

**MILLENNIUM & COPTHORNE HOTELS PLC
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005**

Millennium & Copthorne Hotels plc today presents its results for the year ended 31 December 2005. The Group has a portfolio of 91 hotels located in the Americas, Europe, Middle-East, Asia and New Zealand.

These results have been prepared under International Financial Reporting Standards ('IFRS') and the 2004 comparatives restated.

Financial Highlights

- Revenue up 8% to £595.2m (2004 restated: £551.0m)
- Hotel operating profit up 22% to £106.7m (2004 restated: £87.4m)
- Group operating profit before other operating income and impairment up 17% to £99.6m (2004: £85.2m)
 - Other operating income of £28.3m (2004: £55.0m) and impairment of £6.5m (2004: £15.2m)
- Profit before tax excluding other operating income and impairment up 45% to £74.0m (2004 restated: £51.2m)
- Profit before tax £95.8m (2004 restated: £91.0m)
- Earnings per share up 19% to 21.3p (2004 restated: 17.9p)
- Proposed final dividend 5.62p per share giving 7.7p for the year, up 23% (2004: 6.25p excluding special dividend).

Overview of Group Performance

- Group RevPAR up by 7.4%
- Performance reflects revenue growth and improved operational efficiency, mitigating cost pressures within the industry as a whole.
- Ten new management and franchise contracts including the Group's first management contract in China.
- Continued success in maximising value from asset portfolio through the sales of Bayswater Tower Sydney and the Kingsgate Shopping and Commercial Centres. Further redevelopment of assets in progress at Four Points Sunnyvale and Copthorne Orchid Singapore.

Commenting today, Mr Kwek Leng Beng, Chairman said:

"In 2005, we delivered good earnings growth by exploiting our operating skills in an improving trading environment. We also used our real estate expertise and resources to derive further gains from our portfolio of assets. We have undoubtedly benefited from our twin strategy of both operating and owning hotels worldwide. We now propose an increase in our dividend of 23% over the ordinary dividend paid for 2004.

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

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

"It is too early to give precise indications of the outlook for the current year but we are confident that we can make further progress."

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There will be an audio webcast of the results presentation from 9.15am on 21 February 2006 on <http://www.millenniumhotels.com/>

CHAIRMAN'S STATEMENT

OVERVIEW

2005 was another year of positive development with strong growth in profitability. RevPAR grew across all regions with improvements in each quarter. New York improved strongly with double digit growth each quarter. Asia has also seen positive growth.

Results were achieved through our strategy of being an integrated owner and operator of international hotel assets, with a balanced geographic portfolio. We have benefited from our focus on operational improvement and from our commitment to achieving sustained operational excellence in our hotels. Our property expertise has allowed us to manage our real estate assets actively and to unlock long term value to ensure superior value creation over time.

GROUP RESULTS

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

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

* 2004 financials include £51.8m arising from the profit from the disposal of the Plaza joint venture

ASSET PORTFOLIO

2005 was another successful year for our continued effort to maximise value from our portfolio through disposal of selected assets:

Bayswater Tower Sydney

In the third quarter we completed the sale of the Bayswater tower in Sydney at a price of A\$20 million (£8.5m). Profit on disposal was £3.3m.

Kingsgate Shopping Centre and Kingsgate Commercial Centre

We announced the completion of the disposal of the Kingsgate Shopping Centre in Sydney in our trading update for the third quarter for a net consideration of A\$19.9 million (£8.5m). Subsequent to that announcement, we have sold a further section of the complex, the Kingsgate Commercial Centre for a net consideration of A\$19.0 million (£8.0m). The combined profit on the disposal of these two properties was £6.3 million.

Four Points Hotel Sunnyvale

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

Copthorne Orchid Inn Singapore

We announced the planned redevelopment of the Copthorne Orchid Inn Singapore into residential condominiums. We expect work to commence on this project later in the year.

Millennium Seoul Hilton Hotel

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

CHAIRMAN'S STATEMENT (continued)

MANAGEMENT AND FRANCHISE CONTRACTS

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

- The Millennium Hongqiao Shanghai, a 350 bedroom 5-star property, scheduled to open during 2006. Our first management contract in China in an increasingly competitive market.
- The Millennium Hotel and Resort Montazah near Sharm el Sheikh with 350 hotel bedrooms and 115 villas scheduled to open early 2007.
- The Millennium Sukhumvit Hotel Bangkok, a 326 bedroom hotel, which is scheduled to open in December 2007.
- The Millennium Hotel Southampton Ocean Village, a 200 bedroom 4-star luxury hotel on the waterfront.
- The Copthorne Hotel Reading, the 81 bedroom Kirtons Farm property by the M4, which will be rebranded into a Copthorne following a refurbishment in late 2006.
- The Millennium Hotel Doha in Qatar, a 238 bedroom, 5-star property scheduled to open late 2006.
- Four new franchise contracts signed in New Zealand: the Copthorne Hotel Grand Central, New Plymouth, and the Copthorne Hotels & Resorts - Hokianga, the Kingsgate Hotel Wanganui and the Kingsgate Hotel Beachcomber, Nelson.

