Copthorne Hotel (Merry Hill) Limited

Directors' report and financial statements

31 December 2004

Registered number 2590620

Directors' report and financial statements

Contents

Directors' report

The directors have pleasure in submitting their report on the affairs of the company together with the financial statements and auditor's report thereon, for the year ended 31 December 2004.

Principal activities

The principal activity of the company is the operation of the Copthorne Hotel Merry Hill Dudley. The company holds the hotel under a finance lease from Copthorne (Merry Hill) Construction Limited, a subsidiary undertaking of the company, who purchased the lease from the Secured Income and Growth Trust 1991 in September 2003.

Results and dividend

Turnover for the year was £5,158,000 *(2003: £4,925,000)* and the profit before taxation was £795,000 *(2003: £400,000).*

A dividend was paid during the year of £1,000,000 *(2003: £250,000).* No final dividend is proposed *(2003: £nil).*

Fixed assets

Changes in fixed assets are set out in notes 7 and 8 to the financial statements.

Directors

The directors who served during the year are listed below:

AG Potter	
DF Thomas	(resigned 05/03/04)
Copthorne Hotels Limited	(appointed 05/03/04)

None of the directors hold any interest in the shares of the company.

AG Potter is also a director of the ultimate parent company, Millennium & Copthorne Hotels plc. His interest in the shares and share options in Millennium & Copthorne Hotels plc is disclosed in the financial statements of that company. Copthorne Hotels Limited held no interest in the shares or share options of Millennium and Copthorne plc.

Creditor payment policy

It is the company'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 company's purchase ledger balances and payments are accounted for within the central group purchase ledger of Copthorne Hotels Limited.

Directors' report *(continued)*

Auditor

The company has elected to dispense with the obligation to appoint auditors annually, in accordance with S386 of the Companies Act 1985.

By order of the board

For and on Behalf of Copthorne Hotels Limited
Company Secretary

Victoria House
Victoria Road
Horley
Surrey
RH6 7AF

31 October 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent Auditor's Report to the members of Copthorne Hotel (Merry Hill) Limited

We have audited the financial statements on pages 5 to 19.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board 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 1985. 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 regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 company'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 as at 31 December 2004, and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

31 October 2005

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	*1*	**5,158**	4,925
Cost of sales		**(2,462)**	(2,339)
Gross profit		**2,696**	2,586
Administrative expenses		**(1,302)**	(1,232)
Operating profit		**1,394**	1,354
Income from shares in subsidiary undertakings		**450**	-
Interest payable and similar charges	*4*	**(1,049)**	(954)
Profit on ordinary activities before taxation	*2*	**795**	400
Tax on profit on ordinary activities	*5*	**(41)**	(133)
Profit on ordinary activities after taxation		**754**	267
Dividends	*6*	**(1,000)**	(250)
Retained (loss)/profit for the financial year		**(246)**	17
Profit and loss account brought forward		**420**	403
Profit and loss account carried forward	*15*	**174**	420

All turnover and operating profit in the current and prior years derive from continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 **£000**	2003 £000
Profit for the financial year	**754**	267
Total gains and losses recognised since last financial statements	**754**	267

Note of historical cost profits and losses

for the year ended 31 December 2004

	2004 **£000**	2003 £000
Reported profit on ordinary activities before taxation	**795**	400
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**7**	7
Historical cost profit on ordinary activities before taxation	**802**	407
Historical cost (loss)/profit for the year retained after taxation and dividends	**(239)**	24

Balance sheet

at 31 December 2004

	Notes	**2004**	**2004**	2003	2003
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*7*		**16,240**		16,411
Investments	*8*		**1**		1
			16,241		16,412
Current assets					
Stocks	*9*	**23**		29	
Debtors	*10*	**138**		108	
Cash at bank and in hand		**35**		223	
		196		360	
Creditors: amounts falling due within one year	*11*	**(1,659)**		(2,250)	
Net current liabilities			**(1,463)**		(1,890)
Total assets less current liabilities			**14,778**		14,522
Creditors: amounts falling due after more than one year	*12*		**(10,602)**		(10,158)
Provisions for liabilities and charges	*13*		**(58)**		-
Net assets			**4,118**		4,364
Capital and reserves					
Called up share capital	*14*		**9**		9
Share premium account	*15*		**158**		158
Revaluation reserve	*15*		**3,777**		3,777
Profit and loss account	*15*		**174**		420
Equity shareholders' funds	*16*		**4,118**		4,364

These financial statements were approved by the board of directors on 31 October 2005 and were signed on its behalf by:

AG Potter
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following principal accounting policies have been applied consistently throughout the year, dealing with items which are considered material to the company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold land and buildings.

