

# The Hotel Corporation plc

Report and Accounts 2004

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# Highlights

## **The Hotel Corporation plc**

- Profit, including revaluation gain, of £6.0m
- Independent valuation of hotels translates into significant growth in net assets per share, up 18.6% at year end

## **Dawnay Shore Hotels plc**

- Hotel EBITDA of £14.3m, in line with expectations
- Revenue per available room up 6.1% on same period of 2003
- Progressing the significant property development potential within portfolio
- Increasing share of business, conference and leisure market across the UK
- Integration of 3 Hanover hotels in January 2005 going to plan, benefiting from centralised systems across the group



*Redworth Hall Hotel, County Durham.*

## Chairman's Statement and Operating and Financial Review

I am pleased to report a successful maiden set of preliminary figures for the period ended 31 December 2004.

### Background

The Company was formed as a means for investors in publicly quoted companies to gain an interest in Dawnay Shore Hotels plc ("DSH"). DSH is the vehicle established by Dawnay, Day and Shore Capital to acquire an initial group of hotels and to use this platform to develop a chain of four star British regional hotels. As the Company's principal asset comprises its interest in DSH, this statement will focus both on the Company's own results and then those of DSH.

The DSH directors believed that the timing in the hotel cycle was advantageous for such acquisitions and that the strong net cash flows expected from DSH's operations should enable substantial distributions to its investors during the planned five year period of investment. Following this period, a number of possibilities for exit would be explored. These include flotation of DSH, transfer of its properties into a retail investment structure and sale of the DSH Group in its entirety to another hotel group or private equity buyer.

On 12 July 2004, DSH acquired the Paramount Group, a chain of 13 four star hotels across Britain, with extensive banqueting, conference and leisure facilities, for an aggregate cash consideration of £215 million before expenses. This was financed through equity and mezzanine finance subscribed by clients of Shore Capital and by senior debt, in the amount of £177m, provided by Anglo Irish Bank. At the same time, the Company raised £22 million through a placing by Shore Capital of 22 million Ordinary Shares at £1 per share and the Company subscribed for £21.7m of units in DSH. On 17 December 2004, the Company raised £13.25m from investors and subscribed for a further £10.6m of units in DSH. These units comprise equity in DSH and deep discount bonds issued by a wholly-owned subsidiary of DSH.



*The Basingstoke Country Hotel, Hampshire.*

The total amount invested by the Company in DSH as at 31 December 2004 was £32.3m.

### Results of the Company

Revenue for the period was £651,000 and, following administrative expenses, operating profit amounted to £556,000. In addition, the profit includes a credit categorised as investment gains amounting to £5,435,000, 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 £5,998,000. 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 29.42p including these investment gains, and 2.76p without it.

The Company has valued its shareholding in DSH on the basis of the net asset value of DSH as set out in that company's accounts, without seeking to apply any adjustment. DSH's accounts themselves include a valuation of its portfolio of hotels of £235.1m, which was carried out by Colliers Robert Barry, third party

independent valuers in November 2004. This translates into a net asset value per share in the capital of DSH of £1.37 per share. 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.

### DSH results

These results show the performance of the Paramount Hotels acquired by DSH from Alchemy in July 2004. They do not include any contribution from the second acquisition, of three Hanover hotels, which was completed in January 2005. Given that Paramount was previously controlled by a private equity owner with a different capital structure, it is not meaningful to compare like-for-like financial information below the level of operating profit. The table below therefore compares certain key performance indicators for the 25 week period ended 2 January 2005 with the 24 week period ended 28 December 2003.