DIVIDEND

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

PROSPECTS

In 2005, we delivered good earnings growth by exploiting our operating skills in an improving trading environment. We also used our real estate expertise and resources to derive further gains from our portfolio of assets. We have undoubtedly benefited from our twin strategy of both operating and owning hotels worldwide. We now propose an increase in our dividend of 23% over the ordinary dividend paid for 2004.

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

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

It is too early to give precise indications of the outlook for the current year but we are confident that we can make further progress.

Kwek Leng Beng
Chairman
21 February 2006

OPERATING REVIEW

GROUP PERFORMANCE

Occupancy for the Group was 73.0% (2004: 71.8%) and the average room rate was £64.01 (2004: £60.59). RevPAR increased 7.4% to £46.73 (2004: £43.50). All four regions experienced year-on-year average room rate growth. Revenue for the year was £595.2m (2004: £551.0m) and Group operating profit before other income and impairment was £99.6m (2004: £85.2m).

REGIONAL PERFORMANCE

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

UNITED STATES

New York

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

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

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

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

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

Regional US

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

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

EUROPE

London

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

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

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

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

OPERATING REVIEW (continued)

Rest of Europe

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

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

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

Asia

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

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

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

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

Australasia

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

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

CURRENT TRADING

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

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

FINANCIAL REVIEW

Operating results

The overall results and trading performance are discussed by the Chairman in the above paragraphs.

IFRS

The financial information presented in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ('IFRS'). IFRS1, 'First-time Adoption of International Financial Reporting Standards' has been applied in preparing these financial statements. These are the first full year consolidated financial statements that the Group has prepared in accordance with IFRS.

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

Valuations of assets

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

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

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

Asset disposals

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

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

Cash flow and capital expenditure

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

Millenium Hilton New York

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

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

FINANCIAL REVIEW (continued)

Financing and gearing

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

Finance income and expense

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

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

Taxation

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

Pensions

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

Earnings and dividend

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

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

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

MILLENNIUM & COPTHORNE HOTELS plc
Preliminary results announcement 31 December 2005

Consolidated income statement
For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue	1	595.2	551.0
Cost of sales		(259.1)	(246.2)
Gross profit		336.1	304.8
Administrative expenses	2	(243.0)	(234.8)
Other operating income	3	28.3	55.0
Group operating profit		121.4	125.0
Analysed between:			
Group operating profit before other operating income and impairment		99.6	85.2
Other operating income	3	28.3	55.0
Impairment	2	(6.5)	(15.2)
		121.4	125.0
Share of profit of joint ventures and associates			
Operating profit		8.5	7.8
Interest		(1.3)	(3.2)
Taxation		(1.4)	(0.8)
Minority interests		(2.3)	(2.1)
		3.5	1.7
Finance income	4	6.7	5.8
Finance expense	4	(35.8)	(41.5)
Profit before tax		95.8	91.0
Income tax expense	5	(26.0)	(31.4)
Profit for the year		69.8	59.6
Attributable to:			
Equity holders of the parent		61.1	50.9
Minority interests		8.7	8.7
		69.8	59.6
Basic earnings per share (pence)	7	21.3	17.9
Diluted earnings per share (pence)	7	21.2	17.8

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Consolidated statement of recognised income and expense
For the year ended 31 December 2005

	2005	2004
	£m	£m
Foreign exchange translation differences	79.8	(45.6)
Cash flow hedges: amounts recycled to income statement	4.0	-
Actuarial gains and losses arising in respect of defined benefit pension schemes	(2.4)	(3.3)
Taxation credit arising on defined benefit pension plans	0.6	1.0
Income and expense recognised directly in equity	82.0	(47.9)
Profit for the year	69.8	59.6
Total recognised income and expense for the year	151.8	11.7
First-time adoption of IAS 39 and IAS 32:		
Hedging reserve	(4.0)	-
Retained earnings	(1.4)	-
	(5.4)	-
Total	146.4	11.7
Attributable to:		
Equity holders of the parent	137.0	7.9
Minority interests	14.8	3.8
Total recognised income and expense for the year	151.8	11.7

