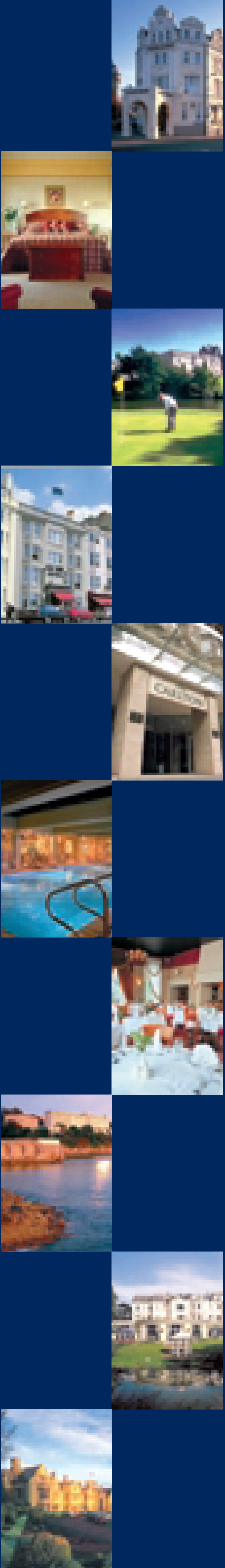

The Hotel Corporation plc

Interim Report 2005

For the six months ended
30 June 2005

Contents

Highlights

The Hotel Corporation plc

- Profit, including revaluation gain, of £9.3m
- Independent valuation of hotels translates into significant growth in net assets per share, to 144p, up 21.0% since 31 December 2004
- Interim dividend of 2.6p per share

Dawnay Shore Hotels plc

- Total revenue increases to £40.4 million (up 2.5% like for like)
- Paramount Hotels now operates 17 hotels
- Room renovation completed at Imperial Blackpool and substantial renovation underway at Hinckley Island Hotel
- Acquisition of Walton Hall, near Stratford Upon Avon for £15.2m

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

"DSH continues to focus on the integration of the 3 Hanover hotels, acquired at the beginning of the year. All the hotels in the chain are now operating under the distinctive Paramount brand and additional benefits are expected from this branding. The major renovation of The Hinckley Island Hotel is due for completion early in 2006 and the re-launch of this 349 room hotel is a key DSH management priority. The acquisition of Walton Hall at the end of June provides a further exciting opportunity for DSH to build share in the high quality four star hotel market."

The Hotel Corporation plc is referred to as "HCP" or the "Company". Dawnay Shore Hotels plc is referred to as "DSH".

Chairman's Statement

I am pleased to report on the interim figures for the first six months of the current year.

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 consolidated balance sheet of DSH as at 3 July 2005, the consolidated profit and loss account and consolidated cashflow statement of DSH for the 26 weeks ended 3 July 2005 are also provided in this statement.

Results of the Company

Revenue for the period, including bank interest, was £1.03m and, following administrative expenses, operating profit amounted to £0.9m. In addition, the profit includes a credit categorised as investment gains amounting to £8.4m, 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 £9.3m. 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 26.8p including these investment gains, and 2.6p 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 £314.3m (excluding Walton Hall which is shown at cost), which was carried out by Colliers Robert Barry, third party independent valuers, as at 30 June 2005. This translates into a net asset value per share in the capital of DSH of £1.87 per share which compares with the price of £1.10 at which the Company last acquired shares in DSH in January 2005. Given the highly leveraged structure of DSH (approximately four times the level of debt to equity), movements in the valuation of DSH (both upwards and downwards) will have a magnified effect on the value of the Company's shareholding in DSH.

Dividend

HCP has declared an interim dividend of 2.6 pence per ordinary share. The ex-div date will be 5th October 2005 and a record date of 7th October 2005. Payment will be made to the shareholders on 21st October 2005.

DSH results

Financial review

DSH's results for the period cover the 13 Paramount hotels held throughout the period together with the 3 Hanover hotels whose acquisition was completed in January. When acquired, these 3 hotels were showing a relatively weak performance with occupancy and room rates considerably below industry norms for hotels of their character and location. During the period under review, they have been integrated into the chain and are now operating under the Paramount brand. The largest, Hinckley, is undergoing a major renovation to bring its internal fittings up to the standards of the rest of the chain. During the period DSH also renovated the Imperial Hotel Blackpool, which was completed in June ahead of the party conference season.

