



The Hotel Corporation plc

Report and Accounts

2005

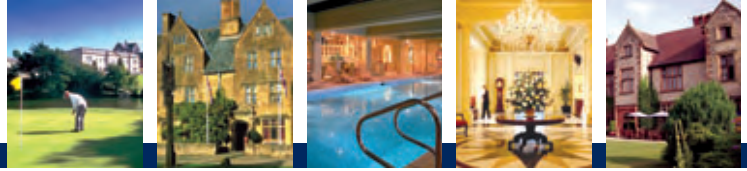


Contents

Highlights	1
Chairman's Statement	2
Paramount Group Overview	6
Directors and Advisers	7
Directors' Biographies	8
Directors' Report	9
Corporate Governance Statement	10
Statement of Directors' Responsibilities	11
Independent Auditors' Report to the Members	12
Income Statement	13
Balance Sheet	14
Statement of Changes in Equity	15
Cashflow Statement	16
Notes to the Financial Statements	17
Notice of Annual General Meeting	24
Appendix to the Annual Report – Extracts of Dawnay Shore Hotels plc Financial Results	25



The Lygon Arms, a Paramount Signature Hotel.



Highlights

The Hotel Corporation plc

- Profit, excluding revaluation gain, of £11.5m
- Independent valuation of hotels, as at 30 June 2005, translates into significant growth in net assets per share, up 24.5% at year end
- Final dividend of 3.2p, making a total of 5.8p for the year

Dawnay Shore Hotels plc (“DSH”)

- DSH like for like hotel EBITDA* increases by 2.9%
- Original 13 Paramount hotels EBITDA (like for like) increases by 5.2%
- Food margin increases from 77% to 81% and corporate room nights increase by 11%
- Acquisitions during 2005 increase room count from 1,800 to 2,700 across 20 hotels
- Furlong acquisition – including The Lygon Arms – positions DSH at top end of four-star sector

* Excludes Walton Hall which is under redevelopment and the Furlong Group which was acquired on 9 December 2005.



Billesley Manor Hotel, a Paramount Signature Hotel.



Chairman's Statement

I am pleased to report on the final figures for the twelve months ended 31 December 2005 for The Hotel Corporation plc (HCL).

As the Company's principal asset comprises its interest in Dawnay Shore Hotels plc (DSH), this statement will focus both on the Company's own results and then those of DSH. The balance sheet of DSH as at 1 January 2006 and the profit and loss account of DSH for the 52 week period ended 1 January 2006 are also provided in this statement.

Results of the Company

Revenue for the period, including bank interest, was £2.06m and, following administrative expenses, operating profit amounted to £1.8m. In addition, the profit includes a credit categorised as investment gains amounting to £9.7m arising from the measurement of the Company's investment in the ordinary shares of DSH at their fair value, in accordance with International Financial Reporting Standards. Including this investment gain, total profit before tax was £11.5m. No tax is payable for the period as the Company is registered as a tax exempt company in the Isle of Man. Basic and diluted earnings per share were 33.3p including these investment gains, and 5.3p without it.

In the absence of an independent professional valuation at 31 December 2005 of the portfolio of hotels held by DSH, the Directors have, in determining the fair value attributable to the ordinary shares of DSH, considered the price earnings multiples applicable to the hotel sector and applied a multiple, which they believe to be conservative to the earnings of DSH, making an appropriate adjustment for the carried interest attributable to the Founder shares in DSH (as defined in The Hotel Corporation plc prospectus issued on 9 July 2004). Walton Hall and the three Furlong Hotels have been valued at cost. The Directors have adopted a value of DSH of 195p per share, which compares with the price of 110p at which

HCL last acquired shares in DSH in January 2005. Given the highly leveraged structure of DSH (approximately four times the level of debt to equity), movements in the valuation of DSH (both upwards and downwards) will have a magnified effect on the value of the Company's shareholding in DSH.

Dividend

HCL has declared a final dividend of 3.2p per ordinary share, making a total of 5.8p for the year. The ex-div date will be 12 April 2006 and the record date 18 April 2006. Payment will be made to shareholders within 20 days of the record date. This amount reflects the profits for the year before tax and investment gains together with the dividend declared by DSH in respect of 2005.

Dawnay Shore Hotels plc

Portfolio composition and strategy

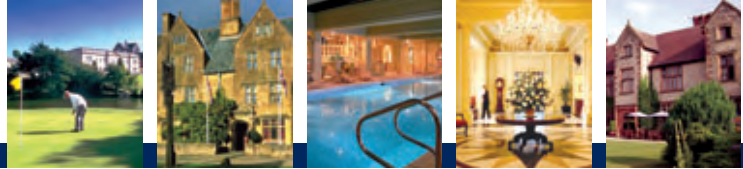
Significant acquisition activity during 2005 has seen the portfolio grow to twenty hotels. As at the year-end, DSH's portfolio comprises:

- 13 Paramount hotels acquired in July 2004 and held throughout the period;
- Three Hanover hotels, now re-branded as Paramount, acquired in mid-January 2005;
- Walton Hall acquired on 24 June 2005;
- The Lygon Arms and two other Furlong Hotels acquired on 9 December 2005.

This portfolio of twenty hotels comprises 2,700 rooms, increasing to circa 2,760 following the renovation of Walton Hall, and means that DSH now boasts a strong network of high quality properties around the UK.



Paramount Walton Hall Hotel & Spa.



Combe Grove Manor, a Paramount Signature Hotel.

Towards the end of 2005, "Paramount" was inserted in the name of each hotel in the core portfolio so as to present a more cohesive view of the Group whilst retaining the identity of each hotel in its local market place.

Each of the acquisitions made during 2005 has the clear strategic aim of enhancing investor returns. Combined, the acquisitions broaden the portfolio both in terms of geographic spread and market positioning. This reflects the needs of the key business segments targeted by DSH, including meeting and conference organisers, corporate and leisure clients. Each acquisition is pursuing a specific strategy:

- *Three Hanover Hotels* – The focus with these hotels is on adding value through renovation and repositioning. In particular, the major renovation of the Paramount Hinckley Island Hotel will create the premier conference and corporate venue in the Midlands. The scale of the hotel's meeting facilities, 349 rooms and location, in particular its proximity to the NEC, drives this repositioning. Work is substantially complete and the hotel is on track to meet its revenue target for the year. Basingstoke and Daventry provide further opportunities in the corporate and meetings segments.
- *Paramount Walton Hall* – A major redevelopment of this hotel (a former timeshare, leisure and banqueting complex) will increase room numbers from 126 to 195 and, subject to planning approval, a conference centre will be added during 2006 and the hotel will be re-launched at the end of this year.
- *Three Furlong Hotels* – The majority of Paramount's hotels operate in the core four-star full service market. The acquisition of the three Furlong hotels has allowed

Paramount to create a "Signature" group of hotels that operate at the top end of the four-star sector. Certain other DSH hotels will be converted to "Signature" in order to drive additional value from the Furlong acquisition.

