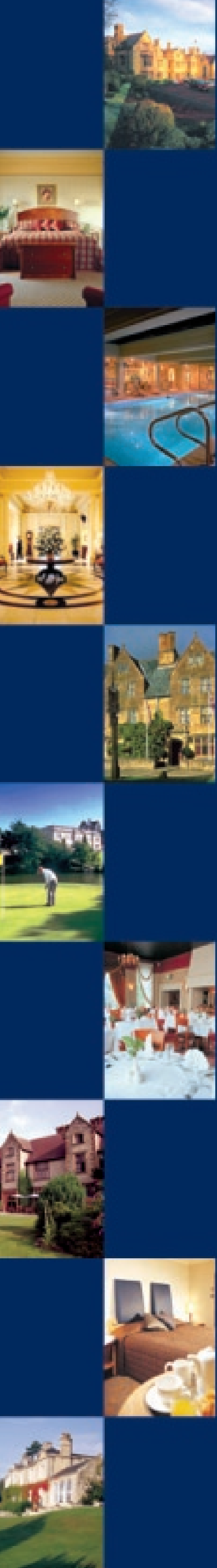
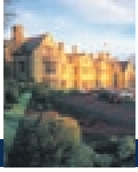
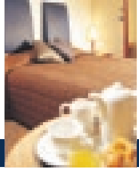
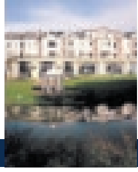


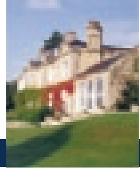
The Hotel Corporation plc

Annual Report and Financial Statements

for the year ended

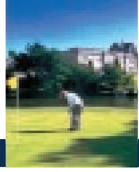
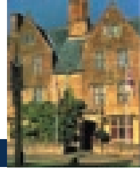
31 December 2010

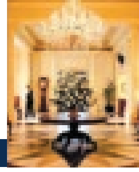
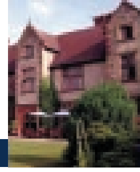






Contents

The Lygon Arms.

Chairman's Statement

I am pleased to report on the results of The Hotel Corporation plc ("the Company") and its subsidiary Puma Hotels plc ("PHP"), together "the Group".

The Company's principal asset comprises its interest in PHP and this statement therefore discusses the results of both the Company and PHP.

For consistency with previous periods, the consolidated and Company balance sheet of PHP, as at 31 December 2010, the consolidated profit and loss account, the consolidated statement of total recognised gains and losses and consolidated cash flow statement of PHP for the Year ended 31 December 2010 are also provided as an appendix to this report. I recommend that they be read in conjunction with the results that follow.

Results of the Company

Revenue for the year, including bank interest and the preference dividend received from PHP was £2.8m (2009: £2.0m). After deducting administrative expenses and interest, profit amounted to £2.6m (2009: £1.8m). No tax is payable for the year due to the zero income taxation provisions in the Isle of Man. Basic and diluted earnings per share were 5.2p (2009: (18.5p)).

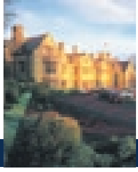
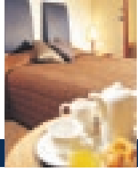
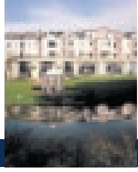
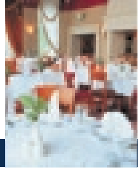
The Company's net asset value per share ("NAV"), as at 31 December 2010 is 131p (2009: 131p) and the company has valued its shareholding in PHP on the basis of the discounted future net cash flow from PHP. Since the granting of 45 year leases to Barcelo Group ("Barcelo") on 6 September 2007, Puma Hotels plc trades as an owner of hotel property receiving income from property rents. The valuation of the assets subject to Barcelo lease was carried out by Colliers Robert Barry & Co, independent valuers, as at 31 December 2010 at a value of £458.3m (2009: £463.2m). This valuation includes £2.8m (2009:£3.0m) of land and other assets at PHP Directors valuation not subject to Barcelo lease. Against the backdrop of a general decline in the hotel operating environment this is a reduction of 1% from the previous year and reflects the quality of the assets and the tenant's covenant strength.

Consolidated Results of the Group

The Company has a holding of £11.8m (2009: £11.8m) convertible preference shares in PHP. If all the convertible preference shares held by the company are converted into ordinary shares in the future the Company will own 53.28% of PHP, on a fully converted basis. While we have no present intention of exercising our conversion rights, International Financial Reporting Standards ("IFRS") rules require consolidation of PHP results. I draw your attention to the fact that the comparative figures of the group include the results of the company from 1 January 2009 to 31 December 2009 and the results of PHP from the date of acquisition on 29 June 2009 to 31 December 2009. This makes meaningful comparison difficult.

The Group revenue for the year, including bank interest, was £30.3m (2009 £16.1m) and, following administrative expenses and interest but before the decrease in the fair value of the investment property and fair value of the interest rate swaps, the profit amounted to £4.0m (2009: loss £0.6m). After the decrease in the fair value of the investment property and

Cheltenham Park Hotel.


Chairman's Statement continued

the interest rate swaps the total loss before tax was £10.6m (2009 £23.2m). A deferred tax credit of £4.8m (2009 £10.8m) reduces the loss after tax to £5.8m (2009: £12.4m). Basic loss per share was (3.22p) (2009 restated (8.15p)).

As required by IFRS, the consolidated statement of financial position of the Group takes account of goodwill, the fair value of interest rate swaps and deferred tax adjustments on consolidation. The resulting consolidated NAV per share is 131.7p (2009 restated: 139.3p).

