

The Hotel Corporation plc

Report and Accounts

for the year ended

31 December 2006

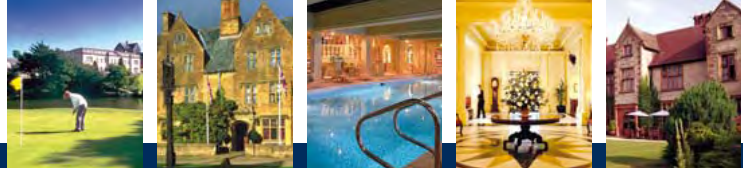


Contents

Highlights	1
Chairman's Statement	2
Paramount Group Overview	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
Cash Flow 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
Directors and Advisers	Inside Back Cover



Combe Grove Manor, a Paramount Signature Hotel.



Highlights

- Profit, including revaluation gain, of £51.2m
- Independent valuation of hotels as at 31 December 2006 translates into net assets per share of 290p at year end (148p at 31 December 2005)
- Final dividend of 4.5p, making a total of 7.15p for the year

DSH

- DSH* like for like hotel EBITDA increases by 2%
- Valuation** of £530 million increases the net asset value per ordinary share in DSH to 492p+, a 31% increase since the 2 July 2006 valuation
- Valuation uplift increases year on year net asset value per DSH ordinary share by 185%
- Significant boost to EBITDA at Hinckley post renovation - ahead by 41%
- Operational turn-around increases EBITDA at Cheltenham Park Hotel by 45%
- Walton Hall major conversion from timeshare to four star hotel on target for completion in 2007
- Property development programme gains momentum with 140 rooms added and a further 52 to be completed by 30 June 2007
- Major renovation and room additions commenced at The Lygon Arms Hotel
- Strategic review, announced last November, progressing well

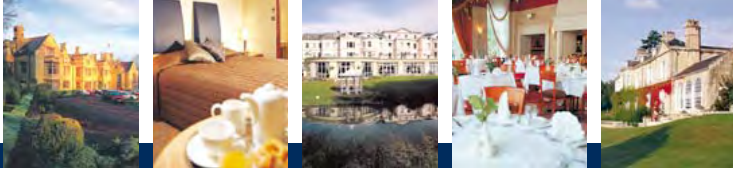
* Excludes Walton Hall which is under redevelopment

** The hotels have been valued as individual assets hence the valuation excludes any portfolio premium

+ Increase is after allowing for the carried interest that would be payable to the DSH Founder Investors. NAV per share at 31 December 2006, after allowing for the carried interest, is 492p versus 173p in the prior year

Barclay Douglas, Chairman of The Hotel Corporation plc, said:

“I’m pleased to report on a very satisfactory set of results.”



Chairman's Statement

I am pleased to report on the final figures for the twelve months ended 31 December 2006.

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 on those of DSH. The balance sheet of DSH as at 31 December 2006, the profit and loss account and Consolidated Cash Flow Statement of DSH for the period ended 31 December 2006 are also provided in this statement.

Results of the Company

Revenue for the period, including bank interest, was £2.277m and, following administrative expenses, operating profit amounted to £2.046m. In addition, an investment gain amounting to £49.169m arising from the measurement of the company's investment in the ordinary shares of DSH at their fair value has been recognised, in accordance with International Financial Reporting Standards. Including this investment gain, total profit before tax was £51.215m. No tax is payable for the period (see note 8). Basic and diluted earnings per share were 147.9p including these investment gains, and 5.9p 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. DSH's accounts include a valuation of its portfolio of 20 hotels at £530 million or £485 million excluding Walton Hall which is under redevelopment. The valuation was carried out by Colliers Robert Barry, third party independent valuers, as at 31 December 2006. This translates into a net asset value per share in the capital of DSH of 492p (2005: 173p per share), after allowing for the

carried interest attributable to the Founder shares in DSH. This compares with the price of 110p at which the company last acquired shares in DSH in January 2005. Given DSH's highly leveraged structure at inception (of approximately four times the level of debt to equity), movements in the valuation of DSH have had a magnified effect on the value of the company's shareholding in DSH. It is worth noting that following the recent valuation, DSH's debt relative to equity is less than two times.

Dividend

HCP has declared a final dividend of 4.5p per ordinary share, making a total of 7.15p for the year. The ex-div date will be 2 May 2007 and the record date 4 May 2007. Payment will be made to shareholders within 20 days of the record date. This amount reflects the profits for the year before investment gains and tax together with the dividend declared by DSH in respect of 2006.

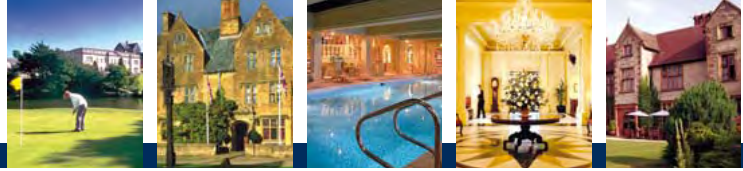
Dawnay Shore Hotels plc

Review of Operations and Financial Performance

DSH owns twenty hotels comprising in excess of 2,700 rooms across the UK. Management focus during 2006 was on maximising returns from all Group hotels and in particular integrating the three Furlong hotels acquired in December 2005, adding new rooms and other property enhancements to the portfolio. Significant attention was dedicated to leveraging value from the renovation and re-launch of the Hinckley Island Hotel, redeveloping Walton Hall, as well as progressing the development of additional bedrooms at a number of other hotels.