	H2 04 (Unaudited)	H2 03 (Unaudited)	% change
Occupancy	77.1%	77.9%	-1.1%
Average Room Rate	£66.11	£61.65	+7.2%
Revenue per Available Room	£50.95	£48.04	+6.1%
Turnover	£36.4m	£33.2m	+9.7%*
Hotel Operating Profit <sup>1</sup>	£14.3m	£13.4m	+6.7%*

(\*25 weeks to 2 January 2005, 24 weeks to 28 December 2003)

<sup>1</sup> HOP is EBITDA for the individual hotels, excluding head office costs

Trading in DSH for the period ended 2 January 2005 was in line with expectations, whilst the integration process continues to plan. Under CEO Charles Prew, appointed during the period, Management's decision to focus on the conference and leisure market has been fully justified, with the Group increasing its share of the market.

Results for DSH during the 25 week period ended 2 January 2005 showed turnover of £36.4m and hotel operating profit of £14.3m. After central costs including £600k of professional fees and other costs incurred in connection with the abortive acquisition of a second portfolio of hotels in September 2004, operating profit was £7.9m. After interest paid (including in respect of the senior debt and the first series of deep discounted bonds), DSH achieved profit before tax of £21,000. Excluding the aborted fees and costs mentioned above, profit before tax would have been considerably higher. DSH's policy remains to distribute its net surplus cash flow from time to time and anticipates the payment of dividends in respect of the financial year ending 31 December 2005.

These results do not include any contribution from the Hanover hotels, which were acquired by DSH in January 2005 for £57m, before expenses, and have in general performed in line with expectations since acquisition. However, the pipeline of conference bookings at Hinckley (one of the Hanover hotels acquired in January) had decreased before acquisition. DSH's conference sales team has been working hard to remedy this and



# Chairman's Statement and Operating and Financial Review

(continued)



*University Suite, The Oxford Hotel.*

enquiry levels are now strong. We therefore expect a performance uplift at Hinckley in the latter part of 2005.

The hotel portfolio of the Paramount Group was valued by Colliers Robert Barry on an existing use basis and following the guidelines of the RICS at £235.1 million, as at 18 November 2004. This equates to a value per room of £130,000 and represents an increase of 9.3 per cent over the consideration paid by DSH for the acquisition of the Paramount Group on 12 July 2004. As DSH's acquisition of Paramount was financed with a substantial element of senior debt, this implies a much larger increase in the value of the net assets of DSH attributable to its shareholders (including the Company).

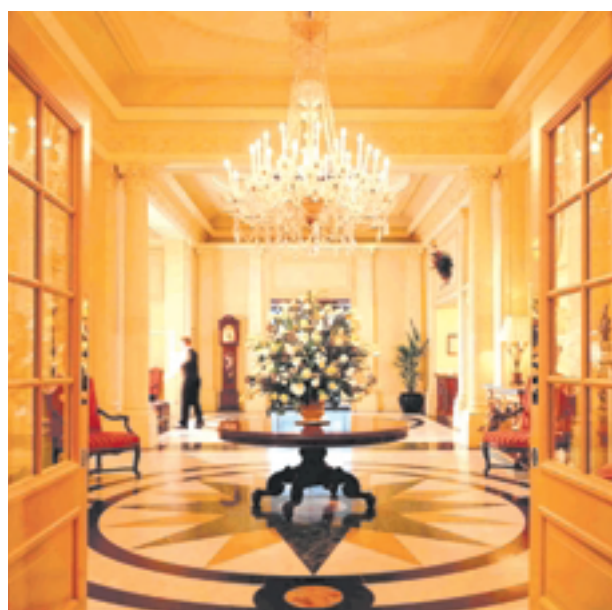
The gain resulting from this revaluation has been recognised in the income statement of the Company and results in a net asset value per share of the Company as at 31 December 2004 of £1.18. This translates, on a pro-forma basis, to a net asset value per share of £1.23 in respect of the shares issued on the Company's flotation.

## Property Development - DSH

DSH has worked to extract development value from the entire portfolio; this has taken two main directions. Firstly, by building value in the business through additions to the stock of hotel rooms, and secondly through developments which include alternative use for part of the site or the construction of new buildings.

New hotel bedrooms cost approximately £65,000 to build but have a current average value of £130,000. DSH has targeted hotels for development where the uplift is expected to be above average, thus maximising the potential value to the business.