Results and Operating Review

On a total Group basis (including all 20 hotels for their period of ownership) DSH's turnover for the 52 weeks ended 1 January 2006 was £89.5m, generating hotel operating profit of £33.4m. After central and other costs, EBIT was £18.4m. Net interest payable (including senior debt and deep discounted bonds) was £20.5m. The net loss before tax for the period was £2.0m and £0.5m after tax.

Following its acquisition in June, Walton Hall is undergoing redevelopment and on 9 December 2005 DSH acquired the three Furlong Hotels. Although included in the DSH statutory accounts, the results for these four hotels are excluded from the comments below.

The following comments therefore relate to the performance of the 16 hotels (Paramount 13 and Hanover 3). As they were previously controlled by other owners with a different capital structure, it is not meaningful to compare like-for-like financial information below the level of operating profit.

	01/01/2006 (Unaudited)	02/01/2005 (Unaudited)	% change
Turnover	£86.9m	£85.6m	1.5
Hotel Operating Profit*	£33.1m	£32.1m	2.9
Occupancy	70.9%	70.5%	0.6
Average Room Rate	£67.85	£67.89	(0.1)
Revenue per Available Room	£48.11	£47.86	0.5
Total Revenue per Available Room	£101.36	£100.08	1.3
* HOP is EBITDA for the individual hotels, excluding head office costs			

The table above compares the results for 2005 with the results for the same 16 hotels over the comparable period in 2004. It shows that, on a like for like basis, a small increase in turnover produced a rise in hotel operating profit of just under 3%. This partly reflects a strong conference season during September and October in Blackpool as well as cost efficiencies, offset by the impact of the renovation at the Paramount Hinckley Island Hotel. This overall performance is particularly pleasing when taking into account rising energy and commission costs that have impacted substantially on the hospitality industry. It is an industry trend that increasingly customers are booking through



Chairman's Statement continued

third party electronic distribution channels which charge commissions to hotel groups. It is worth noting that for the 13 hotels acquired during 2004, turnover and hotel operating profit increased by 2.6% and 5.2% respectively.

For the first half of the year, DSH reported strong growth in revenue from business travel but a more competitive conference and events market. This trend continued into the second half of the year – with the notable exception of strong conference business at the Imperial Hotel in Blackpool that hosted the autumn political conference held by the Liberal Democrats and Conservative Parties. DSH continues to focus on the corporate sector (including electronic distribution) and achieved an 11% increase in room nights year on year.

Whilst the less buoyant conference and events market had a direct impact on food revenue, close attention to customer requirements and cost efficiencies, resulted in a 5% increase in food department profit margins.

Dividends

DSH's policy remains to distribute its net surplus cash flow from time to time. In March 2006 the Board of DSH proposed to pay a dividend of 1.2p per share (£400,000 in total) in respect of the 52 week period ended 1 January 2006.

Property valuation

Looking ahead, the Directors consider that significant value should be generated from the level of interest in hotel

transactions and from other factors such as the renovation of the Paramount Hinckley Island Hotel, redevelopment of Walton Hall and addition of bedrooms to existing hotels.

Property development

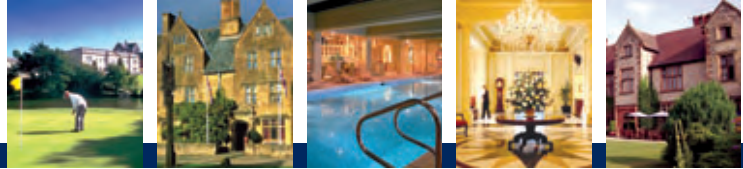
In line with stated strategy, DSH continues to extract development value from its property portfolio through room additions. During March 2006, construction started on 39 rooms at the Paramount Redworth Hall Hotel. This development is expected to increase the value of the property by circa £8 million or 40% (after deducting construction and financing costs, the net gain from the development is circa £4 million). Other schemes are being finalised and further rooms are expected to be added during 2006.

In addition, DSH is committed to enhancing earnings by renovating existing hotel rooms and public areas where a business case exists. The following is a summary of activity in this area:

- During 2005, several renovations were successfully completed focusing on the areas with the highest impact on the guest experience including:
- Paramount Palace Hotel, Buxton – 42 bedrooms and public areas;
- Paramount Stirling Highland Hotel – 40 bedrooms (completed prior to the G8 Conference in July 2005);
- Paramount Imperial Hotel, Blackpool – 85 bedrooms, reception, Number 10 bar, other public areas and exterior (completed prior to the hotel hosting two party political conferences in Autumn 2005);
- Subsequent to the year-end and during the relatively quiet period of January and February, a renovation of certain bedrooms was completed at the Paramount Redworth Hall and Paramount Shrigley Hall. In each case, this was targeted at the highest value rooms in the main manor house and a substantial average rate premium is already being realised from these bedrooms.
- As previously mentioned, the major renovation of the Paramount Hinckley Island Hotel, which commenced in the Spring of 2005, is now substantially complete. Feedback from meeting organisers and other guests has been extremely positive and forward reservations at the hotel are strong. The redevelopment of Walton Hall, is also progressing well and customer feedback on both the model guest room and the meeting rooms in the manor house, most of which have already been completed, has been



Paramount Oxford Hotel, Oxford.



exceptionally positive. These meeting rooms are already enjoying very high occupancy.

- During the year, the Paramount team won the bid to develop and operate the first British hotel school – in an operating hotel. This Paramount hotel is to be built and connected to the Bournemouth International Conference Centre. Pre-opening activity is underway and includes design activity, research, sales and marketing to secure business which in some cases has a 24 to 36 month lead time.

Management

In addition to the appointment of Peter Procopis (Finance Director) and Manju Goel (Sales and Marketing Director), Heiko Figge was appointed as Chief Operating Officer of Paramount Hotels in November 2005. Under the leadership of Charles Prew, DSH boasts a well-rounded and enthusiastic team with substantial experience in the UK and global hotel industry.

Annual General Meeting

The Notice convening the Company's Annual General Meeting, to be held at Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP is enclosed with this report and accounts. Included are resolutions seeking shareholders approval of the Company's investing strategy as required by AIM and for the repurchase of our own shares.

Prospects

The addition of seven hotels during 2005 has served to leverage further value from the Paramount brand and also to take DSH into the top end of the four star market. The sales and marketing team have introduced a number of revenue-generating initiatives to further increase awareness of the Paramount brand.

In addition, upgrades are being made to the Group's IT systems to better distribute room inventory and enhance yield management.

Market conditions around the UK have been variable since the start of 2006 with strong demand in locations such as Edinburgh and less robust trading in the Midlands and resort locations such as Blackpool and Torquay. Market-led revenue growth in the first half of the year is expected to be modest in comparison to the prior year. As with other UK regional operators, with significant leisure and conferencing facilities, DSH continues to focus on managing costs in the face of escalating energy prices and commissions. DSH anticipates that between 2% and 3% revenue growth will be required to offset increases in energy and commission costs.