Paramount Redworth Hall Hotel.



During the year significant investment was made in the physical hotels as well as in the Group operating platform. Capital expenditure for the year was in excess of £23 million, reflecting the substantial real estate upside within the portfolio. The expenditure covered renovation and room additions and also the upgrade and installation of standardised systems across the Group. These included a uniform front office management system, vital in managing/selling hotel rooms and tracking guest activity, and a conference and events management system, aimed at achieving maximum penetration of this key segment. In order to support these enhanced systems the underlying IT infrastructure is being upgraded and is due for completion in May 2007. Substantial benefit to room revenue was derived from these enhancements during 2006, however the full impact should be realised during 2007 and 2008.

As shown on the attached Consolidated Financial Statements, on a total Group basis (including all 20 hotels) DSH's turnover for the 52 week period ended 31 December 2006 was £101.2m, generating hotel operating profit of £35.9m (excluding Walton Hall, which is under redevelopment, turnover was £98.5m and hotel operating profit £36.1m). After depreciation, central and other costs, operating profit was £18.7m. Net interest payable was £23.5m and included £18.5m of interest on senior debt and £4m of interest on the deep discounted bonds which are owned by DSH shareholders. No tax is payable and the loss for the financial period was £3.3m.

Following its acquisition in June 2005 Walton Hall has been undergoing a major redevelopment which will result in the conversion of 132 timeshare units into 202 bedrooms.

In addition the construction of a large conference centre was completed in March 2007. As a result of the scale of the redevelopment the hotel operated at minimal capacity in 2006 and is excluded from the table below.

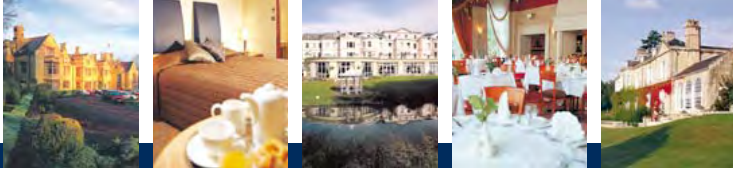
	FY 2006 (Unaudited)	FY 2005 (Unaudited)	% change
Turnover	£98.5m	£98.5m	–
Hotel Operating Profit*	£36.1m	£35.3m	2.0%
Occupancy	69.4%	70.2%	(1.2%)
Average Room Rate	£72.23	£69.90	3.3%
Revenue per Available Room	£50.13	£49.08	2.1%

* HOP is EBITDA for the individual hotels, excluding head office costs
The unaudited 2005 comparatives include pro-forma results for the hotels acquired during 2005 and therefore differ from the 2005 results in the Consolidated Financial Statements.

On a pro-forma, like for like basis (including the Furlong Hotels acquired in December 2005 but excluding Walton Hall) turnover was at the same level as the prior year. Room revenue was £1.2m ahead of the prior year reflecting the success of the Group's ARR strategy (on page 4). This increase was however off-set by a decline in food and beverage revenue as a result of fewer weddings at Redworth Hotel and Shrigley Hall and the absence of the autumn party political conferences in Blackpool. Weddings booked for 2007 are already well ahead of the 2006 total and there is a substantial pipeline of potential bookings currently being converted. In addition, the Conservative Party is returning to



Billesley Manor Hotel, a Paramount Signature Hotel.



Chairman's Statement continued

Blackpool this autumn and the Paramount Imperial has been selected as the host hotel. During 2006, room revenue growth was partly driven by leisure demand which, after a slow start, was very strong, boosted by the re-launch of the Paramount website. The re-launch has resulted in the website entering the top 100 (out of a total of 3,500) visited leisure and accommodation websites in the UK (previously ranked 600).

The enhanced IT and operating systems have allowed for the introduction of a specialist revenue management function. Using various tools, including Best Available Rate (BAR), this function ensures that revenue levels are optimised and the upgraded Central Reservations Office (CRO) will deliver greater volumes with increased efficiencies through the elimination of numerous manual processes. During the first two months of 2007, revenue booked through the new CRO is 31% ahead of the same period in the prior year.

These upgrades have supported the Group's revenue strategy whose focus is on maximising average room rate on high occupancy nights which results in greater profit conversion than a focus purely on occupancy-led revenue growth. This strategy has assisted in increasing hotel operating profit by 2.0% over the prior year pro-forma result despite flat overall revenues. As anticipated, energy costs for the period were around £800,000 higher than the comparable period and without this increase Hotel EBITDA would have risen by 5%. Noteworthy performances around the Group included Cheltenham, where EBITDA was ahead of the prior year by 45% driven by aggressive sales and marketing strategies, and Hinckley, which was ahead by 41%, benefiting from the impact of the renovation.

Direct operating costs, including payroll, have been tightly controlled resulting in a £1.3m reduction year on year and leading to profit conversion during this period of 36.6% (or 37.4% before the increase in energy costs) versus 35.9% in the previous year. A substantial part of this saving was achieved through purchasing efficiencies, including negotiating improved supplier discounts.

Interest expense was around £2.6 million greater than the previous year, mainly reflecting the cost of the debt facility used to acquire the three Furlong hotels (100% debt funded), funds drawn for hotel renovations such as Hinckley and room additions.



Paramount Imperial Hotel, Torquay.