Near the end of the period on 27 June 2005, DSH acquired Walton Hall, a former timeshare, leisure and banqueting complex, for £15.2m. Given the timing of the acquisition no trading results for Walton Hall are reflected in the period.

For hotels in the category operated by DSH, turnover is always weighted towards the second half of the year as January and February are particularly weak months for conferencing and leisure breaks. As DSH was not trading prior to July 2004 it is not possible to compare its current results with the same period of the previous year but the table below compares certain key performance indicators for the 26 week period ended 27 June 2004. As the hotels were 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 compares the results for 2005 with the results of the same 16 hotels over the comparable period in 2004. It shows that on a like for like basis turnover grew over the period but hotel operating profit grew at a lower rate. This partly reflects a change in the mix of business: the more expensive to service business travel grew strongly, whilst conference events and leisure business was less buoyant. More significantly if the results of the Hinckley are excluded from the current and prior year period, hotel revenue and EBITDA show a 3.6% and 3.3% growth respectively. In addition, RevPAR growth excluding Hinckley is 1.9%.

	H1 05 (Unaudited)	H1 04 (Unaudited)	% change
Turnover	£40.4m	£39.4m	2.5%
Hotel Operating Profit[1]	£14.2m	£14.0m	1.4%
Occupancy	69.2%	67.4%	2.6%
Average Room Rate	£62.42	£63.55	(1.8%)
Revenue per Available Room	£43.18	£42.83	0.8%

[1] HOP is EBITDA for the individual hotels, excluding head office costs.

Chairman's Statement continued

DSH's turnover for the six months ended 3 July 2005 was £40.4m, generating hotel operating profit of £14.2m. After central and other costs, EBITDA was £10.3m. Interest payable on senior debt and deep discounted bonds was £10.2m. The net loss before tax for the period was £3.9m.

Dividends

As mentioned above, the second half of the year is normally much stronger than the first half and the Board of DSH will review payment of dividends in respect of the financial year ending 31 December 2005 at the conclusion of the financial year.

Operating review

There has been strong growth in revenue from corporate travel. This reflects an improved performance by the hotel sales managers in offering corporate rates to local businesses and more effective selling through the electronic distribution channels, following the recruitment of an expert in this field.

As discussed above, the 3 Hanover hotels are now operating under the Paramount brand and their businesses are being repositioned to perform at a higher level. The major renovation of Hinckley hotel (£3.2m), which will be a key asset, has had a short term impact on its performance as did the previously reported weak pipeline of conference bookings before acquisition. Daventry and Hinckley have benefited from the support of the Conference Sales Team and both hotels are now achieving a high level of conference enquiries. The benefit of these enquiries will be most strongly felt after the re-launch of the Hinckley hotel. Basingstoke has benefited from the Paramount Leisure Breaks business.

The renovation of the Imperial Hotel, Blackpool, completed in June, also had a short-term effect, but Blackpool has now picked up significant business: in addition to hosting two party political conferences this autumn (Liberal Democrats and Conservative), the hotel will also host the Labour spring conference in 2006. The renovation at Hinckley is due for completion early in 2006 and a new General Manager is in place to maximise revenue during the renovation and to re-launch the hotel in the first quarter of 2006.

These factors and a generally competitive market made conferences and events less buoyant than DSH had hoped, with a consequent effect on food and beverage revenue. DSH is very focused on the conference and events and the sales teams are working hard to improve this trend. Leisure break business has seen growth year on year in room nights including an increase of over 50% in bookings made through the Central Reservations Office.

Customers are becoming more price conscious but DSH is continuing to attract business through tactical marketing.

Efforts to maximise returns from the Group's leisure clubs have been very successful, resulting in a 13% increase in revenue from leisure club users.

Property valuation

The DSH hotel portfolio (excluding Walton Hall) has been valued by Colliers Robert Barry as at 30 June 2005 at £314.3 million. Segmenting the portfolio to reflect the fact that 3 Hanover hotels are being integrated and repositioned, the value per room of the original Paramount hotels acquired on 12 July 2004 equates to £141,000. This represents an 8.4% increase over the November 2004 valuation (value per room of £130,000) and a 17.9% increase over the consideration paid on acquisition for these hotels on 12 July 2004. The value per room of the 3 Hanover hotels is £103,750.