DSH continues to seek acquisitions which fit its investment criteria. Valuations however have increased over the period and DSH is only interested in assets with the right geographic fit for its portfolio and the appropriate facilities to attract leisure and conference trade. Considerable development potential still remains within the existing portfolio and DSH will continue to seek to exploit these opportunities.

Trading in DSH has been positive and there has been considerable progress in exploiting the property potential of the portfolio. We believe DSH is building a portfolio and a brand of great value. As well as delivering a strong income stream, it is also growing its net asset value. We therefore view our prospect as an investor in DSH very positively.

Barclay Douglas

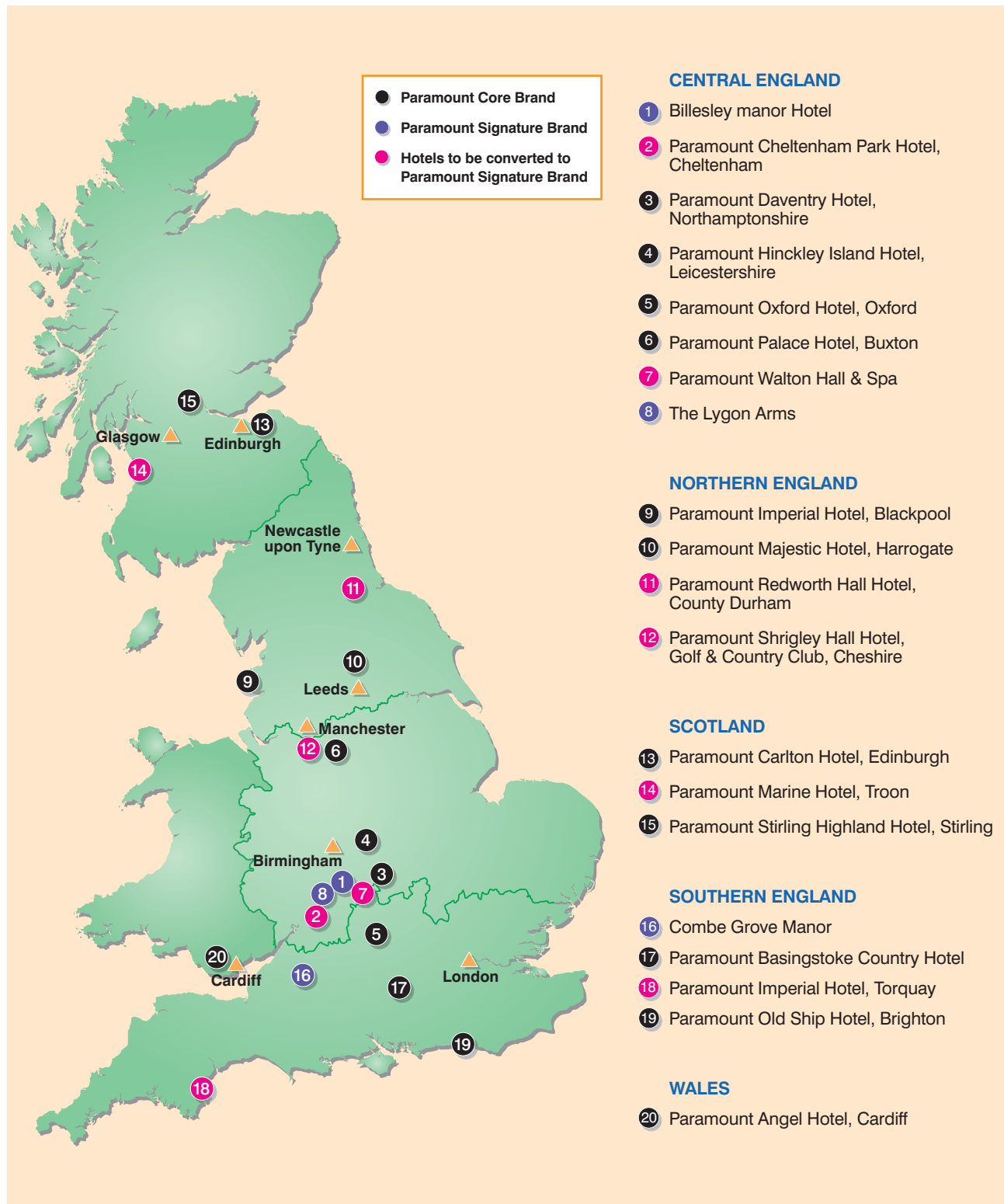
Chairman
3 April 2006

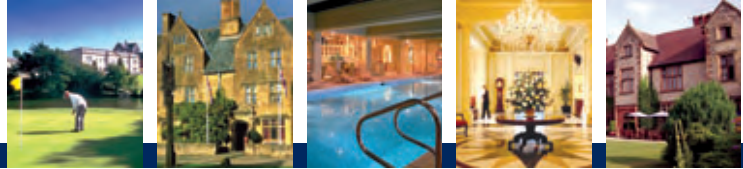


The Basingstoke Country Hotel, Hampshire.



Paramount Group Overview





Directors and Advisers

Directors

James Barclay Douglas CA LLB (Chairman)
Donald Lindsay Adamson MA MSI
Derek William Short FCIB MSI FinstD
David Peter Craine FCA JP

Registered Office

Burleigh Manor, Peel Road,
Douglas
Isle of Man IM1 5EP

Company Secretary

David Peter Craine
Burleigh Manor, Peel Road,
Douglas
Isle of Man IM1 5EP

Nominated Adviser

Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Stockbroker

Shore Capital Stockbrokers Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Solicitors to the Company

SJ Berwin
222 Gray's Inn Road
London WC1X 8XF

Isle of Man Advocates to the Company

Dickinson Cruickshank
33 Athol Street
Douglas
Isle of Man IM1 1LB

Auditors

Deloitte & Touche
Grosvenor House
Athol Street
Douglas
Isle of Man IM99 1XJ

Registrars & Crest Service Provider

Computershare Investors Services PLC
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW

Isle of Man Administration

Peregrine Corporate Services Limited
Burleigh Manor, Peel Road,
Douglas
Isle of Man IM1 5EP



Directors' Biographies

Barclay Douglas LLB CA (age 50)

Barclay now operates as a professional non-executive Director for both public and private companies and provides advisory services to private companies who are seeking to raise capital. He is also an active investor in private companies.

He was previously an executive Director of two private equity firms, Murray Johnstone and Mercury Private Equity, and has over 10 years' experience. During that time he represented investors on the boards of several private and public companies including Luminar plc, Britt Allcroft plc, and the Stationary Office.

He is a non-executive Director of Shore Capital Group plc, Third Advance Value Realisation Company Limited, Patientline plc and Worldmark International Limited.