Dividends

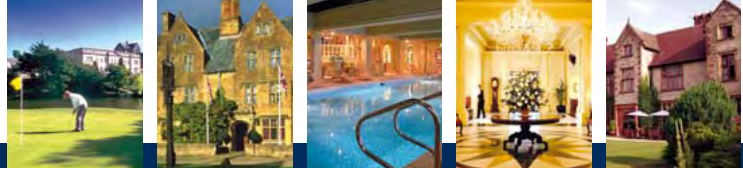
DSH's policy remains to distribute its net surplus cash flow from time to time. DSH is proposing a dividend of 3.8p per share in respect of the 52 week period ended 31 December 2006.

Property valuation

The DSH hotel portfolio was valued by Colliers Robert Barry at £530.2 million (excluding Walton Hall the value is £484.8 million) as at 31 December 2006. For the first time the valuation includes Walton Hall, reflecting the progress made in redeveloping this asset. The 2006 interim valuation by Colliers Robert Barry was £445 million for the 19 hotels owned by the Group, excluding Walton Hall, hence the latest valuation represents a 9% increase over 2 July 2006. The year on year revaluation increment shown in the financial statements of approximately £137 million represents a 36% increase over the previous year's book value. The impact of the latest valuation is to increase the DSH year on year net asset value per share by 185% (after a full provision for the carried interest).

Segmenting the portfolio to show the various acquisitions made by the Group, the current valuation represents a per room value as follows:

- 20 hotels: £191,000;
- 16 hotels excluding Furlong: £184,000;
- Original 13 Paramount hotels: £198,000.



Property development

In line with stated strategy, DSH continues to exploit the development potential of its property portfolio through room additions. The current room additions programme is summarised as follows:¹

Hotel	Number of rooms			Status		
	New build	Within existing structure	Total	Completed	To be commenced	Estimated completion
Cheltenham	–	9	9	March 2006		
Walton Hall	–	70	70	56 – Q4 2006		Remainder Q2 2007
Redworth Hall	40	3	43	January 2007		
Lygon Arms	–	8	8	April 2007		
Shrigley Hall	22	4	26		Q3 2007	Q1 2008
Carlton	–	32	32		Q2 2007	Q3 2007
Stirling	–	10	10		Q2 2007	Q3 2007
Majestic	–	11	11	6 – Q1 2007		Remainder April 2007
Torquay	–	19	19		Q2 2007	Q2 2007
Daventry	–	17	17	Q1 2007		
Brighton	–	2	2		Q4 2006	April 2007
Hinckley	–	13	13	9 – Q4 2006		Remainder April 2007
	62	198	260			

¹ It should be noted that in certain instances, the room numbers shown in this table vary from those reported in September 2006 as enhancements to schemes have resulted in another 37 rooms being added.

The above programme is proceeding as planned and in several cases additional bedrooms have been identified as certain schemes have been refined. In the context of current hotel valuations and given trading conditions, the addition of bedrooms produces a significant uplift in the value of the estate. We continue to focus on realising the programme and further room additions are under review. We expect the total room count of the twenty hotels to increase to over 3,700 over the next two years.

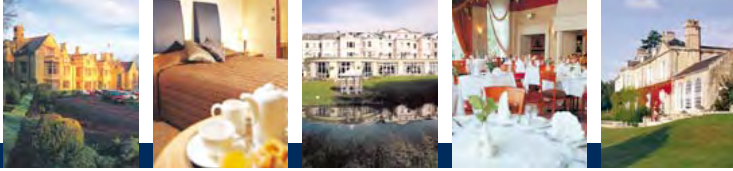
Walton Hall remains the most significant development project with 56 of the additional 70 rooms added by the end of 2006 and the 1,300 square metre conference centre completed in early March 2007. The conference centre is significantly larger than the original plan for an 800 square metre centre. When all rooms are completed the total count will be 202 – six more than originally planned. Currently, the only significant element of the redevelopment outstanding is the renovation and reconfiguration of the Main Manor House and the Coach House. The final phase of works will be completed in June

2007. From the beginning of March 2007 the 130 fully renovated rooms, which are located in separate wings in the grounds of the hotel and the newly opened conference centre, have been operating as a stand-alone hotel. Trading in the first three weeks has been strong and in line with expectations.

A major renovation of The Lygon Arms is also currently underway to reposition the hotel as the UK's premier Country House hotel. This includes the addition of 8 new rooms within the existing structure, which opened on 15 April 2007 and a full renovation of other bedrooms and public spaces.

Annual General Meeting

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



Chairman's Statement continued



The Lygon Arms, a Paramount Signature Hotel.

Prospects

The Board of The Hotel Corporation plc has noted the prospects of DSH stated by its Board as follows:

“Trading in the current year to date has been in line with the prior year reflecting a competitive market. However, the investment made in the physical assets and operating platform has led to Paramount’s RevPAR performance exceeding its competitors as evidenced by statistics produced by TRI Hospitality. Whilst we expect the market to remain competitive we are looking for growth from the second quarter onwards, most notably in locations such as Hinckley, Basingstoke and Walton Hall. We continue to focus on generating business through Paramount’s re-launched website and through the new CRO.”

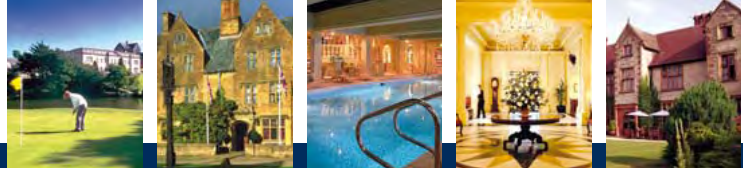
Valuations continued to increase during 2006. Considerable development potential still remains within the existing portfolio and DSH will continue to exploit these opportunities.”