After revaluation, the net asset value per share in DSH has increased from 137p to 187p (36%) reflecting the company's debt/equity ratio.

Property development

DSH is working to extract development value from the entire portfolio; this is taking 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 £132,000. DSH has targeted hotels for development where the uplift is expected to be above average, thus maximising the potential value to the business. We are progressing with the development of additional bedrooms at a number of our hotels where planning permission exists.

DSH is constantly focused on improving the existing product. Other projects during the period included refurbishing the public areas and 42 bedrooms at Buxton and 40 bedrooms at Stirling (hosts to guests at the recent G8 Conference).

DSH is submitting an application for planning permission later this year for the major redevelopment of the Imperial Hotel, Torquay into a world class hotel and resort. The scheme has already received strong support from the key local stakeholders.

The most recent acquisition, Walton Hall, on a 65 acre site, housed 132 time-share units whose interests have been bought out. Located near Stratford-upon-Avon in a glorious setting, DSH has obtained planning consent to convert the property into a high quality four star country hotel and spa with around 200 rooms, substantial conference facilities, leisure and fitness. The refurbishment is due to commence in January 2006 and will consist of upgrading the current bedroom stock, adding new bedrooms, building a new conference centre, a new restaurant and upgrading the leisure centre. It is

Chairman's Statement continued

planned to invest £10m into the property. Walton Hall benefits from being located close to both Stratford and Warwick, where the demand for conference venues is high. With its striking architecture and impressive grounds Walton Hall will be one of the most significant conference and meetings hotels in its competitive market when it is re-launched in the autumn of 2006.

The Paramount Team has won the bid to be the developer and operator of the first British hotel school which is to be built next to the Bournemouth International Conference Centre and have direct links to it.

Management

DSH appointed Mr Peter Procopis as Finance Director with effect from 1 August 2005. Peter brings a wide range of financial skills to DSH having had over 18 years' experience in the global hotel industry. Peter gained his experience in a variety of roles with Arthur Andersen, Strategic Hotel Capital (where he was Vice President Europe for 5 years) and for the last 2 years at UBS Global Asset Management where he was responsible for strategy in relation to hotel assets.

In addition, DSH has recruited a new sales and marketing director, Manju Goel, who is joining shortly. She was most recently director of sales and marketing at MacDonald Hotels, a chain of 60 hotels, having previously been a director of global sales at Intercontinental and prior to that at Forte and Le Meridien Hotels.

Prospects

I am very pleased with the excellent businesses that DSH has acquired. The addition of Walton Hall and re-launch of Hinckley provide a further exciting opportunity for DSH to build share in the high quality four star hotel market.

Given the performance to date and current trends, we expect the results for DSH for the full year of 2005 to be in line with the prior year.

DSH continues to seek acquisitions which fit its investment criteria. Valuations, however, have increased over the period and DSH have stated that they 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.

Barclay Douglas
Chairman
26 September 2005

Independent Review Report to The Hotel Corporation plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed. The directors are also responsible for ensuring compliance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34).

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Deloitte & Touche
Chartered Accountants
Douglas
Isle of Man

26 September 2005

Income Statement

For the six months ended 30 June 2005

	Notes	**Unaudited Period from 1 January 2005 to 30 June 2005 £'000**	Audited Period from 7 June 2004 to 31 December 2004 £'000
Continuing operations			
Revenue		**993**	651
Administrative expenses		**(124)**	(95)
Profit from operations		**869**	556
Bank interest receivable		**34**	7
Investment gains – unrealised	3	**8,384**	5,435
Profit before tax		**9,287**	5,998
Taxation		**–**	–
Profit after tax for the period from continuing operations		**9,287**	5,998
Basic and diluted earnings per share	4	**26.8p**	29.4p

Balance Sheet

As at 30 June 2005

	Notes	Unaudited As at 30 June 2005 £'000	Audited As at 31 December 2004 £'000
Assets			
Non current assets			
Investments	3	**47,489**	37,740
Current assets			
Trade & other receivables		**14**	12
Cash and cash equivalents		**2,326**	3,320
		2,340	3,332
Total assets		**49,829**	41,072
Equity & Liabilities			
Capital & reserves			
Share capital		**1,731**	1,731
Share premium account		**33,308**	33,308
Retained earnings		**14,735**	5,998
		49,774	41,037
Current liabilities			
Trade & other payables		**55**	35
Total equity & liabilities		**49,829**	41,072
Net asset value per share		**144p**	119p

