

Annual Report and Accounts 1999



MILLENNIUM & COPTHORNE
HOTELS plc

Highlights

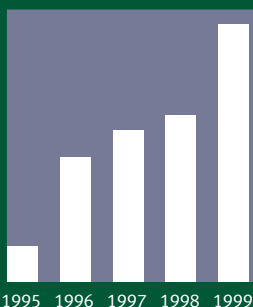
Corporate highlights

- Growth of 43% in pre-tax profits
- Acquisition of 43 hotels in Asia and Australasia
- Acquisition of 28 hotels in the United States of America
- Acquisition of the Seoul Hilton in South Korea
- The Premier Tower at the Millennium Broadway fully opened in January 1999
- The Ballroom at the Millennium Britannia Mayfair opened in May; the first in London for nearly 20 years

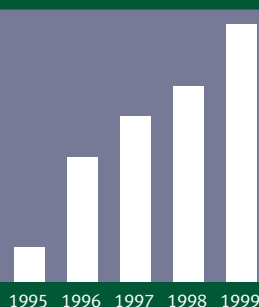
Financial highlights

	1999	1998	Growth %
- Turnover (£ million)	343.1	221.9	55
- Group operating profit (£ million)	98.5	74.9	32
- Pre-tax profit (£ million)	86.1	60.4	43
- Earnings per share (pence)	29.8	27.7	8
- Dividend per share (pence)	11.3	10.2	11

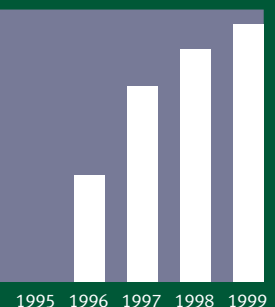
Turnover – £m



Group operating profit – £m



Dividend per share – p



Millennium & Copthorne Hotels plc owns and operates significant assets located in some of the world's leading commercial centres:



REGAL BILTMORE
Los Angeles, USA

The hotel offers its guests hospitality in the style of the world's grand hotels. Located in the heart of Los Angeles, this hotel represents a vision of 14th Century Italy combined with the elegance of today.



REGAL KNICKERBOCKER
Chicago, USA

Located near Chicago's famed Magnificent Mile, this hotel was built in 1927. It is a member of the Historic Hotels of America and its ambience strikes a perfect balance between European elegance and American hospitality.



REGAL UN PLAZA
New York City, USA

Twenty-eight storeys above The Avenues, the hotel is truly a New York experience, affording many of its 427 guest-rooms a view of the famous New York City skyline.



MILLENNIUM BRITANNIA MAYFAIR
London, United Kingdom

Overlooking Grosvenor Square in the heart of fashionable Mayfair, London, this hotel which has been almost completely refurbished, features a recently opened state-of-the-art conference and ballroom facility.



MILLENNIUM OPÉRA PARIS
Paris, France

This recently renovated hotel is situated in the heart of the commercial centre of Paris. The hotel includes a state-of-the-art Millennium Conference Centre and a new brasserie style restaurant and bar.



GRAND COPTHORNE, WATERFRONT
Singapore

Set against the charms of the historic Singapore River, this hotel is a symbol of modern sophistication and warm hospitality. It is within five minutes of the central business district, the shopping and entertainment area of Chinatown and the famous Orchard Road. The hotel is managed by Millennium & Copthorne.



HILTON INTERNATIONAL
Seoul, South Korea

Managed by Hilton International, this 5-star hotel is located in the central business district of Seoul. US \$41m has been invested in this property over the past four years.



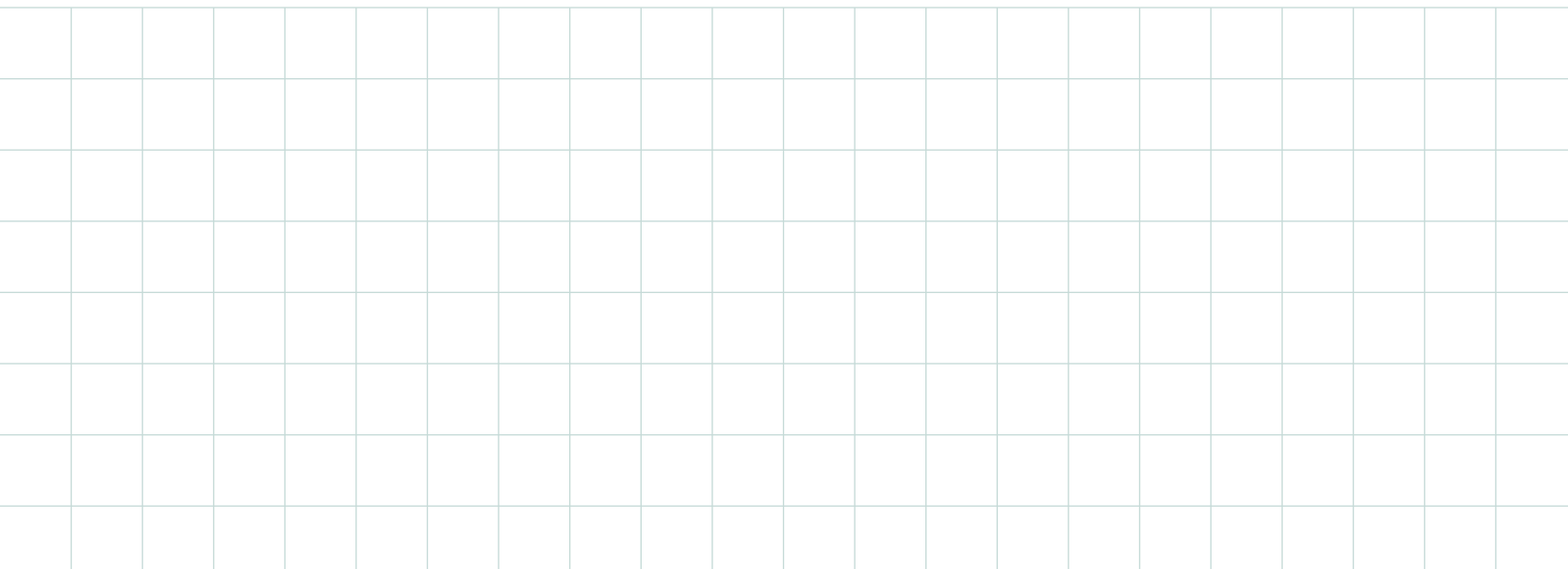
THE GRAND HYATT
Taipei, Taiwan

This 5-star hotel is recognised by many international magazines as one of the best business hotels in the world. The hotel lies in the heart of the new financial centre and is committed to set the standards for its market in all areas of services and facilities.



MILLENNIUM HOTEL
Sydney, Australia

Located in the heart of Sydney's vibrant nightlife district and only five minutes from the central business area. The hotel offers panoramic views of Sydney Harbour and the Opera House.



As a result of three exceptional deals, Millennium & Copthorne Hotels plc has commenced its development into a truly global player and is now one of the largest international hotel owner and operator groups in the world.

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Millennium & Copthorne Hotels plc operates 117 hotels with 31,000 rooms located in 13 countries. They are divided into four regions:

- United Kingdom and Continental Europe
- United States
- Asia
- Australasia



OCTOBER 1995:
COPTHORNE HOTELS
ACQUIRED BY
CDL HOTELS
INTERNATIONAL LIMITED

OCTOBER 1995:
FIRST MILLENNIUM
OPENS IN NEW YORK
AS THE MILLENNIUM
BROADWAY

APRIL 1996:
MILLENNIUM & COPTHORNE
HOTELS PLC IS FLOATED ON
THE LONDON STOCK
EXCHANGE

OCTOBER 1996:
ACQUIRED THE
MILLENNIUM BRITANNIA
HOTEL IN MAYFAIR,
LONDON

AUGUST 1997:
THE MILLENNIUM
CONFERENCE CENTRE OPENS
AT THE MILLENNIUM
GLOUCESTER COMPLEX

OCTOBER 1997:
THE GLOBAL
EXPANSION OF
THE COPTHORNE
BRAND BEGINS

MILLENNIUM & COPTHORNE – TWO CORE BRANDS

Millennium Hotels: A distinctive 4-star deluxe international collection of hotels offering impeccable facilities and outstanding service. There are currently 14 hotels that carry the Millennium brand and it is intended to convert the 12 Regal branded hotels in the US to Millennials.

Copthorne Hotels: An award-winning brand mainly comprising 4-star business-style hotels offering excellent standards of service and accommodation, of which we have 29 and a 5-star Grand Copthorne in Singapore.



JUNE 1998:
COPTHORNE BRAND
INTRODUCED INTO
ASIA

OCTOBER 1998:
MILLENNIUM OPÉRA
IN PARIS REOPENS

APRIL 1999:
ANNOUNCEMENT OF
THE ACQUISITIONS
OF 43 HOTELS IN
ASIA PACIFIC

NOVEMBER 1999:
ANNOUNCEMENT OF THE
ACQUISITION OF
28 US HOTELS AND THE
SEOUL HILTON



Kwek Leng Beng
Chairman

The acquisitions made by Millennium & Copthorne Hotels during 1999 set the Group on the path to becoming a truly global player in the consolidating hotel industry.

The Group entered 1999 with 7,000 bedrooms in 24 hotels located in only four countries and was predominantly United Kingdom based. We entered the new millennium with 31,000 bedrooms in 117 hotels, located in 13 countries. This was a significant move for the Group following three years of concentrating on organic growth in the then existing portfolio.

The key assets within the three acquisitions made during the year are of high quality. Where necessary and, particularly within the Regal Group acquired in the United States, we intend to pursue our successful policy of investing in the properties to maximise their potential. We will achieve this through a combination of revenue generation, profit conversion, effective operational control and, in the small number managed by other international hotel operators, by effective asset management.

The acquisitions were partly funded by two significant issues of shares on the London Stock Exchange within a nine month period. I am pleased to report that these issues were taken up almost entirely by existing shareholders and have been satisfactorily completed. Our thanks go to all our shareholders who demonstrated their confidence in Millennium & Copthorne's ability to provide significant earnings growth in the coming years by applying our managerial and investment skills into these assets.

We have undoubtedly acquired scale, skills and a geographical spread that affords protection from economic fluctuations throughout the world.

The Group's pre tax profit increased by 43% to £86.1m with the growth mainly coming from the benefit gained from the Asia Pacific properties which were under our ownership for a little over half of the financial year.

Turnover for the Group increased 55% to £343.1m (1998: £221.9m). Operating Profit increased 32% to £98.5m (1998: £74.9m) producing a Profit before Tax of £86.1m up 43% (1998: £60.4m).

Earnings per share were 29.8p, an increase of 8% on a restated 1998 figure. The directors are recommending a final dividend of 7.5p per share (1998: 6.9p) giving a total dividend of 11.3p per share (1998: 10.2p). The dividend calculation, which is complicated by the two equity issues, is more fully explained in the Financial Review.

Shareholders' funds at the close of the year were £1,320.0m (1998: £633.8m) with a gearing of 50% (1998: 43%). This is after taking account of the independent revaluation of seven hotels from the original Group, being approximately one third of the owned properties, in accordance with our declared accounting policy, which resulted in an upward restatement of our fixed assets of £54.8m (1998: £61.4m). All of the



The Regal Biltmore, Los Angeles, USA. A landmark hotel, opened in 1923, in the downtown Los Angeles business district

Hilton International, Seoul, a 5-star hotel located in the centre of the business district of downtown Seoul



properties revalued this year are owned 100% by the Group. At the end of the 2000 financial year, our policy of revaluing one third of our portfolio will include the properties acquired in 1999.

Corporate highlights

During 1999 our focus was concentrated on two main areas, namely, continuing to ensure the operational growth of existing properties and, at the same time, developing the Group by significant acquisitions. The pre tax profit from continuing operations was up by 9% to £65.7m (1998: £60.4m), at a time when the operating performance from the United Kingdom in particular reflected some lessening in demand in the marketplace.

The first of the three acquisitions during the year was the 43 hotels located in Asia and Australasia, purchased from CDL Hotels International for a total consideration of £556m, including the assumption of net outstanding debt of the Asia Pacific companies. The transaction was substantially completed in June 1999 with the two remaining entities, being shareholdings in companies owning assets in Malaysia and Hong Kong, completed in December 1999 and January 2000 respectively.

The second transaction was the purchase of the 673 bedroom Hilton in Seoul, South Korea for US \$228m (US \$213m net of working capital adjustments) from the Daewoo Corporation of Korea. It was one of the

most competitive hotel deals we had ever concluded, in the face of strong interest from major international funds and big groups who were also vying for the rare opportunity of acquiring a hotel in Seoul. This deluxe property is managed by Hilton International under an agreement which expires in 2003, unless renewed by mutual consent. The purchase was completed at the end of November 1999.

The third transaction was the acquisition of Regal Hotels USA in mid December from Regal Hotels International of Hong Kong for US \$640m. The acquisition included 12 first class Regal branded properties, located in critical gateway cities including New York, Chicago, Los Angeles, Minneapolis and St. Louis. A further 16 properties, mostly smaller hotels, operate under different brands and are located in feeder cities such as Sante Fé, Sacramento and Salt Lake City. Also acquired, as part of the package, were management contracts in a further 19 North American hotels. Discussions over the acquisition of the shareholding in the Regal Bostonian Hotel in Boston are in the final stages and we hope to come to an agreement soon. In the meantime, Millennium & Copthorne is managing the property. There was no goodwill arising on the three acquisitions.

Prospects

The outlook for the Group is very positive. We look forward to a full 12 month contribution from the acquired



The Regal UN Plaza New York offers extensive views of the New York skyline



The luxurious Cha Lounge in the 872 room 5-star hotel in Taipei managed by Hyatt International

We will continue to review expansion opportunities that will enhance our leading global hotel group profile and produce good profit growth.

assets. In the United Kingdom the year has started well. The newly-constructed ballroom and the bedroom extension at the Millennium Britannia, which have both been very well received by the market, will contribute further to Group revenue. We have also commenced a reconfiguration and refurbishment programme at the Copthorne Glasgow. After the expected completion of the programme in early summer, the hotel will be rebranded as the Millennium Glasgow. We are pleased to have secured the management contract for Millennium Madejski Reading which is opening in May this year. The Millennium Glasgow and Millennium Madejski Reading will become the first two Millennium-branded properties outside London in the United Kingdom.

On the Continent there is still economic growth to come and the renamed Millennium Opéra, formerly Millennium Commodore, situated in the heart of Paris, will continue to grow. In Asia and Australasia, the economies continue to record growth as the area recovers faster than anticipated from the deep recession in 1998.

The US economy shows no signs of a downturn in business in key cities. Our New York properties, including the Regal UN Plaza, have started the year very well. We are currently completing a study of the Regal portfolio which will result in a disposal of hotels that do not meet our brand objectives or return on investment criteria. Where real estate values and returns on investment justify it, we will upgrade

the properties. Inadequate capital investment in the Regal Group properties prior to our acquisition had contributed towards its under performance relative to their competitors in the United States. We intend to invest US \$60m-US \$70m over the next two years in these properties, predominantly in the 12 first class hotels which will be rebranded as 'Millennium' as part of this process. In view of the significant amount of capital expenditure work to be carried out during the year, it will, undoubtedly, take a little time for any material positive impact to be made on Regal hotels' results. Nonetheless, we still expect the Regal hotels to record good revenue growth this year as well as benefiting from more effective cost control.

We will continue to review expansion opportunities that will enhance our leading global hotel group profile and produce good profit growth.

The Internet is having an increasing impact on all our lives and the hotel industry will, without doubt, be one of the main beneficiaries. The use of the Internet could potentially lead to lower distribution costs and hence higher profit margins for hotel owners and operators. On line bookings, which represented less than 2% of demand in 1999, are expected to expand to nearly 8% by 2003. The Internet will allow hotels to use customised direct marketing and customer databases to increase market share. Brand loyalty would also be strengthened as a result of direct contact with



The 680 room Orchard Hotel, Singapore, a Copthorne Partner Hotel

preferred guest programme members through corporate websites. The Group is studying ways of reaping maximum advantage from the many revenue-gain and productivity-improvement opportunities created by the Internet.

Management and Board

During the year we strengthened the management structure in each of our four main regions – UK & Europe, USA, Australasia and Asia. I am happy to report that the integration of the acquired businesses is progressing well. During the year there have been some changes to your Board that take into account the requirements of the enlarged Group. Tony Potter, formerly at Friendly Hotels and Hilton, joined us as Chief Operating Officer. We announced the appointment of a new non-executive director, Miguel Ko, with immediate effect. Miguel Ko is Deputy Chairman and Chief Executive Officer of CDL Hotels International. He brings with him a wealth of international experience, having been in senior positions with PepsiCo and ITT Sheraton Corporation.

Peter Taylor, who has been associated with our business for 15 years, and Vincent Yeo, have resigned from the Board. We thank them both for their valuable contribution. In April this year Fred Brown will retire from his position as an executive director but will remain on the Board as a non-executive director.

The last 12 months have been truly exciting for us. Our transformation from being a predominantly UK-based group to one of the largest global hotel owner and operator groups came about when we seized the business opportunities to make three major acquisitions in 1999. We outperformed the industry by successfully penetrating the highly sought-after US market and created critical mass with just one acquisition. In Asia, in the current environment of improving economic fundamentals, investments made today are less likely to secure attractive prices than those concluded at the bottom of the market last year. Against this backdrop, we believe our Asia Pacific acquisition to be well-timed and that we will stand to benefit from the continuing recovery in Asian economies.

I would like to thank my co-directors, management and staff for their dedication and hard work and our shareholders for their unstinting support during the last exciting year. I look forward to their continued enthusiasm as we enter this first year of the new Millennium.

Kwek Leng Beng, *Chairman*

14 March 2000



John Wilson
Chief Executive Officer

Over the next few years, Millennium & Copthorne Hotels will achieve significant additional earnings from the acquisitions during 1999.

The past 12 months have, without a doubt, been an exciting period in the development of the Group. For the last three years, we have provided our shareholders with good profit growth from enhanced hotel products, demonstrating the benefits to be gained as a result of sound capital investment. In 1999 we moved from being predominantly a United Kingdom based group to becoming a major international player.

Over the next few years Millennium & Copthorne Hotels will achieve significant additional earnings from the acquisitions made during 1999. This will come primarily from the continuing economic recovery in Asia and Australasia together with the repositioning, refurbishing and introduction of our management style and control into the under performing assets acquired in the USA Regal Group. To this can be added the benefit to be gained from enhanced brand recognition and global sales and marketing activities.

It is an important point to note, however, that significant growth will not come overnight but be gained over a period of months and years.

Providing comparative statistics and financial information that remain meaningful is difficult to achieve for a Group that has so fundamentally changed at different times during 1999. The information referred to below is, in the main, from continuing operations to which are added separately, the Asian and Australasian statistics from assets which were in our ownership for a little

over half the financial year and, the matter of a few weeks in respect of the Seoul, Kuala Lumpur and Regal properties.

Group summary

The results of the Group from continuing operations reflect the fact that, as had been well reported, there was some lessening in demand throughout the United Kingdom for a large part of the financial year. Consistent growth only returned in the last quarter. New York remained strong throughout the year and, on the Continent, steady growth was recorded, particularly in France.

The nascent upturn in the Asian economies during 1999 is expected to have a delayed impact on hotel revenues, as lead time is needed for recovery to be felt. However, the Group's efforts at improving customer mix showed signs of yield recovery as the year progressed.

Taiwan recorded strong growth over the previous year until the country was rocked last September by a massive earthquake. Business levels fell dramatically for a time, albeit they have now substantially recovered. In Australasia, Occupancy improved upon the corresponding period in 1998 and was coupled with a small increase in average room rate.