Strategic Review

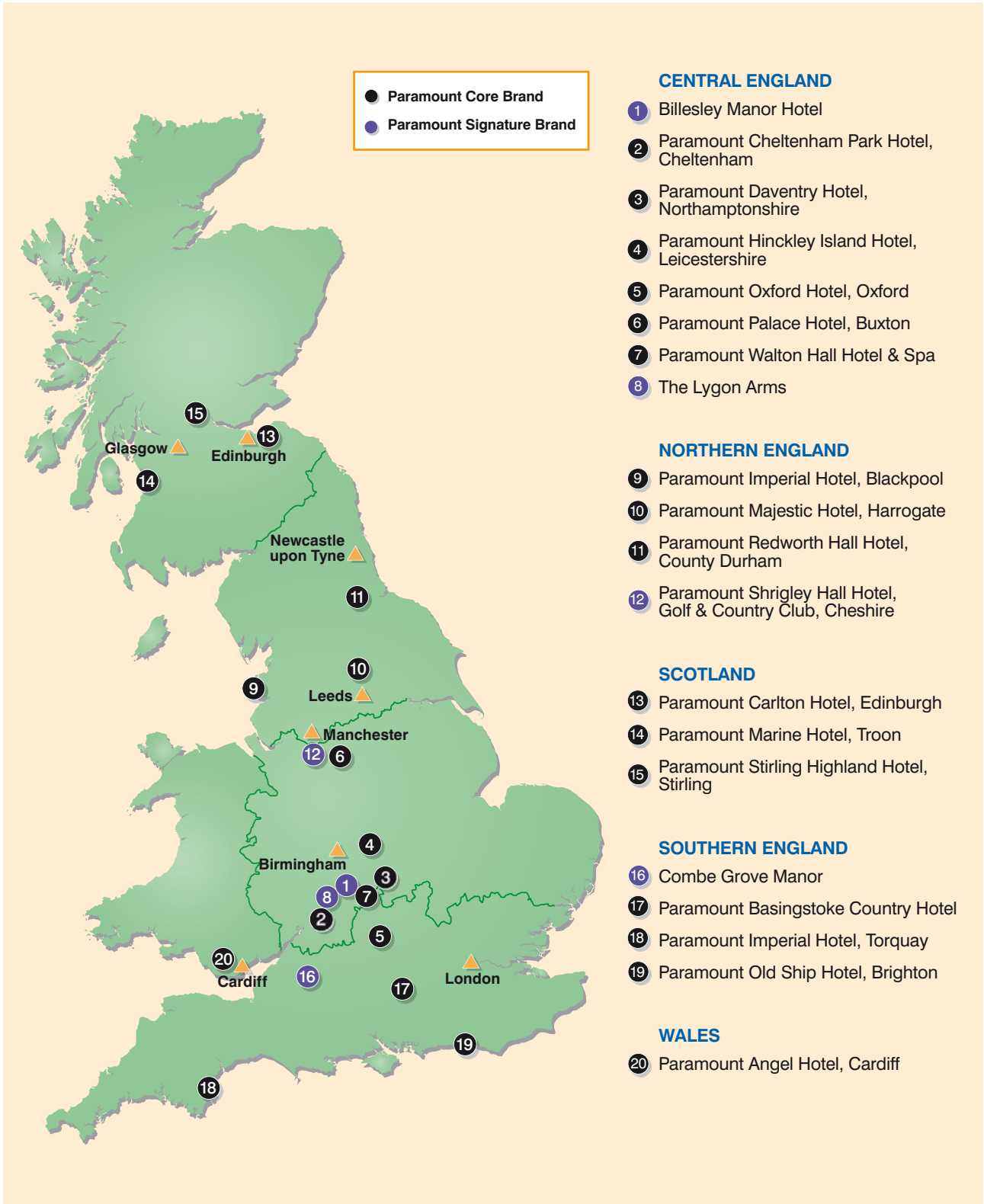
On 9 November 2006 DSH appointed N M Rothschild & Sons Limited and Shore Capital as joint financial advisers to undertake a strategic review of its business aimed at maximising shareholder value. The Directors of DSH have indicated that the review has been progressing well and they expect to make an announcement over the coming weeks.

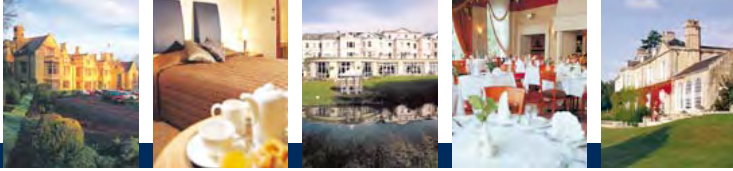
Barclay Douglas

Chairman
20 April 2007



Paramount Group Overview





Directors' Biographies

Barclay Douglas LLB CA (age 51)

Barclay 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 (formerly HMSO).

He is a Chairman of Cascade Care Group and is a non-executive Director of Shore Capital Group plc and Third Advance Value Realisation Company Limited.

David Craine FCA JP (age 52)

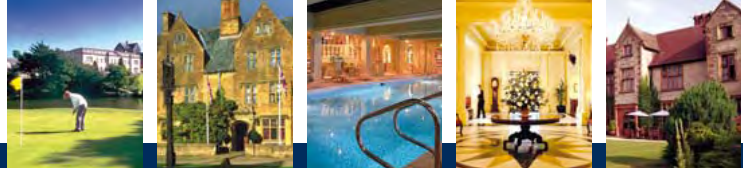
A former Chairman of the Isle of Man Society of Chartered Accountants, David is a founding member and Director of Peregrine Corporate Services Limited. A born and bred Manxman, David is also a Director in the Isle of Man firm of Browne Craine Associates Limited, an accountancy practice he founded with 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 47)

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 Limited, Equity Partnership Investment Company Limited, Cambium Global Timberland Limited and F & C Commercial Property Trust Limited.