Across the portfolio, DSH has formulated detailed plans to add a further 315 hotel rooms, of which 189 rooms have already received planning consent; it intends to submit applications for the remaining 126 which it believes have good prospects of obtaining consent. DSH now intends to move forward, initially selecting for capital expenditure those sites with the greatest potential value. In addition, it has identified further significant opportunities, for which plans are less advanced, to build rooms in other parts of the hotel portfolio.



*The Imperial Hotel, Torquay.*

There is a significant opportunity for a comprehensive re-development of the five star Imperial Hotel Torquay, subject to planning consent. A striking new cliff-top building will include an enlarged landmark Imperial Hotel and International Spa, plus a mix of residential property for individual or multi ownership. DSH has presented the scheme to key local stakeholders and received a favourable initial response.

The planning process is a complex matter and is expected to be protracted. However, the opportunity to create a world-class resort hotel, which is expected to generate significant revenues for DSH, is being strongly pursued.

### Dividends – the Company

As described in the Company's Prospectus dated 9 July 2004, it is the Board's policy that, subject to the availability of distributable reserves, dividends will be paid to shareholders when the Directors believe it is appropriate and prudent to do so. Accordingly, an interim dividend of 2.5 pence per share was declared in February 2005 paid on 11 March 2005 in respect of the 22,000,000 ordinary shares issued by the Company at flotation and the Directors are not recommending a final dividend in respect of the period. Going forward, the Company expects to continue to pay dividends reflecting the cash flow received from DSH and retaining only such cash within the Company as is needed to fund its ongoing expenses and any short-term requirements for investment.

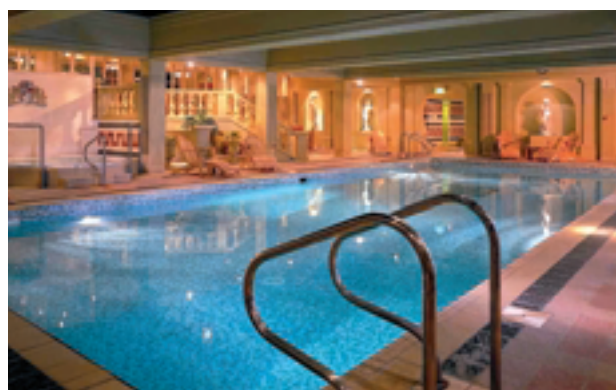


*Cheltenham Park Hotel, Cheltenham.*

It is expected that the next dividend to be paid will be in respect of the June 2005 interim accounts, relating to the redemption of deep discount bonds by DSH (Finance) plc, a subsidiary of DSH, and any additional income accrued by the Company.

### Annual General Meeting

Notice convening the Company's first Annual General Meeting, to be held at Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP on Wednesday, 25 May 2005, will be enclosed with the Company's report and accounts for the period, to be despatched to shareholders shortly.



# Chairman's Statement and Operating and Financial Review

(continued)

## Prospects

I am very pleased with the two excellent businesses that DSH has acquired, and with their trading to date. The new management team, under CEO Charles Prew, has settled in well and the hotels are performing ahead of the industry average, particularly in terms of conference bookings. DSH is also experiencing very satisfactory levels of demand for weekend and leisure breaks.

DSH remains interested in adding value to the portfolio if suitable acquisitions can be found which meet its financial criteria. Valuations, however, have increased over the period and DSH would only be 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.

As noted in the preliminary announcement by DSH today, David Pantin has stepped down as Chairman of DSH (effective 20 July 2005) to be better able to pursue his various business interests which involve significant travel. The Directors of the Hotel Corporation thank David for his commitment and contribution to DSH in its first period of trading.



*The Old Ship Hotel, Brighton.*

The Directors of the Hotel Corporation believe that the rationalisation of the hotel sector will continue to provide attractive opportunities for DSH. There has been an encouraging start to the year and we look forward to the rest of 2005 with confidence. As a sign of this confidence, the Company invested a further £1.36m in units of DSH in February 2005.

