Millennium & Copthorne Hotels plc (the “Company”)

Annual Report and Accounts 2015

In accordance with Listing Rule 9.6.1, copies of the following documents have been submitted to the UK Listing Authority and will shortly be available for inspection from the National Storage Mechanism, which can be accessed at http://www.morningstar.co.uk/uk/NSM:

- Annual Report and Accounts for the year ended 31 December 2015; and
- Notice of Annual General Meeting 2016.

The above documents have also been dispatched to shareholders today and may be viewed online at www.millenniumhotels.com/agm.

The Company’s annual general meeting will be held at 10.00am on Thursday, 5 May 2016 at the Chelsea Harbour Hotel, Chelsea Harbour, London SW10 0XG.

A condensed set of the Company’s financial statements and information on important events that have occurred during the financial year and their impact on the financial statements were included in our final results announcement on 19 February 2016. That results announcement should be read in conjunction with the information set out below which is extracted from the Annual Report and Accounts 2015 and together they constitute the material required by Disclosure and Transparency Rule 6.3.5 which is required to be communicated to the media in full unedited text through a Regulatory Information Service. This announcement is not a substitute for reading the full Annual Report and Accounts 2015. Page and note references in the text below refer to page numbers in the Annual Report and Accounts 2015. To view the final results announcement, please visit www.millenniumhotels.com/en/investors/financial-results.

Principal Risks and Uncertainties

The following has been extracted from pages 29 to 33 of the Annual Report and Accounts 2015.

Like any other business, we are subject to a number of risks and uncertainties, which are influenced by both internal and external factors, often outside our control. In this section, we describe the principal risks that could have a material effect on the Group’s ability to deliver against its strategy together with the controls and activities in place to mitigate such risks.

Risk factors

We provide information on the nature of each principal risk. Not all potential risks are listed below; some risks are excluded because the Board considers that they are not material to the Group as a whole. Our processes aim to provide reasonable, not absolute, assurance that the risks significant to our business have been identified and addressed. Additionally, there may be risks that are not reasonably foreseeable at the date of this report such that the Group can assess fully their potential impact on the business.

The order in which risks are presented below is not indicative of the relative potential impact on the Group. The risks may, to varying degrees, impact the Group’s revenues, profits, net assets,
Management of risk
In general, the geographical spread of the Group provides a natural hedge against many of the principal risks identified on the following pages. Our risk management activity is directed by the regional operational heads and functional heads, led by the Group Chief Executive Officer, and is monitored by the Audit & Risk Committee with assistance from the Internal Audit function as shown in the diagram on page 29 of the Annual Report and Accounts 2015. Risk registers, which map the nature of the risks relative to their likelihood of occurrence and severity and associated trends, are compiled and periodically updated. Members of the executive management team are assigned responsibility for devising risk treatment plans to eliminate, minimise or transfer the relevant risks for which they are responsible, and they undertake regular reviews of the risk register and progress with risk management plans. The Board has overall responsibility for risk management and for ensuring that the Group’s risks are managed appropriately.

Risk assessment
Material risks are identified through a detailed bottom up approach as well as a holistic top down review. The bottom up review encompasses the identification, management and monitoring of risks in each area of the business including the hotels and ensures that risk management controls are embedded in the businesses’ operations. The top down review led by the Audit & Risk Committee, supported by management, evaluates the Group’s operating environment with a particular focus on the cash flows of the Group for the three financial years ending 31 December 2018. Such evaluation also includes sensitivity analysis based on a significant decline in hotel profit due to a combination of the principal risks, as set out on pages 31 to 33, materialising for a sustained period or failing to renew debt facilities maturing in the period as they fall due.

Quality of service delivery and product
Risk and Potential Impact
Consistent delivery of service and product quality is vitally important to creating and maintaining brand loyalty and value perception and influencing consumer preference. Lack of investment in the Group’s assets or the removal of a significant number of rooms from inventory in order to complete needed refurbishment programmes could have a significant impact on those factors and therefore on the revenues that hotels are able to achieve. As supply increases, particularly in our key gateway cities, business may be lost to newer hotels and/or rates may have to be reduced to remain competitive.

In addition, management of third-party owned hotels under management agreements, particularly in the Middle East and China regions, and the use of joint ventures in the Middle East and other markets gives rise to the risk of non-performance on the part of the hotel owners and joint venture partners, and the ability of the relevant hotels to deliver service and product quality to Group brand and operating standards, especially when the strategic objectives of those parties are not fully aligned with those of the Group.