Derek Short FCIB MSI FinstD (age 64)

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 2006.

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 6.

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 £51,215,000 (2005: £11,514,000) which has been transferred to reserves. Dividends paid of £2,025,214 are detailed at Note 19.

Directors

The Directors who served during the year, were as follows:

			Appointed
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

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

Directors' Interests

Ordinary Shares of 5 Pence

Director	31 December 2006		31 December 2005	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Barclay Douglas	100,000	–	100,000	–
Donald Adamson	20,000	–	20,000	–
Derek Short	10,000	–	10,000	–

There have been no changes in the interests of the Directors between 31 December 2006 and 16 April 2007.

Substantial Shareholdings

On 16 April 2007, 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	8,544,126	24.68
Nortrust Nominees	5,751,688	16.61
Chase Nominees	5,106,686	14.75
Bank of NY Nominees	3,696,667	10.68
Barfield Nominees	2,500,000	7.22

Auditors

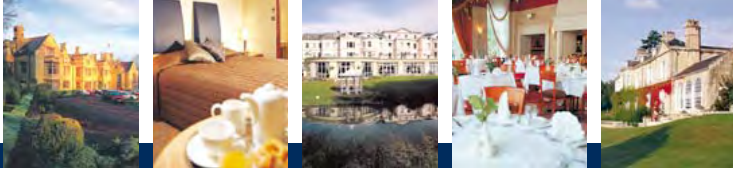
Deloitte & Touche, the Company's auditors, have expressed a willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

Registered Office

Burleigh Manor
Peel Road
Douglas
Isle of Man
IM1 5EP

By Order of the Board

David P. Craine F.C.A.
Company Secretary



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

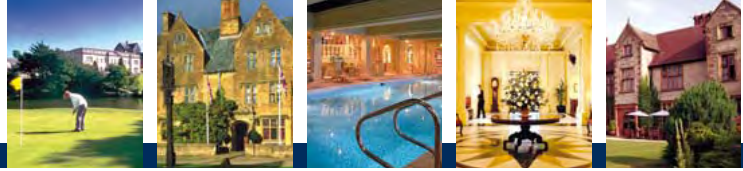
All Board members are non-executive Directors. Fees paid in the year are disclosed below.

	2006 £'000	2005 £'000
Barclay Douglas (Chairman)	31	25
Donald Adamson	21	20
Derek Short	21	20
David Craine	3	3
Irrecoverable Value Added Tax	5	4
Total	81	72

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). 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.

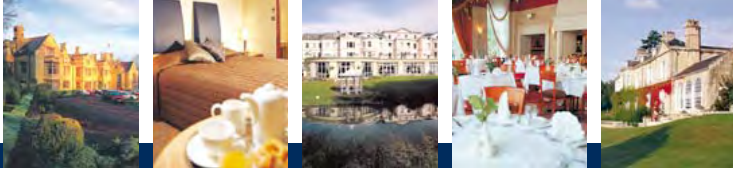
International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's position, financial performance and cash flows. This requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the 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 2006 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, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) 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' 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs at 31 December 2006 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

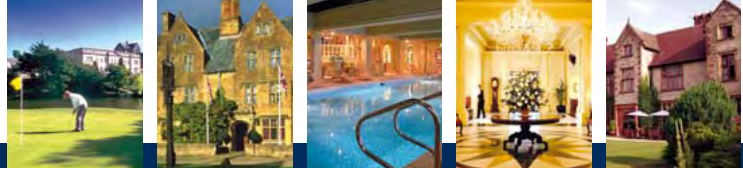
Douglas

Isle of Man

20 April 2007

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

31 December 2006

	Notes	2006 £'000	2005 £'000
Continuing Operations			
Revenue	4	2,185	1,986
Administrative expenses		(231)	(247)
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Profit from operations	7	1,954	1,739
Bank interest receivable	5	92	73
Investment gains – unrealised	5	49,169	9,702
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Profit before tax		51,215	11,514
Taxation	8	–	–
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Profit after tax for the year from continuing operations		51,215	11,514
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Earnings Per Share			
Basic and diluted	10	147.9p	33.3p
Dividends			
Paid	9	2,025	1,450
Proposed	17	1,558	1,108



Balance Sheet

31 December 2006

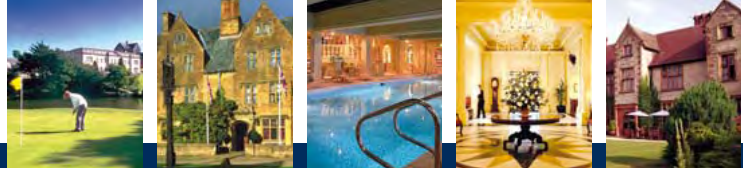
	Notes	2006 £'000	2005 £'000
ASSETS			
Non-Current Assets			
Investments	11	97,976	48,807
Current Assets			
Trade and other Receivables	12	10	19
Cash and Cash Equivalents	2	2,321	2,317
		2,331	2,336
Total Assets		100,307	51,143
EQUITY & LIABILITIES			
Capital & Reserves			
Share Capital	14	1,731	1,731
Share Premium Account		33,300	33,308
Retained Earnings		65,252	16,062
		100,283	51,101
Current Liabilities			
Trade and other payables	15	24	42
Total Equity & Liabilities		100,307	51,143

The financial statements were approved by the Board of Directors and authorised for issue on 20 April 2007.