Under Financial Reporting Standard No 1 (revised), the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of Millennium & Copthorne Hotels plc and its cash flows are included within the published consolidated cash flow statement of that company.

At 31 December 2004 the company had net current liabilities. The directors of the parent company, Millennium & Copthorne Hotels plc, have confirmed their intention to make continued financial support available to enable the company to meet liabilities as they fall due, for at least 12 months from the date of approval of these financial statements and thereafter, for as long as the company remains a part of the group. As a result the financial statements have been prepared on a going concern basis.

Fixed assets and depreciation

Land and buildings are stated at valuation less depreciation and any provision for impairment as set out in note 7. Any impairment of such properties below depreciated historical cost is charged to the profit and loss account as appropriate. Other fixed assets are shown at cost less depreciation and any provision for permanent diminution in value.

Assets are depreciated to their residual values on a straight-line basis over their estimated useful lives as follows:

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

Freehold land is not depreciated.

No residual values are ascribed to building surface finishes and services. The residual value ascribed to building core depends on the nature, location and tenure of the hotel property.

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.

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

Interest attributable to funds used to finance construction is capitalised gross of tax relief and added to the cost of the hotel core.

Notes *(continued)*

Leases

Assets financed by way of finance leases, which transfer substantially all the risks and rewards of ownership to the company, 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.

Stocks

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

Turnover

Turnover represents amounts derived in the United Kingdom from the ownership and operation of the hotel. Turnover is stated net of value added tax and is recognised on an accruals basis to match the provision of the related goods and services.

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.

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences, which have arisen but not reversed at the balance sheet date. Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

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.

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 in accordance with SSAP 24: Accounting for Pension Costs. The cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from these regular 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.

The company has adopted the transitional arrangements of FRS 17: Retirement Benefits and has therefore provided additional disclosure for defined benefit pension schemes (note 18). FRS 17 will be adopted in full in the year ended 31 December 2005.

Notes *(continued)*

2 Profit on ordinary activities before taxation

	2004 **£000**	2003 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration:		
Audit services	**9**	9
Depreciation of tangible fixed assets	**277**	274
Release of deferred credit for government grants	**-**	(38)
Rentals payable under operating leases:		
Plant and machinery	**31**	38

3 Staff numbers and costs

The average number of persons employed (excluding directors) by the company during the year analysed by category, was as follows:

	2004 **Number**	2003 Number
Operating staff	**101**	98
Administration staff	**5**	3
Sales & marketing staff	**1**	-
Repairs & maintenance staff	**4**	4
	111	105

The aggregate payroll costs of these persons were as follows:

	2004 **£000**	2003 £000
Wages and salaries	**1,421**	1,278
Social security costs	**89**	70
Other pension costs	**42**	41
	1,552	1,389

No emoluments were paid to any director for services to the company during the year *(2003: £nil)*.

Notes *(continued)*

4 Interest payable and similar charges

	2004	2003
	£000	£000
On finance lease	**1,049**	954

5 Tax on profit on ordinary activities

(i) Analysis of tax charge in the year

The tax charge is based on profit for the year and comprises:

	2004	2003
	£000	£000
Current tax:		
Payment for group relief	**153**	319
Tax credit relating to prior years	**(192)**	(1)
	(39)	318
Deferred tax:		
Origination and reversal of timing differences		
- Current year	**(32)**	(194)
- Adjustment relating to prior years	**112**	9
	80	(185)
Total tax on profit on ordinary activities	**41**	133

Notes *(continued)*

(ii) Factors affecting the current tax (credit)/charge for year

The current tax (credit)/charge for the year is different to the standard rate of tax in the UK (30%). The differences are explained below:

	2004	2003
	£000	£000
Profit on ordinary activities before tax	**795**	400
Profit on ordinary activities at the standard rate of UK tax of 30%	**239**	120
Permanent difference (dividends received)	**(135)**	-
Effect of capital allowances for year less than depreciation	**32**	110
Other timing differences	**-**	84
Permanent taxation differences	**26**	5
Transfer pricing imputed credit	**(9)**	-
Prior year adjustment	**(192)**	(1)
Current taxation	**(39)**	318

A credit of £9,000 has been recorded for taxation imputed on intra-group interest and management charges for the period from 1 April 2004 to 31 December 2004, in accordance with new UK transfer pricing regulations.

(iii) Factors affecting future tax charges

The total tax charge in future years is anticipated to approximate to the statutory rate of UK corporate taxation.