**Barclay Douglas**

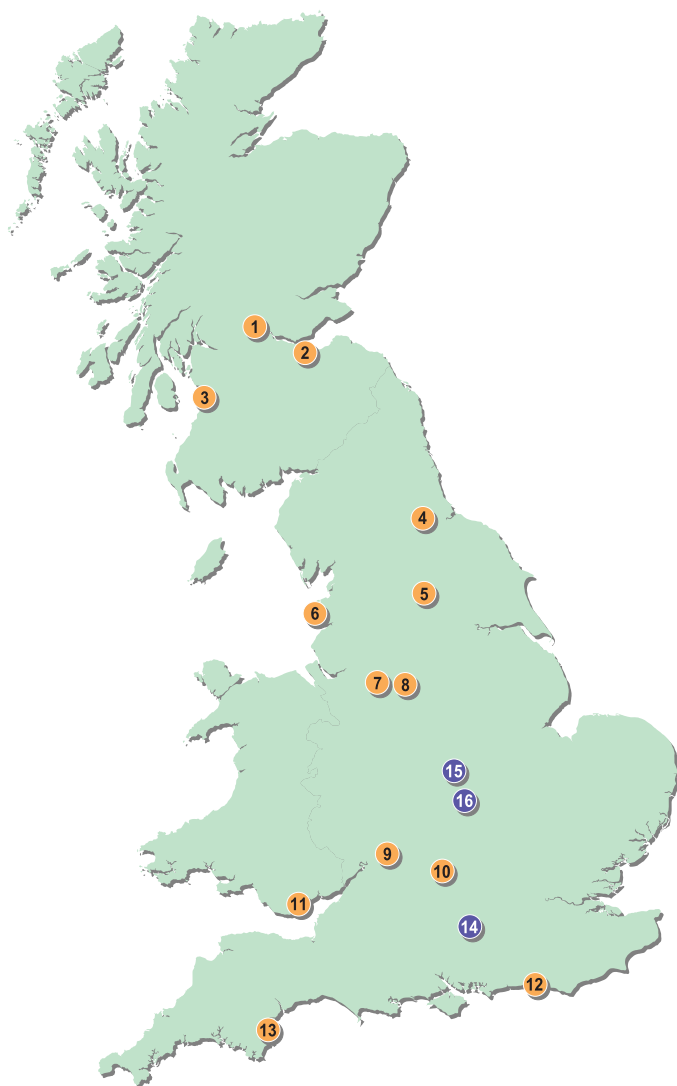
Chairman

3 May 2005



*The Imperial Hotel, Torquay.*





### PARAMOUNT HOTELS

- 1 The Stirling Highland Hotel, Stirling
- 2 The Carlton Hotel, Edinburgh
- 3 The Marine Hotel, Troon
- 4 Redworth Hall Hotel, Co Durham
- 5 The Majestic Hotel, Harrogate
- 6 The Imperial Hotel, Blackpool
- 7 Shrigley Hall Hotel & Golf Club, Cheshire
- 8 The palace Hotel, Buxton
- 9 The Cheltenham Park Hotel, Cheltenham
- 10 The Oxford Hotel, Oxford
- 11 The Angel Hotel, Cardiff
- 12 The Old Ship Hotel, Brighton
- 13 The Imperial Hotel, Torquay

### HANOVER HOTELS

- 14 The Basingstoke Country Hotel, Hampshire
- 15 The Hinckley Island Hotel, Hinckley
- 16 The Daventry Hotel, Northampton

Paramount Hotels	No. of Rooms	No. of Meeting Rooms	Hotels with Leisure Facilities	Tenure	
				Freehold	Leasehold
	1,803	140	11	11	2

Hanover Hotels	No. of Rooms	No. of Meeting Rooms	Hotels with Leisure Facilities	Tenure	
				Freehold	Leasehold
	587	53	3	3	None

## Directors and Advisers

### Directors

James Barclay Douglas LLB CA (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  
14 Clifford Street  
London W1S 4JU

### Stockbroker

Shore Capital Stockbrokers Limited  
Bond Street  
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

## Director's Biographies

### **Barclay Douglas LLB CA (age 49)**

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, Second Advance Value Realisation Company Limited, Worldmark International Limited and Advance Visual Communications Plc.