Statement of Changes in Equity

For the six months ended 30 June 2005

	Unaudited Period from 1 January 2005 to 30 June 2005 £'000	Audited Period from 7 June 2004 to 31 December 2004 £'000
Balance at start of period	**41,037**	–
Profit for the period	**9,287**	5,998
Dividend paid	**(550)**	–
Issue of share capital	**–**	35,039
Balance at end of period	**49,774**	41,037

Cash Flow Statement

For the six months ended 30 June 2005

	Notes	Unaudited Period from 1 January 2005 to 30 June 2005 £'000	Audited Period from 7 June 2004 to 31 December 2004 £'000
Net cashflow from operating activities	5	**(106)**	(72)
Investing activities			
Interest received		**34**	7
Purchase of investments		**(1,365)**	(32,305)
Proceeds received on maturity of investments		**993**	651
Net cash used in investing activities		**(338)**	(31,647)
Financing activities			
Payment of dividend		**(550)**	–
Issue of share capital		**–**	35,039
Net cash (used in)/generated from financing activities		**(550)**	35,039
Net (decrease)/increase in cash and cash equivalents		**(994)**	3,320

Notes to the Accounts

For the six months ended 30 June 2005

1. Basis of accounting

The financial information in this announcement has been prepared in accordance with International Financial Reporting Standards (IFRS). Certain information and disclosures normally required to be included in the notes to the annual financial statements have been omitted or condensed in accordance with IAS34 "Interim Financial Reporting". These interim financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report for the period from 7 June 2004 to 31 December 2004. The accounting policies applied are consistent with those as set out in the Company's annual financial statements for the period from 7 June 2004 to 31 December 2004.

2. General information

The information for the period from 7 June 2004 to 31 December 2004 does not constitute statutory accounts within the meaning of the Isle of Man Companies Acts 1931–2004. A copy of the statutory accounts for that period has been delivered to the registrar of companies. The auditors' report was unqualified.

3. Investments

	Period from 1 January 2005 to 30 June 2005	Period from 7 June 2004 to 31 December 2004
	£'000	£'000
Equity investments brought forward	**21,840**	–
Purchased in the period	**715**	16,405
Increase in fair value	**8,384**	5,435
Equity investments carried forward	**30,939**	21,840
Held to maturity investments brought forward	**15,900**	–
Purchased in the period	**650**	15,900
Redeemed in the period	**(993)**	(651)
Amortisation of discount	**993**	651
Held to maturity investments carried forward	**16,550**	15,900
Total investments	**47,489**	37,740

Equity investments

Investments in the ordinary shares of Dawnay Shore Hotels plc 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.

3. Investments continued

Held to maturity investments

Held to maturity investments that are held at the balance sheet date are measured at amortised cost less any impairment loss. Where the investments are in bonds that have been 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. The amortisation is recognised in the Income Statement for the period.

4. Earnings per share

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

	Period from 1 January 2005 to 30 June 2005	Period from 7 June 2004 to 31 December 2004
	£'000	£'000
Earnings		
Profit for the period	**9,287**	5,998
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**34,619,050**	20,388,742
Basic and diluted earnings per share	**26.8p**	29.4p
This comprises:		
Basic & diluted earnings per share from operations and bank interest	**2.6p**	2.8p
Basic & diluted earnings per share from investment gains	**24.2p**	26.6p

5. Notes to the Cash Flow Statement

Reconciliation of Profit from Operations to Net Cash Flow from operating activities:

	Period from 1 January 2005 to 30 June 2005	Period from 7 June 2004 to 31 December 2004
	£'000	£'000
Profit from operations	**869**	556
Increase in trade and other receivables	**(2)**	(12)
Increase in trade and other payables	**20**	35
Amortisation of discount on purchase of investments	**(993)**	(651)
	(106)	(72)

Appendix – Dawnay Shore Hotels plc Interim Results 2005

The unaudited additional information on pages 14 to 16 has been received from the accounting records of Dawnay Shore Hotels plc. While it does not form part of the interim statements, it should be read in conjunction with them and the independent review report thereon.

