease premium prepayment	-	90.7	-	-	-	-	-	-	90.7
Investment properties	85.9	-	-	-	-	-	-	-	85.9
Investments in joint ventures and associates	57.5	(0.1)	-	-	-	(13.0)	-	-	44.4
Loans due from joint ventures and associates	31.7	-	-	-	-	-	-	-	31.7
Other non-current assets	2.6	-	-	-	-	-	-	-	2.6
Total non-current assets	2,133.3	(2.0)	-	-	-	(13.0)	-	-	2,118.3
Assets held for sale	-	-	-	-	-	-	-	-	-
Inventories	3.6	-	-	-	-	-	-	-	3.6
Development properties	15.7	-	-	1.3	-	-	-	-	17.0
Trade and other receivables	68.5	1.3	-	(3.7)	-	-	-	-	66.1
Cash and cash equivalents	49.9	-	-	-	-	-	-	-	49.9
Financial assets	0.3	-	-	-	-	-	-	-	0.3
Total current assets	138.0	1.3	-	(2.4)	-	-	-	-	136.9
Total assets	2,271.3	(0.7)	-	(2.4)	-	(13.0)	-	-	2,255.2
Liabilities									
Long term borrowings	685.0	-	-	-	-	-	-	-	685.0
Employee benefits	4.2	-	-	-	7.5	-	-	-	11.7
Other non-current liabilities	7.1	-	-	-	-	-	-	-	7.1
Provisions	2.6	-	-	-	-	-	-	-	2.6
Deferred tax liabilities	49.5	-	-	-	-	145.2	-	-	194.7
Total non-current liabilities	748.4	-	-	-	7.5	145.2	-	-	901.1
Current portion of long term borrowings	21.0	-	-	-	-	-	-	-	21.0
Trade and other payables	98.9	-	-	(0.2)	-	-	(5.9)	-	92.8
Income taxes payable	16.4	-	-	(0.7)	-	-	-	-	15.7
Total current liabilities	136.3	-	-	(0.9)	-	-	(5.9)	-	129.5
Total liabilities	884.7	-	-	(0.9)	7.5	145.2	(5.9)	-	1,030.6
Net Assets	1,386.6	(0.7)	-	(1.5)	(7.5)	(158.2)	5.9	-	1,224.6
Equity									
Issued capital	85.5	-	-	-	-	-	-	-	85.5
Share premium	846.5	-	-	-	-	-	-	-	846.5
Revaluation reserve	291.2	8.2	-	-	-	(57.3)	-	5.2	247.3
Retained earnings	46.4	(8.9)	-	(0.7)	(7.4)	(92.8)	5.9	(5.2)	(62.7)
Total equity attributable to equity holders of the parent	1,269.6	(0.7)	-	(0.7)	(7.4)	(150.1)	5.9	-	1,116.6
Minority interest	117.0	-	-	(0.8)	(0.1)	(8.1)	-	-	108.0
Total equity	1,386.6	(0.7)	-	(1.5)	(7.5)	(158.2)	5.9	-	1,224.6

(d) Explanation of adjustments between UK GAAP and IFRS (unaudited)

(i) Lease premium prepayment

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

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

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

This change in accounting policy has been adopted retrospectively, by way of prior year adjustment, to the date of lease acquisition by the Group. Retained reserves at 30 June 2004 have been debited by £8.9m accumulated amortisation which would have been charged to that date, in excess of depreciation previously charged under UK GAAP. This prior year adjustment has not all impacted total equity as a credit of £8.2m has been recorded to the revaluation reserve at 30 June 2004, to reflect how the Group's total interest in the hotel property is carried at valuation and in aggregate, should be maintained at the level of the most recent external valuation recorded.

This change in accounting policy has increased the annual amortisation charge in respect of Group and joint venture leasehold land by £1.4m. The Group and joint venture charge for the six months to 30 June 2004 has been increased by £0.7m.

Long leasehold buildings lease premium continue to be accounted for as tangible fixed assets held under finance leases where the Group holds the asset for substantially all of its useful economic life.

(ii) Investment property

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

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

(iii) Assets held for sale

The Group applied IFRS 5 retrospectively from 1 January 2004 in respect of assets held for sale, details of which are set out in note 3.

(iv) Real estate and land development sales

On adoption of IAS 18, the Group changed the timing of revenue recognition in respect of its non-hotel land development sales. Revenue in respect of these sales is now recognised on transfer of legal title, which better reflects the transfer of the risks and rewards of ownership. Under UK GAAP, revenue was recognised on agreement of an unconditional contract.

Operating profit for the year ended 31 December 2004 and the six months ended 30 June 2004 was increased and reduced by £1.3m and £0.5m respectively.

Total equity at 30 June 2004 has been reduced by £1.5m.

(v) Employee benefits

IAS 19: employee benefits permits full recognition of defined benefit pension obligations in the financial statements and the Group has adopted this option.

Adoption of IAS 19 has reduced equity at 30 June 2004 by £7.5m (excluding recognition of deferred tax).

Actuarial gains and losses of £3.3m and £1.6m were charged to the statement of recognised income and expense in the year ended 31 December 2004 and six months ended 30 June 2004 respectively. The pension charge to the income statement was increased in the year ended 31 December 2004 by £0.4m and in the six months ended 30 June 2004 by £0.2m.

(vi) Share based payments

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

The Group accounted for these share-based payment arrangements at intrinsic value under UK GAAP. This has been adjusted as required by IFRS.