Mitigating Activities
• Generally the Group operates properties which it owns, and therefore is able to exercise control over the service and product quality of those hotels.
• For those hotels we own but do not operate, such as the Novotel New York Times Square, the Group asset manages those properties to ensure compliance with its service levels and contractual requirements.

• The Group continues to develop property specific asset management plans which focus on the capital requirements of each property in terms of regular maintenance and product enhancement to help ensure the products remain competitive. Refurbishments are phased appropriately in order to minimise the impact of those programmes on operations, to the extent possible.

• The Group currently endeavours to reinvest one-third of its EBITDA into its hotel estate.

• The Group has in place brand and operating standards, and regularly refreshes those, to provide for consistent service delivery and product quality among its hotels, even if they are owned by third parties and/or operated through joint ventures.

• Management representatives are assigned to manage the relationships with joint venture partners and third party hotel owners.

**Intellectual property rights and brands**

*Risk and Potential Impact*

Future growth and pricing power and the image and reputation of the Group in general will, in part, be dependent on the recognition of the Group’s brands and perception of the values inherent in those brands. The ability of the group to protect its intellectual property rights in those brands is instrumental in preventing them from deteriorating in value.

In addition, the proliferation of e-commerce and online sales channels, whether through affiliates, online travel agencies, meta search websites or otherwise, can give rise to brand confusion and further dilution if the Group’s intellectual property is not used appropriately and in accordance with the Group’s brand and marketing standards.

**Mitigating Activities**

• In 2015 the Group allocated its hotels and brands into distinct collections and updated its brand and marketing standards to enhance and clarify its brand portfolio.

• Substantial investment continues to be made in protecting the Group’s brands from misuse and infringement, by way of trade mark registration, enforcement of intellectual property rights and domain name protection. The Group utilises third party online brand monitoring and protection agencies to assist with the Group’s enforcement activities.

**Increasing competition**

*Risk and Potential Impact*

The hotel industry operates within an inherently cyclical marketplace where competition, both online and offline, is increasing. An increase in market room supply, without corresponding increases in demand, may lead to downward pressure on rates, which in turn could negatively impact the Group’s performance.

With regard to online competition, the Group’s hotel rooms are booked through a number of distribution channels, one of which is the online travel agency (“OTA”). OTAs tend to have higher commission rates than more traditional distribution channels and are taking an increasing share of bookings across the sector. Over time, consumers may develop loyalties to the OTAs rather than to our brands. These trends may impact our profitability. In addition, sharing economy platforms, such as Airbnb, may expand their market share and compete with more traditional business and leisure accommodations.

**Mitigating Activities**
The Group’s flexible financial control and revenue management systems help it to control costs and achieve better yields in volatile trading conditions.

The Group continues to refresh its digital marketing strategy and invest in its e-commerce, customer relationship management, revenue management and reservations systems in order to help increase rates, retain existing customers and generate new business.

A new advanced central reservations system was implemented in 2014, providing a platform for future enhancements. Additionally, the Group’s website and loyalty programme are in the process of being upgraded to help improve brand recognition and drive more bookings through the Group’s own, less costly distribution channels.

Talent management and succession

Risk and Potential Impact
Execution of the Group’s strategy depends on its ability to attract, develop and retain employees with the appropriate skills, experience and aptitude. This becomes more difficult as world travel becomes more prevalent and competition in the hospitality industry increases.

Failure of the Group to properly plan for the succession of key management roles may cause operational disruption, potentially delaying the execution of the Group’s strategies and increasing costs and inefficiencies.

Mitigating Activities

- The Group has a strong service culture supported by performance management and recognition systems, compensation and benefits arrangements, and training and development programmes. Labour relations are actively managed on a regional and local basis.
- In the second half of 2015 the Group, with the support of an external compensation and benefits consultant, completed a review of its below Board level executive compensation and benefits arrangements and will be implementing certain changes in 2016 in an effort to enhance employee engagement and performance.

Financial

Risk and Potential Impact
The Group operates in numerous jurisdictions and trades in various international currencies, but reports its financial results in pounds sterling. Fluctuations in currency exchange rates and interest rates may either be accretive or dilutive to the Group’s reported trading results and net asset value.

Unhedged interest rate exposures pose a risk to the Group when interest rates rise, resulting in increased costs of funding and an impact on overall financial performance.

Mitigating Activities

- The Group’s internal Treasury Management Committee monitors and addresses treasury matters, including investment and counterparty risks, in accordance with the Group’s treasury policy. The Board and Audit & Risk Committee receive regular updates on treasury matters.
- Foreign exchange exposure is primarily managed through the funding of purchases and repayment of borrowings from income generated in the same currency.
- Interest rate hedges are only used to manage interest rate risk to the extent the perceived costs are considered to outweigh the benefits of having flexible, variable-rate debt.