Bedroom Occupancy from continuing operations for the year was 77.2% (1998: 79.4%), 2.2 percentage points down on last year the shortfall mainly due to the



The Conservatory at the Millennium Gloucester, London, in the heart of Kensington is a meeting place with a difference

The entrance to the recently built Ballroom at the Millennium Britannia, London



The recently refurbished lobby in the Millennium Knightsbridge, London. Only minutes away from some of London's best known shops

United Kingdom properties. Importantly, average room rate grew by 5% to £94.30 resulting in a growth in yield per available room of over 2%. The Gross Operating Profit from continuing operations, which excludes a hotel's fixed expenses over which individual hotel management has limited control (being rent, property taxes, insurance, depreciation, amortisation, operating lease rentals and external management fees), increased by over £3m on last year, producing a Gross Operating Profit margin of 46.1% (1998: 47.7%), down 1.6 percentage points on 1998. The lower profit margin is, in part, due to the change in revenue mix, particularly in London, where the food and beverage areas, which convert at a lower profit margin, improved during the year whilst room revenue in the region was down a little overall.

Occupancy for the total Group, including acquisitions, was 70.6%, at an average room rate of £74.08, producing a yield per available room of £52.30.

London

The lessening demand in London was highlighted in our interim announcement and this position continued until mid September. The following quarter recorded good growth on the corresponding period last year, followed by a five week period over the Millennium when business in many parts of the world took a holiday. Despite the softer market in the region, we took the conscious decision that we did not wish to get into 'rate cutting'. Our view on the London and

Regional United Kingdom markets was that this was going to be a short term downswing and, as business returned, it would be easier to recover lost occupancy than to raise rates. The early indications in 2000 confirm this policy as being correct. Our Occupancy, therefore, dropped a little in the short term achieving 81.7% (1998: 84.7%) for the year but our average room rate rose by 2% to £88.34 (1998: £86.99), producing a yield per available room only 2% down for the year at £72.17 (1998: £73.68). The resulting small shortfall in room revenue was recovered by gains in the food and beverage area, the change in business mix converting at different profit margins accounting for some of the reduction in the Gross Operating Profit margin to 53.5% (1998: 55.4%).

During the year some disruption was experienced at the Millennium Knightsbridge (formerly the Millennium Chelsea), where the lobby was renovated during the first quarter making access to the hotel difficult. At the Millennium Britannia, the construction of the ballroom and bedroom extension was completed in late August. The ballroom, which can accommodate 800 guests theatre style and 400 banquet style, has been very well received and we will benefit even more in 2000. The noise and disruption during construction undoubtedly affected business in both mix and volume. In the Summer and on into the Autumn we refurbished another 122 bedrooms in this property leaving only 82 which were completed during January and February 2000.

The Millennium Opéra in the heart of the commercial district of Paris, containing a state of the art conference centre



The Copthorne Hannover, Germany within a few minutes walk of the international fairground hosting Expo 2000

Bedroom refurbishments continued at both the Millennium Gloucester (168) and Copthorne Tara (159) in the early part of 1999. Both properties are currently undergoing further bedroom refurbishments.

Regional UK

The economic position and the action we took in London was mirrored in a number of the provincial properties. In a few locations additions to competitor hotel stock, particularly at Slough, Manchester and Cardiff have resulted in the supply temporarily outstripping demand. The oil industry sector experienced a slowdown which particularly affected Aberdeen for a large part of the year, although it is now showing signs of recovery. Elsewhere, our two properties at Gatwick, for example, recorded growth over the year. Like London, the position improved in the final quarter and the early indications for 2000 are positive.

Overall Occupancy for the Regional UK properties was still a creditable 73.3% (1998: 76.5%) and, whilst a little over 3 percentage points down on last year, the deficit reduced marginally in the second half of the year. At the same time, we still protected our average room rate, up a little to £66.39 (1998: £66.00), the resultant yield per available room of £48.66 (1998: £50.49) being less than 4% down on 1998.

In November we commenced a major restructuring and renovation programme at the Copthorne Glasgow. The programme encompasses all bedrooms and public areas and will be completed in May this year. The hotel

has continued to operate whilst these major works are being carried out but it is, naturally, having an effect on the hotel and region's performance. Once completed, the hotel will be rebranded a Millennium. In the Autumn of 1999 we completed the construction of an extension to the Conference Centre facility at the Copthorne Merry Hill and the enlarged facility has been well received.

The disruption to the properties contributed towards the lower Gross Operating Profit margin at 40.4% (1998: 43.3%), down 2.9 percentage points.

Continental Europe

The results from our Continental Europe region reflect the effect from the still maturing Millennium Opéra (formerly the Millennium Commodore) in the heart of the commercial district of Paris. Following its reopening in October 1998, the hotel, like any new property, has taken time to gain recognition in the local marketplace and it has steadily improved over the year. The strength of the market in France is demonstrated by the Copthorne Paris Charles de Gaulle which, yet again, has achieved its best ever year by a significant margin. In Germany, the properties continue to record little or no growth; however, Hannover will benefit during this year from Expo 2000 which will take place less than one mile from the hotel.

Occupancy for the region was 63.7% (1998: 64.8%), down 1.1 percentage points due to the effect of the

The Regal Alaskan, Anchorage, United States, a hotel full of the character of Alaska and located on Lake Spenard which boasts the largest seaplane airport in the world



The Regal Riverfront, St. Louis, United States has 780 bedrooms and approximately 65,000 sq. ft. of meeting space, an ideal location for a convention

The Millennium Broadway, New York in the heart of theatreland and boasting the largest conference and meeting facilities in a New York hotel



reopening of the Millennium Opéra Paris. In contrast, average room rate for the year was £72.35 (1998: £57.60), up nearly 26%, resulting in an increase of over 23% in yield per available room. Principally as a result of the still improving Millennium Opéra Paris hotel, the Gross Operating Profit margin was 2.1 percentage points down at 27.2% (1998: 29.3%), reducing somewhat the deficit recorded during the first half year.

USA

The Regal Hotels acquisition was not completed until 17 December 1999 and, with an effective ownership of only two weeks, the financial statistics exclude the effect of this acquisition.

Demand in our New York properties remained very strong with Occupancy, average room rate and Gross Operating Profit margin all increasing from an already high base achieved in 1998.

Occupancy increased by 1.5 percentage points to 81.5% (1998: 80.0%) even after taking into account the extra 40,000 room nights available at the Millennium Broadway, being the inclusion of the 125 bedroom Millennium Premier extension which was fully opened in January 1999.

The average room rate for the region grew nearly 6% to £145.71 (1998: £137.85) producing an 8% increase in yield per available room. In US dollars the average room rate grew by 3% to US \$235.67 and yield per available room by 5% to US \$192.07. The Gross

Operating Profit margin improved 1.3 percentage points to 46.2% (1998: 44.9%).

In the coming year we are going to convert 14,000 sq. ft. storage space at the Millennium Broadway into additional conference and meeting facilities, further enhancing this property's reputation as the premier hotel conference venue in New York.

In The Plaza, following the completion of the bedroom refurbishment, the attention has been on improving the average room rate and the property finished the year with an average of US \$335, up over US \$20 on 1998, achieving well over US \$400 in the closing months. During 1999 the in-house leisure facility opened and a refurbishment of the suites was commenced, for completion in 2000.

A substantial amount of time is going to be spent on integrating and refurbishing, in particular, the first class hotels that form part of the acquired properties. The works necessary are expected to take at least two years, possibly three, to complete. As the initial works are completed during the year and we introduce profit conversion practices, we expect to see revenue and profit enhancement.

Asia

Ownership of a substantial part of the hotel interests previously owned by CDL Hotels International Limited throughout Asia became effective from 9 June 1999. The last two parts of the transaction, being



The spectacular lobby of the Grand Hyatt, Taipei



The lobby of the Millennium Christchurch, New Zealand

shareholdings in companies holding assets in Malaysia and Hong Kong, were completed in December 1999 and January 2000 respectively.

Our properties, located in six countries in Asia, experienced mixed fortunes during the period that they were under our ownership. Economically there is substantial evidence to show that, generally, all the countries are steadily climbing out of recession with the exception of Indonesia where we still await full political stability. Like all recoveries, there is a lag before being able to see the recovery in hotel performances. The largest revenue and profit producer amongst the acquired assets, the Grand Hyatt Taipei, was performing very well with significant growth on the previous year when the area was hit by a massive earthquake in early September 1999. Our hotel did receive some damage and resultant loss of revenue, but the business market generally for the area was more materially hit and this affected rooms and food and beverage business levels. It is now showing signs of substantial recovery. The Seoul Hilton was acquired by the Group at the end of November and the performance statistics have been consolidated into the region for the few weeks until 31 December, but have little impact on the numbers for that short period.

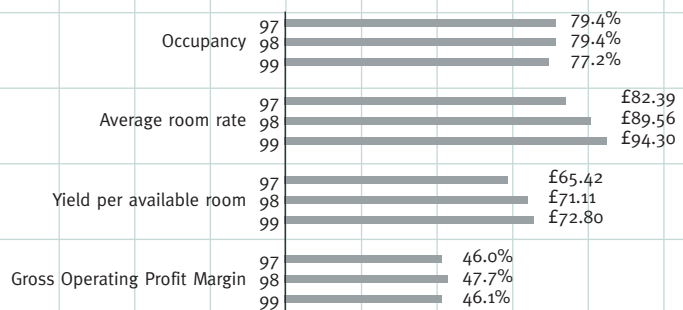
In Singapore we have taken advantage of the market lull and tax incentives to undertake major refurbishment programmes at the Orchard and Copthorne Harbour View

hotels. These commenced in 1999 for completion in stages during 2000. In total 746 bedrooms representing 40% of the Group's inventory in Singapore will have been refurbished. The hotels are expected to improve room rates and command a higher yield as the refurbishments are completed.

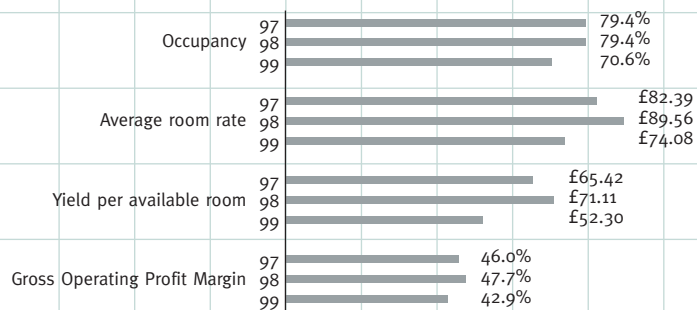
Overall Occupancy for the region was 64.9%, marginally down on 1998 with the average room rate steady at £48.30. The outlook looks stronger as the whole region continues to recover from recession and the service industry benefits from the business confidence in the area. In terms of profitability and profit conversion, under our management it is beginning to yield positive results, producing a Gross Operating Profit margin of 37.1% for the period, a good improvement on last year.

Australasia

Our ownership of the mainly hotel interests previously owned by CDL Hotels International Limited, became effective from 9 June 1999. The performance of the hotels in New Zealand and one property in Sydney, Australia, have, as expected, recorded some growth over 1998 as the economies recover and there is every sign that the growth will continue in 2000, aided by the Olympic Games and Americas Cup yacht racing. Occupancy for the region was 62.3% with an average room rate of £31.63, both a little up on the corresponding period last year. In monetary terms the Gross Operating Profit improved for the period and



Group statistics excluding acquisitions



Group statistics including acquisitions

the profit margin was 32.9%. The cost base is still under review and the profit margin is projected to improve in 2000.

Outlook

The Group has, by the timing of the acquisitions in Asia and Australasia, positioned itself to take advantage of the continuing economic recovery in the region. By acquiring the Regal Group in the United States we have now given ourselves market presence in a number of major international and feeder cities. Focused capital expenditure in the Regal Group, coupled with a more directed approach to cost control and profit conversion, will bring significant improvements to the results of these under performing assets. We recognise that some of the acquired assets are not core to our business and we will dispose of all or some of these properties. Within continuing operations, the United Kingdom has recovered from the softer market conditions experienced during 1999 and we will benefit from a full year of enhanced facilities at the Millennium Britannia; and the restructured Millennium Glasgow will provide added benefit from early Summer. On the Continent there is continued growth from the Millennium Opéra and the New York hotels are showing no sign of any slowing in their growth.

To assist the Group's growth objectives in Asia, a management company has been formed, Millennium & Copthorne International Limited, which will be

granted business headquarter status in Singapore.

With the enlarged Group now operating in 13 countries, we continue to invest in information and other technologies to enhance our operations. These include the benefit from the dedicated central reservations system called RezUlt which is tailored to our needs as a global operator. We are investing in up to date yield management techniques across the Group and we are in the process of launching new loyalty programmes. In April we will complete an upgrade to our website which will encompass access to detailed information about our properties and an on line booking facility.

The fact that we are now becoming a genuinely global player means that we are attracting greater interest from high calibre recruits. As a result our management will grow in ability and depth of experience at both local and international levels.

Finally, I can report that this year has begun strongly and I am confident that the Group has all the ingredients to achieve further significant growth.

John Wilson, Chief Executive Officer
14 March 2000



David Cook
Group Finance Director

The Group has carried out three major acquisitions during the year. Our balance sheet remains strong and we are still well positioned to further expand our portfolio.

Results

The total group turnover for the year was £343.1m (1998: £221.9m). Group turnover from continuing operations was £236.8m (1998: £221.9m) and turnover from activities acquired during the year was £106.3m. A segmental analysis showing a split by region and business class can be found in note 2 to the accounts on pages 33 and 34.

The total Group Operating Profit was £98.5m (1998: £74.9m) of which Group Operating Profit from continuing operations was £74.3m (1998: 74.9m). Group operating profit from acquired activities was £24.2m including a hotel operating loss by Regal of £1.0m for the two weeks to 31 December 1999.

Interest

Group Interest receivable and similar income was £7.0m (1998: £2.8m) of which £2.0m (1998: £2.0m) was received from associated undertakings.

Group Interest payable was £28.8m (1998: £26.8m). Of the total interest payable £5.4m (1998: £6.5m) was payable in respect of associated undertakings.

A total of £1.0m (1998: £1.0m) of interest has been capitalised in relation to construction.

The net interest cost for the year was £21.8m (1998: £24.0m), which was covered 4.9 times (1998: 3.5 times) by profits, including our share of operating profits of associated undertakings, of £107.9m (1998: £84.4m).

This includes £0.8m incurred on the debt financing for the Regal acquisition from 17 December 1999 to the year end.

Taxation

The effective rate of tax for the Group is 22.3% (1998: 25.5%). The rate is lower than the average fiscal rate for our countries of operation due to the availability of tax allowances on capital expenditure exceeding depreciation charges and the utilisation of trading losses that are available in certain countries from previous years.

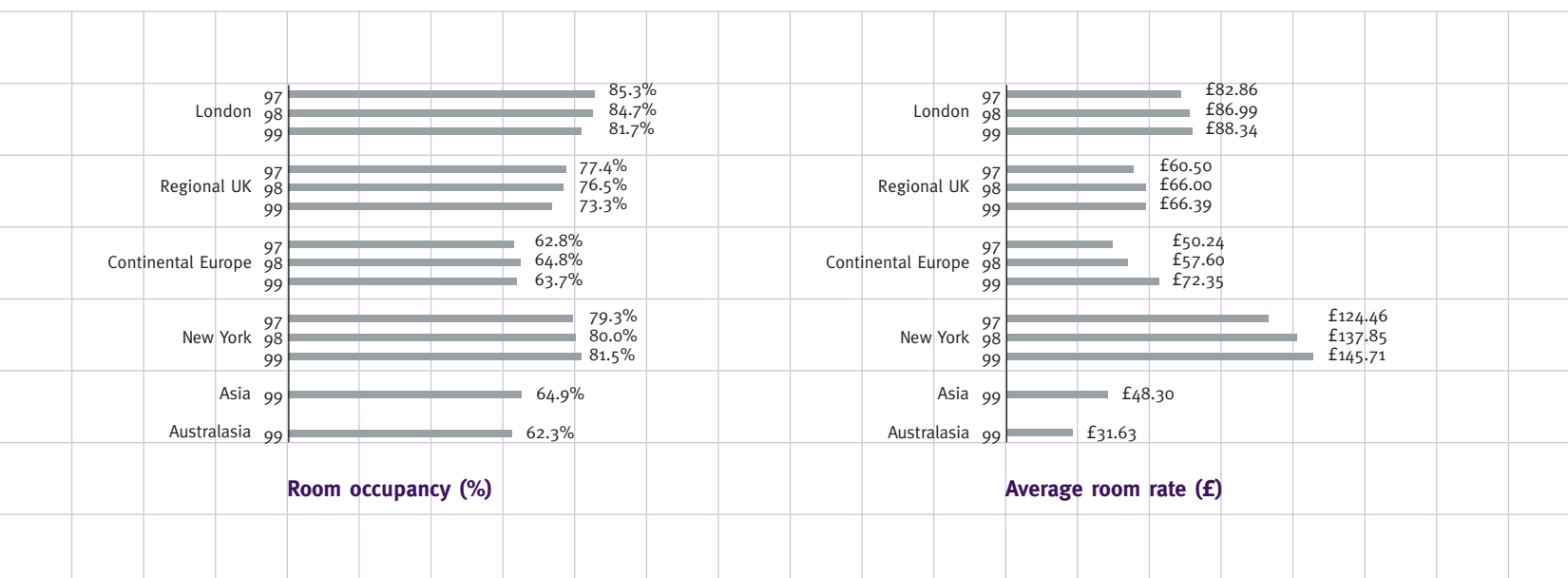
The Group continues to regularly review the current and future tax position.

Dividends and earnings per share

The directors are proposing a final dividend of 7.5p per share (1998: 6.9p). This means that the total dividend per share for those shares in issue and ranking for dividend for the full year will be 11.3p (1998: 10.2p).

The June 1999 rights issue increased the issued share capital by 94.3m shares which were not eligible for an interim dividend but will receive a final dividend. The 42.3m shares that were issued in relation to the Placing and Open Offer in December 1999 are not eligible for a final dividend. These are in accordance with the conditions set out in the circulars published in relation to both issues.

The basic earnings per share (EPS) were 29.8p (1998:



27.7p). Profit for the financial year has increased by 39%. EPS has increased by 8% which is due to earnings growth from continuing operations. Due to the timing of the Regal acquisition, it had a dilutive effect on EPS in 1999. The 1998 EPS has been restated in accordance with FRS14 to reflect the effect of the rights issue in June 1999.

The calculations of basic and fully diluted earnings per share are explained in note 9 to the accounts.

Financial Reporting Standards (FRS)

FRS13 – Derivatives and other financial instruments. The relevant numerical disclosure is contained in note 18 to the accounts. A statement of the strategies and policies of the Group is set out on pages 17 and 18.

FRS15 – Depreciation of tangible fixed assets was published in March 1999 but is not mandatory for the Group until 2000. The Group decided not to adopt the standard for the 1999 financial year because discussions undertaken with other hotel groups and professional firms, regarding the specific guidance required for implementation, were still on-going. It will undoubtedly increase our depreciation charge.

The Group will adopt FRS15 with effect from 1 January 2000.

Acquisitions

In the 1998 Financial Review we emphasised that the Group was well positioned to make acquisitions when suitable opportunities arose.

In 1999 the Group became one of the leading hotel owner and operators in the world through the completion of three major acquisitions. Details of the acquisitions and their funding are set out in the table on page 16.

We have not yet completed our final assessments of the fair values of the acquired assets and liabilities. The assessments will be finalised in 2000 and an update provided in the next Annual Report and Accounts. Our preliminary assessment of the fair values is set out in note 12 to the financial statements.

In June 1999, we acquired 43 hotels in Asia and Australasia from our majority shareholder, CDL Hotels International Limited. This acquisition was largely funded by a rights issue. The 13 for 20 rights issue at 465p per share was fully underwritten. Over 99% of shares were taken up by existing shareholders. The completion of the acquisition of the Regent hotel in Kuala Lumpur was delayed due to the need to obtain regulatory approval. It was finalised on 1 December 1999.