### **David Craine FCA JP (age 50)**

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 45)**

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 and EPIC Reconstruction plc.

### **Derek Short FCIB MSI FinstD (age 61)**

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.

# Director's Report

The Directors present their annual report and the audited financial statements for the period from 7 June 2004, the date of incorporation, to 31 December 2004. The Company was incorporated as Rievaulx Limited but changed its name to the Hotel Corporation plc on 14 June 2004.

## 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 Operating and Financial Review (OFR) on pages 2 to 7.

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

## Results and Dividends

During the period the company made a profit after taxation of £5,998,000 which has been transferred to reserves. On 15 February 2005 the Directors recommended an interim dividend of 2.5 pence per share in respect of the 22 million ordinary shares in issue at the time of flotation of the Company. The dividend was paid on 11 March 2005. No further dividend in respect of the period to 31 December 2004 is recommended.

## Directors

The Directors who served throughout the period, from incorporation to date, except where noted, 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	
I. M. McArdle		Non-Executive	17 Jun 04	27 Jan 05
A.J. Arnold		Non-Executive	14 Jun 04	05 Jul 04
D.A. Karran		Non-Executive	07 Jun 04	17 Jun 04
M.T. McHarrie		Non-Executive	07 Jun 04	17 Jun 04
D.P. Craine		Non-Executive	27 Jan 05	

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

David Craine who was appointed as a Director on 27 January 2005 also retires at the Annual General Meeting, and being eligible, offers himself for re-election.

## Directors' Interests

The Directors who held office at 31 December 2004 had the following interests in the shares of the Company;

Director	Ordinary Shares of 5 Pence	On Incorporation Beneficial	Non-Beneficial	31 December 2004 Beneficial	Non-Beneficial
Barclay Douglas	–	–	–	100,000	–
Donald Adamson	–	–	–	20,000	–
Derek Short	–	–	–	10,000	–
Ita McArdle	–	–	–	–	–

There have been no changes in the interests of the Directors between 31 December 2004 and 22 April 2005.

## Substantial Shareholdings

On 22 April 2005, 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	7,064,665	20.41%
Nortrust Nominees	4,000,000	11.55%
Chase Nominees	4,648,985	13.43%
BNY (OCS) Nominees	2,440,952	7.05%
Barfield Nominees	3,000,000	8.67%
Bank of NY Nominees	1,404,762	4.06%

## Auditors

During the period Baker Tilly were appointed and resigned as auditors. Subsequent to the period end Deloitte & Touche were appointed auditors and 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 F.C.A.**  
Company Secretary

Registered Office

Burleigh Manor  
Peel Road  
Douglas  
Isle of Man  
IM1 5EP

5 May 2005

# 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 period are disclosed below. The fees are payable quarterly in arrears.

	2004 £
Barclay Douglas (Chairman)	13
Donald Adamson	10
Derek Short	10
Ita McArdle	5
<b>Total</b>	<b>38</b>

Ita McArdle was appointed as a non-executive Director at an annual fee of £10,000. She resigned on 27 January 2005.

David Craine was appointed as a non-executive Director on 27 January 2005 at an annual fee of £2,500 payable in advance, together with such additional payments for accountancy and administration services payable to Peregrine Corporate Services Limited quarterly in arrears, as the Board may authorise. Mr Craine is a Director of Peregrine Corporate Services Limited.

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

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company at the end of the period and of the profit or loss for the period.