MILLENNIUM & COPTHORNE HOTELS plc
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Consolidated balance sheet
For the year ended 31 December 2005

	2005 £m	2004 £m
Non-current assets		
Property, plant and equipment	1,943.4	1,818.2
Lease premium prepayment	80.8	80.5
Investment properties	48.0	43.7
Investments in joint ventures and associates	29.0	23.0
Loans due from joint ventures and associates	26.3	22.3
Other financial assets	2.2	2.8
	2,129.7	1,990.5
Current assets		
Assets held for sale	-	14.5
Inventories	4.4	3.9
Development properties	48.5	32.3
Lease premium prepayment	1.0	1.0
Trade and other receivables	53.2	49.8
Other financial assets	5.9	4.1
Cash and cash equivalents	104.6	90.7
	217.6	196.3
Total assets	2,347.3	2,186.8
Non-current liabilities		
Interest-bearing loans bonds and borrowings	(530.1)	(248.0)
Employee benefits	(16.0)	(13.3)
Provisions	(1.6)	(2.0)
Other non-current liabilities	(6.8)	(6.7)
Deferred tax liabilities	(239.9)	(208.1)
	(794.4)	(478.1)
Current liabilities		
Interest-bearing loans, bonds and borrowings	(54.9)	(325.7)
Trade and other payables	(100.3)	(99.0)
Provisions	(0.4)	(0.4)
Income taxes payable	(19.5)	(22.6)
	(175.1)	(447.7)
Total liabilities	(969.5)	(925.8)
Net assets	1,377.8	1,261.0
Equity		
Total equity attributable to equity holders of the parent	1,250.3	1,146.2
Minority interests	127.5	114.8
Total equity	1,377.8	1,261.0

MILLENNIUM & COPTHORNE HOTELS plc
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Consolidated statement of cash flows
For the year ended 31 December 2005

	2005 £m	2004 £m
Cash flows from operating activities		
Profit for the year	69.8	59.6
Adjustments for:		
Depreciation and amortisation	36.4	37.1
Property, plant and equipment written off	-	0.2
Share of profit of joint ventures and associates	(3.5)	(1.7)
Impairment for property, plant and equipment	6.5	15.2
Profit on sale of property, plant and equipment	(9.6)	(3.2)
Revaluation of investment properties	(5.9)	-
Gain on sale of joint venture	-	(51.8)
Employee stock options	0.7	0.4
Finance income	(6.7)	(5.8)
Finance expense	35.8	41.5
Income tax expense	26.0	31.4
Operating profit before changes in working capital and provisions	149.5	122.9
Increase in inventories, trade and other receivables	(19.3)	(6.9)
(Increase)/decrease in development properties	(17.6)	2.4
Increase in trade and other payables	3.9	4.0
(Decrease)/increase in provisions and employee benefits	(0.4)	0.4
Cash generated from operations	116.1	122.8
Interest paid	(35.4)	(41.0)
Interest received	6.1	5.5
Income taxes paid	(13.1)	(10.5)
Net cash from operating activities	73.7	76.8
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	34.5	45.1
Change in financial assets	(1.8)	0.3
Proceeds from disposal of joint venture	6.5	90.8
Acquisition of property, plant and equipment	(39.2)	(25.4)
Net cash from investing activities	-	110.8
Balance carried forward	73.7	187.6

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Consolidated statement of cash flows (continued)
For the year ended 31 December 2005

	2005 £m	2004 £m
Balance brought forward	73.7	187.6
Cash flows from financing activities		
Proceeds from the issue of share capital	2.0	1.4
Purchase of shares from minority interests	-	(5.9)
Repayment of borrowings	(419.0)	(396.9)
Drawdown of borrowings	387.0	273.1
Payment of finance lease obligations	(1.8)	(1.6)
Loan arrangement fees	(1.3)	(0.6)
Dividends paid to minorities	(2.3)	(1.6)
Dividends paid	(31.5)	(3.0)
Net cash from financing activities	(66.9)	(135.1)
Net increase in cash and cash equivalents	6.8	52.5
Cash and cash equivalents at beginning of year	89.8	39.6
Effect of exchange rate fluctuations on cash held	7.1	(2.3)
Cash and cash equivalents at end of year	103.7	89.8
Reconciliation of cash and cash equivalents		
Cash and cash equivalents shown in the balance sheet	104.6	90.7
Overdraft bank accounts included in borrowings	(0.9)	(0.9)
Cash and cash equivalents for cash flow statement purposes	103.7	89.8

Notes to the preliminary announcement

1) Segmental analysis

Business segments (primary)

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

Geographical segments (secondary)

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

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

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1) Segmental analysis (continued)