David Craine FCA JP (age 51)

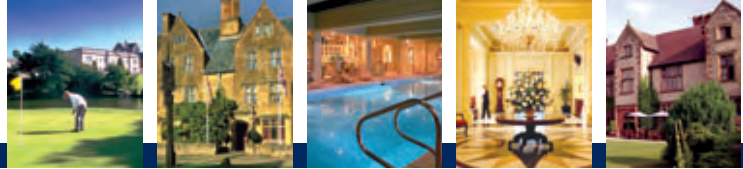
A former Chairman of the Isle of Man Society of Chartered Accountants, David is a founding member and Director of Peregrine Corporate Services Limited. A born and bred Manxman, David is also a Director in the Isle of Man firm of Browne Craine Associates Limited, an accountancy practice he founded with Maurice Singer in 1982. This firm being the successor to a long established and highly regarded local practice that was absorbed into the new partnership. David was also the Finance Director and Company Secretary of betinternet.com plc which is an AIM listed company.

Donald Adamson MA MSI (age 46)

Donald established his own specialist offshore consultancy in 1989, Research & Consulting Associates Limited, and has been involved in the securities industry since 1980. He acts as a Director or Chairman of a number of listed and privately-held investment companies, including Lindsell Train Investment Trust plc, Invesco Leveraged High Yield Fund Ltd, Equity Partnership Investment Company Ltd, EPIC Reconstruction plc and F & C Commercial Property Trust Limited.

Derek Short FCIB MSI FinstD (age 62)

Derek has had a successful career within financial services, latterly as Managing Director and owner of English and Continental Trust Company Limited, a company engaged in banking, company and trust management services based in Jersey, which was sold to Citco Group in 1999. Previously, he was Managing Director of Hambros Bank Jersey Limited, a Director of Hambros Bank Gibraltar and Hambros Channel Islands Trust Corporation Limited until December 1987 and then Managing Director of Trident Trust Company Jersey Limited and Trident Trust Company IOM Limited before founding English and Continental Trust Company Limited in 1989.



Directors' Report

The Directors present their annual report and the audited financial statements for the year to 31 December 2005.

Principal Activity

The principal activity of the Company is to invest in businesses within the hotels sector in the United Kingdom.

Business Review

A review of the business of the Company, including a list of the principal risks and uncertainties facing the Company, is set out in the Chairman's Report on pages 2 to 5.

Details of significant events since the balance sheet date being dividends proposed are contained in note 17 to the financial statements.

Results and Dividends

During the year the Company made a profit after taxation of £11,514,000 (2004 – £5,998,000) which has been transferred to reserves. Dividends paid of £1,450,095 are detailed at Note 9.

Directors

The Directors who served during the year were as follows:

			Appointed	Resigned
J. B. Douglas	Chairman	Non-Executive	14 Jun 04	
D. L. Adamson		Non-Executive	14 Jun 04	
D. W. Short		Non-Executive	14 Jun 04	
D. P. Craine		Non-Executive	27 Jan 05	
I. M. McArdle		Non-Executive	17 Jun 04	27 Jan 05

Donald Adamson retires by rotation at the next Annual General Meeting and, being eligible, offers himself for re-election.

Directors' Interests

The Directors who held office at 31 December 2005 had the following interests in the shares of the Company;

Director	Ordinary Shares Of 5 Pence	31 December 2005	
		Beneficial	Non-Beneficial
Barclay Douglas		100,000	–
Donald Adamson		20,000	–
Derek Short		10,000	–

There have been no changes in the interests of the Directors between 31 December 2005 and 3 April 2006.

Substantial Shareholdings

On 14 March 2006, the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of Holder	Number	Percentage Held
Pershing Keen Nominees	7,517,895	21.72%
Chase Nominees	5,073,086	14.65%
HSBC Global Custody	4,745,314	13.71%
Barfield Nominees	3,000,000	8.67%
Bank of NY Nominees	1,766,667	5.10%
Nortrust Nominees	1,257,143	3.63%
State Street Nominees	1,182,143	3.41%

Auditors

Deloitte & Touche, the Company's auditors, have expressed a willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By Order of the Board

David P. Craine FCA

Company Secretary

Registered Office

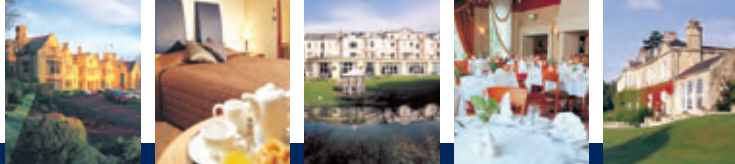
Burleigh Manor

Peel Road

Douglas

Isle of Man IM1 5EP

3 April 2006



Corporate Governance Statement

The Board of Directors are aware of the principles of corporate governance contained in the Combined Code on Corporate Governance.

Although the Company's shares have been admitted on to the Alternative Investment Market and the Company is not required to comply with the Combined Code, the Board monitors the Company's established procedures and continues, as far as possible, to comply with the Code to the extent that it is appropriate for the size and stage of development of the Company.

The Board comprises four non-executive Directors and is collectively responsible for all matters of good governance, and audit and remuneration committees will only be established by the Board if the Company's activities expand to the extent where the collective responsibility of the Board is more appropriately served by the establishment of such committees.

Internal Control

Accounting, administration and company secretarial services are provided to the Company by Peregrine Corporate Services Limited (PCS). PCS are a licensed Corporate Service Provider regulated by the Isle of Man Financial Supervision Commission.

Relations with Shareholders

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Chairman together with the Company's Nominated Advisers undertakes this function and reports back to the Board.

Directors' Remuneration

All Board members are non-executive Directors. Fees paid in the year are disclosed below.

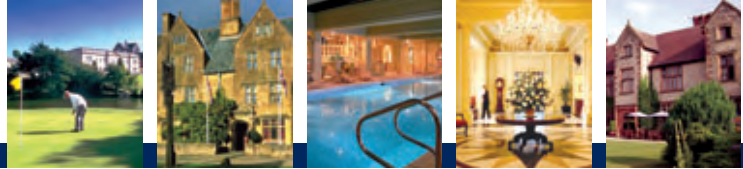
	2005 £'000	2004* £'000
Barclay Douglas (Chairman)	25	12
Donald Adamson	20	10
Derek Short	20	10
David Craine	3	–
Ita McArdle	–	5
Irrecoverable Value Added Tax	4	1
Total	72	38

* Part year (14 June to 31 December 2004).

All Directors are reimbursed for necessary travelling and subsistence costs incurred in attending Board and other meetings.

The Company has no share option or pension schemes.

Other than as disclosed above no other emoluments, incentive schemes or compensation for loss of office has been paid to any Director.



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and financial statements. The Directors have elected to prepare financial statements of the Company in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Isle of Man company law requires the Directors to prepare such financial statements in accordance with relevant accounting standards and the Companies Acts 1931 to 2004.