Legal and regulatory compliance

Risk and Potential Impact
The Group operates in many jurisdictions and is exposed to the risk of non-compliance with increasingly complex statutory and regulatory requirements, including competition law, anti-bribery and corruption and data privacy compliance regimes. Non-compliance with such regulations, which differ by jurisdiction and are an area of increasing focus by regulators, could result in fines and/or other damages, including reputational damage, being incurred, particularly in the event a data breach should occur.

In addition, the Group may be at risk of litigation from various parties with which it interacts, either through direct contractual arrangements or as a result of providing services to customers. Significant costs could be incurred where claims are not insured or are not fully insured, and litigation could give rise to reputational damage being suffered and management distraction.

In certain countries where the Group operates, particularly in emerging markets, local practices and the legal environment may be such that enforcement of the Group’s legal rights is challenging.

**Mitigating Activities**
- The Group continues to monitor changes in the regulatory environments in which it operates, identify its compliance obligations and implement appropriate compliance and training programmes. The Group has comprehensive global and, where applicable, regional policies and procedures in place to address competition law, data privacy, ethical business conduct, whistle-blowing, anti-corruption and bribery, gifts and hospitality and charitable donations, among others.
- The Group maintains in place industry standard insurance cover to mitigate many potential litigation risks, such as employment practices liability, workers compensation and general liability policies.
- The Group has controls in place to manage and help mitigate the risks associated with its various contractual relationships, from execution through to termination, insured and uninsured litigation and other disputes. Regular litigation reports are provided to the Board.

**Health and safety and social responsibility**

**Risk and Potential Impact**
The Group is exposed to a wide range of regulatory requirements and obligations concerning the health and safety of employees, visitors and guests. Failure to implement and maintain sufficient controls regarding health and safety issues could expose the Group to significant sanctions, both civil and criminal, financial penalties and reputational damage.

Furthermore, as a significant property owner and operator of hotels in multiple jurisdictions, the Group must do more than simply comply with local regulations. We must act in a responsible way towards our stakeholders and the communities in which our hotels operate.

**Mitigating Activities**
- The Group has established and maintains health and safety and environmental management systems which it seeks to align with the requirements of ISO 14001 and OHSAS 18001. By using these standards the Group is committed to working to the highest standards of health and safety and to an internationally accredited system.
- The Group has adopted various corporate responsibility initiatives in relation to its employees, guests and the environment. The Group’s operating regions have flexibility to tailor such initiatives and adopt new ones to better conform to local and regional customs and practices.
Vulnerability to cyber attacks or fraud

Risk and Potential Impact

Increasing reliance on online distribution channels and transactions over the internet and the aggregation and storage of guest and other information electronically, both on company-controlled servers and networks and in cloud-based environments, present heightened risks of attacks affecting the operation of those systems and networks and/or a potential loss or misuse of confidential or proprietary information. The occurrence of cyber risks could disrupt business, the ability of the Group to take or fulfil bookings or lead to reputational and monetary damages, litigation or regulatory fines.

In addition, various aspects of the Group’s operations are required to achieve compliance with the payment card industry data security standards (“PCI-DSS”), and failure to do so could result in penalties and/or withdrawal of credit card payment facilities.

Mitigating Activities

- In 2015 the Group engaged an external consultancy firm to conduct security and penetration testing services in relation to certain of the Group’s websites and implemented enhancements following that review. Also, as part of the Group’s PCI-DSS compliance activities, all regions conduct additional internal and external penetration testing annually as required.
- The Company has in place, and regularly reviews, cyber insurance coverage to protect against certain cyber risks.
- Software systems are regularly updated to allow for the latest security updates and patches to be installed.
- Where the Group outsources critical information technology systems, including its point of sale and property management systems, the Group utilises reputable suppliers that have industry-standard or best-in-class data security protocols. The Group’s hotels utilise Oracle’s MICROS property management system, for example.
- The regional information technology teams have developed disaster recovery plans and guides with regard to their high-priority systems that need to be up-and-running, and tests are conducted on select mission-critical systems annually to verify their recoverability offsite.
- Information technology policies and procedures have been updated to reflect implementation of the latest PCI-DSS compliance standards.

Natural, geopolitical and economic events

Risk and Potential Impact

Sustained levels of occupancy and the Group’s ability to optimise room rates and profitability can be adversely affected by various external events that may reduce travel or increase the Group’s operating costs.