Business segments (primary)

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

Geographical segments (secondary)

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

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2) Administrative expenses

The following item is included within administrative expenses:

	2005	2004
	£m	£m
Impairment on hotel properties	6.5	15.2

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

3) Other operating income

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

- (a) At the end of 2005, the Group's investment properties consisting of the Kings Tanglin Shopping Centre in Singapore and the Biltmore Court & Tower, Los Angeles were subject to external professional valuation on an open market existing use basis. The Kings Tanglin Shopping Centre was valued at its carrying value and the Court & Tower recorded uplift in value of £5.9m which has been credited to the income statement in accordance with the Group's accounting policy. No surplus or deficit arose on the valuations undertaken in 2004.
- (b) In March 2005, the Group settled the 11 September 2001 business interruption/property damage insurance claim regarding the Millenium Hilton for US\$85.0m. The final proceeds received in 2005 of US\$25.0m (£12.8m) have been credited to the income statement.
- (c) The gain on disposal of joint venture in 2004 related to The Plaza Hotel, New York.
- (d) The net gains on property disposal in 2004 and 2005 arise principally on assets in Australasia.

4) Finance income and expense

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

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5) Income tax expense

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

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

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6) Dividends

	2005 pence	2004 pence	2005 £m	2004 £m
Final ordinary dividend paid for 2004 of 4.17p (2004: for 2003 - 2.05p)	4.17	2.05	11.9	5.8
Final special dividend paid for 2004 of 6.25p (2004: for 2003 - nil)	6.25	-	17.9	-
Interim dividend paid for 2005 2.08p (2004: for 2004 2.08p)	2.08	2.08	5.9	5.9
	12.50	4.13	35.7	11.7

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

	2005 pence	2004 pence	2005 £m	2004 £m
Final ordinary dividend paid for 2005 of 5.62p (2004: for 2004 - 4.17p)	5.62	4.17	16.2	11.9
Final special dividend paid for 2005 of nil (2004: for 2004 - 6.25p)	-	6.25	-	17.9
	5.62	10.42	16.2	29.8

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

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

7) Earnings per share

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

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

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

	2005 Number of shares	2004 Number of shares
Weighted average number of shares issued used in the calculation of basic earnings per share	287.0	284.5
Dilutive effect of shares under option that would have been issued for nil value	0.9	0.7
Weighted average number of ordinary shares (diluted)	287.9	285.2

A Basis of preparation

The financial information presented in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS). IFRS 1, 'First-time Adoption of International Financial Reporting Standards' has been applied.

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

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

The Group has adopted the transitional rules of IAS 32: 'Financial instruments (Disclosures and presentation)' and IAS 39: 'Financial Instruments (Recognition and measurement)'. The Group has therefore adopted these standards, and the related accounting policies D and E, only with effect for the current year from 1 January 2005 and not within the comparative financial year. A reconciliation showing the impact of the adoption of these standards from 1 January 2005 is set out in Appendix (B).

The Group has adopted IFRS 5 'Non-current assets held for sale and discontinued operations' with effect from 1 January 2004.

The financial information set out in this preliminary announcement does not constitute the company's statutory accounts for the years ended 31 December 2005 or 2004. Statutory accounts for 2004, which were prepared under UK GAAP, have been delivered to the registrar of companies, and those for 2005, prepared under accounting standards adopted by the EU, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

B Basis of consolidation

(i) Subsidiaries

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

(ii) Joint ventures and associates

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

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

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

(iii) Transactions eliminated on consolidation

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

C Foreign currency

(i) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the balance sheet 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

Appendix (A) Accounting Policies (continued)

C Foreign currency (continued)

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

(ii) Financial statements of foreign operations

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

(iii) Net investment in foreign operations

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

D Derivative financial instruments *

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

Derivative financial instruments are stated at fair value. The gain or loss on 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.

E Hedges *

(i) Cash flow hedges

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

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects 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 Group revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

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

(iii) Hedge of net investment in foreign operation

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

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

Appendix (A) Accounting Policies (continued)

F Property, plant, equipment and depreciation

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

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

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

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

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

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

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

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

G Leases

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

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

H Impairment

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

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

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

I Investment properties

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

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

J Inventories

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

K Development properties

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

L Cash and cash equivalents

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

M Borrowings

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

N Income tax

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

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

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

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

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

O Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

O Employee benefits (continued)

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

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

(iii) Long-term service benefits

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

(iv) Share-based payment transactions

The Group's share option programme allows Group employees to acquire shares of Millennium & Copthorne Hotels plc. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

P Provisions

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

Q Revenue and its recognition

Revenue comprises:

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

R Dividend distribution

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

S Segment reporting

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

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

T Non-current assets held for sale

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

U Other financial assets and liabilities

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

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

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

Appendix (B) Explanation of transition to International Financial Reporting Standards

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

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

First Time Adoption

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

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

- (i) Business combinations: the Group has elected not to account for business combinations retrospectively in accordance with IFRS 3 'Business Combinations'. Those combinations recognised prior to the date of transition have not been restated.
- (ii) Employee benefits: the Group has elected to adopt the amendments to IAS 19 'Employee Benefits' which provide the Group with the option of recognising all cumulative actuarial gains and losses in equity at the date of transition, with subsequent actuarial gains and losses being taken directly to equity via the Statement of Recognised Income and Expense. This is consistent with the treatment under UK GAAP, required by FRS 17 'Retirement benefits'.
- (iii) Share-based payment: in accordance with IFRS 2 'Share-based Payment', the Group is recognising a charge to income representing the fair value of outstanding employee share options over the relevant option vesting periods, adjusted to reflect the actual and expected levels of vesting. However, the Group has elected not to apply IFRS 2 retrospectively to equity instruments either granted on or before 7 November 2002 and/or vesting prior to 1 January 2005.
- (iv) Financial instruments: the Group has elected to apply the requirements of IAS 32 'Financial Instruments: Disclosures and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1 January 2005 and consequently the restated figures for 2004 do not reflect the impact of these standards.
- (v) Valuation of properties: the Group has elected to treat the revalued amount of properties at 1 January 2004 as deemed cost as at that date and will not continue its policy of revaluing properties triennially.

Overview of impact

For the Group the adoption of IFRS gives rise to the following significant changes:

Measurement

- (i) the recognition, on balance sheet, of pension liabilities together with associated pension fund assets, and other employee benefit liabilities;
- (ii) the inclusion in the income statement of a fair value charge in respect of outstanding employee share options;
- (iii) the recognition of certain financial instruments at fair value. Specifically under UK GAAP the Group did not recognise derivatives on balance sheet;
- (iv) the recognition of deferred tax in respect of all taxable temporary differences arising between the tax base and the accounting base of balance sheet items;
- (v) amounts of proposed dividends are not provided for. Dividends are recorded as liabilities when declared;
- (vi) the recognition of payments made on entering into or acquiring operating leasehold land and buildings is required to be amortised over the lease term and classified as a prepayment versus the UK GAAP treatment of inclusion within tangible fixed assets and the cost less residual value depreciated;
- (vii) the recognition of investment property valuation surpluses and deficits through the income statement (in other operating income) instead of through reserves;
- (viii) revenue in respect of non-hotel land development sales is now recognised on transfer of legal title and the risks and rewards of ownership, rather than on unconditional completion of sale;

Appendix (B) Explanation of transition to International Financial Reporting Standards

First Time Adoption: Overview of impact (continued)

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

Presentation

- (i) for joint ventures and associates, the share of equity accounted earnings, after tax and minority interests is presented as a single line item in the operating result rather than separate inclusion within operating profit, interest, taxation and minority interests; and
- (ii) the reclassification of the initial payment element of operating leased land is required to be accounted for as a prepayment instead of being recorded as a tangible fixed asset.

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

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

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

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

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

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

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

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

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

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

Classification	2004		2004
	UK GAAP Reported	IFRS presentational reclassifications	UK GAAP IFRS presentation
	£m	£m	£m
Fixed assets / Non-current assets			
Tangible assets / Property, plant and equipment	1,970.6	(140.9)	1,829.7
Lease premium prepayment	-	81.7	81.7
Investment properties	-	43.7	43.7
Investments in joint ventures / associates	40.3	0.4	40.7
Loans to joint ventures	22.3	-	22.3
Investment in associated undertakings	0.4	(0.4)	-
Other investments / Other financial assets	0.8	2.0	2.8
	<u>2,034.4</u>	<u>(13.5)</u>	<u>2,020.9</u>
Current assets			
Assets held for sale	-	14.5	14.5
Stocks / Inventories	36.0	(32.1)	3.9
Development properties	-	32.1	32.1
Lease premium prepayment	-	1.0	1.0
Debtors due within one year / Trade and other receivables	50.4	-	50.4
Debtors due after more than one year	2.0	(2.0)	-
Other financial assets	-	4.1	4.1
Cash and short term deposits / Cash and cash equivalents	94.8	(4.1)	90.7
	<u>183.2</u>	<u>13.5</u>	<u>196.7</u>
Creditors: less than one year / Current liabilities			
Interest-bearing loans, bonds and borrowings	(477.2)	477.2	-
Trade and other payables	-	(325.7)	(325.7)
Provisions	-	(128.8)	(128.8)
Income taxes payable	-	(0.4)	(0.4)
	<u>(477.2)</u>	<u>(22.7)</u>	<u>(477.6)</u>
Creditors: greater than one year / Non-current liabilities			
Interest-bearing loans, bonds and borrowings	(258.6)	258.6	-
Employee benefits	-	(248.0)	(248.0)
Provisions	-	(3.9)	(3.9)
Other non-current liabilities	-	(2.0)	(2.0)
Deferred tax liabilities	-	(6.7)	(6.7)
	<u>(258.6)</u>	<u>(51.9)</u>	<u>(312.5)</u>
Provisions for liabilities and charges			
	<u>(54.3)</u>	<u>54.3</u>	<u>-</u>
Net assets	<u>1,427.5</u>	<u>-</u>	<u>1,427.5</u>
Capital and reserves			
Called up share capital	85.9	-	85.9
Share premium account	846.1	-	846.1
Revaluation reserve	287.9	-	287.9
Profit and loss account	77.5	-	77.5
Shareholders' funds	<u>1,297.4</u>	<u>-</u>	<u>1,297.4</u>
Minority interests – equity	130.1	-	130.1
Total capital employed	<u>1,427.5</u>	<u>-</u>	<u>1,427.5</u>