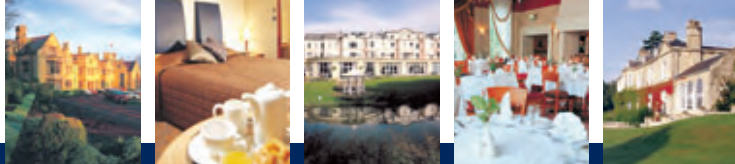
International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's position, financial performance and cash flows. This requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting standards;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business; and
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for the system of internal control, for safeguarding assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of the Companies Acts 1931 to 2004.

The Directors are responsible for the maintenance and integrity of any company website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent Auditors' Report to the Members of The Hotel Corporation plc

We have audited the financial statements ("the financial statements") of The Hotel Corporation plc for the year ended 31 December 2005 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. 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 auditors' 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 auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant Isle of Man legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements. We also report to you 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 other transactions is not disclosed.

We read the Directors' report for the above year and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 circumstances of the company and the group, 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.

In our opinion:

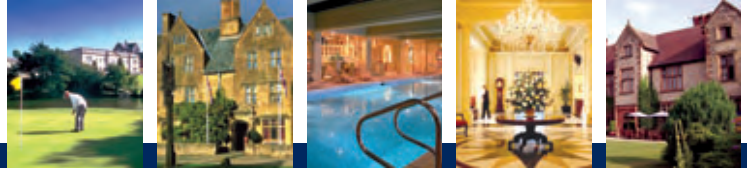
- the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the company's affairs at 31 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004.

Deloitte & Touche

Chartered Accountants
Douglas
Isle of Man
3 April 2006

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the Isle of Man governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

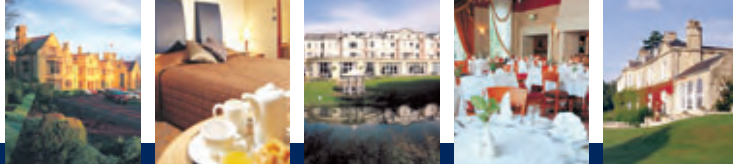


Income Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004* £'000
Continuing Operations			
Revenue	4	1,986	651
Administrative expenses		(247)	(95)
Profit from operations	7	1,739	556
Bank interest receivable	5	73	7
Investment gains – unrealised	5	9,702	5,435
Profit before tax		11,514	5,998
Taxation	8	–	–
Profit after tax for the year/period from continuing operations		11,514	5,998
Earnings per share		2005	2004
Basic and diluted	10	33.3p	29.4p

* From incorporation on 7 June 2004 to 31 December 2004.



Balance Sheet

As at 31 December 2005

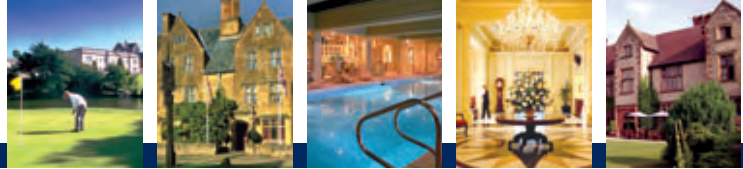
	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
ASSETS					
Non-Current Assets					
Investments	11		48,807		37,740
Current Assets					
Trade and other receivables	12	19		12	
Cash and cash equivalents	2	2,317		3,320	
			2,336		3,332
Total Assets			51,143		41,072
EQUITY & LIABILITIES					
Capital & Reserves					
Share Capital	14		1,731		1,731
Share Premium Account			33,308		33,308
Retained Earnings			16,062		5,998
			51,101		41,037
Current Liabilities					
Trade and other payables	15		42		35
Total Equity & Liabilities			51,143		41,072

The financial statements were approved by the Board of Directors and authorised for issue on 3 April 2006.

They were signed on its behalf by:

Barclay Douglas
Director

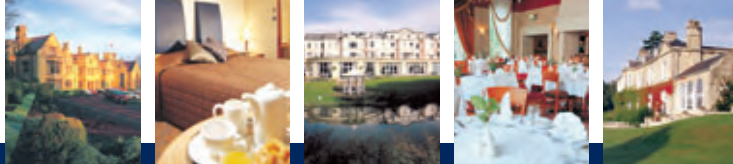
David Craine
Director



Statement of Changes in Equity

For the year ended 31 December 2005

	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Issue of Share Capital	1,731	33,518	—	35,249
Expense on Issue of Share Capital	—	(210)	—	(210)
Profit for the period	—	—	5,998	5,998
Balance at 31 December 2004	1,731	33,308	5,998	41,037
Profit for year	—	—	11,514	11,514
Dividend	—	—	(1,450)	(1,450)
Balance at 31 December 2005	1,731	33,308	16,062	51,101

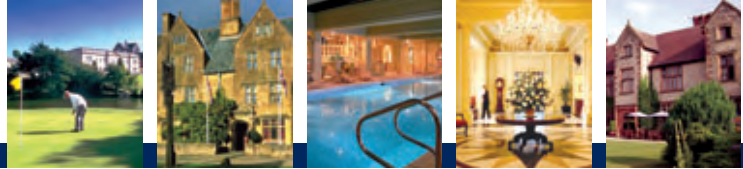


Cashflow Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004* £'000
Net Cash Outflow from Operating Activities	16	(247)	(72)
Investing Activities			
Interest Received		73	7
Purchase of Investments		(1,365)	(32,305)
Proceeds received on the maturity of Investments		1,986	651
Net cash from/(used in) Investing Activities		694	(31,647)
Financing Activities			
Issue of Share Capital		–	35,039
Dividends Paid		(1,450)	–
Net cash (used in)/from Financing Activities		(1,450)	35,039
Net (decrease)/increase in cash and cash equivalents		(1,003)	3,320
Cash and cash equivalents at beginning of year/period		3,320	–
Cash and cash equivalents at end of year		2,317	3,320

* From incorporation on 7 June 2004 to 31 December 2004.



Notes to the Financial Statements

For the year ended 31 December 2005

1. General Information

The Hotel Corporation plc is incorporated in the Isle of Man under the Companies Acts 1931 to 2004. The address of the registered office is given on page 7. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 9 and the Chairman's Statement on pages 2 to 5.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Comparative figures are for the period 7 June 2004 to 31 December 2004.

2. Significant Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's).

The financial statements have been prepared on the historical cost basis, except for the revaluation of Investments classified as Fair Value through Profit and Loss. The principal accounting policies adopted are set out below.

Early Adoption of Accounting Policies

The financial statements reflect the adoption of all International Financial Reporting Standards in issue at the balance sheet date.

Revenue Recognition

Bank interest is accounted for on an accruals basis.

In the case of investments in bonds issued at a significant discount to their maturity value, the discount is amortised over the period to maturity of the bond at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Retirement Benefit Costs

The Company has no retirement benefit or pension schemes in operation and therefore there is no cost nor future obligation.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost.