They were signed on its behalf by:

Barclay Douglas
Director

David Craine
Director



Statement of Changes in Equity

31 December 2006

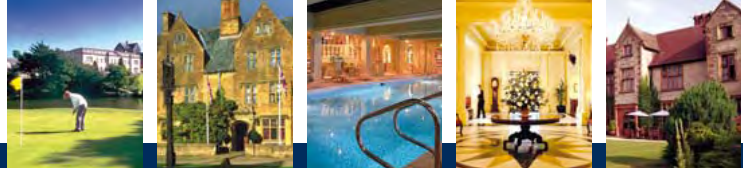
	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Issue of Share Capital	1,731	33,518	–	35,249
Expense on Issue of Share Capital	–	(210)	–	(210)
Profit for Period	–	–	5,998	5,998
Balance at 31 December 2004	1,731	33,308	5,998	41,037
Profit for Year	–	–	11,514	11,514
Dividend	–	–	(1,450)	(1,450)
Balance at 31 December 2005	1,731	33,308	16,062	51,101
Profit for Year	–	–	51,215	51,215
Preliminary Expenses	–	(8)	–	(8)
Dividend	–	–	(2,025)	(2,025)
Balance at 31 December 2006	1,731	33,300	65,252	100,283



Cash Flow Statement

31 December 2006

	Notes	2006 £'000	2005 £'000
Net Cash Outflow from Operating Activities	16	(41)	(247)
Investing Activities			
Interest Received		92	73
Purchase of Investments		–	(1,365)
Proceeds received on the maturity of Investments		1,986	1,986
Net cash from (used in) Investing Activities		2,078	694
Financing Activities			
Preliminary Expenses		(8)	–
Dividends Paid		(2,025)	(1,450)
Net cash used in Financing Activities		(2,033)	(1,450)
Net increase/(decrease) in cash and cash equivalents		4	(1,003)
Cash and cash equivalents at beginning of year		2,317	3,320
Cash and cash equivalents at end of year		2,321	2,317



Notes to the Financial Statements

31 December 2006

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 the Directors and Advisers page inside the back cover. 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 6.

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, modified by the revaluation of Investments classified as Fair Value through Profit or 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. The Company has not identified any Standards or Interpretations, including IFRS7 "Financial Investments: Disclosures and the related amendment to IAS1 on capital disclosure" that will be adopted in future periods that will have a material impact on the financial statements of the Company.

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 neither 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 or 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 on hand or demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change of value.



Notes to the Financial Statements *continued*

31 December 2006

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 the Directors 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, the Directors have 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 Dawnay Shore Hotels plc.

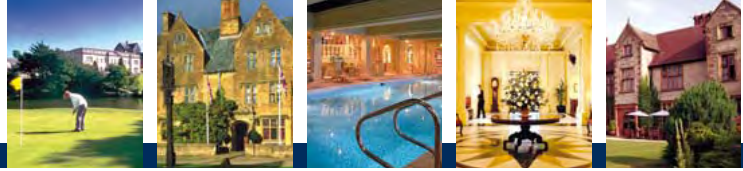
4. Revenue

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

	2006 £'000	2005 £'000
Amortisation of discount on investments (note 11)	1,986	1,986
Dividends Received	199	–
	2,185	1,986

5. Investment Income

	2006 £'000	2005 £'000
Bank Interest	92	73
Investment gains (unrealised) (note 11)	49,169	9,702
	49,261	9,775



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

	2006 £'000	2005 £'000
Profit from operations has been arrived at after charging:		
Directors' fees	81	72
Auditors' remuneration – audit services – current year	23	21
– prior period	–	15
– non-audit	–	–

The Company has had no employees in 2006 and 2005.

8. Taxation

The Isle of Man Treasury introduced a zero rate of corporate tax in the Isle of Man with effect from 6 April 2006 which applies to the Company's taxable profits.

Prior to 6 April 2006, the Company had been granted exemption from Manx Income Tax under the provisions of the Income Tax (Exempt Companies) Act 1984.

Accordingly, no provision for Isle of Man taxation has been included within these financial statements.

9. Dividends

On 3 April 2006 the Company announced a dividend of 3.2 pence per share in respect of the year to 31 December 2005. The dividend, which amounted to £1,107,810 was paid on 11 May 2006.

The Company declared an interim dividend of 2.65 pence per ordinary share on 18 September 2006. The dividend which amounted to £917,404 was paid on 11 October 2006.

A final dividend of 4.5 pence per share has been proposed (Note 17).



Notes to the Financial Statements continued

31 December 2006

10. Earnings per Share

	2006	2005
Basic and Diluted Earnings per Share	147.9p	33.3p
This comprises:		
Basic and diluted earnings per share from operations and bank interest	5.9p	5.3p
Basic and diluted earnings per share from investment gains	142.0p	28.0p

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

	2006 £'000	2005 £'000
Earnings		
Profit from Operations	1,954	1,739
Bank Interest	92	73
	2,046	1,812
Investment Gains	49,169	9,702
Net Profit for Period	51,215	11,514

	2006	2005
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	34,619,050	34,619,050

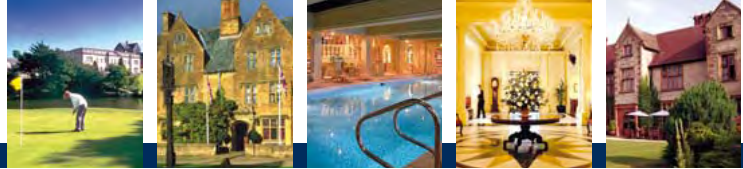
There were no convertible instruments in existence as at 31 December 2005 and therefore diluted earnings per share does not differ from the basic earnings per share.