Such events, which often are beyond the control of management, may be localised to a particular community, city or country or they may have a wider international impact. Examples of such events include severe weather conditions and natural disasters, acts of terrorism, war or perceived risk of armed conflict, epidemics, nationalisation of assets or restrictions on the repatriation of funds, increased travel costs, industrial action and political and/or social unrest. Notably the forthcoming UK referendum on EU membership will give rise to further political and economic uncertainty. Appropriate insurance coverage may not be available in the market in some instances or coverage may not be available on commercially viable terms.

- The Group has in place disaster recovery, crisis response and business continuity plans to enable it to respond to major incidents or emergencies.
• Management pro-actively monitors geopolitical developments and seeks to identify emerging risks at the earliest opportunity and implements ownership structures, internal controls and other steps to minimise these exposures to the greatest extent possible.
• The Group’s flexible financial and revenue management systems help it to control costs and achieve better yields in volatile trading conditions.
• The Group’s insurance requirements are regularly reviewed by management to ensure that the coverages obtained are appropriate to the company’s risk profile relative to the cost of cover available in the relevant markets.
• The wide geographic spread of the Group’s properties is a natural hedge against the impact of natural, geopolitical and economic events.

Note: Due to the in-depth review and restatement of the Group’s principal risks following the implementation of the Viability Statement a year on year comparison of the status of each risk was not performed as in prior years.

Related party transactions

The following has been extracted from pages 129 to 130 of the Annual Report and Accounts 2015.

Identity of related parties
Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions with related parties were entered into in the normal course of business and at arm’s length.

The Group has a related party relationship with its joint ventures, associates and with its Directors and executive officers.

Transactions with ultimate holding company and other related companies
The Group has a related party relationship with certain subsidiaries of Hong Leong Investment Holdings Pte. Ltd (“Hong Leong”) which is the ultimate holding and controlling company of Millennium & Copthorne Hotels plc and holds 65% (2014: 61%) of the Company’s shares via City Developments Limited (“CDL”), the intermediate holding company of the Group. During the year ended 31 December 2015, the Group had the following transactions with those subsidiaries.

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary of Hong Leong, on normal commercial terms. As at 31 December 2015, £3m (2014: £30m) of cash was deposited with Hong Leong Finance Limited.

Fees paid/payable by the Group to CDL and its other subsidiaries were £2m (2014: £2m) which included rentals paid for the Grand Shanghai restaurant and Kings Centre; property management fees for Tanglin Shopping Centre; charges for car parking, leasing commission and professional services.

As at 31 December 2015, City e-Solutions Limited (“CES”), a subsidiary of CDL held 1,152,031 (2014: 1,152,031) ordinary shares in M&C. CES through its subsidiaries provided consultancy,
management and reservation services to M&C for the year ended 31 December 2015 for a total of £1m (2014: £1m).

Transactions with joint venture
City Hotels Pte. Ltd, a 100% subsidiary of the Group, provided a shareholder loan facility of 550m Thai Baht (£10m) to Fena Estate Company Limited (“Fena”), its 50% owned joint venture. At 31 December 2015 and 2014 all of this facility was fully drawn. The loan attracts interest of 4.5% (2014: 4.5%) per annum. This interest was rolled up into the carrying value of the loan. The total loan outstanding as at 31 December 2015, including rolled up interest, was 754m Thai Baht (£14m) (2014: 730m Thai Baht (£14m)).

The Group provided a further US$2m (£1m) operator loan facility to Fena which was fully drawn down. This loan together with interest charged at 2.2% per annum was fully settled in 2015.

Transactions with key management personnel
The beneficial interest of the Directors and their connected persons in the ordinary shares of the Company was 0.16% (2014: 0.16%).

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers and contributes to a post-employment defined contribution plan depending on the date of commencement of employment. The defined contribution plan does not have a specified pension payable on retirement and benefits are determined by the extent to which the individual’s fund can buy an annuity in the market at retirement.

Executive officers also participate in the Group’s share option programme, Long-Term Incentive Plan and the Group’s Sharesave schemes.

The key management personnel compensation is as follows:

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Statement of Directors’ responsibilities
The following responsibility statement is repeated here solely for the purposes of complying with DTR 6.3.5. This statement relates to and is extracted from page 66 of the Annual Report and Accounts 2015.

These responsibilities are for the full Annual Report and Accounts 2015 and not the extracted information presented in the announcement or otherwise.

“We confirm that to the best of our knowledge:

• the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
• the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
• the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy.

The statement of Directors’ responsibilities was approved by the Board of Directors on 18 February 2016.”

For further information please contact:
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