In preparing these financial statements, the Directors are required to select suitable accounting policies, as described on page 18, and then apply them on a consistent basis, make judgements and estimates that are prudent and reasonable and state whether applicable accounting standards have been followed. The Directors must also prepare 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 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 Acts 1931 to 2004. The Directors are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of The Hotel Corporation plc for the period from incorporation on 7 June 2004 to 31 December 2004 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and 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 Acts 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

As described in the Statement of Director's Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards. Our responsibility is to audit the financial statements in accordance with relevant Isle of Man legal and regulatory requirements and United Kingdom Auditing Standards.

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 Acts 1931 to 2004. We also report 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 the Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and other information contained in the Annual Report for the above period and consider the implication for our report if we become aware of any apparent misstatements within it.

## Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 the Company's affairs as at 31 December 2004 and of its profit for the period from incorporation on 7 June 2004 to 31 December 2004, and have been properly prepared in accordance with the Companies Acts 1931 to 2004.

## Deloitte & Touche

Douglas  
Isle of Man

5 May 2005

## Income Statement

For the period from 7 June 2004 to 31 December 2004

	Notes	2004 £'000
<b>Continuing Operations</b>		
Revenue	3	651
Administrative expenses		(95)
Profit from operations	6	556
Bank interest receivable	4	7
Investment gains – unrealised	4	5,435
Profit before tax		5,998
Taxation	7	–
<b>Profit after tax for the period from continuing operations</b>		<b>5,998</b>
<b>Basic and Diluted Earnings per Share</b>	<b>9</b>	<b>29.42p</b>

This comprises:

Basic and diluted earnings per share from operations and bank interest	2.76p
Basic and diluted earnings per share from investment gains	26.66p



# Balance Sheet

As at 31 December 2004

	Notes	£'000
<b>Non-Current Assets</b>		
Investments	10	37,740
<b>Current Assets</b>		
Trade and other receivables	11	12
Cash and Cash Equivalents	2	3,320
		<u>3,332</u>
<b>Total Assets</b>		<u>41,072</u>
<b>Capital &amp; Reserves</b>		
Share Capital	13	1,731
Share Premium Account	14	33,308
Retained Earnings		5,998
		<u>41,037</u>
<b>Current Liabilities</b>		
Trade and other payables	15	35
<b>Total Equity &amp; Liabilities</b>		<u>41,072</u>

The financial statements were approved by the Board of Directors and authorised for issue on 5 May 2005.

They were signed on its behalf by

**Barclay Douglas**  
Director

**David Craine**  
Director

## Statement of Changes in Equity

For the period from 7 June 2004 to 31 December 2004

	£'000
Profit for the period	5,998
Issue of share capital	35,039
Balance at 31 December 2004	41,037

# Cashflow Statement

For the period from 7 June 2004 to 31 December 2004

	Note	£'000
<b>Net Cash Outflow from Operating Activities</b>	16	(72)
<b>Investing Activities</b>		
Interest Received		7
Purchase of Investments		(32,305)
Proceeds received on the maturity of Investments		651
<b>Net cash used in Investing Activities</b>		<b>(31,647)</b>
<b>Financing Activities</b>		
Issue of Share Capital		35,039
<b>Net cash from Financing Activities</b>		<b>35,039</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,320</b>

# Notes to the Financial Statements

For the period from 7 June 2004 to 31 December 2004

## 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 8. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 10 and the Chairman's statement on pages 2 to 7.

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

## 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 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.

## 2. Significant Accounting Policies continued

### (i) 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.

### (ii) Other Investments

Other investments are designated as Fair Value through Profit and Loss Investments 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.

### 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.

### (i) 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.

### (ii) Trade Payables

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

### (iii) Equity Instruments

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

## 3. Revenue

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

	2004 £'000
Amortisation of discount on investments	651
Investment Income (note 4)	5,442
	<u>6,093</u>

## 4. Investment Income

	2004 £'000
Bank Interest	7
Investment gains – unrealised (note 10)	5,435
	<u>5,442</u>

## 5. 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.

## 6. Profit from Operations

	2004 £'000
Profit from operations has been arrived at after charging:	
Directors' fees	38
Auditors' remuneration – audit services	10
– non-audit services	2
	<u>50</u>

The Company has no employees.