The final part of this transaction was the acquisition on 31 January 2000 of the minority shareholdings in the companies which own the Hotel Nikko and JW Marriott hotels in Hong Kong. The circular recognised that the necessary legal consent might be delayed and £22.1m was withheld from the total consideration and remained outstanding at 31 December 1999.

	Asia Pacific £m	Regal £m	Seoul £m	Total £m
- Fixed assets	688.6	368.4	144.6	1,201.6
- Net current assets/(liabilities)	0.1	(1.4)	(1.7)	(3.0)
- Cash/(net debt)	(86.4)	35.4	2.3	(48.7)
- Other liabilities	(0.5)	-	(11.3)	(11.8)
Net assets	601.8	402.4	133.9	1,138.1
- Minority interest acquired	(164.2)	(0.1)	-	(164.3)
Share of net assets acquired	437.6	402.3	133.9	973.8
Funded by:				
- Share issue net of costs	433.7	155.2	-	588.9
- Borrowings	-	218.2	133.9	352.1
- Cash	3.9	8.3	-	12.2
- Deferred consideration	-	20.6	-	20.6
	437.6	402.3	133.9	973.8

Fair value of acquisitions

In November 1999 we acquired the Seoul Hilton in South Korea from the Daewoo Corporation of Korea. The acquisition was made by our 75% subsidiary, Republic Hotels and Resorts ('RHR'), which is listed on the Singapore Stock Exchange. The purchase was funded by a bridging loan facility of £81m and further debt of £54m.

The bridging loan will be replaced by the proceeds of a 3 for 4 rights issue by RHR in April 2000. The rights issue will be priced at Singapore \$1. The Group has irrevocably committed to take up its rights under the rights issue and has agreed to subscribe for the remainder to the extent that they are not taken up by other shareholders. The Group has sufficient unutilised facilities to meet its obligations in this respect.

In December 1999, we acquired 28 hotels plus a company which holds management contracts on a further 19 properties in the United States from the Regal Hotel group of Hong Kong. The acquisition was funded by a Placing and Open Offer together with new bank facilities. The offer at 370 pence per share was fully underwritten. The take up by existing shareholders was over 85%.

When the proposed acquisition was announced in November 1999, the transaction included the acquisition of 51% of the Regal Bostonian Hotel, Boston. This element of the transaction has not yet completed. The sale and purchase agreement recognised that the necessary consent from the minority shareholder

might not be obtained within the time available and US \$13.4m (£8.2m) was withheld from the original total consideration. Negotiations are continuing and we expect a favourable outcome.

The purchase consideration included £20.6m of deferred consideration, part of which will be payable in 2000 with the remainder due in December 2001. Interest at commercial rates is to accrue on this amount and accordingly it is included in the calculation of gearing although it does not form part of our net debt as set out in note 27 to the financial statements. No goodwill arose on any acquisitions during the year.

Timing of the Regal acquisition

The Regal acquisition completed on 17 December 1999. The acquisition represented a unique opportunity for the Group to acquire a portfolio of hotels in the USA, including 12 first class properties, at a very attractive earnings multiple.

Because of the financial requirements of the vendor and the potential cost of underwriting the proposed rights issue over Christmas and the New Year, it was beneficial to complete on 17 December 1999. The Group consequently consolidated the results of the Regal Group for the two week period when trading was poor due to the Christmas and New Year holidays. Including the finance costs of £0.8m, the loss on ordinary activities before taxation for the two weeks to 31 December 1999 was £1.8m (US \$2.9m).

	1999	1998
	£m	£m
– Extensions and new facilities	7.7	16.9
– Major refurbishments	2.2	14.1
– Rolling refurbishments and other projects	12.4	20.4
– Asia Pacific and Regal	6.1	–
	<u>28.4</u>	<u>51.4</u>
– Less increase in accrued expenditure	(1.2)	(3.5)
– Cashflow	<u>27.2</u>	<u>47.9</u>
	Capital expenditure	

The directors are confident that this was the most cost effective option for the Group as the net cost of delaying the acquisition would have been substantially greater and might have resulted in the transaction not being completed.

Stuttgart

The Group operates a Copthorne hotel and related food and beverage outlets in Stuttgart. The Stella group of companies, which leases the Stuttgart complex, filed for bankruptcy protection under German Law in November 1999.

The Board is seeking to renegotiate the financial and management arrangements of the Stuttgart complex. The Group has an investment of £6.7m in the complex.

Capital expenditure

The Group capital expenditure in the year was £28.4m (1998: £51.4m). This amount is lower than in previous years because, as set out in the 1998 Financial Review, most major capital projects in continuing operations have been completed. There is a need for significant amounts of capital expenditure in our Regal properties which will be incurred over the next two to three years at a total cost of approximately US \$60m-US \$70m.

In August, we completed the construction of a ballroom and bedroom extension at the Millennium Britannia, Mayfair. The ballroom, which opened in April 1999, has been trading very successfully.

We commenced the renovation of the Copthorne Glasgow which will be reconfigured, through the upgrading of bedroom and other facilities, and subsequently rebranded as the Millennium Glasgow. The construction of a conference facility at Copthorne Merry Hill was completed in the Autumn.

In Asia we refurbished 746 rooms at the Orchard and Copthorne Harbour View hotels in Singapore and refurbished the bar and restaurant at the Grand Hyatt Hotel, Taipei. Construction work is continuing on the second phase of the residential development in Sydney.

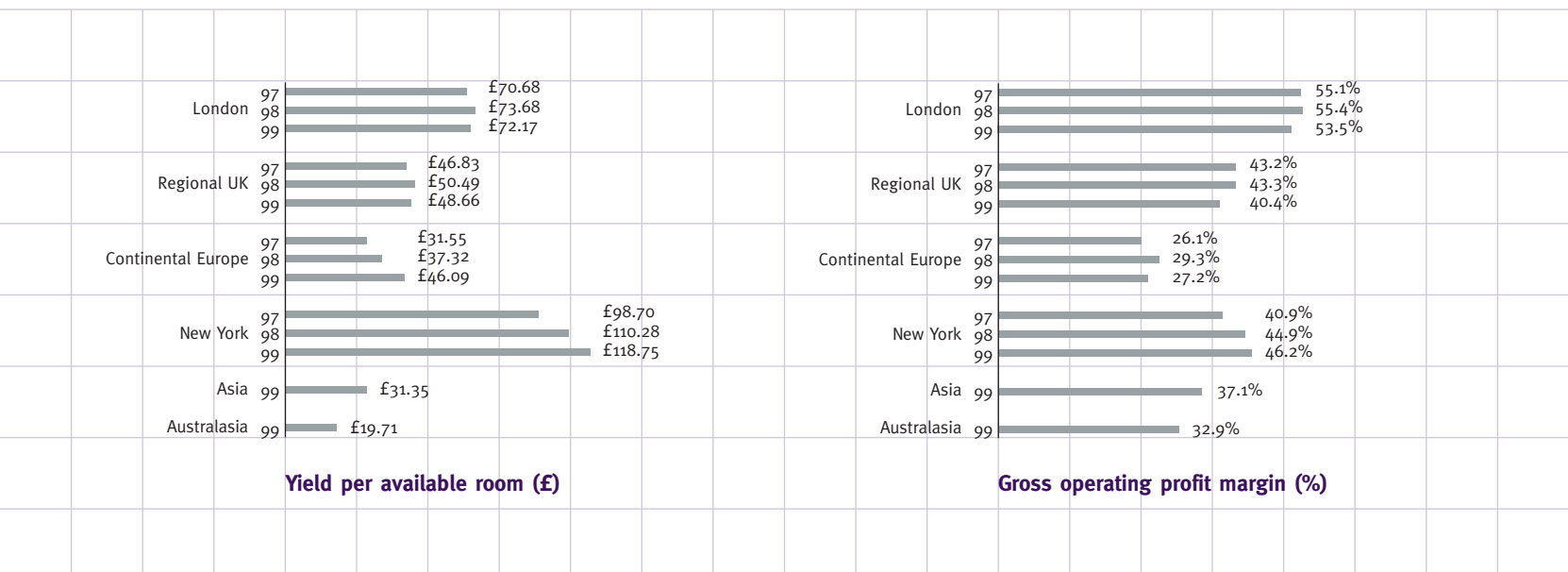
Treasury and risk management

The Group treasury matters are governed by policies and procedures approved by the board of directors, which are implemented on a day to day basis by senior management.

The net borrowings of the Group, as at 31 December 1999, were £633.7m (1998: £274.0m). Details of the Group's borrowings are set out in note 18 to the financial statements. The increase in borrowings is largely due to increased debt in the US and Asia Pacific as a result of our acquisitions.

On 15 December 1999, we completed the refinancing of the Plaza Hotel, New York. This has resulted in a new term facility of US \$285m.

The Group treasury environment has, as a result of the acquisitions, become more complex. We now operate in



13 countries and as a result our treasury arrangements are continually under review.

The primary objectives of the Treasury function are to provide secure and competitively priced funding for the activities of the Group and to identify and manage financial risks, including exposures to movements in interest and foreign exchange rates arising from these activities. If appropriate, the Group uses financial instruments and derivatives to manage these risks.

The Group's financing is obtained from a number of banks, in a number of currencies, at fixed and floating rates of interest. Wherever possible the Group finances its fixed asset purchases by using local cash resources, or if necessary, arranging bank facilities denominated in the local currency. This enables the Group to limit the exposure to its balance sheet in respect of foreign exchange movements.

The Group's revenue and profit streams are a consolidation of 13 currencies but it is not deemed appropriate or cost effective to seek to hedge the foreign exchange risks on these currencies because an increase in one currency is likely to be compensated for by a fall in another.

The Group has not historically made extensive use of interest rate swaps or forward contracts except to protect its exposure in relation to large one-off transactions.

The Group's main financial covenants for longer term facilities are interest cover and gearing ratios. The Group is operating comfortably within all of its covenants.

The treasury policy determines that deposits will only be made and derivatives and other financial instruments entered into, with banks that satisfy certain specific criteria. The extent of the Group exposure with any individual bank is monitored.

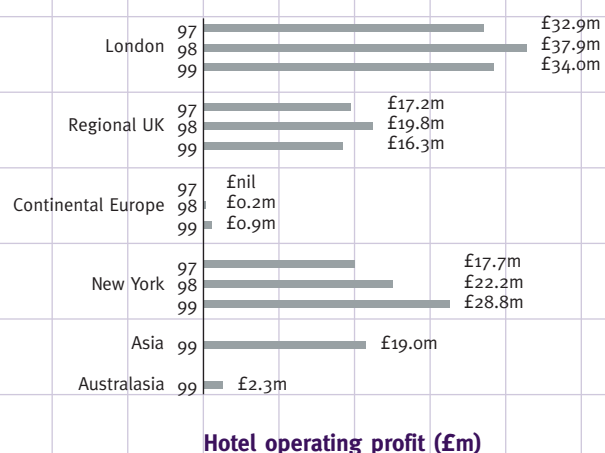
Given the expansion of the Group, the Board has decided that a full review of our treasury policies should be undertaken during 2000. To this end, a Group Treasurer is in the process of being appointed.

Cashflow and gearing

Net cash inflow from operations was £120.0m (1998: £80.9m). The reconciliation from operating profit is shown in note 26 to the accounts.

The predominant feature of the Group cashflow is the amount of £905.5m as expenditure in respect of acquisitions net of cash acquired. This reflects the three acquisitions in the year albeit that there was further expenditure arising in January 2000 to complete on Hong Kong.

There was an overall net increase in cash of £72.6m (1998: decrease £1.3m) which gives rise to a cash balance at 31 December 1999 of £138.9m (1998: £11.8m). This is largely as a result of acquired cash balances in each of the acquisitions.



The Group gearing as at 31 December 1999 was 50% (1998: 43%). The increased gearing reflects the impact of the acquisition activity in particular the debt: equity ratio that arose from the acquisition financing.

Fixed asset values and revaluations

The Group has a policy of revaluing one third of its owned hotel portfolio each year. In the year, seven hotels were revalued. These are detailed in note 11 to the accounts.

The revaluation resulted in a surplus of £54.8m which was credited to the revaluation reserve.

The portfolio of assets acquired during the year will be included in the Group revaluation process commencing this year.

Year 2000

Our hotels throughout the world experienced a seamless transition to the new millennium. There were no computer or system failures experienced which was largely due to the Group's commitment to ensure that any non-compliant systems were upgraded or enhanced.

The total expenditure of the Group on Year 2000 related projects was approximately £9.0m including work already carried out on the Asia Pacific assets prior to acquisition. The majority of this expenditure, which was incurred over a three year period, related to upgrading or enhancing existing systems and was therefore capitalised.

The future

1999 was a year of substantial change for the Group. I share the confidence expressed by both our Chairman and Chief Executive that Millennium & Copthorne Hotels plc is well positioned for the new millennium. Our characteristic strength of organic growth through selective investment and improved profit conversion will continue to drive benefits from the hotel portfolio.

Our financial position enables us to make acquisitions when suitable opportunities arise.

David Cook, Group Finance Director

14 March 2000



1 **KWEK LENG BENG, 59** †
Non-Executive Chairman

He has been the Chairman of Millennium & Copthorne Hotels plc since its incorporation. He is also Chairman and Managing Director of CDL Hotels International Limited, Hong Kong and Executive Chairman of the Hong Leong Group of companies, Singapore. He is a member of the Singapore – US Business Council formed to promote trade and investment flows between both countries. Whilst Chairman of the Group, Mr Kwek has been a member of the International Advisory Board of National Westminster Bank plc, been voted Singaporean Businessman of the Year and won two awards for his contribution to Singapore's tourist industry. In 1998 Mr Kwek was conferred a Doctorate of Business Administration in Hospitality

Management by Johnson & Wales University, one of America's foremost universities specialising in hospitality and international business studies.

Mr Kwek is also the inaugural recipient of the 'Asian Hotelier of the Decade' achievement award, a special recognition of the Asian hotelier with the greatest impact on the international hotel industry in the 1990s.

The award was made at the 3rd Annual Asia Pacific Hotel Industry Investment Conference 2000 organised by Jones Lang Lasalle Hotels and Arthur Andersen.

2 **JOHN WILSON, 58**
Chief Executive Officer

He joined Millennium & Copthorne Hotels plc in January 1998. He held various posts during the 25 years he was with the Ladbroke Group and Hilton International. His last position before joining us was Chief Operating Officer and Senior Executive Vice-President of Hilton International where he was responsible for the operation of 167 hotels in 48 countries.

3 **DAVID COOK, 53**
Group Finance Director

He was appointed at the flotation of the Group in 1996. He joined the Copthorne Group as the Senior Financial Officer in April 1988 and was appointed Finance Director in 1993. He has been in the hotel industry for 35 years and since 1972 has held a number of senior finance positions. He is the Chairman of the British Association of Hospitality Accountants.

4 **TONY POTTER, 50**
Chief Operating Officer

He joined Millennium & Copthorne Hotels on 6 September 1999 and was appointed a director on 22 October 1999. For the previous three years he held the post of Chief Executive Officer at Friendly Hotels plc. Prior to that he held several senior positions with Hilton International and was a director of that company.

5 **FREDERICK BROWN, 66**
Corporate Affairs Director

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. His previous career was in the banking industry including senior appointments with Midland Bank in the UK and its offshore trust corporations and with Deutsche Bank in the Far East and Australia.

He will become a non-executive director with effect from 1 April 2000.

JOHN SCLATER C.V.O., 59 **#
Non-Executive Deputy Chairman and Senior Independent Director.

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is currently First Church Estates Commissioner, President of The Equitable Life Assurance Society and Chairman of Foreign & Colonial Investment Trust plc. He is also a Trustee of The Grosvenor Estate and a director of other companies.

CHRISTOPHER SNEATH, 66 **#
Independent Non-Executive Director and Chairman of the Audit Committee.

He joined Millennium & Copthorne Hotels plc in March 1999. Until his retirement in 1994 he was a senior partner of KPMG. He is a non-executive director of Spirax-Sarco Engineering plc and a number of other companies.

SIR IDRIS PEARCE, 66 **#
Independent
Non-Executive Director

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is a past President of the Royal Institution of Chartered Surveyors. He has also held a number of government appointments and is Deputy Chairman of English Partnerships and a non-executive director of several companies.

MIGUEL KO, 47
Non-Executive Director

He joined Millennium & Copthorne Hotels on 14 March 2000. He has been an Independent Director of CDL Hotels since 1993 and was recently appointed its Deputy Chairman and Chief Executive Officer. Prior to that Mr Ko spent seven years with Pepsico Inc. and 13 years with ITT Sheraton Corporation, both in the capacity of President, Asia. In recent years, Mr Ko has acted as advisor to many business groups and sits on the boards of publicly listed companies in Asia.

KWEK LENG PECK, 43
Non-Executive Director

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. He serves as an executive director of the Hong Leong Group. He holds directorships on most of the listed companies within the Hong Leong Group, including CDL Hotels.

WONG HONG REN, 48
Non-Executive Director

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is a non-executive director of CDL Hotels and the Group Investment Manager for the Hong Leong Group in Singapore.

KWEK LENG JOO, 47
Non-Executive Director

He joined Millennium & Copthorne Hotels plc at the flotation of the Group. He is an executive director of CDL Hotels. He is also the Managing Director of City Developments Ltd and the President of the Singapore Federation of Chambers of Commerce and Industry.

The Board is committed to maintaining high standards of corporate governance and will continue to adopt the principles contained in the Combined Code (the 'Code'), which was published by the Hampel Committee in 1998. Set out in this section is an explanation, which confirms compliance with these principles and which allows shareholders to evaluate how these have been applied. An explanation is also provided regarding the Board's position on the remuneration of Directors and finally, additional information is provided relating to employees and other statutory requirements.

The Directors confirm that the Company has complied throughout the period under review with the principles of the Code. In considering whether it is appropriate to make this statement, the directors recognise that the provisions set out in the Code relating to the balance of non-executive directors have not been met and a further explanation about this aspect is contained in the section below.

The Board

The Board held eight regular meetings during 1999 and, as shown on pages 20 and 21, comprises the Non-Executive Chairman and four non-executive directors who are directors of the majority shareholder, CDL Hotels International Limited ('CDL'), a senior independent non-executive director as deputy chairman, two additional independent non-executive directors and four executive directors who are independent of CDL. Each director is expected to fulfill their duties for the benefit of all shareholders. The three independent non-executive directors provide strong independent judgement.

The Board believes that no group of individuals can dominate the Board's decision taking, although there is not a clear majority of independent non-executive directors as defined by Clause A 3.2 of the Code. This view is considered acceptable because, as previously reported, the Company's Articles of Association require that a majority of the directors are independent of CDL. The Articles also stipulate that if the number of votes cast at a particular meeting by the independent directors does not exceed the number to be cast by the non-independent directors, then the latter's votes are reduced so that they are one less than those of the independent directors.

Since the last Annual Report was published, David Hankinson and Alan Bridle resigned from the Board on 8 March 1999 and 17 December 1999 respectively.

Christopher Sneath and Tony Potter were appointed on 8 March 1999 and 22 October 1999 respectively. Subsequent to the year-end, Peter Taylor and Vincent Yeo resigned as directors and Miguel Ko was appointed as a non-executive director on 14 March 2000. This appointment means that the number of directors who are directors of CDL have increased to five (previously four). Prior to this appointment the Board, having received a formal recommendation from the Nominations Committee, considered the balance of the Board and it was mutually agreed with the independent directors to alter clause 3.2 of the Co-operation Agreement entered between the Company and CDL and dated 16 April 1996 so that no more than five persons nominated by CDL would be directors of the Company. With effect from 1 April 2000 Fred Brown will cease to be an executive director, although he will remain on the Board as a non-executive director.

There is a clearly accepted division of responsibilities at the head of the Company, through the separation of the positions of Chairman and Chief Executive Officer. All directors have access to the advice of the Company Secretary, who is responsible for ensuring the Board procedures and applicable rules and regulations are observed. In addition, the directors are able, if necessary, to take independent professional advice at the Company's expense.