11. Investments

Classified as:	2006 £'000	2005 £'000
Fair Value through Profit or Loss Investments	81,426	32,257
Held to Maturity	16,550	16,550
	97,976	48,807

Fair Value through Profit or Loss Investments

	2006 £'000	2005 £'000
Unlisted Investments at Fair value		
Fair Value at Start of Period	32,257	21,840
Additions at cost	–	715
Increase in fair value (note 5)	49,169	9,702
Fair Value at 31 December	81,426	32,257



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 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 financial statements of that company and have utilised that net asset value for each ordinary share held in DSH by the Company, 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). The financial statements of DSH include a valuation as at 31 December 2006 of the 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

	2006 £'000	2005 £'000
Cost and net book value		
At Start of Period	16,550	15,900
Additions	–	650
Amortisation of discount (note 4)	1,986	1,986
Maturity	(1,986)	(1,986)
At 31 December	16,550	16,550

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 2006 is shown below:

	Nominal Value	
	2006 £'000	2005 £'000
Maturing		
Within one year	1,986	1,986
One to two years	1,986	1,986
Two to three years	17,543	1,986
Three to four years	–	17,543
Total	21,515	23,501

12. Trade and Other Receivables

	2006 £'000	2005 £'000
Prepayments	8	12
Receivables	2	7
	10	19

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



Notes to the Accounts *continued*

Period ended 31 December 2006

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 short term 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.

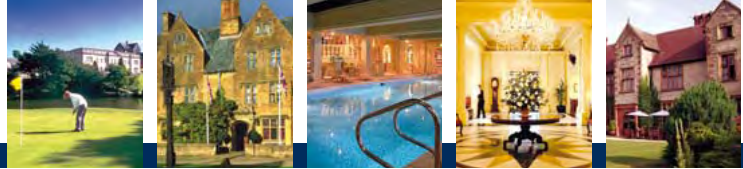
Liquidity Risk

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

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised: Ordinary Shares of £0.05				
As at 31 December	80,000,000	4,000	80,000,000	4,000
Issued: Ordinary Shares of £0.05				
Balance at Start of Period	34,619,050	1,731	34,619,050	1,731
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.

	2006 £'000	2005 £'000
Profit from Operations	1,954	1,739
Decrease in Receivables	9	(7)
Decrease in Trade and other payables	(18)	7
Amortisation of Discount on Purchase of investments	(1,986)	(1,986)
Net cash outflow from operating activities	(41)	(247)

Net cash outflows from operating activities includes cash from dividends received of £199,000 (Note 4).

17. Events after the Balance Sheet Date

On 20 April 2007 the Company declared a dividend of 4.5 pence per share. The ex-divi date will be 2 May 2007 and a record date of 4 May 2007. Payment will be made to shareholders within 20 days of the records date.

18. Related Party Transactions

Ultimate Controlling Party

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

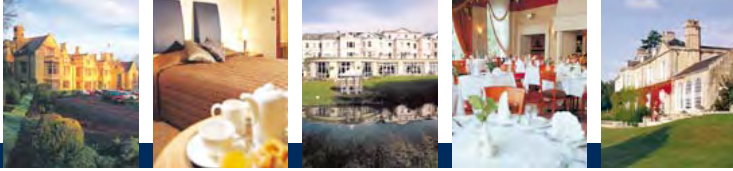
Key Management Compensation

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

	2006 £'000	2005 £'000
Short-term employee benefits – Directors fees	81	72
Post employment benefits	–	–
Other long-term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
Total	81	72

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 including VAT amounting to £23,500 (2005: £23,500) in respect of acting as Nominated Adviser were paid during the year.

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 including VAT of £39,450 (2005: £44,173) 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 Wednesday 20 June 2007 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 2006.

3. To re-appoint Director:

Derek Short 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 2008 but not as to prejudice the completion of a purchase contracted before that date.

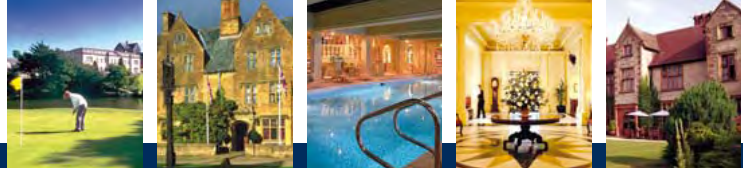
We enclose:

a form of proxy which, to be valid, must be lodged at the registered office of 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
20 April 2007



Appendix to the Annual Report

Information relating to Dawney Shore Hotels plc (“DSH”)

The profit and loss account of DSH for the period ended 31 December 2006 together with the balance sheet of DSH as at 31 December 2006 is provided below and have been prepared in accordance with applicable United Kingdom accounting standards. These are extracted from the preliminary announcement made by DSH.