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Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

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

	UK GAAP £m	Lease premium pre payment £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Property, plant, equipment and investment in joint ventures £m	Dividend £m	Reclassification of reserves £m	IFRS £m
	Note	(i)	(iv)	(vi)	(viii)	(v)	(ix)		
Non-current assets									
Property, plant and equipment	1,829.7	-	-	-	-	(11.5)	-	-	1,818.2
Lease premium prepayment	81.7	(1.2)	-	-	-	-	-	-	80.5
Investment properties	43.7	-	-	-	-	-	-	-	43.7
Investments in joint ventures and associates	40.7	(0.2)	-	-	-	(17.5)	-	-	23.0
Loans due from joint ventures	22.3	-	-	-	-	-	-	-	22.3
Other financial assets	2.8	-	-	-	-	-	-	-	2.8
	<u>2,020.9</u>	<u>(1.4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29.0)</u>	<u>-</u>	<u>-</u>	<u>1,990.5</u>
Current assets									
Assets held for sale	14.5	-	-	-	-	-	-	-	14.5
Inventories	3.9	-	-	-	-	-	-	-	3.9
Development properties	32.1	-	0.2	-	-	-	-	-	32.3
Lease premium prepayment	1.0	-	-	-	-	-	-	-	1.0
Trade and other receivables	50.4	-	(0.6)	-	-	-	-	-	49.8
Other financial assets	4.1	-	-	-	-	-	-	-	4.1
Cash and cash equivalents	90.7	-	-	-	-	-	-	-	90.7
	<u>196.7</u>	<u>-</u>	<u>(0.4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196.3</u>
Total assets	<u>2,217.6</u>	<u>(1.4)</u>	<u>(0.4)</u>	<u>-</u>	<u>-</u>	<u>(29.0)</u>	<u>-</u>	<u>-</u>	<u>2,186.8</u>
Non-current liabilities									
Interest-bearing loans, bonds and borrowings	(248.0)	-	-	-	-	-	-	-	(248.0)
Employee benefits	(3.9)	-	-	(9.4)	-	-	-	-	(13.3)
Provisions	(2.0)	-	-	-	-	-	-	-	(2.0)
Other non-current liabilities	(6.7)	-	-	-	-	-	-	-	(6.7)
Deferred tax liabilities	(51.9)	-	-	-	(156.2)	-	-	-	(208.1)
	<u>(312.5)</u>	<u>-</u>	<u>-</u>	<u>(9.4)</u>	<u>(156.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(478.1)</u>
Current liabilities									
Interest-bearing loans, bonds and borrowings	(325.7)	-	-	-	-	-	-	-	(325.7)
Trade and other payables	(128.8)	-	-	-	-	-	29.8	-	(99.0)
Provisions	(0.4)	-	-	-	-	-	-	-	(0.4)
Income taxes payable	(22.7)	-	0.1	-	-	-	-	-	(22.6)
	<u>(477.6)</u>	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29.8</u>	<u>-</u>	<u>(447.7)</u>
Total liabilities	<u>(790.1)</u>	<u>-</u>	<u>0.1</u>	<u>(9.4)</u>	<u>(156.2)</u>	<u>-</u>	<u>29.8</u>	<u>-</u>	<u>(925.8)</u>
Net assets	<u>1,427.5</u>	<u>(1.4)</u>	<u>(0.3)</u>	<u>(9.4)</u>	<u>(156.2)</u>	<u>(29.0)</u>	<u>29.8</u>	<u>-</u>	<u>1,261.0</u>
Equity									
Issued capital	85.9	-	-	-	-	-	-	-	85.9
Share premium	846.1	-	-	-	-	-	-	-	846.1
Revaluation reserve	287.9	-	-	-	(52.2)	(21.4)	-	(214.3)	-
Translation reserve	-	-	-	-	-	-	-	(40.7)	(40.7)
Retained earnings	77.5	(1.4)	(0.1)	(9.2)	(96.7)	-	29.8	255.0	254.9
Total equity attributable to equity holders of the parent	<u>1,297.4</u>	<u>(1.4)</u>	<u>(0.1)</u>	<u>(9.2)</u>	<u>(148.9)</u>	<u>(21.4)</u>	<u>29.8</u>	<u>-</u>	<u>1,146.2</u>
Minority interests	130.1	-	(0.2)	(0.2)	(7.3)	(7.6)	-	-	114.8
Total equity	<u>1,427.5</u>	<u>(1.4)</u>	<u>(0.3)</u>	<u>(9.4)</u>	<u>(156.2)</u>	<u>(29.0)</u>	<u>29.8</u>	<u>-</u>	<u>1,261.0</u>