Held to Maturity Investments

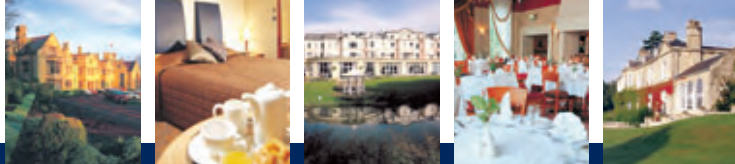
At subsequent reporting dates, bonds that the company has expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Amortisation is taken to the Income Statement for the period.

Other Investments

Other investments are designated as Fair Value through Profit or Loss and are measured at subsequent reporting dates at their fair value. For investments designated as Fair Value through Profit and Loss Investments, gains and losses arising from changes in fair value are included in net profit or loss for the period.

Cash and cash equivalents

Cash and cash equivalents comprise cash which is accessible within 24 hours.



Notes to the Financial Statements *continued*

For the year ended 31 December 2005

2. Significant Accounting Policies *continued*

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Use of Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the Company's financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates in the Company's financial statements include the amounts recorded for the fair value of the investments. By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the Company's financial statements of changes in estimates in future periods could be significant.

3. Critical Judgements in Applying the Company's Accounting Policies

In the process of applying the Company's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Fair Value of Investments

Note 11 sets out in detail the method at which fair value is attributed to the Company's investment in ordinary shares in Dawney Shore Hotels plc.

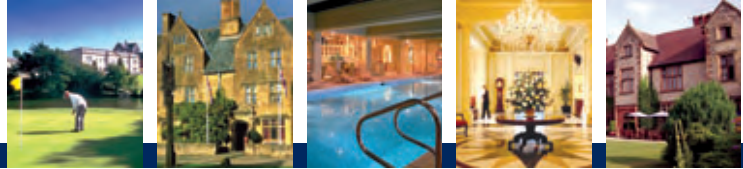
4. Revenue

An analysis of the Company's revenue is as follows:

	2005 £'000	2004 £'000
Amortisation of discount on investments (note 11)	1,986	651

5. Investment Income

	2005 £'000	2004 £'000
Bank Interest	73	7
Investment gains (unrealised) (note 11)	9,702	5,435
	9,775	5,442



6. Business and Geographical Segments

The Directors consider that there is only one business segment being investment in equities, bonds, and other instruments issued by the hotel sector. All this activity is carried out in the British Isles.

7. Profit from Operations

	2005 £'000	2004 £'000
Profit from operations has been arrived at after charging:		
Directors' fees	72	38
Auditors' remuneration – audit services – current year	21	10
– prior period	15	–
– non-audit	–	2

The Company has had no employees in 2005 and 2004.

8. Taxation

The Isle of Man Treasury announced a move to a 0% tax rate for companies with effect from 6 April 2006 in the Budget address on 21 February 2006.

Notwithstanding this position, the Company has been granted exemption from the Isle of Man Income Tax pursuant to Section 1 of the Income Tax (Exempt Insurance Companies) Act 1981. Accordingly, no provision for Isle of Man taxation has been included within these financial statements.

9. Dividends

On 15 February 2005 the Company announced a dividend of 2.5 pence per share in respect of the 22 million ordinary shares of 5 pence in issue at the time of flotation in July 2004. The dividend, which amounted to £550,000 was paid on 11 March 2005.

The Company declared an interim dividend of 2.6 pence per ordinary share. The dividend which amounted to £900,095 was paid on 21 October 2005.



Notes to the Financial Statements continued

For the year ended 31 December 2005

10. Earnings per Share

	2005	2004
Basic and Diluted Earnings per Share	33.3p	29.4p
This comprises:		
Basic and diluted earnings per share from operations and bank interest	5.3p	2.7p
Basic and diluted earnings per share from investment gains	28.0p	26.7p

The calculation of basic earnings per share is based on the following data:

	2005 £'000	2004 £'000
Earnings		
Profit from Operations	1,739	556
Investment Income	9,775	5,442
Net Profit for the Period	11,514	5,998

	2005	2004
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	34,619,050	20,388,742

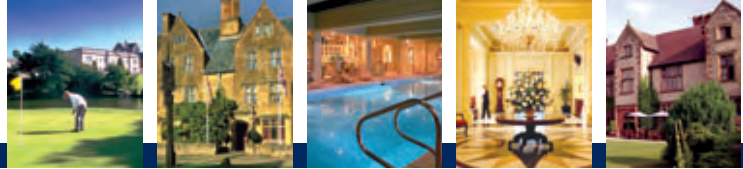
There were no convertible instruments in existence as at 31 December 2005 and therefore diluted earnings per share does not differ from the basic earnings per share.

11. Investments

Classified as:	2005 £'000	2004 £'000
Fair Value through Profit or Loss Investments	32,257	21,840
Held to Maturity	16,550	15,900
	48,807	37,740

Fair Value through Profit or Loss Investments

	2005 £'000	2004 £'000
Unlisted Investments at Fair value		
Fair Value at Start of Period	21,840	—
Additions at cost	715	16,405
Increase in fair value (note 5)	9,702	5,435
Fair Value at 31 December	32,257	21,840



11. Investments continued

The unlisted investment shown above represents a holding of 16,550,000 ordinary shares of £1 par value in Dawnay Shore Hotels plc, which comprises 49.92% of the issued share capital of that company, which is incorporated and registered in the United Kingdom. Investments in the ordinary shares of Dawnay Shore Hotels plc ("DSH") held at the balance sheet date are measured at their fair value.

In the absence of an independent professional valuation at 31 December 2005 of the portfolio of hotels held by DSH, the Directors have, in determining the fair value attributable to the ordinary shares of DSH, considered the price earnings multiples applicable to the hotel sector and applied a multiple, which they believe to be conservative to the earnings of DSH, making an appropriate adjustment for the carried interest attributable to the Founder shares in DSH, (as defined in The Hotel Corporation plc prospectus issued on 9 July 2004).

Any resultant gain or loss in the value of the Company's equity investment in DSH is recognised in the Income Statement.

Investments Held to Maturity

	2005 £'000	2004 £'000
Cost and net book value		
At Start of Period	15,900	–
Additions	650	15,900
Amortisation of discount (note 4)	1,986	651
Maturity	(1,986)	(651)
At 31 December	16,550	15,900

The investments included above represent unlisted investments in unsecured deep discount bonds issued by DSH (Finance) plc, a subsidiary of Dawnay Shore Hotels plc, maturing at nominal value over a period of 5 years. The bonds have a coupon rate of nil percent.