Non-executive directors are appointed for a specific term and re-appointment is not a matter of course as each director's position is reviewed as they approach re-appointment. Since the year-end the positions of John Sclater and Sir Idris Pearce were reviewed and the Board was pleased to extend their appointment for a further one-year term. The two directors who joined the Company in 1999 have received induction training, which includes statutory duties and responsibilities, share dealing, Company policies and procedures and access to prior board meeting minutes and accounts. Miguel Ko will shortly receive such training.

At the Annual General Meeting on 2 May 2000, Kwek Leng Beng, Kwek Leng Joo and Kwek Leng Peck retire by rotation and being eligible offer themselves for re-election. Tony Potter and Miguel Ko who have been appointed directors since the last Annual General Meeting, retire and being eligible offer themselves for re-election.

The Board has adopted a formal schedule of matters

listing key aspects of the Company's affairs, which must be referred to it for decision and approval. In addition to overall financial control this includes investment appraisal, strategy, significant contractual obligations exceeding one year, corporate compliance and risk management.

Board committees

In relation to certain matters, committees have been established with specific delegated authority. The standing committees of the Board are the audit, remuneration and nominations committees:

The audit committee, chaired by Christopher Sneath since his appointment in March 1999, consists entirely of the independent non-executive directors and met three times during the year. It assists the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the Group's published financial statements represent a true and fair view of this position. It is also responsible for reviewing accounting policies and internal control assessments. The external auditors and the head of internal audit attend all meetings. While the Chairman, the Chief Executive Officer and the Finance Director are normally invited to attend, the external and internal auditors have the right to speak confidentially to the members of the committee.

The remuneration committee is now chaired by the Non-Executive Chairman and includes the three independent non-executive directors. The full Board considers that the revised constitution strengthens the ability of the Committee to comply with the principles of the Code. It does not, however, meet the specific provision of Clause B.2.2 which envisages that all members will be independent non-executive directors. It met three times during the year and is responsible for considering and making recommendations to the Board, within agreed terms of reference, on the Company's remuneration policies, the remuneration arrangement of directors and senior executives and the operation of the Company's employee share option schemes. The Chief Executive Officer is invited to attend meetings as appropriate and the committee takes independent advice as deemed necessary. The Vice President, Human Resources is the secretary.

The nominations committee is also chaired by the Non-Executive Chairman and includes the three independent non-executive directors. The committee discussed and made appropriate recommendations to the Board

regarding all new appointments. The Vice President, Human Resources is the secretary.

Internal control system

The full Board is responsible for the Group's system of internal control and for monitoring its effectiveness. In establishing this system, the directors have considered the nature of the Group's business, with regard to the risks to which that particular business is exposed, the likelihood of such risks occurring and the costs of protecting against them. The system of internal control can, therefore, only provide reasonable, and not absolute, assurance:

- as to the reliability and integrity of information;
- that assets are safeguarded and only authorised transactions are entered into; and
- that fraud and other irregularities are minimised.

The Code introduced a requirement that the directors report on the process of reviewing the effectiveness of the Group's system covering all internal controls. This extends the existing requirement in respect of internal financial controls to cover all risks including but not limited to, operational, compliance and risk management.

In this respect, the Board instructed the executive directors to conduct a review of the Group's system of internal controls to ensure that all of the principal risks facing the enlarged Group had been identified and appropriate control systems established. This was carried out following completion of the acquisition of the US hotels and, after a detailed analysis conducted with the assistance of risk management consultants, an action plan is being implemented. It is expected that the implementation process will have been completed by early summer. A report will then be submitted to the full Board which will review the position and make a decision as to whether it is appropriate to extend the terms of reference of the audit committee to cover these areas. In next year's annual report, the Board will report on the extended provisions of the Code pursuant to the guidelines published in the *Internal Controls: Guidance for Directors on the Combined Code*. However it is expected that this report will only cover the period from the completion of this review process.

The directors have therefore taken advantage of the London Stock Exchange transitional rules and continue to report only upon internal financial controls. The main

features of the Company's internal financial control framework are:

- *Control environment*

The Group's strategic direction is regularly reviewed by the Board, which sets business objectives for the Group. Annual plans and performance targets for each hotel are set by the executive management team and reviewed by the Board in the light of overall objectives.

The processes to manage the key risks to the success of the Group are reviewed and improved as necessary. Such processes include strategic planning, control over capital expenditure and the setting of high service standards and targets for health and safety.

- *Financial reporting*

Within the financial and overall objectives for the Group, agreed by the Board, the day to day management is delegated to the Chief Executive Officer and the executive directors. The executive management team receives a monthly summary of financial results from each business.

- *Hotel operating controls*

Hotel operating units are responsible for meeting the defined reporting timetables and complying with Group accounting procedures, policies and controls. Controls are designed to ensure that all activities operate efficiently, effectively and to high ethical standards.

- *Investment appraisal*

During the year a change was made to the capital expenditure approval process which reflects the increased size of the Group. In future, all capital expenditure in excess of £50,000 requires the approval of two executive directors and where appropriate is subject to a strict process of return on investment review. Capital expenditure over £200,000 still requires Board approval. On completion of all major investments, our policy is to carry out retrospective audit reviews after one year of operation and in the following two years and review them against the original investment appraisal by the Board. This process helps improve the quality of business judgements through the understanding and experience gained.

- *Monitoring of controls*

The primary responsibility for the operation of the system of internal financial controls is delegated to line management and is subject to independent review by the Internal Audit department and, where

appropriate, by the Company's external auditors and external regulators. The reports of all these bodies on internal controls are received on behalf of the Board by the audit committee, which ensures that, where necessary, appropriate corrective action has been taken. The effectiveness of the Group's internal financial control system has been reviewed on behalf of the Board by the audit committee and they and the Board are satisfied that their review fulfils the criteria for assessing effectiveness as defined by the ICAEW 1994 guidance *Internal Control and Financial Reporting*.

Statement of directors' responsibilities

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the accounts.

Directors' remuneration

In framing the remuneration policy for the executive directors of the Company, the remuneration committee was mindful of the best practice Provisions on the Design of Performance Related Remuneration under

Schedule A of the Code. Accordingly, levels of pay and benefits have been set which reflect the performance of the Company against pre-determined budgets, as well as the individual contribution of each director. Awards have taken into consideration both market and competitive conditions.

Bonuses for 1999 have been awarded on the basis of the individual contribution to the business by each director as assessed by the remuneration committee.

The previously reported share option scheme, as it relates to the directors, seeks to link individual reward with the longer term success of the business. Options are awarded to directors following an assessment of individual performance and are based on a multiple of the director's salary for the period. It is the Group's policy that no director or employee should hold options with a total exercise price of more than four times salary. Directors' options may only be exercised if earnings per share increase over a three year period by the Retail Price Index plus 6%. 155,654 share options under the share option scheme were granted to the directors during the year and a complete analysis is shown in note 32 on page 58.

Besides the provision of medical benefits, permanent health insurance and motor vehicles, there is a contributory pension plan for the executive directors providing up to two thirds of final salary (subject to Inland Revenue limits) at age 65 plus a widows' benefit of two thirds of the pension and Life Assurance of four times salary in the event of death during service. Company pension contributions for directors were set at 14.6% of salary.

The terms of the executive directors' contracts are:

John Wilson 12 month rolling contract

Frederick Brown One months' written notice from the Company, three months written notice from the Director

David Cook 12 months' written notice to be given by either party at any time

Tony Potter 12 month's written notice to be given by either party at any time

It is the Group's policy that, on early termination of a director's contract, the notice period within the service

contract is observed. Thereafter any further compensation is at the discretion of the Board having received advice from the remuneration committee.

The non-executive directors have letters of appointment only and their fees are determined by the full Board.

Employees

As a progressive employer, Millennium & Copthorne Hotels plc encourages the employment of disabled people and complies with the relevant sections of the Disability Discrimination Act in the United Kingdom and similar legislative requirements in all parts of the world that the Group operates in.

Millennium & Copthorne Hotels plc encourages employee consultation through staff consultative committees at each location and believes that the dissemination of the appropriate financial information, goals and objectives is pivotal to success and motivation. Employees in the United Kingdom share in the financial success of the Group through an employee Sharesave Scheme.

All employees, at every level, are encouraged to develop their skills and qualifications. A variety of internally resourced skills development programmes are available and the Group offers a tuition support programme for external courses. The principles of the national standard of best practice in employee development and involvement are being followed in the countries in which we operate.

Option schemes

The Company operates the Millennium & Copthorne Hotels Executive Share Option Scheme (the 'Executive Scheme'). It has two parts; Part A designed for Inland Revenue approval, and Part B, an unapproved executive share option scheme designed for UK and non-UK executives. Part A of the Executive Scheme was approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988 on 12 April 1996.

The Company also operates the Millennium & Copthorne Hotels Sharesave Scheme (the 'Sharesave Scheme') for all eligible UK employees which has been approved by the Inland Revenue. During the year the Company issued invitations to UK employees under the Sharesave Scheme to enter into a five year savings contract or a three year savings contract with an option to purchase shares at an option price of £4.33 on expiry of the savings contract. 49 applications were

received for the five year term (42,916 shares) and 109 applications were received for the three year term (59,607 shares). The total number of options issued at 1 March 2000 was 1,902,295.

As a consequence of the Rights Issue announced on 23 April 1999 and the further placing of additional shares on 15 December 1999, the remuneration committee approved adjustments to all options and entitlements held by current members of the Executive Share Option Scheme and Sharesave Scheme to take account of any diminution of value arising from the issue of these additional fully paid Ordinary shares. The adjustments were made in accordance with the standard computation recommended by the Inland Revenue. Inland Revenue approval was given to effect these adjustments on 17 June 1999 and 24 January 2000 respectively. The adjustments were calculated as follows:

17 June 1999 The number of shares held as an option was increased by 1.1045. The exercise price was reduced to 90.5377% of the original grant price.

24 January 2000 The number of shares held as an option was increased by 1.0136. The exercise price was reduced to 98.6531% of the existing grant price.

An analysis of options held by each director as at 1 March 2000 is set out in note 32 on page 58.

Communication

Good internal communication is a key element in our business. There is an employee in-house magazine which is published three or four times a year and a structured programme of staff training and workshop seminars. Communication with shareholders is equally important. In addition to the Annual Report and Accounts, an Interim Report is published. There is regular dialogue with shareholders and their advisers as well as analysts. In addition there are general presentations after the preliminary and interim results announcements. There is also an opportunity for individual shareholders to question the Chairman and other directors including the chairmen of both the remuneration committee and the audit committee at the Annual General Meeting.

Environment

The Group is conscious of the need to preserve natural resources. As a matter of policy the Group operates strict controls to reduce consumption of energy, for example by installing low energy light bulbs and water saving showerheads in all its hotels. The effective

disposal of waste is a priority, and the Company will continue to investigate ways to improve the efficiency of waste disposal and recycling whilst minimising any adverse effect on the environment. The Company only uses refrigeration equipment which complies with current legislation and does not use CFCs or other banned chemicals. Obsolete equipment is removed to nominated waste disposal companies for safe disposal.

Charitable and political contributions

The Group gave £26,000 (1998: £26,000) to charities during the period. It made no political contributions.

Creditor payment policy

Each hotel is responsible for paying its own suppliers, however, it is the Company's and the Group's policy to adhere to the payment terms agreed with the supplier. Payments are contingent on the supplier providing goods or services to the required standard. The effect of the Group's payment policy is that its trade creditors at the financial year end represent 22 days' purchases (1998: 17 days). The Company has no trade creditors.

Substantial shareholdings

As at the date of this report, the Company had been notified that CDL Hotels International Limited hold 147,785,025 shares representing 52.4%. This is the only holding of 3% or more of the issued share capital notified to the Company.

Annual General Meeting

The Annual General Meeting will be held at 10.00am on Tuesday 2 May 2000 at the Millennium Britannia Hotel. The notice to shareholders can be found on pages 62 and 63 of this report. The two special resolutions to be proposed at the meeting are to reconfirm the provisions of the Articles of Association which enable the Company to raise funds by the use of pre-defined amounts of share capital without the need for a further meeting of shareholders. The ordinary resolution is to enable the immediate parent to retain its share pre-emption rights. In accordance with the Code the votes cast by proxy will again be declared at the meeting after the votes have been cast.

The Directors Report, comprising the Chairman's Statement, Chief Executive's Review, Financial Review, Board of Directors and Corporate Governance, is submitted to shareholders.

By order of the Board

Simon J. Hodges

14 March 2000

Report of the Auditors to the members of Millennium & Copthorne Hotels plc

We have audited the financial statements on pages 28 to 58.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 24, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 22 to 26 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants and Registered Auditor
London

14 March 2000

	Notes	1999 £m	1999 £m	1998 £m	1998 £m
TURNOVER	2				
Continuing operations		236.8		221.9	
Acquisitions		106.3		—	
			343.1		221.9
Cost of sales			(128.4)		(76.9)
GROSS PROFIT			214.7		145.0
Administrative expenses			(116.2)		(70.1)
GROUP OPERATING PROFIT	2				
Continuing operations		74.3		74.9	
Acquisitions		24.2		—	
			98.5		74.9
Share of operating profits of associated undertakings			9.4		9.5
			107.9		84.4
Interest receivable and similar income	4		7.0		2.8
Interest payable and similar charges					
Group		(23.4)		(20.3)	
Associated undertakings		(5.4)		(6.5)	
	5		(28.8)		(26.8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6		86.1		60.4
Tax on profit on ordinary activities	7		(19.2)		(15.4)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			66.9		45.0
Minority interests – equity	23		(5.3)		(0.6)
Profit for the financial year	21		61.6		44.4
Dividends paid and proposed	8		(23.5)		(14.8)
RETAINED PROFIT FOR THE FINANCIAL YEAR			38.1		29.6
Basic earnings per share	9		29.8p		27.7p
Diluted earnings per share	9		29.7p		27.6p
Dividends per share	8		11.3p		10.2p

The Group's historical cost results are the same as its reported results.

Consolidated statement of total recognised gains and losses for the year ended 31 December 1999

	1999 £m	1998 £m
Profit for the financial year	61.6	44.4
Gain on foreign currency translation	3.5	0.6
Revaluation of fixed assets	54.8	58.6
Total gains and losses relating to the year	119.9	103.6

	Notes	Group		Company	
		1999 £m	1998 £m	1999 £m	1998 £m
FIXED ASSETS					
Tangible assets	11	2,172.4	899.6	–	–
Investments	12	51.2	55.0	1,075.9	498.2
		2,223.6	954.6	1,075.9	498.2
CURRENT ASSETS					
Stocks	13	33.3	0.7	–	–
Debtors	14	61.3	24.1	67.6	51.0
Cash at bank and in hand	15	138.9	11.8	0.2	–
		233.5	36.6	67.8	51.0
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(281.3)	(61.3)	(27.6)	(17.7)
NET CURRENT (LIABILITIES)/ASSETS		(47.8)	(24.7)	40.2	33.3
TOTAL ASSETS LESS CURRENT LIABILITIES		2,175.8	929.9	1,116.1	531.5
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
PROVISIONS FOR LIABILITIES AND CHARGES	19	(4.7)	(5.2)	–	–
NET ASSETS		1,491.1	640.4	965.6	380.2
CAPITAL AND RESERVES					
Called up share capital	21	84.6	43.5	84.6	43.5
Share premium account	21	844.0	295.3	844.0	295.3
Revaluation reserve	21	280.6	224.2	–	–
Profit and loss account	21	110.8	70.8	37.0	41.4
SHAREHOLDERS' FUNDS	21	1,320.0	633.8	965.6	380.2
MINORITY INTERESTS – equity	23	165.8	6.6	–	–
– non-equity	23	5.3	–	–	–
TOTAL CAPITAL EMPLOYED		1,491.1	640.4	965.6	380.2

These financial statements were approved by the Board of directors on 14 March 2000 and were signed on its behalf by:

Kwek Leng Beng
David Cook

Directors

	Note	Continuing operations 1999 £m	Acquisitions 1999 £m	Total 1999 £m	Total 1998 £m
CASH FLOW STATEMENT					
Net cash inflow from operating activities	26	87.2	32.8	120.0	80.9
Dividends received from associated undertakings		0.5	–	0.5	–
Returns on investments and servicing of finance		(17.2)	(2.6)	(19.8)	(18.8)
Taxation paid		(16.2)	(2.5)	(18.7)	(12.6)
Capital expenditure and financial investment		(6.3)	(5.3)	(11.6)	(52.6)
Acquisitions and disposals		(773.9)	(131.6)	(905.5)	0.6
Equity dividends paid		(15.5)	–	(15.5)	(13.3)
Cash outflow before use of liquid resources and financing		(741.4)	(109.2)	(850.6)	(15.8)
Management of liquid resources		5.3	(5.7)	(0.4)	4.2
Financing					
Net cash from the issue of shares and purchase of minority interests		586.6	–	586.6	(0.4)
Increase in debt and lease financing		213.9	123.1	337.0	10.7
		800.5	123.1	923.6	10.3
Increase/(decrease) in cash		64.4	8.2	72.6	(1.3)

	Note	1999 £m	1998 £m
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash in the period		72.6	(1.3)
Cash outflow/(inflow) from increase/(decrease) in liquid funds		0.4	(4.2)
Cash inflow from the increase in debt and lease financing		(337.0)	(10.7)
Change in net debt resulting from cash flows		(264.0)	(16.2)
Acquisitions		(96.4)	–
Deferred finance costs		4.6	0.1
Translation differences and other non cash movements		(3.9)	(1.0)
Movement in net debt in the period		(359.7)	(17.1)
Net debt at 1 January 1999		(274.0)	(256.9)
Net debt at 31 December 1999	27	(633.7)	(274.0)

1 Accounting policies

The Group's principal accounting policies, which have been applied consistently throughout the year, are set out below.

Basis of preparation The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain hotels. The Group has adopted the provisions of FRS13 – Financial Instruments.

Basis of consolidation The Group accounts consolidate the accounts of Millennium & Copthorne Hotels plc and its subsidiary undertakings together with the Group's share of the net assets and results of its associated undertakings. These accounts are all made up to 31 December 1999.

The results of subsidiary undertakings acquired during the year are included in the profit and loss account from the effective date of acquisition. The Group's share of the results and net assets of its associated undertakings are included in the consolidated profit and loss account and balance sheet under the equity method of accounting.

The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The profit for the financial year dealt with in the accounts of Millennium & Copthorne Hotels plc, determined in accordance with the Act, was £19.1m (1998: £33.9m).

Fixed assets and depreciation Land and buildings are stated at cost or subsequent valuation as set out in note 11. Other fixed assets are shown at cost less depreciation and any provision for impairment. The Group's practice is to maintain hotel properties in a continual state of sound repair and to extend and improve such properties from time to time. Accordingly, the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that any depreciation is insignificant. Accordingly, no depreciation is provided on freehold hotel properties or leased properties with an unexpired term of more than 50 years. Any impairment of such properties below historical cost is charged to the profit and loss account as appropriate.

All other assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and machinery	15 years
Furniture and equipment	10 years
Soft furnishings	5 years
Computer equipment	5 years
Motor vehicles	4 years

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 and added to the cost of the hotel.

Operating supplies are treated as a base stock and renewals and replacements of such stocks are written off to the profit and loss account as incurred.

In the Company's accounts, investments in subsidiary and associated undertakings are stated at cost less provisions for diminution in value. Dividends received and receivable are credited to the Company's profit and loss account.

Pre-opening costs Pre-opening costs of hotels or major extensions to hotels are included within debtors and amortised in equal annual instalments during the first 36 months from the date of opening or reopening.

Stocks Stocks are valued at the lower of cost and net realisable value.

1 Accounting policies (continued)

Development properties Development properties under construction are included as work in progress under stocks. Attributable profits are recognised as the development progresses.

Leases Assets financed by way of finance leases, which transfer substantially all the risks and rewards of ownership to the Group, are recorded at their fair value at the inception of the lease. 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 as incurred.