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

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

	UK GAAP £m	Lease premium pre- payment £m	New Zealand land bank sales £m	Employee benefits £m	Deferred taxes £m	Dividend £m	Reclas- sification of revaluation reserves £m	IFRS £m
	<i>Note</i>	<i>(i)</i>	<i>(iv)</i>	<i>(vi)</i>	<i>(viii)</i>	<i>(ix)</i>		
Non-current assets								
Property, plant and equipment	2,012.7	(83.5)	-	-	-	-	-	1,929.2
Lease premium prepayment	-	82.2	-	-	-	-	-	82.2
Investment properties	90.3	-	-	-	-	-	-	90.3
Investments in joint ventures and associates	58.6	-	-	-	(13.0)	-	-	45.6
Loans due from joint ventures	32.7	-	-	-	-	-	-	32.7
Other financial assets	2.8	-	-	-	-	-	-	2.8
	2,197.1	(1.3)	-	-	(13.0)	-	-	2,182.8
Current assets								
Assets held for sale	-	-	-	-	-	-	-	-
Inventories	4.0	-	-	-	-	-	-	4.0
Development properties	12.0	-	2.6	-	-	-	-	14.6
Lease premium prepayment	-	1.3	-	-	-	-	-	1.3
Trade and other receivables	59.6	-	(4.5)	-	-	-	-	55.1
Other financial assets	4.4	-	-	-	-	-	-	4.4
Cash and cash equivalents	40.5	-	-	-	-	-	-	40.5
	120.5	1.3	(1.9)	-	-	-	-	119.9
Total assets	2,317.6	-	(1.9)	-	(13.0)	-	-	2,302.7
Non-current liabilities								
Interest-bearing loans, bonds and borrowings	(659.3)	-	-	-	-	-	-	(659.3)
Employee benefits	(4.4)	-	-	(5.7)	-	-	-	(10.1)
Provisions	(2.4)	-	-	-	-	-	-	(2.4)
Other non-current liabilities	(7.3)	-	-	-	-	-	-	(7.3)
Deferred tax liabilities	(52.2)	-	-	-	(144.7)	-	-	(196.9)
	(725.6)	-	-	(5.7)	(144.7)	-	-	(876.0)
Current liabilities								
Interest-bearing loans, bonds and borrowings	(66.5)	-	-	-	-	-	-	(66.5)
Trade and other payables	(97.5)	-	0.2	-	-	5.8	-	(91.5)
Provisions	(0.4)	-	-	-	-	-	-	(0.4)
Income taxes payable	(14.2)	-	0.6	-	-	-	-	(13.6)
	(178.6)	-	0.8	-	-	5.8	-	(172.0)
Total liabilities	(904.2)	-	0.8	(5.7)	(144.7)	5.8	-	(1,048.0)
Net assets	1,413.4	-	(1.1)	(5.7)	(157.7)	5.8	-	1,254.7
Equity								
Issued capital	84.8	-	-	-	-	-	-	84.8
Share premium	845.8	-	-	-	-	-	-	845.8
Revaluation reserve	296.4	8.2	-	-	(57.3)	-	(247.3)	-
Retained earnings	59.5	(8.2)	(0.5)	(5.6)	(91.4)	5.8	247.3	206.9
Total equity attributable to equity holders of the parent	1,286.5	-	(0.5)	(5.6)	(148.7)	5.8	-	1,137.5
Minority interests	126.9	-	(0.6)	(0.1)	(9.0)	-	-	117.2
Total equity	1,413.4	-	(1.1)	(5.7)	(157.7)	5.8	-	1,254.7