Dawnay Shore Hotels plc
Consolidated Profit and Loss Account
For the 26 weeks ended 3 July 2005

	Unaudited 26 weeks ended 3 July 2005 £'000	Audited 25 weeks ended 2 January 2005 £'000
Turnover	**40,424**	36,395
Cost of sales	**(4,951)**	(4,984)
Gross profit	**35,473**	31,411
Administrative expenses	**(29,355)**	(23,466)
Operating profit	**6,118**	7,945
Loss on sale of fixed assets	**–**	(7)
	6,118	7,938
Interest receivable and similar income	**186**	217
Interest payable and similar charges	**(10,172)**	(8,134)
(Loss)/profit on ordinary activities before taxation	**(3,868)**	21
Tax on profit on ordinary activities	**–**	29
Retained (loss)/profit for the financial period	**(3,868)**	50

Dawnay Shore Hotels plc
Consolidated Balance Sheet
As at 3 July 2005

	Unaudited As at 3 July 2005 £'000	Audited As at 2 January 2005 £'000
Fixed assets		
Intangible assets – goodwill	**7,505**	7,685
Tangible assets	**333,217**	237,281
Investments	**–**	–
	340,722	244,966
Current assets		
Stocks	**729**	713
Debtors	**8,020**	7,582
Cash at bank and in hand	**4,618**	23,926
	13,367	32,221
Creditors: amounts falling due within 1 year	**(23,485)**	(23,525)
Net current assets	**(10,118)**	8,696
Total assets less current liabilities	**330,604**	253,662
Creditors amounts falling due after more than 1 year	**(257,968)**	(199,127)
Provision for liabilities and charges	**(10,634)**	(10,650)
Net assets	**62,002**	43,885
Capital and reserves		
Called up share capital	**1,658**	1,598
Share premium account	**32,137**	30,877
Revaluation reserve	**32,026**	11,360
Profit and loss account	**(3,819)**	50
Equity shareholders' funds	**62,002**	43,885

Appendix – Dawnay Shore Hotels plc Interim Results 2005 continued

Dawnay Shore Hotels plc
Consolidated Cash Flow Statement
For the 26 weeks ended 3 July 2005

	Unaudited 26 weeks ended 3 July 2005 £'000	Audited 25 weeks ended 2 January 2005 £'000
Net cash inflow from operating activities	**13,958**	9,906
Returns on investments and servicing of finance		
Interest received	**186**	217
Interest paid	**(10,980)**	(3,464)
Interest paid on finance lease	**(40)**	(47)
Net cash outflow from returns on investments and servicing of finance	**(10,834)**	(3,294)
Taxation		
Corporation tax paid	**–**	–
Capital expenditure		
Purchase of tangible fixed assets	**(2,383)**	(1,684)
Sale of tangible fixed assets	**–**	73
Net cash outflow from capital expenditure and financial investment	**(2,383)**	(1,611)
Acquisitions		
Purchase of subsidiary undertakings	**–**	(89,213)
Cash balances less overdraft acquired with subsidiary undertakings	**–**	4,024
Purchase of hotels	**(76,807)**	–
Net cash outflow from acquisitions	**(76,807)**	(85,189)
Net cash outflow before financing	**(76,066)**	(80,188)
Financing		
Issue of share capital	**1,320**	32,475
New term loans raised	**58,400**	177,000
New bonds issued	**1,200**	30,425
Bank loans repaid	**(652)**	(85,822)
Bonds repaid (2 January 2005: Loan stock repaid)	**(1,788)**	(46,949)
Term loan issue costs	**(1,503)**	(2,693)
Repayment of principal under finance lease	**(220)**	(322)
Net cash inflow from financing	**56,757**	104,114
(Decrease)/increase in cash	**(19,309)**	23,926

Officers and Professional 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 House 14 Clifford Street London W1S 4JU
Stockbroker	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
Solicitors to the Company	SJ Berwin 222 Gray's Inn Road London WC1X 8XF
Isle of Man Advocates to the Company	Dickinson Cruickshank 33 Athol Street Douglas Isle of Man IM1 1LB
Auditors	Deloitte & Touche Grosvenor House Athol Street Douglas Isle of Man IM99 1XJ
Registrars & Crest Service Provider	Computershare Investors Services PLC PO Box 83 Ordnance House 31 Pier Road St Helier Jersey JE4 8PW
Isle of Man Administration	Peregrine Corporate Services Limited Burleigh Manor, Peel Road, Douglas Isle of Man IM1 5EP

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