## 7. Taxation

The Company is registered as an exempt company under the provisions of the Income Tax (Exempt Companies) Act 1984 and accordingly pays no tax in the Isle of Man.

## 8. Dividends

No dividends have been paid or proposed during the period. Details of dividends proposed in February 2005 and paid in March 2005 are disclosed in note 17.

## 9. Earnings per Share

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

	2004 £'000
<b>Earnings</b>	
Profit from Operations	556
Investment Income	5,442
<u>Net Profit for the period</u>	<u>5,998</u>

## Number of Shares

	2004
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>20,388,742</u>

There were no convertible instruments in existence as at 31 December 2004 and therefore diluted earnings per share does not differ from the basic earnings per share.

## 10. Investments

	2004 £'000
Classified as:	
Fair Value through Profit and Loss Investments	21,840
Held to Maturity	15,900
	<u>37,740</u>

## Fair Value through Profit & Loss Investments

	2004 £'000
<b>Fair Value</b>	
Fair value at 7 June 2004	–
Additions at cost	16,405
Increase in fair value (note 4)	5,435
<u>Fair value at 31 December 2004</u>	<u>21,840</u>

The unlisted investment shown above represents a holding of 15,900,000 ordinary shares of £1 par value in Dawnay Shore Hotels plc, which comprises 49.77% 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 determining the fair value attributable to the ordinary shares in DSH, the Directors have drawn upon the net asset value of DSH as set out in the accounts of that company, and have utilised that net asset valuation to calculate a net asset value for each ordinary share held in DSH by the Company, without seeking to apply any adjustment. The accounts of DSH include a recent valuation of its portfolio of hotels that has been provided by an independent professional valuer and prepared in accordance with the rules of RICS. 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

	2004 £'000
<b>Cost and net book value</b>	
At 7 June 2004	–
Additions	15,900
Amortisation of discount	651
Maturity	(651)
<u>At 31 December 2004</u>	<u>15,900</u>

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.

## Notes to the Financial Statements (continued)

For the period from 7 June 2004 to 31 December 2004

### 10. Investments continued

The maturity profile of the bonds held at 31 December 2004 is shown below:

Maturing:	£'000 Nominal Value
Within one year	1,908
One to two years	1,908
Two to three years	1,908
Three to four years	1,908
Four to five years	16,854
<b>Total</b>	<b>24,486</b>

### 11. Trade and other receivables

	2004 £'000
Prepayments	12

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

### 12. 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 10. 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.

### 12. Risk Exposure continued

#### 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.

### 13. Share Capital

#### Authorised: Ordinary Shares of £0.05

	2004 Number	2004 £'000
As at 31 December 2004	80,000,000	4,000

#### Issued: Ordinary shares of £0.05, fully paid for cash consideration

	2004 Issue Price £	2004 Number	2004 £'000
Subscribed on 7 June 2004	1.00	40	–
Issued on 6 July 2004	1.00	21,999,960	1,100
Issued on 8 December 2004	1.05	12,619,050	631
<b>As at 31 December 2004</b>		<b>34,619,050</b>	<b>1,731</b>

The Company was incorporated with an authorised share capital of £2,000, and by a special resolution dated 6 July 2004, the ordinary share capital was changed from £2,000 to £4,000,000.