6 Dividends

	2004	2003
	£000	£000
Final – Paid	**1,000**	250

Notes *(continued)*

7 Tangible fixed assets

	Land and buildings £000	Capital work in progress £000	Plant & machinery £000	Fixtures fittings, equipment and vehicles £000	Total £000
Cost or valuation					
At beginning of year	16,417	15	210	1,295	17,937
Additions	3	87	5	11	106
Transfers	-	(14)	-	14	-
Written off	-	-	-	(31)	(31)
At end of year	16,420	88	215	1,289	18,012
Depreciation					
At beginning of year	980	-	53	493	1,526
Charge for the year	149	-	10	118	277
Written off	-	-	-	(31)	(31)
At end of year	1,129	-	63	580	1,772
Net book value					
At 31 December 2004	**15,291**	**88**	**152**	709	**16,240**
At 31 December 2003	15,437	15	157	802	16,411

Land and buildings includes £9,850,000 *(2003: £9,850,000)* of assets held under a finance lease with a purchase option. Included within this amount is £966,000 *(2003: £966,000)* of capitalised interest.

Hotel freehold land and buildings were subject to external professional valuations in 1995 by Pannell Kerr Forster Associates and in 1998 and 2002 by Insignia Richard Ellis. The most recent revaluation of freehold land and buildings resulted in an addition of £1,959,000 to fixed assets and the revaluation reserve. On all occasions, valuation was on an open-market existing use basis, in accordance with The Practice Statements of the Royal Institute of Chartered Surveyors and the Recommended Practice for the Valuation of Hotels published by the British Association of Hospitality Accountants.

	2004 £000	2003 £000
Land and buildings valuation comprises:		
Historical cost	**12,643**	12,640
Revaluation reserve	**3,777**	3,777
Valuation	**16,420**	16,417

Notes *(continued)*

8 Investments

	Shares in subsidiary undertakings £000
Cost and net book value	
Beginning and end of year	1

The investment represents a 100% holding in the share capital of Copthorne Hotel (Merry Hill) Construction Limited, an unlisted company incorporated in Great Britain and registered in England and Wales whose principal activity is that of a hotel developer and lessor. Copthorne Hotel (Merry Hill) Construction Limited constructed the hotel and, since 1st October 2003, leases the property to the company.

9 Stocks

	2004 £000	2003 £000
Consumables and supplies	**23**	29

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

10 Debtors

	2004 £000	2003 £000
Trade debtors	**24**	17
VAT	**-**	24
Other debtors	**21**	21
Prepayments and accrued income	**93**	24
Deferred taxation asset (note 13)	**-**	22
	138	108

In the current and prior year, the company's trade debtors are principally accounted for within the central sales ledger of Copthorne Hotels Limited.

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to subsidiary undertakings (non-interest bearing)	**377**	312
Amounts owed to parent and fellow subsidiary undertakings (non-interest bearing)	**945**	1,715
Other creditors including taxation and social security:		
Other creditors	**15**	22
Accruals and deferred income:		
Other accruals	**322**	201
	1,659	2,250

In the current and prior year, the company's trade creditors are accounted for within the central purchase ledger of Copthorne Hotels Limited.

12 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Obligations under finance lease (note 17)	**10,259**	10,158
Amounts owed to parent and fellow subsidiary undertakings (non-interest bearing)	**343**	-
	10,602	10,158

13 Provision for liabilities and charges

	2004 £000	2003 £000
Deferred taxation provision		
At beginning of year	**-**	163
Recognised/(utilised) in the year	**58**	(163)
At end of year	**58**	-

Notes *(continued)*

	2004	2003
	£000	£000
Deferred taxation asset		
At beginning of year	**22**	-
(Utilised)/recognised in the year	**(22)**	22
At end of year	**-**	22

The amounts recognised/provided for deferred taxation in respect of timing differences are analysed below. All timing differences have been provided for.

	2004	2003
	£000	£000
Difference between accumulated depreciation and capital allowances	**143**	62
Other timing differences	**(85)**	(84)
At end of year	**58**	(22)

A tax charge estimated at approximately £nil *(2003: £nil)*, would crystallise if the hotel were sold at its book carrying value. No provision for deferred taxation has been made since there is currently no intention to sell the hotel.

14 Called up share capital

	2004	2003
	£000	£000
Authorised		
75,000 "A" ordinary shares of £1 each	**75**	75
25,000 "B" ordinary shares of £1 each	**25**	25
	100	100
Allotted, called up and fully paid		
6,666 "A" ordinary shares of £1 each	**7**	7
2,222 "B" ordinary shares of £1 each	**2**	2
	9	9

The majority holders of each of the "A" and "B" ordinary shares may appoint up to four directors. A director appointed by the majority holder of the "A" shares is the chairman and has the casting vote at Board Meetings. In all other respects the shares rank equally. Both the "A" and "B" ordinary shares are regarded as equity interests.