Dawney Shore Hotels plc
Consolidated Income Statement
Period ended 31 December 2006

	Period ended 31 December 2006 £'000	Period ended 1 January 2006 £'000
Turnover	101,228	89,458
Cost of sales	(12,166)	(10,932)
Gross Profit	89,062	78,526
Administrative expenses	(70,334)	(60,214)
Operating Profit	18,728	18,312
(Loss)/profit on sale of fixed assets	(2)	127
	18,726	18,439
Interest receivable and similar income	160	318
Interest payable and similar charges	(23,622)	(20,772)
Loss on Ordinary Activities before Taxation	(4,736)	(2,015)
Tax on loss on ordinary activities	1,474	1,554
Loss for the Financial Period	(3,262)	(461)
Equity dividend paid	(398)	–
Retained Loss for the Financial Period	(3,660)	(461)

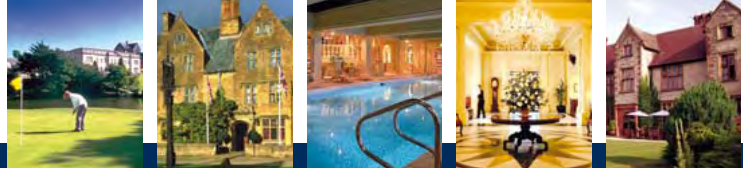
All of the group's operations during the period shown above represent continuing operations.



Appendix to the Annual Report continued

Dawnay Shore Hotels plc Consolidated And Company Balance Sheet 31 December 2006

	Group As at 31 December 2006 £'000	Company As at 31 December 2006 £'000	Group As at 1 January 2006 £'000	Company As at 1 January 2006 £'000
Fixed assets				
Intangible assets – goodwill	9,523	–	9,846	–
Tangible assets	527,550	–	375,207	–
Investments	–	105,537	–	105,340
	537,073	105,537	385,053	105,340
Current Assets				
Stocks	862	–	877	–
Debtors	9,995	223,571	7,564	195,419
Cash at bank and in hand	2,407	–	6,474	290
	13,264	223,571	14,915	195,709
Creditors: amounts falling due within one year	(22,947)	(65,215)	(23,373)	(48,377)
Net Current (Liabilities)/Assets	(9,683)	158,356	(8,458)	147,332
Total Assets Less Current Liabilities	527,390	263,893	376,595	252,672
Creditors: amounts falling due after more than one year	(321,389)	(218,829)	(302,482)	(208,133)
Provision for Liabilities and Charges	(8,021)	–	(9,495)	–
Net Assets	197,980	45,064	64,618	44,539
Capital and Reserves				
Called up share capital	1,658	1,658	1,658	1,658
Share premium account	32,137	32,137	32,137	32,137
Revaluation reserve	168,043	–	31,180	–
Profit and loss account	(3,858)	11,269	(357)	10,744
Equity Shareholders' Funds	197,980	45,064	64,618	44,539



Dawnay Shore Hotels plc
Consolidated Statement of Total Recognised Gains and Losses
Period ended 31 December 2006

	31 December 2006 £'000	1 January 2006 £'000
Retained loss for the financial period	(3,660)	(461)
Unrealised surplus on revaluation of properties	137,022	19,874
Total recognised gains and losses relating to the period	133,362	19,413

Note of Consolidated Historical Cost Profits and Losses
Period ended 31 December 2006

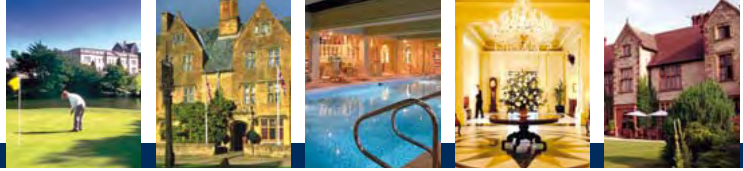
	31 December 2006 £'000	1 January 2006 £'000
Reported loss on ordinary activities before taxation	(4,736)	(2,015)
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	159	54
Historical cost loss on ordinary activities before taxation	(4,577)	(1,961)
Historical cost loss for the year retained after taxation and dividends	(3,501)	(407)



Appendix to the Annual Report continued

Dawnay Shore Hotels plc Consolidated Cash Flow Statement Period ended 31 December 2006

	Period ended 31 December 2006 £'000	Period ended 1 January 2006 £'000
Net cash inflow from operating activities	24,530	28,051
Returns on investments and servicing of finance		
Interest received	160	318
Interest paid	(19,488)	(19,436)
Interest paid on finance leases	(57)	(75)
Dividends paid	(398)	–
Net cash outflow from returns on investments and servicing of finance	(19,783)	(19,193)
Taxation		
Corporation tax paid	–	–
Capital expenditure		
Purchase of tangible fixed assets	(23,169)	(7,565)
Sale of tangible fixed assets	34	1,114
Net cash outflow from capital expenditure and financial investment	(23,135)	(6,451)
Acquisitions		
Purchase of hotels	–	(75,104)
Purchase of subsidiary undertakings	(197)	(16,716)
Cash balances less overdraft acquired with hotels and subsidiary undertakings	–	(51)
Net cash outflow from acquisitions	(197)	(91,871)
Net cash outflow before financing	(18,585)	(89,464)
Financing		
Issue of share capital	–	1,320
New term loans raised	17,802	97,325
New bonds issued	–	1,200
New loan note issued	114	3,595
Bank loans repaid	–	(25,389)
Bonds repaid	(3,091)	(3,475)
Term loan issue costs	–	(2,065)
Repayment of principal under finance leases	(307)	(499)
Net cash inflow from financing	14,518	72,012
Decrease in cash	(4,067)	(17,452)



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

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222 Gray's Inn Road
London WC1X 8XF

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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

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