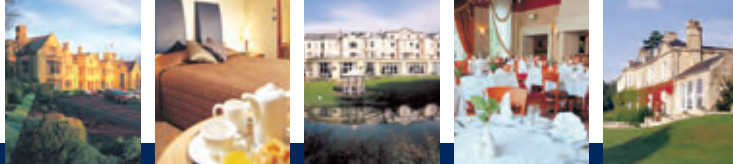
The maturity profile of the bonds held at 31 December 2005 is shown below:

	Nominal Value	
	2005 £'000	2004 £'000
Maturing		
Within one year	1,986	1,908
One to two years	1,986	1,908
Two to three years	1,986	1,908
Three to four years	17,543	1,908
Four to five years	–	16,854
Total	23,501	24,486

12. Trade and Other Receivables

	2005 £'000	2004 £'000
Prepayments	12	12
Receivables	7	–
	19	12

The Directors consider that the carrying amount of trade and other receivables approximates to their Fair Value.



Notes to the Financial Statements *continued*

For the year ended 31 December 2005

13. Risk Exposure

Credit Risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its investments in DSH and its subsidiaries, details of which are disclosed in Note 11. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest Rate Risk

The Company maintains the majority of cash balances within over-night fixed rate deposits. The deposit rates offered by banking institutions fluctuate on an ongoing basis, reacting to changes in the market. The interest recognised on such instruments fluctuates with changes in market rates.

The Company has effectively fixed the majority of its interest rate risk by investing in deep discount bonds. These bonds have a coupon rate of nil percent.

Market Risk

The Company has a concentrated market risk exposure to the performance of a particular hotel group in addition to market changes within the hotel market in the British Isles.

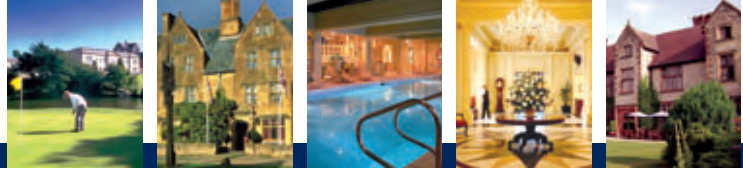
Liquidity Risk

The majority of the Company's assets are invested. The market for the investments that the Company has invested in is not considered to be highly liquid. However trades of such investments do take place from time to time. Cash balances are maintained to ensure that the Company is able to meet expenses.

14. Share Capital

	2005 Number	2005 £'000	2004 Number	2004 £'000
Authorised: Ordinary Shares of £0.05				
As at 31 December	80,000,000	4,000	80,000,000	4,000
	2005 Number	2005 £'000	2004 Number	2004 £'000
Issued: Ordinary Shares of £0.05				
Balance at Start of Period	34,619,050	1,731	–	–
Subscribed on 7 June 2004	–	–	40	–
Issued on 6 July 2004	–	–	21,999,960	1,100
Issued on 8 December 2004	–	–	12,619,050	631
As at 31 December	34,619,050	1,731	34,619,050	1,731

The Company has one class of ordinary shares which carry no right to fixed income.



15. Trade and Other Payables

Trade and other payables principally comprise amounts outstanding for ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their Fair Value.

16. Notes to the Cashflow Statement

Reconciliation of Profit from Operations to Net Cash from Operating Activities.

	2005 £'000	2004 £'000
Profit from Operations	1,739	556
Increase in Receivables	(7)	(12)
Increase in Trade and other payables	7	35
Amortisation of Discount on Purchase of investments	(1,986)	(651)
Net cash outflow from operating activities	(247)	(72)

17. Events after the Balance Sheet Date

On 3 April 2006 the Company declared a dividend of 3.2 pence per share. The ex-div date will be 12 April 2006 and a record date of 18 April 2006. Payment will be made to shareholders within 20 days of the record date. This amount reflects the profits for the year before tax and investment gains together with the dividend declared by DSH in respect of 2005.

18. Related Party Transactions

Ultimate Controlling Party

In the opinion of the Directors there is no ultimate controlling party.

Key Management Compensation

The remuneration of the Directors who are the key management personnel, is set out below:

	2005 £'000	2004 £'000
Short-term employee benefits – Directors fees	72	38
Post employment benefits	–	–
Other long-term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
Total	72	38

Barclay Douglas is a non-executive Director of Shore Capital Group plc who act both as Nominated Advisers and Stockbrokers to the Company, and to whom fees amounting to £23,500 in respect of acting as Nominated Adviser were paid during the year (2004 – £70,960 as Nominated Adviser and placing fees).

David Craine is a Director of Peregrine Corporate Services Limited, (PCS) the Company which provides accountancy, administration and secretarial services to The Hotel Corporation plc. Fees of £44,173 (2004 – £Nil) were paid to PCS during the year.



Notice of Annual General Meeting To the Members of The Hotel Corporation plc

We hereby give notice that the Annual General Meeting of the shareholders of The Hotel Corporation plc will be held at Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP on the 26 May 2006 at 10.00 am.

Agenda

1. To receive and, if approved, adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2005, together with the Report of the Independent Auditors.

2. To declare a final dividend for the year ended 31 December 2005.

3. To re-appoint Director:

Donald Adamson who retires by rotation and, being eligible, offers himself for re-appointment; and

4. To appoint Auditors, Deloitte & Touche, Chartered Accountants who, being eligible, have expressed their willingness to continue in office.

5. In accordance with AIM Rules a resolution is proposed to seek shareholders annual approval for the Company's investing strategy which is;

To invest in business in the four star hotel sector in the UK with a particular focus on provincial hotels, as a passive investor. The Directors believe they possess the relevant strength and breadth of experience and skills to implement the Company's investing strategy, evaluate proposed investments and effect due diligence on such investments as appropriate, whether personally or by utilising professional advisers.

6. To adopt the following ordinary resolution.

That the company be unconditionally and generally authorised to make market purchases (as defined by section 13 of the Companies Act 1992) of ordinary shares of £0.05 each in its capital, provided that;

a) the maximum number of shares that may be so acquired is 1,730.952;

b) the minimum price that may be paid for the shares is £0.05 per share;

c) the maximum price that may be so paid is, for a share the Company contracts to purchase on any day, a sum equal to 105 per cent of the average of the upper and lower quotations for the ordinary shares of the company in the Daily Official List of the Stock Exchange on the 5 business days immediately preceding that day; and

d) the authority conferred by this resolution shall expire on 30 September 2007 but not as to prejudice the completion of a purchase contracted before that date.

We enclose:

- a form of proxy which, to be valid, must be lodged at the registered office of the Company not less than 48 hours before the time of the meeting;

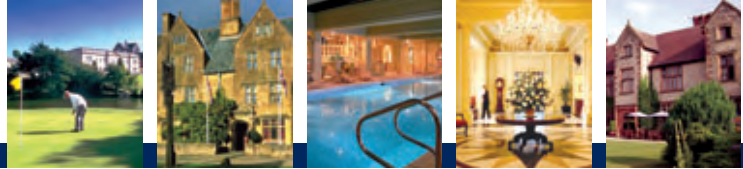
Please return the completed forms, as appropriate.