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

### 14. Share Premium Account

	2004 £'000
Shares subscribed on 7 June 2004	–
Shares issued on 6 July 2004	20,900
Shares issued on 8 December 2004	12,619
Expenses on issue of equity shares	(211)
<b>Total</b>	<b>33,308</b>

## 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.

	2004 £'000
Profit from Operations	556
Increase in Receivables	(12)
Increase in Trade and other payables	35
Amortisation of Discount on Purchase of investment	(651)
<b>Net cash outflow from operating activities</b>	<b>(72)</b>

## 17. Events after the Balance Sheet Date

On 29 January 2005 the Company invested a further £715,000 in the purchase of 650,000 ordinary shares of 5 pence each in Dawnay Shore Hotels plc at £1.10 per share, together with a further £1,001,000 of discounted bonds of £1,000 each in DSH (Finance) plc, purchased for £650,000.

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.

## 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:

	£'000
Short-term employee benefits	38
Post employment benefits	–
Other long-term benefits	–
Termination benefits	–
Share based payments	–
<b>Total</b>	<b>38</b>

There were no amounts outstanding with respect to management compensation as at 31 December 2004.

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 £70,960.01 in respect of Nominated Adviser and placing fees were paid during the period.

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. As the appointment of PCS was only made in January 2005 no payments were made in the period under review.

Ita McArdle is a Director of Simcocks Trust Limited, who provided accountancy, administration and secretarial services to the Company, and Simcocks Advocates Limited, who provided legal advice to the Company. Amounts paid during the period were £15,570 to Simcocks Trust Limited and £17,935 to Simcocks Advocates Limited. David Karran and Moira McHarrie are Directors of Simcocks Trust Limited.

## Notice of Annual General Meeting to all 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 25th of May 2005.

### Agenda

1. To receive and, if approved, adopt the Report of the Directors and the Financial Statements for the period ended 31 December 2004, together with the Report of the Independent Auditors.
2. To declare a final dividend for the period ended 31 December 2004.
3. To re-appoint Directors:
  - i) Barclay Douglas who retires by rotation and, being eligible, offers himself for re-appointment; and
  - ii) David Craine who was appointed after the year and, being eligible, offers himself for reappointment.
4. To appoint Auditors, Deloitte & Touche, Chartered Accountants who, being eligible, have expressed their willingness to continue in office.

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 May 2005



# Appendix

## Dawnay Shore Hotels plc Financial Results 2004

### Information relating to Dawnay Shore Hotels plc (“DSH”)

The profit and loss account of DSH for the period ended 2 January 2005 together with the balance sheet of DSH as at 2 January 2005 is provided below, and have been prepared in accordance with applicable United Kingdom accounting standards. These are extracted from the preliminary results announcement made by DSH.

#### Dawnay Shore Hotels plc Consolidated Profit and Loss Account Period ended 2 January 2005

	Period ended 2 January 2005 £'000
<b>Turnover</b>	36,395
Cost of sales	(4,984)
<b>Gross profit</b>	31,411
Administrative expenses	(23,466)
<b>Operating profit</b>	7,945
Loss on sale of fixed assets	(7)
	7,938
Interest receivable and similar income	217
Interest payable and similar charges	(8,134)
<b>Profit on Ordinary Activities before Taxation</b>	21
Tax on profit on ordinary activities	29
<b>Retained Profit for the Financial period</b>	50

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period and their historical cost equivalents.

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

## Appendix

## Dawnay Shore Hotels plc Financial Results 2004 (continued)

**Dawnay Shore Hotels plc**  
**Consolidated Balance Sheet**  
**As at 2 January 2005**

2 January  
2005  
£'000

**Fixed Assets**

Intangible assets - goodwill	7,685
Tangible assets	237,281
Investments	–
	<hr/>
	244,966

**Current Assets**

Stocks	713
Debtors	7,582
Cash at bank and in hand	23,926
	<hr/>
	32,221

**Creditors: amounts falling due within one year** (23,525)

**Net current assets** 8,696

**Total assets less current liabilities** 253,662

**Creditors: amounts falling due after more than one year** (199,127)

**Provision for liabilities and charges** (10,650)

**Net assets** 43,885

**Capital and Reserves**

Called up share capital	1,598
Share premium account	30,877
Revaluation reserve	11,360
Profit and loss account	50
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**Equity Shareholders' Funds** 43,885



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