The effect of accounting for equity-settled share-based payment transactions at fair value is to increase administrative expenses by £0.2m for the six months ended 30 June 2004 and by £0.4m for the year ended 31 December 2004. The adoption of IFRS 2 is equity-neutral for equity-settled transactions.

(vii) Deferred taxes

	30 June 2004
	£m
	Unaudited
Group deferred tax liability - UK GAAP	<u>49.5</u>
Property assets*	176.1
Employee benefits	(2.0)
Other deferred taxation	(2.4)
Tax losses carried forward	<u>(26.5)</u>
Increase in deferred tax liability	<u>145.2</u>
Group deferred tax liability – IFRS	<u>194.7</u>

**Property assets comprise Property, Plant and Equipment, investment properties, assets held for sale and leasehold land prepayments*

The Group deferred tax liability has been increased at 30 June 2004 as shown in the table. In addition, a £13.0m deferred tax liability has been recognised in respect of joint ventures.

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

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

The overall increase in deferred tax liabilities resulting from property assets has allowed the Group to increase its matching recognition of tax losses, which were not recorded in the balance sheet under UK GAAP. Such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The effect on the income statement for the six months ended 30 June 2004 and for the year ended 31 December 2004, respectively, was to increase the previously reported tax charge for the period, respectively, by £0.8m and £15.3m.

(viii) Dividends

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

(e) Reconciliation of financial instruments as if IAS 39 was applied at 1 January 2005 (unaudited)

	UK GAAP £m Unaudited	Effect of Transition to IFRSs £m Unaudited	IFRSs £m Unaudited
Fair value derivatives	-	(5.4)	(5.4)
Hedging reserve	-	(5.4)	(5.4)

Under UK GAAP, the Group did not recognise derivatives on the balance sheet. In accordance with IFRS derivatives should be recognised at fair value. IAS39: Financial Instruments – measurement has been adopted with effect from 1 January 2005. The effect is to record the fair value of derivatives on the balance sheet, increasing current liabilities and reducing equity by £5.4m at 1 January 2005.

(f) Total effect on equity (unaudited)

A summary of the effect on total equity at 30 June 2004 of the adjustments set out in (a) to (d) is set out below:

	30 June 2004 £m Unaudited
Lease premium prepayment	(0.7)
Real estate and land development sales	(1.5)
Employee benefits	(7.5)
Income taxes – joint ventures	(13.0)
Income taxes – Group	(145.2)
Dividends	5.9
Total	(162.0)

Consolidated interim income statement
For the three months ended 30 June 2005 (unaudited)

	3 months ended 30 June 2005 £m Unaudited	3 months ended 30 June 2004 £m Unaudited
Revenue	151.5	136.6
Cost of sales	(64.9)	(59.8)
Gross profit	<u>86.6</u>	<u>76.8</u>
Administrative expenses	(59.6)	(55.5)
Operating profit before other operating income and expenses	27.0	21.3
Other operating income	-	-
Other operating expenses	-	-
Group operating profit	<u>27.0</u>	<u>21.3</u>
Share of profit of joint ventures and associates		
- operating profit	2.0	2.6
- interest	(0.3)	(0.9)
- taxation	(0.2)	(0.2)
	1.5	1.5
Finance expenses	(11.6)	(9.5)
Finance income	2.9	0.8
Profit before tax	<u>19.8</u>	<u>14.1</u>
Income tax expense	(4.6)	(1.9)
Profit for the period	<u>15.2</u>	<u>12.2</u>
Attributable to:		
Equity holders of the parent	13.6	9.5
Minority interest	1.6	2.7
Profit for the period	<u>15.2</u>	<u>12.2</u>

Key operating statistics
For the three months ended 30 June 2005 (unaudited)

	3 months ended 30 June 2005	3 months ended 30 June 2004	3 months ended 30 June 2004
	Reported currency	Constant currency	Reported currency
Occupancy (%)			
New York	88.0	89.0	89.0
Regional US	71.0	59.4	59.4
USA	74.9	66.8	66.8
London	87.2	82.4	82.4
Rest of Europe	76.2	73.6	73.6
Europe	81.1	77.5	77.5
Asia	73.0	72.1	72.1
New Zealand	59.9	63.1	63.1
Group	73.9	70.3	70.3

Average room rate (£)

New York	123.32	103.51	106.16
Regional US	50.21	54.22	55.60
USA	69.84	70.63	72.43
London	82.75	81.61	81.61
Rest of Europe	71.81	67.56	67.23
Europe	77.03	74.18	74.01
Asia	54.30	50.76	48.73
New Zealand	42.30	38.92	34.98
Group	64.97	62.48	62.00

RevPAR (£)

New York	108.52	92.12	94.48
Regional US	35.65	32.21	33.03
USA	52.31	47.18	48.38
London	72.16	67.25	67.25
Rest of Europe	54.72	49.72	48.48
Europe	62.87	57.49	57.36
Asia	39.64	36.61	35.13
New Zealand	25.34	24.56	22.07
Group	48.01	43.92	43.59

Gross operating profit %

New York	37.0		34.0
Regional US	24.6		22.7
USA	30.2		27.6
London	49.8		52.6
Rest of Europe	32.3		30.7
Europe	40.0		40.6
Asia	38.1		36.5
New Zealand	36.5		33.3
Group	35.7		34.5