Turnover Turnover represents amounts derived from:

- the ownership, management and operation of hotels on an accruals basis;
- income from property rental, development properties and land sales.

Turnover is stated net of sales taxes.

Pension costs The amount charged to the profit and loss account in respect of defined benefit schemes is the estimated cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from these costs are charged or credited to the profit and loss account over the average remaining service lives of employees.

Contributions to money purchase schemes are charged to the profit and loss account as incurred.

Any difference between amounts charged to the profit and loss account and contributions paid to pension schemes is included in debtors or creditors in the balance sheet.

Taxation The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision for deferred taxation is calculated using the liability method on timing differences and is made only to the extent that it is probable that liabilities will crystallise within the foreseeable future.

Financial instruments Financial instruments, such as forward contracts, options or swaps, are not widely used by the Group. In cases where they are used, gains or losses are recognised on the maturity of the underlying exposure. The Group endeavours to finance fixed asset purchases by using facilities denominated in the same currency. Foreign exchange gains or losses on fixed assets and related borrowings are therefore taken to reserves.

Foreign exchange Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts of overseas subsidiary undertakings are translated at the average rate prevailing throughout the year. Translation differences between the average and closing rates are taken to reserves.

	London 1999 £m	Regional UK 1999 £m	Continental Europe 1999 £m	USA 1999 £m	Asia 1999 £m	Australasia 1999 £m	Group 1999 £m
2 Segmental information							
Turnover							
Continuing operations – hotel	84.6	53.5	17.3	81.4	–	–	236.8
Acquisitions							
Hotel	–	–	–	3.5	64.9	21.3	89.7
Non-hotel	–	–	–	0.1	1.0	15.5	16.6
Total							343.1
Hotel gross operating profit/(loss)							
Continuing operations	45.3	21.6	4.7	37.6	–	–	109.2
Acquisitions	–	–	–	(0.3)	24.1	7.0	30.8
Hotel fixed charges	45.3 (11.3)	21.6 (5.3)	4.7 (3.8)	37.3 (9.5)	24.1 (5.1)	7.0 (4.7)	140.0 (39.7)
Hotel operating profit/(loss)							
Continuing operations	34.0	16.3	0.9	28.8	–	–	80.0
Acquisitions	–	–	–	(1.0)	19.0	2.3	20.3
Non-hotel operating profit							
Continuing operations	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	0.7	5.0	5.7
Profit before central costs	34.0	16.3	0.9	27.8	19.7	7.3	106.0
Central costs							
Continuing operations							(5.7)
Acquisitions							(1.8)
Group operating profit							98.5
Share of operating profits of associated undertakings				9.4			9.4
Net interest payable							(21.8)
Profit on ordinary activities before taxation							86.1
Net assets							
Net hotel operating assets							
Continuing operations	480.1	178.3	47.4	278.8	–	–	984.6
Acquisitions	–	–	–	311.3	634.8	127.9	1,074.0
Net non-hotel operating assets							
Continuing operations	–	–	–	–	–	–	–
Acquisitions	–	–	–	9.9	33.0	30.4	73.3
Net assets of associated undertakings	–	–	–	32.7	0.8	–	33.5
Non operating net liabilities							(674.3)
Net assets							1,491.1

Non operating net liabilities comprise net debt, dividends payable and deferred consideration.

2 Segmental information (continued)	London	Regional	Continental	New York	Group
	1998	UK	Europe	1998	1998
	£m	£m	£m	£m	£m
Turnover					
Continuing operations	84.6	56.6	11.6	69.1	221.9
Hotel gross operating profit	46.9	24.5	3.4	31.0	105.8
Hotel fixed charges	(9.0)	(4.7)	(3.2)	(8.8)	(25.7)
Hotel operating profit					
Continuing operations	37.9	19.8	0.2	22.2	80.1
Central costs					(5.2)
Group operating profit					74.9
Share of operating profits of associated undertakings				9.5	9.5
Net interest payable					(24.0)
Profit on ordinary activities before taxation					60.4
Net assets					
Net hotel operating assets	461.4	159.4	41.0	233.0	894.8
Net assets of associated undertakings				19.5	19.5
Non operating net liabilities					(273.9)
Net assets					640.4

Hotel fixed charges include property rent, taxes and insurance, depreciation and amortisation, operating lease rentals and external management fees. There are no intersegment sales. Turnover by origin is not significantly different from turnover by destination. Turnover for 1999 derives from two classes of business; hotel operations and property transactions. For the comparative figures all profits are generated from hotel revenues. Net assets of associated undertakings are shown net of interest bearing loans of £81.6m (1998: £57.4m).

3 Analysis of continuing operations	Continuing operations			Continuing operations
	Existing	Acquisitions	Total	Total
	1999	1999	1999	1998
	£m	£m	£m	£m
Turnover	236.8	106.3	343.1	221.9
Cost of sales	(81.4)	(47.0)	(128.4)	(76.9)
Gross profit	155.4	59.3	214.7	145.0
Administrative expenses	(81.1)	(35.1)	(116.2)	(70.1)
Group operating profit	74.3	24.2	98.5	74.9
Share of profit of associated undertakings	9.4	–	9.4	9.5
	83.7	24.2	107.9	84.4
Interest receivable and similar income	5.2	1.8	7.0	2.8
Interest payable and similar charges	(23.2)	(5.6)	(28.8)	(26.8)
Profit on ordinary activities before tax	65.7	20.4	86.1	60.4

4 Interest receivable and similar income	1999 £m	1998 £m
Interest receivable from associated undertakings	2.0	2.0
Other interest receivable	4.2	0.7
Foreign exchange gains	0.8	0.1
	<u>7.0</u>	<u>2.8</u>

5 Interest payable and similar charges	1999 £m	1998 £m
On bank loans and overdrafts	20.5	18.9
On bonds	1.6	–
Finance charges payable in respect of finance leases	1.3	1.4
Group share of interest payable by associated undertakings	5.4	6.5
	<u>28.8</u>	<u>26.8</u>

6 Profit on ordinary activities before taxation	1999 £m	1998 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	18.9	11.1
Repairs and maintenance expenditure	9.6	7.5
Auditors' remuneration		
Audit services	0.5	0.3
Non audit services provided by the auditors and their associates	0.3	0.2
Rentals payable under operating leases		
Land and buildings	4.1	1.3
Plant and machinery	0.2	0.7
Other	–	0.1
Gain on disposal of associated undertaking	–	(0.4)
Exchange (gain)/loss	(0.8)	(0.1)
Gain on sale of fixed assets	(0.1)	(0.2)
	<u> </u>	<u> </u>

The audit fee for the parent company was £36,000 (1998: £35,000). Non audit fees of £2.1m (1998: nil) were capitalised by the Group relating to the acquisitions and related share issues during the year.

7 Taxation	1999 £m	1998 £m
The tax charge comprises:		
Corporation tax charge at 30.25% (1998: 31%)	9.2	11.7
Overseas taxation	10.1	3.1
Taxation attributable to profits of associated undertakings	0.9	0.6
	<u>20.2</u>	<u>15.4</u>
Adjustment in respect of prior years	(1.0)	–
	<u>19.2</u>	<u>15.4</u>

No provision has been made for deferred taxation. Details of potential deferred taxation are given in note 20.

The corporation tax charge for the year has been reduced as a result of the availability of tax allowances on hotel buildings which are not depreciated for accounts purposes and brought forward tax losses in subsidiary companies. As at 31 December 1999, £90m (1998: £30m) of losses were available within certain subsidiaries, in Continental Europe and the United States of America, to be offset against future years' tax liabilities.

8 Dividends – equity	1999 £m	1998 £m
Paid	5.5	4.8
Proposed	18.0	10.0
	<u>23.5</u>	<u>14.8</u>

The interim dividend of 3.8p per share was paid on 1 October 1999 (1998: 3.3p) and the final dividend of 7.5p per share (1998: 6.9p) will be paid on 12 May 2000. The interim dividend was not paid on shares issued in relation to the Rights Issue to fund the acquisition of CDL Hotels Asia Pacific. The final dividend will not be paid on shares issued in relation to the Placing and Open Offer to acquire Regal North America. The total dividend per share for the year is 11.3p (10.2p) for shares in issue and ranking for both interim and final dividends.

9 Earnings per share

The basic and diluted earnings per share are based on earnings of £61.6m (1998: £44.4m). The weighted average number of shares being the average number of shares in issue during the period used in the calculation of the basic and diluted earnings per share are as follows:

	1999 m	Restated 1998 m
Weighted average number of shares in issue during the period used in the calculation of basic earnings per share	206.9	160.5
Number of shares under option that would have been issued at nil value	0.5	0.5
Weighted average number of shares in issue during the period used in the calculation of diluted earnings per share	<u>207.4</u>	<u>161.0</u>

Prior to restatement, the weighted average number of shares was 144.9m and has been adjusted in respect of the Rights Issue in June 1999.

10 Related party transactions

CDL Hotels International Limited In the period from 9 June 1999 to 31 December 1999, prior to the required change to contracts of employment and other legal agreements, CDL Hotels International Limited, the Group's immediate parent undertaking, made payments in respect of salaries, rent and other expenses for the Singapore corporate office of Millennium & Copthorne Hotels plc. The total of these reimbursable expenses that have been charged to the profit and loss account was £1m (1998: £nil).

In 1998, £0.4m was charged in the profit and loss account relating to marketing, internal audit, technical and consultancy services provided by CDL Hotels International Limited. In 1998, £0.1m of these costs paid to CDL Hotels International Limited was capitalised. There was no such profit and loss charge or capitalisation in 1999.

CDL Hotels International Limited charged £3.1m in respect of the preliminary review, introduction and assistance in negotiating the acquisitions. Included in this amount is £0.4m of underwriting fees which were set off against share premium (1998: £nil). As at 31 December 1999, £2.0m (1998: £0.3m) was due to CDL Hotels International Limited.

The Group deposited certain surplus cash with Hong Leong Finance Limited, a subsidiary undertaking of the Group's ultimate parent company, on normal commercial terms. Interest income of £0.1m was received during the period. As at 31 December 1999 £3.2m (1998: £nil) of cash was deposited with Hong Leong Finance Limited.

Rogo Realty Corporation The Group had a current account balance of £0.5m due from Rogo Realty Corporation, an associated undertaking incorporated in the Philippines. This relates to amounts loaned to Rogo Realty Corporation to enable it to meet normal operating expenses.

10 Related party transactions (continued)

New Plaza Associates A total of £nil (1998: £2.2m) was paid to New Plaza Associates, an associated undertaking, to fund the refurbishment of the Plaza Hotel.

Interest of £2.0m (1998: £2.0m) was received on a US \$50m loan note held by New Plaza Associates in favour of CDL Hotels USA Inc. in the year to 31 December 1999. On 15 December 1999 US \$35m of the loan note was repaid. The remaining US \$15m loan note is included in investments in associated undertakings.

£0.1m (1998: £0.1m) was received as an asset management fee from New Plaza Associates. As at 31 December 1999 a total of £0.1m (1998: £0.2m) was due from New Plaza Associates.

Stuttgart International Hotel Betriebs GmbH ('SIHB') The management fee which the Group receives is included in its profit and loss account and this amounted to £nil in 1999 (1998: £nil). The investment in SIHB included in the consolidated balance sheet at 31 December 1999 was £4.5m (1998: £3.2m). The balance due from SIHB at 31 December 1999 was £nil (1998: £nil).

SI Komplex II Gastronomiebetriebs GmbH ('SIG') The Group guarantees £2.5m of finance lease obligations for SIG. No management fees were received in 1999 (1998: £nil) from SIG and there were no balances outstanding between the Group and SIG as at 31 December 1999 (1998: £nil). The investment in SIG included in the consolidated balance sheet at 31 December 1999 was £2.2m (1998: £2.2m).

The directors confirm that there were no related party transactions other than those disclosed in these financial statements.

11 Tangible fixed assets

	Land and buildings £m	Investment properties £m	Capital work in progress £m	Plant and machinery £m	Fixtures, fittings, equipment and vehicles £m	Total £m
Group						
Cost or valuation						
At the beginning of the year	816.0	–	7.4	33.3	71.7	928.4
Acquisitions	987.4	94.1	23.6	38.1	58.4	1,201.6
Foreign exchange adjustments	6.7	0.4	0.1	1.3	0.6	9.1
Additions	5.1	–	6.7	4.2	12.4	28.4
Transfers	4.9	–	(12.8)	2.1	5.8	–
Revaluations	54.8	–	–	–	–	54.8
Disposals	–	–	–	(0.3)	(1.8)	(2.1)
At the end of the year	<u>1,874.9</u>	<u>94.5</u>	<u>25.0</u>	<u>78.7</u>	<u>147.1</u>	<u>2,220.2</u>
Depreciation						
At the beginning of the year	–	–	–	8.4	20.4	28.8
Foreign exchange adjustments	–	–	–	0.5	0.8	1.3
Charge for the year	0.2	–	–	3.8	14.9	18.9
On disposals	–	–	–	(0.2)	(1.0)	(1.2)
At the end of the year	<u>0.2</u>	<u>–</u>	<u>–</u>	<u>12.5</u>	<u>35.1</u>	<u>47.8</u>
Net book value						
At 31 December 1999	<u>1,874.7</u>	<u>94.5</u>	<u>25.0</u>	<u>66.2</u>	<u>112.0</u>	<u>2,172.4</u>
At 31 December 1998	<u>816.0</u>	<u>–</u>	<u>7.4</u>	<u>24.9</u>	<u>51.3</u>	<u>899.6</u>

11 Tangible fixed assets (continued)

Land and buildings includes long leasehold assets with a net book value of £371.9m (1998: £154.1m). It also includes assets held under finance leases with a net book value of £29.8m (1998: £32.7m) which give the Group an option to purchase the properties for a nominal sum at the end of the lease. No depreciation has been charged on any of these properties. The net book value of land and buildings held under short leases was £8.1m (1998: £nil). Depreciation of £0.2m (1998: £nil) was charged during the year.

A total of £1.0m of interest has been capitalised within land and buildings during the year (1998: £1.0m). The cumulative capitalised interest within land and buildings is £2.7m (1998: £1.7m). In line with local tax regimes, tax relief is obtained in the United Kingdom and France on 100% of the interest capitalised in the year, in the United States of America over the period of amortisation of the related asset and in New Zealand no tax relief is available.

	Land and buildings 1999 £m	Land and buildings 1998 £m
Cost or valuation comprises:		
Valuation	878.2	670.7
Cost	996.7	145.3
	<u>1,874.9</u>	<u>816.0</u>

All investment properties are held at valuation.

During 1999 the Millennium Broadway, Millennium Britannia, Millennium Opéra Paris, Copthorne Birmingham, Copthorne Cardiff, Copthorne Paris Charles de Gaulle and Copthorne Plymouth were subject to an external professional valuation by Insignia Richard Ellis on an open-market existing use basis, in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors and the Recommended Practice for the Valuation of Hotels published by the British Association of Hospitality Accountants. These hotels were valued at £345.0m.

During 1998, the Millennium Knightsbridge, Copthorne Tara, Copthorne Aberdeen, Copthorne Effingham Park, Copthorne Merry Hill and Copthorne Newcastle were independently valued at a total of £250.5m.

In accordance with the Group's accounting policy of maintaining plant and machinery at depreciated historical cost, the attributable valuation of land and buildings is £878.2m. This compares with a historical cost of £597.6m. No depreciation has been provided on these assets. All other tangible fixed assets are included at cost less attributable depreciation. Included in additions to fixed assets is an amount of £27.9m (1998: £51.1m) in respect of additions to property, plant, machinery, fixtures, fittings and equipment used by hotels.

12 Investments

	1999 £m	1998 £m
Group		
Investment in associated undertakings		
Share of net assets at the beginning of the year	19.5	16.8
Acquisition	10.1	–
Dividends	(0.5)	–
Disposal	–	(0.2)
Share of profits of associated undertakings	4.0	3.0
Foreign exchange adjustment	0.4	(0.1)
	<u>33.5</u>	<u>19.5</u>
Loans to associated undertakings	10.5	30.1
	<u>44.0</u>	<u>49.6</u>
Trade investments		
Capital subscribed	2.2	2.2
Loans	4.5	3.2
Quoted investments	0.5	–
	<u>51.2</u>	<u>55.0</u>

Of the trade investments of the Group at 31 December 1999, £0.5m are quoted on the Hong Kong Stock Exchange. The market value of the quoted investments at 31 December 1999 is not materially different from their book value.

	1999 £m	1999 £m	1998 £m	1998 £m
Share of turnover of associates		44.6		42.0
Share of assets				
Share of fixed assets	115.3		75.8	
Share of current assets	9.0		5.6	
		<u>124.3</u>		<u>81.4</u>
Share of liabilities				
Liabilities due within one year	(13.0)		(4.5)	
Liabilities due after more than one year	(77.8)		(57.4)	
		<u>(90.8)</u>		<u>(61.9)</u>
Share of net assets		<u>33.5</u>		<u>19.5</u>

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
Company			
Investment in subsidiary undertaking			
Cost and net book value			
At the beginning of the year	295.7	202.5	498.2
Additions	390.2	187.5	577.7
At 31 December 1999	<u>685.9</u>	<u>390.0</u>	<u>1,075.9</u>

There were no provisions made against investments in subsidiary undertakings.