On behalf of the Board

David Peter Craine

Company Secretary

3 April 2006



Appendix to the Annual Report

Information relating to Dawney Shore Hotels plc ("DSH")

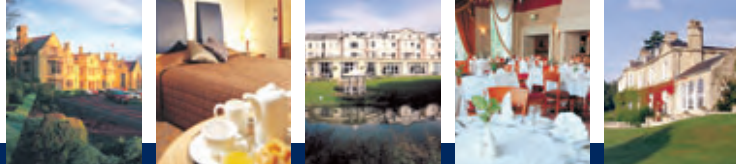
The profit and loss account of DSH for the year ended 1 January 2006 together with the balance sheet of DSH as at 1 January 2006 is provided below and have been prepared in accordance with applicable United Kingdom accounting standards. Please refer to DSH's full annual accounts for further information.

Dawney Shore Hotels plc
Consolidated Profit And Loss Account
Year ended 1 January 2006

	Existing operations Year ended 1 January 2006 £'000	Acquisitions Year ended 1 January 2006 £'000	Year ended 1 January 2006 £'000	Period ended 2 January 2005 £'000
Turnover	71,863	17,595	89,458	36,395
Cost of sales	(8,741)	(2,191)	(10,932)	(4,984)
Gross Profit	63,122	15,404	78,526	31,411
Administrative expenses	(47,893)	(12,321)	(60,214)	(23,466)
Operating Profit	15,229	3,083	18,312	7,945
Profit/(loss) on sale of fixed assets			127	(7)
			18,439	7,938
Interest receivable and similar income			318	217
Interest payable and similar charges			(20,772)	(8,134)
(Loss)/Profit on Ordinary Activities before Taxation			(2,015)	21
Tax on (loss)/profit on ordinary activities			1,554	29
Retained (Loss)/Profit for the Financial Period			(461)	50

All of the group's operations during the period shown above represent continuing operations.

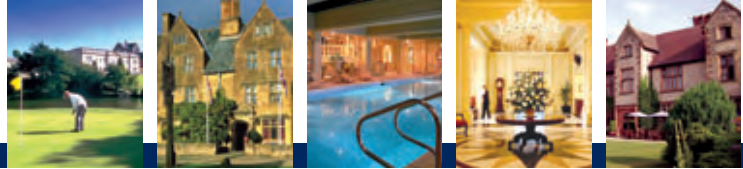
The prior period is in respect of the 25 weeks ended 2 January 2005.



Appendix to the Annual Report *continued*

Dawnay Shore Hotels plc Consolidated And Company Balance Sheet Year ended 1 January 2006

	Group Year ended 1 January 2006 £'000	Company Year ended 1 January 2006 £'000	Group Period ended 2 January 2005 £'000	Company Period ended 2 January 2005 £'000
Fixed assets				
Intangible assets – goodwill	9,846	–	7,685	–
Tangible assets	375,207	–	237,281	–
Investments	–	105,340	–	88,623
	385,053	105,340	244,966	88,623
Current Assets				
Stocks	877	–	713	–
Debtors	7,564	195,419	7,582	94,657
Cash at bank and in hand	6,474	290	23,926	21,329
	14,915	195,709	32,221	115,986
Creditors: amounts falling due within one year	(23,373)	(48,377)	(23,525)	(41,942)
Net Current (Liabilities)/Assets	(8,458)	147,332	8,696	74,044
Total Assets Less Current Liabilities	376,595	252,672	253,662	162,667
Creditors: amounts falling due after more than one year	(302,482)	(208,133)	(199,127)	(120,302)
Provision for Liabilities and Charges	(9,495)	–	(10,650)	–
Net Assets	64,618	44,539	43,885	42,365
Capital and Reserves				
Called up share capital	1,658	1,658	1,598	1,598
Share premium account	32,137	32,137	30,877	30,877
Revaluation reserve	31,180	–	11,360	–
Profit and loss account	(357)	10,744	50	9,890
Equity Shareholders' Funds	64,618	44,539	43,885	42,365

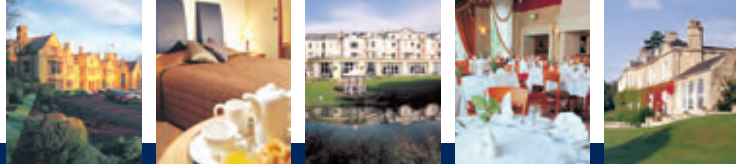


Dawnay Shore Hotels plc
Consolidated Statement of Total Recognised Gains and Losses
Year ended 1 January 2006

	Year ended 1 January 2006 £'000	Period ended 2 January 2005 £'000
Retained (loss)/profit for the financial period	(461)	50
Unrealised surplus on revaluation of properties	19,874	11,360
Total recognised gains and losses relating to the period	19,413	11,410

Note of Consolidated Historical Cost Profits and Losses
Year ended 1 January 2006

	Year ended 1 January 2006 £'000	Period ended 2 January 2005 £'000
Reported (loss)/profit on ordinary activities before taxation	(2,015)	21
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	54	—
Historical cost (loss)/profit on ordinary activities before taxation	(1,961)	21
Historical cost (loss)/profit for the year retained after taxation and dividends	(407)	50



Appendix to the Annual Report continued

Dawnay Shore Hotels plc Consolidated Cash Flow Statement Year ended 1 January 2006

	Year ended 1 January 2006 £'000	Period ended 2 January 2005 £'000
Net cash inflow from operating activities	28,051	9,906
Returns on investments and servicing of finance		
Interest received	318	217
Interest paid	(19,436)	(3,464)
Interest paid on finance leases	(75)	(47)
Net cash outflow from returns on investments and servicing of finance	(19,193)	(3,294)
Taxation		
Corporation tax paid	–	–
Capital expenditure		
Purchase of tangible fixed assets	(7,565)	(1,684)
Sale of tangible fixed assets	1,114	73
Net cash outflow from capital expenditure and financial investment	(6,451)	(1,611)
Acquisitions		
Purchase of hotels	(75,104)	–
Purchase of subsidiary undertakings	(16,716)	(89,213)
Cash balances less overdraft acquired with hotels and subsidiary undertakings	(51)	4,024
Net cash outflow from acquisitions	(91,871)	(85,189)
Net cash outflow before financing	(89,464)	(80,188)
Financing		
Issue of share capital	1,320	32,475
New term loans raised	97,325	177,000
New bonds issued	1,200	30,425
New loan note issued	3,595	–
Bank loans repaid	(25,389)	(85,822)
Loan stock repaid	–	(46,949)
Bonds repaid	(3,475)	–
Term loan issue costs	(2,065)	(2,693)
Repayment of principal under finance leases	(499)	(322)
Net cash inflow from financing	72,012	104,114
(Decrease)/increase in cash	(17,452)	23,926

The Hotel Corporation plc
Peregrine Corporate Services Limited
Burleigh Manor
Peel Road
Douglas
Isle of Man IM1 5EP