Notes *(continued)*

15 Reserves

	Share capital £000	Share premium £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At the beginning of year	9	158	3,777	420	**4,364**
Retained loss for the financial year	-	-	-	(246)	**(246)**
Balance at the end of year	9	158	3,777	174	**4,118**

16 Reconciliation of movements in equity shareholders' funds

	2004 £000	2003 £000
Profit for the financial year	**754**	267
Dividends	**(1,000)**	(250)
Retained (loss)/profit for the financial year	**(246)**	17
Net (reduction)/addition to shareholders' funds	**(246)**	17
At beginning of year	**4,364**	4,347
Balance at end of year	**4,118**	4,364

17 Financial commitments

(a) In September 2003, the company's subsidiary undertaking, Copthorne Hotel (Merry Hill) Construction Limited, exercised its option to purchase a 999 year lease on the Copthorne Merry Hill hotel for a consideration of £10,100,000 and has leased this property to Copthorne Hotel (Merry Hill) Limited.

The company has an option to purchase the freehold of the property for a consideration of £1 in 2018. The accounting treatment adopted by the company in respect of the lease payments assumes that the company will exercise the purchase option above.

Notes *(continued)*

(b) The finance lease creditor at 31 December is repayable as follows:

	2004	2003
	£000	£000
Within two to five years	**483**	-
After more than five years	**9,776**	10,158
	10,259	10,158

(c) Annual commitments under non-cancellable operating leases for plant and machinery are as follows:

	2004	2003
	£000	£000
Operating leases which expire:		
Within one year	**10**	9
In the second to fifth year inclusive	**21**	20
	31	29

(d) Capital commitments at the end of the financial year for which no provisions have been made were £nil *(2003: £nil)*.

18 Pension scheme

The Group operates a pension scheme (the Millennium & Copthorne Pension Plan) for its UK employees which was set up in 1993. The scheme is a funded defined benefit arrangement with different categories of membership. The assets of the Plan are held separately from those of the Group, being invested with The Frank Russell Company and Legal and General Investment Management Limited.

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 last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 6 April 2002 and updated on an approximate basis to 31 December 2004. At the April 2002 valuation date the market value of the Plan's assets was £14.3m, giving a funding level of 84%. At 31 December 2004, the market value of scheme assets was estimated at £17.3m, giving a funding level of 77%. The contributions of the Group were 20.6% of pensionable pay (*2003: 20.6%*). The contributions of employees were from 3% to 5% (*2003: 3% to 5%*) of pensionable earnings.

Notes *(continued)*

As the defined benefit section is closed to new entrants, the current service cost, as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed in April 2002 that investment returns would be between 5% and 7% per annum, that salary increases would average 5% per annum and that pensions would increase at rates varying between 2.7% and 3.5%. The expected average working lifetime of the members was calculated to be 8 years.

The next valuation of the Scheme is due as at 6 April 2005.

The total annual pension cost for the company was £42,000 *(2003:£41,000)*.

The Group also operates a defined contribution scheme for its UK employees.

FRS 17: Retirement benefits will change the method by which pension information is calculated and presented in the financial statements. On full adoption of FRS 17, in the year ended 31 December 2005, the company will take advantage of the provisions included within FRS 17 and account for the plan as if it were a defined contribution scheme. This is because it is not possible to identify the share of the underlying assets and liabilities of the scheme relating to the company on a consistent and reliable basis. The pension charge under FRS 17 will therefore represent the contributions payable in the year. These contributions will reflect the current deficit in the scheme and accordingly will be higher than the regular cost. The pension deficit of the plan in which the company had a share was £6.3 million as at 31 December 2004 *(2003: £4.1m)*.

Additional disclosure under the transitional rules of FRS 17 is provided in the group financial statements of Millennium & Copthorne Hotels plc.

19 Related party transaction

As the company is a wholly owned subsidiary of Millennium & Copthorne Hotels plc, the company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by Millennium & Copthorne Hotels plc.

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

20 Ultimate holding and controlling company and parent undertaking of the smallest and largest group of which the company is a member

The directors consider the ultimate holding and controlling company to be Hong Leong Investment Holdings Pte Limited 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 079903.

The immediate holding and controlling company is Copthorne Hotel Holdings Limited, a company registered in England and Wales. The smallest group in which the results of the company are consolidated is Millennium & Copthorne Hotels plc, a company registered in England and Wales. The consolidated accounts are available to the public and may be obtained from Victoria House, Victoria Road, Horley, Surrey, RH6 7AF.