12 Investments (continued)	Percentage of ordinary share capital held	Country of incorporation/ operation	Principal activity
Details of principal investments at 31 December 1999 are as follows:			
United Kingdom			
Archyfield Limited*	100%	England and Wales	Hotel operator
CDL Hotels (Baileys) Limited	100%	England and Wales	Hotel operator
CDL Hotels (Chelsea) Limited	100%	England and Wales	Hotel operator
CDL Hotels (UK) Limited	100%	England and Wales	Hotel operator
Copthorne Aberdeen Limited*	83%	England and Wales	Hotel operator
Copthorne Hotel (Birmingham) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotel (Cardiff) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotel (Effingham Park) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotel (Gatwick) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotel (Merry Hill) Limited*	75%	England and Wales	Hotel operator
Copthorne Hotel (Newcastle) Limited*	91%	England and Wales	Hotel operator
Copthorne Hotel (Plymouth) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotel (Slough) Limited*	100%	England and Wales	Hotel operator
Copthorne Hotels Limited*	100%	England and Wales	Hotel management
London Britannia Hotel Limited*	100%	England and Wales	Hotel operator
London Tara Hotel Limited*	100%	England and Wales	Hotel operator
Wharfside Hotels PLC*	100%	England and Wales	Hotel operator
USA			
M&C Management Services (USA) Inc	100%	USA	Management services company
CDL Hotels USA Inc*	100%	USA	Hotel investment holding company
CDL (New York) LLC*	100%	USA	Hotel operator
CDL West 45th Street LLC*	100%	USA	Hotel operator
CDL Management LLC*	100%	USA	Hotel management
Regal Grand Avenue, Inc*	100%	USA	Hotel investment holding company
WHB Biltmore LLC*	100%	USA	Hotel owner and operator
Gateway Regal Holdings, LLC*	100%	USA	Hotel owner and operator
Regal Hotel Management, LLC*	100%	USA	Hotel investment holding company
Chicago Regal Holdings, LLC*	100%	USA	Hotel owner and operator
RHM-88, LLC*	99%	USA	Hotel owner and operator
Richfield Holdings, Inc*	100%	USA	Hotel investment holding company
Richfield Hospitality Services, Inc*	100%	USA	Hotel management services
RHM Management LLC*	100%	USA	Hotel operator
Cincinnati S.I.C. ^o *	100%	USA	Hotel owner and operator
RHM Aurora, LLC*	100%	USA	Hotel owner and operator
Park Plaza Hotel Corporation*	100%	USA	Hotel investment holding company
Trimark Hotel Corporation*	100%	USA	Hotel owner and operator
Buffalo RHM Operating LLC*	100%	USA	Hotel owner and operator
Durham Regal Operating LLC*	100%	USA	Hotel owner and operator
Fourwinds Operating LLC*	100%	USA	Hotel owner and operator
Lakeside RHM Operating LLC*	100%	USA	Hotel owner and operator
RHM Ranch LLC*	100%	USA	Hotel owner and operator
RHM Anchorage LLC*	100%	USA	Hotel owner and operator
RHM Operating LLC*	100%	USA	Hotel owner and operator
RHM Wynfield LLC*	100%	USA	Hotel owner and operator
Avon Wynfield LLC*	100%	USA	Hotel owner and operator
Bradenton Hotel Limited Partnership*	91%	USA	Hotel owner and operator
Minneapolis Hotel Limited Partnership*	96%	USA	Hotel owner and operator

12 Investments (continued)	Percentage of ordinary share capital held	Country of incorporation/ operation	Principal activity
France			
M & C Hotels France SA*	100%	France	Hotel owner
Hotel Commodore SA*	100%	France	Hotel operator
Copthorne Hotel (Roissy) SA*	100%	France	Hotel operator
Singapore			
Republic Hotels and Resorts Limited*	75%	Singapore	Hotel owner and operator
City Hotels Pte Ltd*	75%	Singapore	Hotel owner and operator
Copthorne Orchid Singapore Pte Limited*	75%	Singapore	Hotel owner and operator
King's Tanglin Shopping Pte Limited*	75%	Singapore	Property owner
Harbour View Hotel*	75%	Singapore	Hotel owner and operator
Indonesia			
PT Millennium Hotels & Resorts*	75%	Indonesia	Hotel operator
PT Tanahabang Indah Pratama*	60%	Indonesia	Hotel owner and operator
Taiwan			
Hong Leong Hotel Development Limited*	80%	Taiwan	Hotel owner and operator
Philippines			
The Philippine Fund Limited*	60%	Bermuda/ Philippines	Investment holding company
Grand Plaza Hotel Corporation*	57%	Philippines	Hotel owner and operator and investment holding company
Malaysia			
CDL Hotels (Malaysia) Sdn Bhd*	100%	Malaysia	Hotel owner and operator
Copthorne Orchid Penang Sdn Bhd*	75%	Malaysia	Hotel owner and operator
New Zealand			
CDL Hotels New Zealand Limited*	70%	New Zealand	Investment holding and property management company
Kingsgate International Corporation Limited*	36%	New Zealand/ Australia	Investment holding company
Quantum Limited*	49%	New Zealand	Investment holding company
CDL Investments New Zealand Limited*	41%	New Zealand	Investment and property holding/management company
QINZ Holdings (New Zealand) Limited*	49%	New Zealand	Investment holding company
Germany			
Tara Hotels Deutschland GmbH*	100%	Germany	Hotel investment holding company
Tara Hotel Hannover GmbH*	100%	Germany	Hotel operator
Investments			
Stuttgart International Hotel Betriebs GmbH*	75%	Germany	Hotel developer and operator
SI Komplex II Gastronomiebetriebs GmbH*	75%	Germany	Restaurant operator
New Plaza Associates LLC*	50%	USA	Hotel investment holding company
The Eldorado Partnership Limited*	40%	USA	Hotel owner and operator
Guardian Santa Fe Partnership*	10%	USA	Hotel owner and operator
Sunnyvale Partners Limited*	40%	USA	Hotel owner and operator

New Plaza Associates owns 84% of Plaza Operating Partners Limited (a limited partnership), which operates the Plaza Hotel, New York.

* Investment held by subsidiary undertaking.

Stuttgart International Hotel Betriebs GmbH ('SIHB') is treated as an investment, notwithstanding that the Group owns 75% of the ordinary share capital, because Millennium & Copthorne Hotels plc is unable to exercise dominant influence over that company. The Group receives a variable management fee from the hotel based on specific aspects of its performance and interest on various loans to SIHB. The Group's right to participate in the profits generated by the hotel is limited. The unaudited net liabilities of SIHB at 31 December 1999 were £6.9m (1998: £5.6m). Its unaudited loss for the year was £1.3m (1998: £1.4m).

12 Investments (continued)

SI Komplex II Gastronomiebetriebs GmbH ('SIG') is a 100% subsidiary of SIHB. The Group only receives a management fee based on the performance of the complex and is unable to exercise dominant influence over SIG, which is therefore treated as an investment. The unaudited net liabilities of SIG at 31 December 1999 were £3.7m (1998: £2.8m). Its loss for the year was £0.9m (1998: £1.6m).

All of the Group's subsidiary undertakings have drawn up accounts to 31 December 1999.

CDL Hotels Asia Pacific On 8 June 1999, the Group acquired the shares of the hotel and property interests of its immediate parent company, CDL Hotels International Limited in Singapore, Taiwan, the Philippines and Australasia. The acquisition of CDL Hotels International Limited's hotel interests in Malaysia was completed on 1 December 1999 following a delay due to the need for regulatory approvals. The acquisition of CDL Hotels International Limited's hotel interests in Hong Kong was completed on 31 January 2000. A cash consideration of £22.1m was paid. Due to the timing of the completion of Malaysia and Hong Kong, the Group has not yet completed its assessment of the fair values of the assets and liabilities acquired.

This acquisition has been accounted for using the acquisition method of accounting. The consideration payable, including costs of £5.1m, was £437.6m in cash. No goodwill arose on the transaction.

The following tables reflect the preliminary adjustments made to the acquisition balance sheet of CDL Hotels Asia Pacific.

	Book values at acquisition £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value to the Group £m
Tangible fixed assets	430.8	–	257.8	688.6
Intangible fixed assets	4.3	(3.8)	(0.5)	–
Investments	13.7	(8.0)	(2.7)	3.0
Stocks	2.0	22.4	–	24.4
Debtors	43.6	(22.4)	0.2	21.4
Cash at bank and in hand	53.8	8.0	–	61.8
Creditors less than one year	(49.1)	2.4	(2.0)	(48.7)
Bank loans	(149.5)	1.3	–	(148.2)
Other creditors over one year	(12.7)	12.7	(0.5)	(0.5)
Net assets	336.9	12.6	252.3	601.8
Minority interests	(104.9)	(2.8)	(56.5)	(164.2)
Share of net assets acquired	232.0	9.8	195.8	437.6

The adjustments to the Group's net assets are as follows:

	£m
Book values at acquisition	336.9
Adjustment to bonds to reinstate deferred finance costs	1.3
Revaluation of properties	257.8
Write-off of goodwill and pre-opening costs	(4.3)
Write-off of discontinued investment	(2.7)
Timing differences on recognition of operating expenses	0.1
Reversal of deferred tax liability	12.7
	601.8

Although the Group's accounting policy is not to depreciate hotels on the grounds of immateriality and also to revalue hotels on a regular basis, the revaluation of properties to fair value has all been recorded as a fair value adjustment. A similar approach has been used for each of the acquisitions.

12 Investments (continued)

1 January 1999
to date of
acquisition
£m

Year to
31 December
1998
£m

The summarised profit and loss account of CDL Hotels Asia Pacific using its previous accounting policies is as follows:

Turnover	70.0	180.7
Operating profit	10.8	26.7
Interest receivable and similar income	1.0	3.6
Interest payable and similar charges	(3.3)	(10.7)
Profit before taxation	8.5	19.6
Taxation on profit	(3.6)	(7.6)
Profit after taxation	4.9	12.0
Minority interests	(0.8)	(5.3)
Retained profit	4.1	6.7

The consolidated statement of recognised gains and losses of CDL Hotels Asia Pacific using its previous accounting policies is as follows:

	1999	1998
	£m	£m
Retained profit	4.9	12.0
Gain on foreign currency translation	9.7	0.5
	14.6	12.5

Regal North America On 17 December 1999, the Group acquired the shares of the Regal North America group. This acquisition has been accounted for using the acquisition method of accounting. The consideration payable, including costs of £6.8m, was £402.3m of which £381.7m has been paid in cash and £20.6m has been deferred for up to two years. Due to the timing of the acquisition the Group has not completed its assessment of the fair values of the assets and liabilities acquired.

The following tables reflect the preliminary adjustments made to the acquisition balance sheet of Regal North America.

	Book values at acquisition £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value to the Group £m
Tangible fixed assets	250.0	–	118.4	368.4
Intangible fixed assets	1.8	(1.8)	–	–
Associated undertakings	0.3	8.8	–	9.1
Stock	1.2	–	–	1.2
Debtors	17.3	(1.5)	(0.2)	15.6
Cash at bank and in hand	36.0	–	–	36.0
Finance leases	(0.6)	–	–	(0.6)
Creditors less than one year	(28.7)	2.0	(0.6)	(27.3)
Net assets	277.3	7.5	117.6	402.4
Minority interests	(0.1)	–	–	(0.1)
Share of net assets acquired	277.2	7.5	117.6	402.3

12 Investments (continued)

The adjustments made to the net assets are as follows:

	£m
Book values at acquisition	277.3
Revaluation of properties	118.4
Revaluation of associated undertakings	8.8
Write-off of trademarks and goodwill	(1.8)
Write-off of deferred tax asset	(1.1)
Timing differences on recognition of operating expenses	0.8
	<u>402.4</u>

	1 January 1999 to 17 December 1999 £m	Year to 31 December 1998 £m
The summarised profit and loss account of Regal North America using its previous accounting policies is as follows:		
Turnover	<u>166.2</u>	<u>173.7</u>
Operating profit	25.6	20.2
Share of operating profits of associated undertakings	0.5	0.3
	<u>26.1</u>	20.5
Interest receivable and similar income	12.6	0.9
Interest payable and similar charges	(29.6)	(21.6)
Profit/(loss) before taxation	9.1	(0.2)
Taxation on profit/(loss)	0.3	0.6
Profit after taxation	9.4	0.4
Minority interests	(0.2)	(0.1)
Retained profit for the period	<u>9.2</u>	<u>0.3</u>

There were no recognised gains or losses in the acquired group other than the profit or loss for the above periods.

Seoul Hilton On 1 December 1999, the Group acquired the trade and assets of the Seoul Hilton. This acquisition has been accounted for using the acquisition method of accounting. The consideration payable, including costs of £0.3m was £133.9m, which has been paid in cash.

12 Investments (continued)

The following tables reflect the preliminary adjustments made to the acquisition balance sheet of the Seoul Hilton.

	Book values at acquisition £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value to the Group £m
Tangible fixed assets	98.1	–	46.5	144.6
Stocks	0.6	–	–	0.6
Debtors	3.2	–	–	3.2
Cash at bank and in hand	2.3	–	–	2.3
Creditors less than one year	(5.5)	–	–	(5.5)
Other creditors over one year	(11.3)	–	–	(11.3)
Net assets	<u>87.4</u>	<u>–</u>	<u>46.5</u>	<u>133.9</u>

The adjustments made to the net assets are as follows:

	£m
Book values at acquisition	87.4
Revaluation of the property	<u>46.5</u>
	<u>133.9</u>

1 January 1999 to 30 November 1999 £m	Year to 31 December 1998 £m
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The summarised profit and loss account of the Seoul Hilton using its previous accounting policies is as follows:

Turnover	<u>36.3</u>	<u>30.5</u>
Operating profit	<u>9.8</u>	<u>8.2</u>

There were no recognised gains or losses in the acquired hotel other than the profit or loss for the above periods.

13 Stocks

	Group 1999 £m	1998 £m
Consumables and supplies	5.0	0.7
Development land for resale	10.9	–
Development properties work in progress	<u>17.4</u>	<u>–</u>
	<u>33.3</u>	<u>0.7</u>

The replacement cost of consumable stocks is not significantly different from their balance sheet values.

14 Debtors	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Trade debtors	44.9	12.8	–	–
Amount owed by associated undertaking	0.6	0.2	–	–
Corporate tax recoverable	0.1	–	–	–
Value added tax recoverable	0.9	3.7	–	–
Amounts owed by subsidiary undertakings	–	–	67.6	51.0
Other debtors	7.0	2.8	–	–
Prepayments and accrued income	7.8	4.6	–	–
	61.3	24.1	67.6	51.0

All debtors are due to be recovered in less than one year.

15 Cash at bank and in hand	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Short term deposits	63.3	9.1	–	–
Cash	75.6	2.7	0.2	–
	138.9	11.8	0.2	–

16 Creditors: amounts falling due within one year	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Obligations under finance leases	1.3	1.2	–	–
Bonds payable	36.5	–	–	–
Bank loans and overdrafts	90.2	8.3	7.5	5.4
Trade creditors	22.3	6.3	–	–
Amounts owed to CDL Hotels International Limited (non interest bearing)	2.0	0.3	–	–
Amounts owed to subsidiary undertakings	–	–	–	0.7
Dividends payable	18.0	10.0	18.0	10.0
Dividends payable to minorities	2.0	–	–	–
Other creditors including taxation and social security				
Corporation tax	22.5	11.3	0.5	–
ACT payable	–	1.2	–	1.2
Social security and PAYE	1.5	1.1	–	–
Value added tax	6.9	3.4	–	–
Other creditors	16.3	9.5	–	–
Accruals and deferred income	49.5	8.7	1.6	0.4
Deferred consideration on the acquisition of Regal North America	5.1	–	–	–
Rental and other deposits	7.2	–	–	–
	281.3	61.3	27.6	17.7

17 Creditors: amounts falling due after more than one year	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank loans	623.7	253.4	148.8	151.3
Obligations under finance leases	20.9	22.9	—	—
Deferred property taxes	7.7	8.0	—	—
Deferred consideration on the acquisition of Regal North America	15.5	—	—	—
Other liabilities	12.2	—	—	—
Amounts due to subsidiary undertakings	—	—	1.7	—
	680.0	284.3	150.5	151.3

18 Group financial instruments

An explanation of the Board's objectives, policies and strategies for holding and issuing financial instruments is set out in the financial review on page 18 under the heading 'Treasury and risk management'.

Short term debtors and creditors, as defined in FRS13, have been omitted from all of the financial instruments disclosures.

a) Liquidity

The maturity of all financial liabilities is shown in the following tables.

	Debt other than finance leases £m	Finance lease obligations £m	Other financial liabilities £m	1999 Total £m
Financial liabilities maturing:				
in one year or less or on demand	126.7	1.3	—	128.0
in more than one year but not more than two years	314.6	1.3	21.2	337.1
in more than two years but not more than five years	260.1	14.2	15.7	290.0
in more than five years	49.0	5.4	3.2	57.6
	750.4	22.2	40.1	812.7

b) Undrawn committed borrowing facilities

Undrawn borrowing facilities are available to the Group with the maturities as set out in the following table.

The conditions precedent to the availability of these facilities are all satisfied at the balance sheet date.

	1999 £m
Expiring in one year or less	23.4
Expiring after more than one year but not more than two years	9.6
Expiring after more than two years	31.1
	64.1

18 Financial instruments (continued)

c) Interest rate risk profile of financial liabilities

The following analysis sets out the interest rate risk of the Group's financial liabilities after taking into account derivative instruments held as hedges to manage the currency of such financial liabilities.

	Floating rate £m	Fixed rate £m	Non-interest bearing £m	Total £m	Average interest rate of fixed rate borrowings %	Average years to maturity of fixed rate borrowings Years	Average years to maturity of non-interest bearing liabilities Years
Sterling	155.3	10.2	4.7	170.2	8	4	8
Singapore \$	–	107.7	–	107.7	3	1	–
US \$	327.8	16.1	8.5	352.4	7	2	4
New Zealand \$	14.1	18.3	–	32.4	7	2	–
Australian \$	26.9	–	–	26.9	–	–	–
Malaysian Ringgit	13.5	–	–	13.5	–	–	–
Korean Won	57.2	–	11.4	68.6	–	–	5
New Taiwan \$	29.7	–	–	29.7	–	–	–
French Franc	–	11.3	–	11.3	4	4	–
	<u>624.5</u>	<u>163.6</u>	<u>24.6</u>	<u>812.7</u>	<u>4</u>	<u>1</u>	<u>5</u>

The floating rate financial liabilities comprise bank loans and overdrafts bearing interest at rates based on individual bank base rates or LIBOR depending upon which facility is used.

Loans with floating rates are at the following interest rates:

Sterling: LIBOR plus a margin of up to 1%.

US \$: LIBOR plus a margin of between 1% and 2%.

Other principal currencies: bank rate plus a margin of up to 2%.

18 Financial instruments (continued)

d) Interest rate risk profile of financial assets

The following analysis sets out the interest rate risk of the Group's financial assets derivative instruments held as hedges to manage the currency of such financial assets.

	Floating rate £m	Fixed rate £m	Total £m	Average interest rate of fixed rate assets %	Average years to maturity of fixed rate assets Years
Sterling	3.9	–	3.9	–	–
US \$	59.9	47.4	107.3	6	0.1
Korean Won	5.9	0.1	6.0	7	0.1
Singapore \$	2.2	9.8	12.0	2	0.1
New Taiwan \$	–	4.5	4.5	5	0.1
Others	4.2	1.5	5.7	6	0.1
	<u>76.1</u>	<u>63.3</u>	<u>139.4</u>	<u>5</u>	<u>0.1</u>

The floating rate financial assets comprise investments and bank deposits earning interest at rates based on individual bank base rates or LIBOR depending upon which type of deposit facility is used.

e) Fair values

The following table sets out the book values and estimated fair values of the Group's financial instruments.

	1999 Book value £m	Fair value £m
Short term deposits	63.3	63.3
Cash at bank and in hand	75.6	75.6
	<u>138.9</u>	<u>138.9</u>
Investments	0.5	0.5
Debt and finance lease obligations	(772.6)	(654.3)
Other creditors due after more than one year	(40.1)	(38.6)
	<u>(812.7)</u>	<u>(692.9)</u>
	<u>(673.3)</u>	<u>(553.5)</u>

The following criteria have been used to assess the fair values of the Group's financial instruments:

- debtors, creditors, debt, finance lease obligations and provisions due after more than one year are based upon discounted cash flows at prevailing interest rates; and
- cash at bank and in hand and short term investments approximate to their book values due to their short maturity period.

f) Currency risk

The Group has unhedged cash balances denominated in non-functional currencies totalling £1.1m, of which £1.0m is denominated in US \$.

The Group maintains cash balances in Taipei and the Philippines in US dollars totalling £39.0m as at 31 December 1999. These are matched by borrowings in the same currency.

19 Provisions for liabilities and charges	Group	
	1999 £m	1998 £m
Provision for onerous lease		
At the beginning of the year	5.2	5.8
Utilised	(0.5)	(0.6)
At the end of the year	4.7	5.2

The provision has been calculated based on the effect of the onerous lease until 2014.

20 Deferred taxation

Neither the Company nor the Group has any potential deferred tax liability in relation to timing differences. If the Group were to dispose of all of its properties at their book values a tax liability estimated at £168.8m (1998: £113.0m) would arise. None of this has been provided since the Group currently has no plans to dispose of any of its properties at greater than book value.

21 Reconciliation of movements in shareholders' funds	Share capital	Share premium	Revaluation reserve	Profit and loss account	Total	Total
	1999 £m	1999 £m	1999 £m	1999 £m	1999 £m	1998 £m
Group						
Balance at the beginning of the year	43.5	295.3	224.2	70.8	633.8	544.9
Profit for the financial year	–	–	–	61.6	61.6	44.4
Dividends paid and proposed	–	–	–	(23.5)	(23.5)	(14.8)
Foreign exchange gain	–	–	1.6	1.9	3.5	0.6
Revaluation of fixed assets	–	–	54.8	–	54.8	61.4
Minority interest share of revaluation	–	–	–	–	–	(2.8)
Issue of shares on exercise of options	0.1	0.8	–	–	0.9	0.1
Shares issued in connection with the purchase of CDL Hotels Asia Pacific	28.3	405.4	–	–	433.7	–
Shares issued in connection with the purchase of Regal North America	12.7	142.5	–	–	155.2	–
Balance at the end of the year	84.6	844.0	280.6	110.8	1,320.0	633.8

The Group's share of the accumulated reserves of the associated undertakings as at 31 December 1999 was £11.0m (1998: £7.0m).