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

Notes to tables (a) to (e)

(i) Lease premium prepayment

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

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

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

This change in accounting policy has been adopted retrospectively to the date of lease acquisition by the Group. Retained reserves at 1 January 2004 have been debited by £7.5m (Group) and £0.7m (joint venture) accumulated amortisation which would have been charged to that date, in excess of depreciation previously charged under UK GAAP. This has not impacted total equity as an equal credit has been recorded to the revaluation reserve at 31 December 2003 to reflect how the Group's total interest in the hotel property is carried at valuation and in aggregate, 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 leasehold land by £1.2m.

Long leasehold buildings lease premium continue to be accounted for as tangible fixed assets 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 did not impact the 2004 income statement as no investment property valuation movements were recorded in that year.

(iii) Assets held for sale

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

(iv) Real estate and land development sales

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

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

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

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

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

Notes to tables (a) to (e) (continued)

(vi) Employee benefits

IAS 19: 'Employee benefits' requires full recognition of defined benefit pension obligations in the financial statements. Under UK GAAP, the Group recognised in the profit and loss account the estimated cost of providing the pensionable benefits accrued in the period. Variations from these costs were charged or credited to the profit and loss account over the average remaining service lives of employees.

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

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

(vii) Share based payments

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

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

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

(viii) Deferred taxes

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

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

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

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

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

Appendix (B) Explanation of transition to International Financial Reporting Standards (continued)

Notes to tables (a) to (e) (continued)

(viii) Deferred taxes (continued)

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

(ix) Dividends

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

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

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

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

(xi) Total effect on equity and profit for year

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

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

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

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

Key operating statistics

For the year ended 31 December 2005

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

Consolidated income statement
For the fourth quarter ended 31 December 2005

	2005 £m	2004 £m
Revenue	167.6	151.1
Cost of sales	(69.4)	(67.0)
Gross profit	98.2	84.1
Administrative expenses	(69.6)	(70.7)
Other operating income	12.2	54.5
Group operating profit	40.8	67.9
Analysed between:		
Group operating profit before other operating income and impairment	35.1	28.6
Other operating income	12.2	54.5
Impairment	(6.5)	(15.2)
	40.8	67.9
Share of profit of joint ventures and associates		
Operating profit	3.2	2.5
Interest	(0.5)	(0.4)
Taxation	(0.5)	(0.3)
Minority interests	(0.9)	(0.8)
	1.3	1.0
Finance income	0.3	3.3
Finance expense	(5.7)	(12.0)
Profit before tax	36.7	60.2
Income tax expense	(8.4)	(25.4)
Profit for the period	28.3	34.8
Attributable to:		
Equity holders of the parent	25.3	32.7
Minority interests	3.0	2.1
	28.3	34.8

Key operating statistics

For the fourth quarter ended 31 December 2005

	2005 Reported currency	2004 Constant currency	2004 Reported currency
Occupancy %			
New York	87.0		85.8
Regional US	60.1		61.0
Total US	66.2		67.2
London	84.7		86.8
Rest of Europe	72.7		73.2
Total Europe	78.0		79.2
Asia	74.9		74.0
Australasia	73.9		73.5
Total Group	72.3		72.9
Average Room Rate (£)			
New York	156.74	132.00	125.36
Regional US	51.13	54.62	51.14
Total US	82.82	79.28	74.79
London	82.89	82.08	82.08
Rest of Europe	69.98	67.65	68.16
Total Europe	76.19	74.66	74.92
Asia	55.63	52.11	48.63
Australasia	44.56	44.07	41.56
Total Group	68.83	66.03	63.40
RevPAR (£)			
New York	136.36	113.26	107.56
Regional US	30.73	33.32	31.20
Total US	54.83	53.28	50.26
London	70.21	71.25	71.25
Rest of Europe	50.88	49.52	49.89
Total Europe	59.43	59.13	59.34
Asia	41.67	38.56	35.99
Australasia	32.93	32.39	30.55
Total Group	49.76	48.14	46.22
Gross Operating Profit Margin (%)			
New York	42.2		35.2
Regional US	19.6		20.5
Total US	30.8		27.4
London	50.9		52.1
Rest of Europe	35.9		31.3
Total Europe	42.5		40.7
Asia	40.0		36.3
Australasia	46.2		43.4
Total Group	38.0		35.4