The cumulative amount of goodwill written off prior to the adoption of FRS10 was £2.3m as at 31 December 1999 (1998: £2.3m).

	Share capital	Share premium	Profit and loss account	Total	Total
	1999 £m	1999 £m	1999 £m	1999 £m	1998 £m
Company					
Balance at the beginning of the year	43.5	295.3	41.4	380.2	361.0
Profit for the financial year	–	–	19.1	19.1	33.9
Dividends paid and proposed	–	–	(23.5)	(23.5)	(14.8)
Issue of shares on exercise of options	0.1	0.8	–	0.9	0.1
Shares issued in connection with the purchase of CDL Hotels Asia Pacific	28.3	405.4	–	433.7	–
Shares issued in connection with the purchase of Regal North America	12.7	142.5	–	155.2	–
Balance at the end of the year	84.6	844.0	37.0	965.6	380.2

22 Share capital	Number of 30p shares authorised	Number of 30p shares allotted, called up and fully paid
Balance at the beginning of the year	1,000,000,000	144,919,488
Issue of ordinary shares on exercise of share options	–	318,134
Issue of ordinary shares in connection with the Rights issue to acquire CDL Hotels Asia Pacific	–	94,336,917
Issue of ordinary shares in connection with the Placing and Open offer to acquire Regal North America	–	42,277,859
Balance at the end of the year	<u>1,000,000,000</u>	<u>281,852,398</u>

At the year end options over 1,947,821 ordinary shares had been issued. The authorised share capital has stood at £300,000,000 throughout the period. All of the share capital is equity share capital.

23 Minority interests	1999 £m	1998 £m
At the beginning of the year	6.6	4.0
Share of revaluation surplus	–	2.8
Dividends paid	(0.1)	(0.3)
Share of retained profit for the year	5.3	0.6
Purchase of minority interests in the UK	(3.2)	(0.5)
Acquired minority interest in CDL Hotels Asia Pacific	164.2	–
Acquired minority interest in Regal North America	0.1	–
Foreign exchange gain	0.2	–
Dividends payable to minorities	(2.0)	–
At the end of the year	<u>171.1</u>	<u>6.6</u>

24 Financial commitments	1999 £m	1998 £m
i) Capital commitments at the end of the financial year for which no provision has been made:		
Group		
Contracted	<u>26.3</u>	<u>7.4</u>

At 31 December 1999 the Company had no capital commitments (1998: £nil).

	1999		1998	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
ii) Annual commitments under non cancellable operating leases are as follows:				
Group				
Operating leases which expire				
Within one year	–	0.7	–	0.2
In the second to fifth years inclusive	0.7	1.3	–	0.8
Over five years	<u>6.4</u>	<u>0.1</u>	2.1	0.1

At 31 December 1999 the Company had no operating lease commitments (1998: £nil).

25 Contingent liabilities

a) A claim has been made against Regal arising from its consultancy advice to a hotel operator in connection with the construction of a hotel in the USA. The claim is in the sum of US \$16m for loss of profits and a further US \$9m in damages. The matter has been fixed for trial in November 2000.

The directors have taken external legal advice which indicates that no assessment can be made as to the probable outcome of the case. The directors intend to continue their vigorous defence of this litigation and, based on counsel's advice, believe that the claims are defensible and the damages claim is excessive. This matter is covered by warranties within the sale and purchase agreement. On this basis no provision has been made.

b) The Group and Company have contingent liabilities with regard to normal trading operations and corporate transactions. In the opinion of the directors, adequate provision has been made for all known liabilities. The Group has two main classes of contingent liabilities, being issues relating to construction projects and to employment issues. Any financial impact, taking account of appropriate insurance policies, is considered immaterial.

26 Reconciliation of operating profit to net cash inflow from operating activities

	1999 £m	1998 £m
Operating profit	98.5	74.9
Depreciation and amortisation charges	18.9	11.1
Gain on disposal of fixed assets	(0.1)	(0.2)
Gain on sale of investments	–	(0.4)
Increase in stocks	(0.5)	–
Decrease/(increase) in debtors	4.1	(4.7)
(Decrease)/increase in creditors	(0.4)	0.8
Decrease in provisions	(0.5)	(0.6)
Net cash inflow from continuing operating activities	<u>120.0</u>	<u>80.9</u>

	At 1 January 1999 £m	Cash flow £m	Acquisitions excluding cash and overdrafts £m	Deferred finance costs £m	Translation differences and other non cash movements £m	As at 31 December 1999 £m
Cash	2.7	73.4	–	–	(0.5)	75.6
Overdrafts	–	(0.8)	–	–	–	(0.8)
		72.6				
Short term deposits	9.1	0.4	52.4	–	1.4	63.3
Debt due after one year	(253.4)	(277.0)	(109.2)	–	15.9	(623.7)
Debt due within one year	(8.3)	(61.2)	(4.0)	4.6	(20.5)	(89.4)
Finance leases	(24.1)	1.2	(0.6)	–	1.3	(22.2)
Bonds due after one year	–	–	(35.0)	–	35.0	–
Bonds due within one year	–	–	–	–	(36.5)	(36.5)
		(337.0)				
Total	<u>(274.0)</u>	<u>(264.0)</u>	<u>(96.4)</u>	<u>4.6</u>	<u>(3.9)</u>	<u>(633.7)</u>

28 Analysis of cash flows for headings netted in the cash flow statement	1999 £m	1999 £m	1998 £m	1998 £m
Returns on investment and servicing of finance				
Interest received	7.4		2.8	
Interest paid	(21.2)		(19.8)	
Loan arrangement fees paid	(4.6)		(0.1)	
Interest element of finance lease rental payments	(1.3)		(1.4)	
Dividend paid to minorities	(0.1)		(0.3)	
Net cash outflow for returns on investments and servicing of finance		(19.8)		(18.8)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(27.2)		(47.9)	
Purchase of development properties	(5.9)		–	
Sale of fixed assets	1.0		0.7	
Decrease/(increase) in investments and associated undertakings	20.5		(5.4)	
Net cash outflow for capital expenditure and financial investment		(11.6)		(52.6)
Acquisitions and disposals				
Acquisition of subsidiary undertakings	(953.2)		–	
Cash acquired with subsidiary undertakings	47.7		–	
Disposal of associated undertakings	–		0.6	
Net cash (outflow)/inflow for acquisitions and disposals		(905.5)		0.6
Management of liquid resources				
Cash (placed on)/withdrawn from short term deposit	(0.4)		4.2	
Net cash (outflow)/inflow from management of liquid resources		(0.4)		4.2
Financing				
Issue of shares	595.1		–	
Issue of shares from the exercise of options	0.9		0.1	
Costs of share issue	(6.2)		–	
Purchase of shares in minorities	(3.2)		(0.5)	
		586.6		(0.4)
Drawdown of third party loans	366.7		18.0	
Repayment of third party loans	(28.5)		(6.0)	
Capital element of finance lease rental repayment	(1.2)		(1.3)	
		337.0		10.7
Net cash inflow from financing		923.6		10.3

29 Ultimate holding and controlling company

The directors consider the ultimate holding and controlling company to be Hong Leong Investment Holdings Pte Limited which is incorporated in the Republic of Singapore. The accounts of the ultimate holding company, which heads the largest Group in which the results of the Company are consolidated, are available to the public at The Registrar of Companies and Businesses, 10 Anson Road #05-10/15, International Plaza, Singapore 0207.

The immediate holding company is CDL Hotels International Limited, a company incorporated in The Cayman Islands, which also heads the smallest Group in which the results of the Company are consolidated. The consolidated accounts are available to the public and may be obtained from 2803, 28th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

30 Post balance sheet events

On 31 January 2000 the Group purchased the Hong Kong hotel interests of CDL Hotels International Limited; for a cash consideration of £22.1m following a delay due to the need to obtain certain legal and banking consents. This completed the acquisition which was announced on 22 April 1999; the remainder of which is set out in note 12.

31 Pension schemes, employees and remuneration

United Kingdom The Group operates a pension scheme (the Millennium & Copthorne Pension Plan) for its UK employees which was set up in 1993. Staff employed by the Group contribute to either the funded defined benefit section or the defined contribution section. The assets of the Plan are held separately from those of the Group, being invested with Deutsche Asset Management Limited and Nationwide.

For the defined contribution schemes, contributions are charged to the profit and loss account as incurred.

For the defined benefit scheme, costs are charged so as to spread the cost of providing the guaranteed benefits over the average remaining service lives of the employees concerned. The contributions required are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was carried out as at 6 April 1999. At the valuation date the market value of the Plan's assets was £13.4m, giving a funding level of 105%. The contributions of the Group were 14.6%, (1998: 14.6%) of earnings and those of employees were 5% (1998: 5%) of pensionable earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% per annum, that salary increases would average 7.5% per annum and that pensions would increase at rates varying between 0% and 5% per annum for pensionable service to 6 April 1997 and at the annual rate of Limited Price Indexation thereafter (currently assumed to be 4.5%) or 5% per annum depending on the membership category for service after 6 April 1997, in compliance with statutory requirements. The expected average working lifetime of the members of the final salary section was calculated to be 14 years.

The next valuation of the Scheme is due as at 6 April 2002.

United States The Group operates defined contribution salary reduction savings plans under Section 401(K) of the United States Internal Revenue Code, which provides for the Group to match a portion of each participating employee's contribution, subject to certain limits.

By agreement with certain trade unions the Group makes pension contributions to union pension schemes in relation to some hotel employees who are union members. The level of employer contributions is determined periodically by agreement between the unions concerned and the hotel operators who are party to union agreements which include pension provisions. These hotel operators include certain group undertakings. The hotel operators in these circumstances have certain obligations under United States employment legislation to ensure that such pension schemes are adequately funded.

31 Pension schemes, employees and remuneration (continued)

Taiwan The Group operates a defined benefit pension plan for its employees. The contributions required are determined by an external qualified actuary using the projected unit cost method. The most recent valuation was carried out on 5 November 1998. The contributions of the Company were set at 5% of the employees' earnings. The assumptions which have the most significant effect on the results of the valuations are those relating to the discount rate and rate of increase in salaries. It was assumed that the discount rate would be 6.5% per annum and that salary increases would average 4% per annum. The expected average working lifetime of the members of the plan was 14 years.

The pension cost of the whole Group charged to the profit and loss account is £2.2m (1998: £2.4m).

Contributions of £1.1m (1998: £0.6m) were due to the schemes as at 31 December 1999 and are included in creditors.

	1999 Number	1998 Number
The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:		
Hotel operating staff	6,134	2,869
Management/administration	958	402
Sales and marketing	276	130
Repairs and maintenance	335	145
	7,703	3,546
	1999 £m	1998 £m
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	90.7	59.0
Social security costs	8.9	5.7
Other pension costs	2.2	2.4
	101.8	67.1

32 Directors' emoluments

Directors	Note	Salaries & Fees	PRP ¹	Bonus	Benefits	Total	Total
		1999 £000	1999 £000	1999 £000	1999 £000	1999 £000	1998 £000
Executives							
J. Wilson	1,2	325	–	70	15	410	312
F. J. A. Brown	1	120	–	20	–	140	138
D. A. H. Cook	2	148	6	15	13	182	161
A. G. Potter	1,2,4	71	–	10	5	86	–
P. J. Taylor (resigned as a director on 14 March 2000)	2	138	5	–	14	157	161
V. W. E. Yeo (resigned as a director on 14 March 2000)	1,3	102	–	10	70	182	149
A. W. Bridle (resigned as a director on 17 December 1999)	1,2,5	170	–	–	1	171	11
G. C. Wilkins (resigned as a director with effect from 15 December 1998)		–	–	–	–	–	127
J. O'Shea (resigned as a director on 12 January 1998)	6	–	–	–	–	–	106
Non-Executives							
L. B. Kwek (Chairman)		50	–	–	–	50	50
J. R. Sclater (Deputy Chairman)		35	–	–	–	35	35
C. G. Sneath (appointed as a Director on 8 March 1999)		24	–	–	–	24	–
L. J. Kwek		30	–	–	–	30	30
L. P. Kwek		30	–	–	–	30	30
Sir I. Pearce		30	–	–	–	30	30
H. R. Wong	7	30	–	–	–	30	30
D. R. L. Hankinson (resigned as a director on 8 March 1999)	8	5	–	–	–	5	30
Total		1,308	11	125	118	1,562	1,400

NOTES

- Profit Related Pay incentive scheme for eligible employees. J. Wilson, F. J. A. Brown, A. G. Potter, V. W. E. Yeo and A. W. Bridle waived their rights to this payment which would have been 3% of basic salary excluding fees.
- Company Pension contributions for directors were set at 14.6% of total basic salary for D. A. H. Cook and P. J. Taylor. Contributions for J. Wilson, A. G. Potter and A. W. Bridle are subject to the Pension Earnings cap (£90,600 p.a. for 1999/00).
- Benefits include an ex-patriate housing allowance of £60,558 (1998: £53,000).
- A. G. Potter commenced employment on 6 September 1999 and was appointed a director on 22 October 1999.
- Subsequent to the year end, A. W. Bridle did not take up his expected appointment as an executive director of Regal and left the Group on 31 January 2000. On that date he received £32,500 which represented three months notice. This amount is included in the above table.
- J. O'Shea received compensation for loss of office in 1998 of £90,000. This, together with the payment to A. W. Bridle referred to in note 5, was the only compensation paid for loss of office in 1998 and 1999.
- The 1999 fees are payable to CDL Hotels International Ltd (1998: £30,000).
- Of this amount £3,000 was paid to Ipsri Ltd, of which D. Hankinson was a shareholder (1998: £18,000).

32 Directors' emoluments (continued)

Directors' pensions	Increase in accrued benefit		Accumulated total accrued benefit		Increase in transfer value	
	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000
J. Wilson	–	4	4	4	22	55
D. A. H. Cook	4	5	28	24	54	47
A. G. Potter	1	–	1	–	5	–
P. J. Taylor (resigned 14 March 2000)	2	4	35	32	31	36
A. W. Bridle (resigned 17 December 1999)	–	2	3	2	24	32
G. C. Wilkins (resigned 15 December 1999)	–	4	–	31	–	42
Total	7	19	71	93	136	212

Company Pension contributions for directors were set at 14.6% of total basic salary for D. A. H. Cook and P. J. Taylor. Contributions for J. Wilson, A. W. Bridle and A. G. Potter are subject to the Pension Earnings cap (£90,600 pa for 1999/2000).

None of the other directors was a member of any of the Group's pension schemes at any time during the year.

Directors' share interests	Interests in shares of the company at 31 December 1999 Number of shares	Interests in shares of the company at 31 December 1998 Number of shares
Executives		
John Wilson*	18,955	9,765
David Cook	48,835	36,000
Frederick Brown	14,558	7,500
Tony Potter* (appointed 22 October 1999)	5,980	–
Peter Taylor (resigned 14 March 2000)	56,685	36,000
Vincent Yeo (resigned 14 March 2000)	–	–
Non-Executive		
Kwek Leng Beng (Chairman)	–	–
John Sclater (Independent Deputy Chairman)	–	–
Sir Idris Pearce (Independent director)	3,494	1,800
Christopher Sneath (Independent director) (appointed 8 March 1999)	5,000	–
Wong Hong Ren	–	–
Kwek Leng Peck	–	–
Kwek Leng Joo	–	–

* Held under an Employee Share Ownership Plan.

On 26 February 2000, in accordance with the Rules of the Plan, 18,955 shares were transferred from this Plan to the personal account of John Wilson.

The interests of the CDL Hotels International Limited nominated directors in that company and its ultimate parent company, Hong Leong Investment Holdings Pte Limited, are disclosed in the accounts of those companies. There have been no changes to directors' interests between 31 December 1999 and the date of this report.

32 Directors' emoluments (continued)

An analysis of options held by each director as at 31 December 1999 is set out below:

Name/ scheme	Date granted	Number of options brought forward	Number of ⁽ⁱ⁾ options adjusted during the year	Number of ⁽ⁱⁱ⁾ options granted during the year	Number of options at year end	Exercise price	Exercise period
J. Wilson							
Part A	05 Mar 98	5,814	608	–	6,422	£4.6717	05 Mar 01 – 04 Mar 08
Part B	05 Mar 98	91,085	9,518	–	100,603	£4.6717	05 Mar 01 – 04 Mar 05
Part B	05 Mar 99	–	4,829	46,210	51,039	£4.8981	05 Mar 02 – 04 Mar 06
F. J. A. Brown							
Part A	24 Apr 96	10,791	1,128	–	11,919	£2.5169	24 Apr 99 – 23 Apr 06
Part B	24 Apr 96	61,151	6,390	–	67,541	£2.5169	24 Apr 99 – 23 Apr 03
Part B	07 Mar 97	24,752	2,587	–	27,339	£3.6577	07 Mar 00 – 06 Mar 04
D. A. H. Cook							
Part A	24 Apr 96	10,791	1,128	–	11,919	£2.5169	24 Apr 99 – 23 Apr 06
Part B	24 Apr 96	62,590	6,541	–	69,131	£2.5169	24 Apr 99 – 23 Apr 03
Part B	07 Mar 97	25,247	2,638	–	27,885	£3.6577	07 Mar 00 – 06 Mar 04
Sharesave	15 Apr 96	7,770	812	–	8,582	£2.0099	01 Jun 01 – 01 Nov 01
Part B	05 Mar 99	–	2,511	24,029	26,540	£4.8981	05 Mar 02 – 04 Mar 06
P. J. Taylor							
Part A	24 Apr 96	10,791	1,128	–	11,919	£2.5169	24 Apr 99 – 23 Apr 06
Part B	24 Apr 96	75,539	7,894	–	83,433	£2.5169	24 Apr 99 – 23 Apr 03
Part B	07 Mar 97	29,703	3,104	–	32,807	£3.6577	07 Mar 00 – 06 Mar 04
Sharesave	15 Apr 96	7,770	812	–	8,582	£2.0099	01 Jun 01 – 01 Nov 01
Part B	05 Mar 99	–	1,304	12,476	13,780	£4.8981	05 Mar 02 – 04 Mar 06
V. W. E. Yeo							
Part A	05 Mar 98	5,814	608	–	6,422	£4.6717	05 Mar 01 – 04 Mar 08
Part B	05 Mar 98	13,565	1,418	–	14,983	£4.6717	05 Mar 01 – 04 Mar 05
Part B	05 Mar 99	–	1,932	18,484	20,416	£4.8981	05 Mar 02 – 04 Mar 06
A. G. Potter							
Part A	19 Nov 99	–	–	7,425	7,425	£4.0400	19 Nov 02 – 18 Nov 09
Part B	19 Nov 99	–	–	47,030	47,030	£4.0400	19 Nov 02 – 18 Nov 06

(i) As a consequence of the Rights Issue announced on 18 May 1999, the Remuneration Committee approved adjustments to all options and entitlements held by current members of the Executive Share Option Scheme and Sharesave Scheme to take account of any diminution of value arising from the issue of these additional fully paid shares. The adjustments were made in accordance with the standard computation recommended by the Inland Revenue. Inland Revenue approval was given to effect the adjustment on 17 June 1999. The adjustment was calculated as follows: The number of shares held as an option was increased by 1.1045. The exercise price was reduced to 90.5377% of the original grant price.

Subsequent to the year end as a consequence of the placing of additional shares on 15 December 1999, further adjustments were approved by the Remuneration Committee and made on 24 January 2000. The adjustment was calculated so that the number of shares held as an option was increased by 1.0136 and the exercise price was reduced to 98.6531% of the existing grant price.

(ii) No directors' options were exercised during the period and, therefore no director made aggregate gains during the year. The mid-market share price at close of business on 1 March 2000 was 335p. The range of the share price during the year was 322p to 623p.

	1999	1998
Occupancy (%)		
London	81.7	84.7
Regional UK	73.3	76.5
Continental Europe	63.7	64.8
New York	81.5	80.0
Group excluding acquisitions	77.2	79.4
	<hr/>	<hr/>
Average room rate (£)		
London	88.34	86.99
Regional UK	66.39	66.00
Continental Europe	72.35	57.60
New York	145.71	137.85
Group excluding acquisitions	94.30	89.56
	<hr/>	<hr/>
Yield per available room (£)		
London	72.17	73.68
Regional UK	48.66	50.49
Continental Europe	46.09	37.32
New York	118.75	110.28
Group excluding acquisitions	72.80	71.11
	<hr/>	<hr/>
Gross Operating Profit margin (%)		
London	53.5	55.4
Regional UK	40.4	43.3
Continental Europe	27.2	29.3
New York	46.2	44.9
Group excluding acquisitions	46.1	47.7
	<hr/>	<hr/>
	1999	1998

Occupancy (%)		
Asia	64.9	–
Australasia	62.3	–
Group including Asia and Australasia	70.6	79.4
	<hr/>	<hr/>
Average room rate (£)		
Asia	48.30	–
Australasia	31.63	–
Group including Asia and Australasia	74.08	89.56
	<hr/>	<hr/>
Yield per available room (£)		
Asia	31.35	–
Australasia	19.71	–
Group including Asia and Australasia	52.30	71.11
	<hr/>	<hr/>
Gross Operating Profit margin (%)		
Asia	37.1	–
Australasia	32.9	–
Group including Asia and Australasia	42.9	47.7
	<hr/>	<hr/>

Analysis of shareholders at 15 February 2000	Number of holders	Percentage of holders	Total number of shares held	Percentage of issued share capital
Number of shares				
0 – 10,000	925	90.9	5,368,890	1.9
10,001 – 25,000	3	0.3	57,082	–
25,001 – 50,000	6	0.6	200,614	0.1
50,001 – 100,000	24	2.4	1,921,871	0.7
100,001 – 500,000	27	2.6	7,470,246	2.6
500,001 – 1,000,000	7	0.7	5,580,042	2.0
Over 1 million	25	2.5	261,259,138	92.7
Total	1,017	100.0	281,857,883	100.0

We are committed to providing information to our shareholders to enable them to assess our Group's performance and financial position. Information can be found on BBC1 Ceefax (page 228) and Channel 4 Teletext (page 514). Our website is www.mill-cop.com.

Registered office

Victoria House, Victoria Road, Horley, Surrey RH6 7AF, United Kingdom

Financial calendar

Dividend record date	31 March 2000
Annual general meeting	2 May 2000
Final dividend payment	12 May 2000
Interim results announcement	August 2000
Interim dividend payable	October 2000

Advisors

Stockbrokers	Deutsche Bank
Auditors	KPMG Audit Plc
Solicitors	Clifford Chance
Principal Bankers	National Westminster Bank Plc ING Barings Hong Kong and Shanghai Banking Corporation
Registrars	Lloyds TSB Registrars

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
PROFIT AND LOSS ACCOUNT					
Turnover	343.1	221.9	202.6	166.2	47.5
Group operating profit	98.5	74.9	63.5	47.7	13.3
Share of operating profits of associated undertakings	9.4	9.5	8.7	7.4	–
Net interest payable	(21.8)	(24.0)	(22.0)	(17.1)	(6.9)
Profit on ordinary activities before tax	86.1	60.4	50.2	38.0	6.4
Tax	(19.2)	(15.4)	(11.9)	(8.0)	(1.0)
Profit on ordinary activities after tax	66.9	45.0	38.3	30.0	5.4
Minority interests	(5.3)	(0.6)	(0.8)	(0.8)	(0.2)
Profit for the financial year	61.6	44.4	37.5	29.2	5.2
BALANCE SHEET					
Tangible fixed assets	2,172.4	899.6	796.4	670.6	426.7
Investments	51.2	55.0	49.2	8.8	–
Other assets	94.6	24.8	22.8	19.4	11.5
Borrowings net of cash	(633.7)	(274.0)	(256.9)	(209.9)	(173.9)
Other liabilities	(188.7)	(59.8)	(56.8)	(49.4)	(20.8)
Provisions for liabilities and charges	(4.7)	(5.2)	(5.8)	(6.4)	(7.0)
NET ASSETS	1,491.1	640.4	548.9	433.1	236.5
Share capital and share premium	928.6	338.8	338.7	337.9	153.4
Reserves	391.4	295.0	206.2	89.1	77.8
Shareholders' funds	1,320.0	633.8	544.9	427.0	231.2
Minority interests	171.1	6.6	4.0	6.1	5.3
TOTAL CAPITAL EMPLOYED	1,491.1	640.4	548.9	433.1	236.5
Gearing (%)	50	43	47	49	75
Basic earnings per share (p)	29.8	27.7	23.4	21.4	–
Dividends per share (p)	11.3	10.2	8.6	4.7	–
Gross operating profit margin (%)	42.9	47.7	46.0	42.1	43.4
Occupancy (%)	70.6	79.4	79.4	77.1	80.3
Average room rate (£)	74.08	89.56	82.39	75.04	63.51
Yield per available room (£)	52.30	71.11	65.42	57.86	50.97

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Millennium & Copthorne Hotels plc for the year 2000 will be held at the Millennium Britannia Hotel, Grosvenor Square, London W1A 3AN, on Tuesday 2 May 2000 at 10.00am for the transaction of the following business:

Ordinary business

- 1 To receive the directors' report for the year ended 31 December 1999.
- 2 To receive the Accounts for the year ended 31 December 1999 together with the auditors' report on those Accounts.
- 3 To declare a final dividend for the year ended 31 December 1999 of 7.5p per share.
- 4 To re-appoint Mr. Kwek Leng Beng retiring by rotation as a director in accordance with the Company's Articles of Association.
- 5 To re-appoint Mr. Kwek Leng Joo retiring by rotation as a director in accordance with the Company's Articles of Association.
- 6 To re-appoint Mr. Kwek Leng Peck retiring by rotation as a director in accordance with the Company's Articles of Association.
- 7 To re-appoint Mr. Anthony Grahame Potter as a director in accordance with the Company's Articles of Association.
- 8 To re-appoint Mr. Miguel Ko as a director in accordance with the Company's Articles of Association.
- 9 To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, at a remuneration to be fixed by the directors.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed in the case of resolutions 10 and 11 as special resolutions and in the case of resolution 12 as an ordinary resolution.

Special resolutions

- 10 THAT the authority conferred on the directors by article 4(B) of the Company's Articles of Association be renewed for the period expiring 15 months after the date of the passing of this resolution and for that period the 'section 80 amount' is £28,185,785 being 33 $\frac{1}{3}$ % of the ordinary share capital in issue on 1 March 2000.
- 11 THAT the power conferred on the directors by article 4(C) of the Company's Articles of Association be renewed for the period expiring 15 months after the passing of the resolution and for that period the 'section 89 amount' is £4,227,868 being 5% of the ordinary share capital in issue on 1 March 2000.

Ordinary resolutions

- 12 THAT the provisions of the Co-operation Agreement dated 18 April 1996 – by which the Company agrees that it shall use all reasonable endeavours to ensure that any issue of voting securities (other than pursuant to an employee or executive share option scheme) for cash which takes place is carried out in a manner that provides CDL Hotels International Limited with an opportunity to acquire additional ordinary shares at the time of such proposed issue for cash in such amounts as are necessary to enable it to maintain its voting rights in the Company at the same level as is held immediately prior to such issue – be renewed for the period expiring at the conclusion of the Company's Annual General Meeting in 2001.

By order of the Board

Registered Office
Victoria House
Victoria Road
Horley
Surrey RH6 7AF
UK

Simon Hodges
Company Secretary
14 March 2000

NOTES

- 1 Any member entitled to attend and vote at the meeting convened by the above Notice may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed for use, if desired. Completion of a form of proxy does not preclude a member from attending and voting at the meeting in person.
- 2 To be valid, forms of proxy must be lodged with the Company's Registrars, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex, BN99 3UH not less than 48 hours before the time appointed for holding the meeting.
- 3 There are available for inspection at the registered office of the Company, Victoria House, Victoria Road, Horley, Surrey, RH6 7AF during normal business hours on each business day, copies of all service contracts between the directors and the Company or its subsidiaries. These documents will also be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the Annual General Meeting.
- 4 The register of directors' interests kept by the Company under section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.
- 5 The directors have no current intention to exercise the right to allot shares given by the special resolution 10 set out above.
- 6 The Company, pursuant to Regulation 34 of the Uncertified Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 30 April 2000, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00pm on 30 April 2000 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

LONDON

Millennium Gloucester
 Millennium Bailey's
 Millennium Knightsbridge
 Millennium Britannia
 Copthorne Tara

REGIONAL UK

Millennium Madejski, Reading (opens May 2000)
 Millennium Glasgow
 Copthorne Aberdeen
 Copthorne Birmingham
 Copthorne Cardiff, Caerdydd
 Copthorne Effingham Park, Gatwick
 Copthorne London Gatwick
 Copthorne Manchester
 Copthorne Merry Hill, Dudley
 Copthorne Newcastle
 Copthorne Plymouth
 Copthorne Slough, Windsor

CONTINENTAL EUROPE

Millennium Opéra Paris
 Copthorne Coquelles, Calais
 Copthorne Paris, Charles de Gaulle
 Copthorne Hannover
 Copthorne Stuttgart International

UNITED STATES

Millennium Broadway, New York
 The Millennium Hilton, New York
 The Plaza, New York
 Regal UN Plaza, New York
 Regal Alaskan, Alaska
 Regal Biltmore, California
 Regal Bostonian, Massachusetts
 Regal Cincinnati, Ohio
 Regal Harvest House, Colorado
 Regal Knickerbocker, Illinois
 Regal Maxwell House, Tennessee
 Regal McCormick Ranch, Arizona
 Regal Minneapolis, Minnesota
 Regal Riverfront, Missouri
 Regal University, North Carolina
 Aurora Inn, Ohio
 Clarion Fourwinds Resort and Marina, Indiana
 Clarion Hotel, California

UNITED STATES (continued)

Comfort Inn, Salt Lake Airport International, Utah
 Comfort Inn, Vail/Beaver Creek, Colorado
 Eldorado, New Mexico
 Park Inn, Florida
 Pine Lake Trout Club, Ohio
 Quality Inn, Garden of the Gods, Colorado
 Quality Inn, South Mountain, Arizona
 Four Points Hotel, Buffalo Airport, New York
 Four Points Hotel, Lakeside, Florida
 Sunnyvale Hilton, California
 Travelodge Hotel, Atlanta Airport, Georgia
 Wynfield Inn, Main Gate, Florida
 Wynfield Inn, Westwood, Florida

UNITED STATES MANAGEMENT CONTRACTS

American Airlines Conference Center, Texas
 Auburn University Hotel, Alabama
 Celebration World Resort, Florida
 Comfort Inn & Suites, Maryland
 Comfort Inn, Herndon, Virginia
 Comfort Inn, Piqua, Ohio
 Comfort Inn, Van Dorn, Virginia
 Comfort Inn, Washington,
 Gateway West, Virginia
 Comfort Suites (Fort Lauderdale), Florida
 Comfort Suites (Jacksonville), Florida
 Pleasanton Hilton at the Club, California
 Whittier Hilton, California
 Holiday Inn Express (Baltimore), Maryland
 Holiday Inn, Monrovia, California
 Inn on Maritime Bay, Wisconsin
 The Madison Hotel, New Jersey
 Radisson Ponce de Leon Golf & Conference
 Resort, Florida
 WISP Resort, Maryland
 Furama, California

ASIA

Orchard Hotel, Singapore
 Grand Copthorne Waterfront, Singapore
 Copthorne King's, Singapore
 Copthorne Orchid, Singapore
 Copthorne Harbour View, Singapore
 Boulevard Hotel, Singapore
 Copthorne Orchid, Penang
 Millennium Sirih, Jakarta

ASIA (continued)

The Heritage Hotel, Manila
 Grand Hyatt, Taipei
 Hilton International, Seoul
 Regent, Kuala Lumpur
 Nikko, Hong Kong
 JW Marriott, Hong Kong

AUSTRALASIA

Millennium Christchurch
 Millennium Queenstown
 Millennium Rotorua
 Millennium Hotel, Sydney
 Copthorne Anzac Avenue, Auckland
 Copthorne Harbour City, Auckland
 Copthorne Resort Waitangi, Bay of Islands
 Copthorne Central, Christchurch
 Copthorne Durham Street, Christchurch
 Copthorne Resort Solway Park, Masterton
 Copthorne Resort Lakefront, Queenstown
 Copthorne Resort Manuels, Taupo
 Copthorne Suites Puriri Park, Tauranga
 Copthorne Plimmer Towers, Wellington
 Quality Hotel, Logan Park, Auckland
 Quality Hotel, Rose Park, Auckland
 Quality Hotel Autolodge, Paihai, Bay of Islands
 Quality Hotel, Brydon Oamaru
 Quality Hotel Autolodge, Christchurch
 Quality Hotel Commodore, Christchurch Airport
 Quality Hotel, Dunedin
 Quality Hotel, Kings, Greymouth
 Quality Hotel, Hamilton
 Quality Hotel, Whangarei
 Quality Hotel, Palmerston North
 Quality Resort Alpine Lodge, Queenstown
 Quality Resort Terraces, Queenstown
 Quality Hotel, Rotorua
 Quality Hotel, Te Anau
 Quality Hotel, Oriental Bay, Wellington
 Quality Hotel, Willis Street, Wellington

NON-HOTEL ASSETS

King's Tanglin Shopping Centre, Singapore
 Birkenhead Shopping Centre and residential
 property & marina, Sydney
 Development land, New Zealand

Schedule A of the Code. Accordingly, levels of pay and benefits have been set which reflect the performance of the Company against pre-determined budgets, as well as the individual contribution of each director. Awards have taken into consideration both market and competitive conditions.

Bonuses for 1999 have been awarded on the basis of the individual contribution to the business by each director as assessed by the remuneration committee.

The previously reported share option scheme, as it relates to the directors, seeks to link individual reward with the longer term success of the business. Options are awarded to directors following an assessment of individual performance and are based on a multiple of the director's salary for the period. It is the Group's policy that no director or employee should hold options with a total exercise price of more than four times salary. Directors' options may only be exercised if earnings per share increase over a three year period by the Retail Price Index plus 6%. 155,654 share options under the share option scheme were granted to the directors during the year and a complete analysis is shown in note 32 on page 58.

Besides the provision of medical benefits, permanent health insurance and motor vehicles, there is a contributory pension plan for the executive directors providing up to two thirds of final salary (subject to Inland Revenue limits) at age 65 plus a widows' benefit of two thirds of the pension and Life Assurance of four times salary in the event of death during service. Company pension contributions for directors were set at 14.6% of salary.

The terms of the executive directors' contracts are:

John Wilson 12 month rolling contract

Frederick Brown One months' written notice from the Company, three months written notice from the Director

David Cook 12 months' written notice to be given by either party at any time

Tony Potter 12 month's written notice to be given by either party at any time

It is the Group's policy that, on early termination of a director's contract, the notice period within the service

contract is observed. Thereafter any further compensation is at the discretion of the Board having received advice from the remuneration committee.

The non-executive directors have letters of appointment only and their fees are determined by the full Board.

Employees

As a progressive employer, Millennium & Copthorne Hotels plc encourages the employment of disabled people and complies with the relevant sections of the Disability Discrimination Act in the United Kingdom and similar legislative requirements in all parts of the world that the Group operates in.

Millennium & Copthorne Hotels plc encourages employee consultation through staff consultative committees at each location and believes that the dissemination of the appropriate financial information, goals and objectives is pivotal to success and motivation. Employees in the United Kingdom share in the financial success of the Group through an employee Sharesave Scheme.

All employees, at every level, are encouraged to develop their skills and qualifications. A variety of internally resourced skills development programmes are available and the Group offers a tuition support programme for external courses. The principles of the national standard of best practice in employee development and involvement are being followed in the countries in which we operate.

Option schemes

The Company operates the Millennium & Copthorne Hotels Executive Share Option Scheme (the 'Executive Scheme'). It has two parts; Part A designed for Inland Revenue approval, and Part B, an unapproved executive share option scheme designed for UK and non-UK executives. Part A of the Executive Scheme was approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988 on 12 April 1996.

The Company also operates the Millennium & Copthorne Hotels Sharesave Scheme (the 'Sharesave Scheme') for all eligible UK employees which has been approved by the Inland Revenue. During the year the Company issued invitations to UK employees under the Sharesave Scheme to enter into a five year savings contract or a three year savings contract with an option to purchase shares at an option price of £4.33 on expiry of the savings contract. 49 applications were

received for the five year term (42,916 shares) and 109 applications were received for the three year term (59,607 shares). The total number of options issued at 1 March 2000 was 1,902,295.

As a consequence of the Rights Issue announced on 23 April 1999 and the further placing of additional shares on 15 December 1999, the remuneration committee approved adjustments to all options and entitlements held by current members of the Executive Share Option Scheme and Sharesave Scheme to take account of any diminution of value arising from the issue of these additional fully paid Ordinary shares. The adjustments were made in accordance with the standard computation recommended by the Inland Revenue. Inland Revenue approval was given to effect these adjustments on 17 June 1999 and 24 January 2000 respectively. The adjustments were calculated as follows:

17 June 1999 The number of shares held as an option was increased by 1.1045. The exercise price was reduced to 90.5377% of the original grant price.

24 January 2000 The number of shares held as an option was increased by 1.0136. The exercise price was reduced to 98.6531% of the existing grant price.

An analysis of options held by each director as at 1 March 2000 is set out in note 32 on page 58.

Communication

Good internal communication is a key element in our business. There is an employee in-house magazine which is published three or four times a year and a structured programme of staff training and workshop seminars. Communication with shareholders is equally important. In addition to the Annual Report and Accounts, an Interim Report is published. There is regular dialogue with shareholders and their advisers as well as analysts. In addition there are general presentations after the preliminary and interim results announcements. There is also an opportunity for individual shareholders to question the Chairman and other directors including the chairmen of both the remuneration committee and the audit committee at the Annual General Meeting.

Environment

The Group is conscious of the need to preserve natural resources. As a matter of policy the Group operates strict controls to reduce consumption of energy, for example by installing low energy light bulbs and water saving showerheads in all its hotels. The effective

disposal of waste is a priority, and the Company will continue to investigate ways to improve the efficiency of waste disposal and recycling whilst minimising any adverse effect on the environment. The Company only uses refrigeration equipment which complies with current legislation and does not use CFCs or other banned chemicals. Obsolete equipment is removed to nominated waste disposal companies for safe disposal.

Charitable and political contributions

The Group gave £26,000 (1998: £26,000) to charities during the period. It made no political contributions.

Creditor payment policy

Each hotel is responsible for paying its own suppliers, however, it is the Company's and the Group's policy to adhere to the payment terms agreed with the supplier. Payments are contingent on the supplier providing goods or services to the required standard. The effect of the Group's payment policy is that its trade creditors at the financial year end represent 22 days' purchases (1998: 17 days). The Company has no trade creditors.

Substantial shareholdings

As at the date of this report, the Company had been notified that CDL Hotels International Limited hold 147,785,025 shares representing 52.4%. This is the only holding of 3% or more of the issued share capital notified to the Company.

Annual General Meeting

The Annual General Meeting will be held at 10.00am on Tuesday 2 May 2000 at the Millennium Britannia Hotel. The notice to shareholders can be found on pages 62 and 63 of this report. The two special resolutions to be proposed at the meeting are to reconfirm the provisions of the Articles of Association which enable the Company to raise funds by the use of pre-defined amounts of share capital without the need for a further meeting of shareholders. The ordinary resolution is to enable the immediate parent to retain its share pre-emption rights. In accordance with the Code the votes cast by proxy will again be declared at the meeting after the votes have been cast.

The Directors Report, comprising the Chairman's Statement, Chief Executive's Review, Financial Review, Board of Directors and Corporate Governance, is submitted to shareholders.

By order of the Board

Simon J. Hodges
14 March 2000