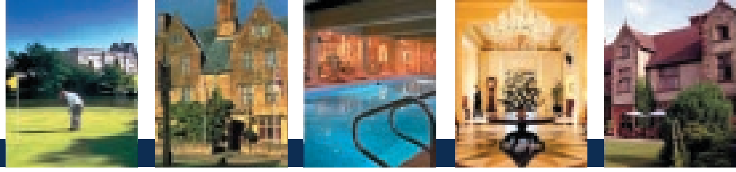
Dividend

The Company has proposed a final dividend of 2.6p per ordinary share (2009: 1.8p), making a total of 5.2p for the year (2009: 3.6p). The ex-dividend date will be 23 March 2011 and the record date 25 March 2011. Payment will be made to shareholders on 28 April 2011 after the Annual General Meeting on 26 April 2011. The total dividends for the year, £2.6m (2009: £1.8m) reflect the profits for the year before investment losses and tax.

Prospects

We are encouraged by the progress PHP has made in obtaining significant planning permissions during the year and more recently, an additional 25 new bedrooms at the Carlton Hotel in Edinburgh. We look forward to further news regarding the development of the Harrogate Lodge Hotel and the prospect of an investment market recovery leading to the opportunity for PHP to consider making selective asset disposals.

Barclay Douglas
Chairman
16 March 2011



Review of Operations and Financial Performance

The operations of the Group are concentrated within Puma Hotels plc ("PHP") hence a review of operations and financial performance for PHP under UK Generally Accepted Accounting Standards ("UK GAAP") has been provided.

Introduction

Since the granting of leases to Barceló Group ("Barceló") on 6 September 2007, Puma Hotels plc ("PHP" or the "Group") trades as an owner of hotel property receiving income from property rents. The Company's hotels are let on long term full repairing and insuring ("FRI") leases to Barceló, a leading Spanish hospitality group with substantial global hotel and other leisure related operations.

Financial Performance

Turnover for the year ended 31 December 2010 of £30.3m represents rent received from Barceló (2009: £30.0m). Operating Profit of £26.3m (2009: £24.0m) has grown over the prior year reflecting the benefit of the increase in rent in September 2010 from £30m to £31m, the reduction in administrative expenses and a significantly lower deficit on the revaluation of properties.

After deducting bank interest payable on the Company's senior facility, the Group showed a net profit of £6.3m (2009:£0.6m) before shareholder finance costs and exceptional items. Shareholder finance costs comprise £4m of payments to bondholders of the Company's deep discounted bonds and £1.4m of payments to the holders of convertible preference shares. There was an exceptional but non-cash charge of £0.4m as a result of the revaluation of properties (2009:£2.1m). After deducting these items, the profit on ordinary activities for the year was £0.5m (2009: loss of £6.2m).

Net bank interest payable was £5.1m lower against the prior year as the new more advantageous swap on £182.3m of the £342.3m facility came into effect from 1 January 2010. As previously reported the profile of the interest rate swaps relating to this £182.3m is as follows:

31 December 2009 to 31 December 2010: 2.230%
31 December 2010 to 31 December 2011: 3.330%
31 December 2011 to 31 December 2012: 3.945%

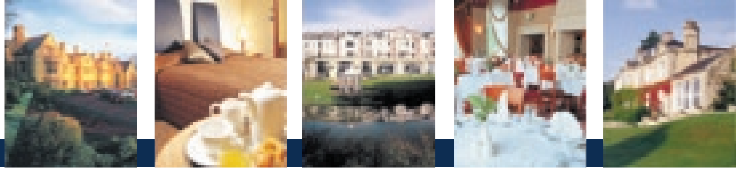
As discussed below, PHP has had the leased properties professionally revalued as at 31 December 2010 and, as a result, is now carrying its entire portfolio at a total value of £458.3m (2009: £463.2m). As part of the revaluation process, each individual property has been assigned a new value, in some cases eliminating the brought forward valuation surplus, hence leading to a charge to the profit and loss account of £0.4m (2009:£2.1m). This charge is a non-cash item which is shown as a "deficit on revaluation". The remaining £6.5m of the reduced valuation has been taken against the valuation surplus in the balance sheet. As at 31 December 2010 balance of the revaluation reserve is £78.2m (2008: £84.7m).

As at 31 December 2010, net tangible assets per ordinary share (after deducting carried interest relating to the founder shares and excluding goodwill) were 170p (2009:185p).

Leases and Property Revaluation

The asset values on the balance sheet of PHP reflect the lease arrangements with Barceló. These leases place FRI obligations on the tenant and provide for a fixed rental with inflation-indexed provisions.

Radworth Hall Hotel.



Review of Operations and Financial Performance continued

In addition to the tenant's FRI obligation, the agreement with Barceló also provides for a £10m capital expenditure contribution to be made by PHP in the first 10 years of the leases. This contribution is to be spent on structural and mechanical improvements by Barceló and to date, PHP has contributed over £5m.

For the purpose of preparing its annual financial statements for 2010, PHP has had the property subject to these leases professionally valued by Colliers Robert Barry & Co. This valuation of each property in the portfolio, which excludes land held for development and other assets not subject to the Barceló lease, is at £455.5m (a modest decline against the 2009 value of £460.2m). The Board of PHP considers that the value of the assets excluded from the lease is a further £2.75m.

Development Plans

PHP continues on its strategy to add value by securing additional planning permissions. PHP has in the past successfully exploited the potential for gains in value through developing the portfolio by adding extra rooms, conference and other facilities at existing hotels.

On 11 October 2010, consent was obtained from Harrogate Borough Council ("HBC") for the addition of 34 bedrooms to the Harrogate Majestic Hotel. Consent already exists to add another 82 bedrooms to this landmark property located in the heart of Harrogate.

On 3 March 2011, the Group secured full planning and listed buildings consent from the City of Edinburgh Council for the addition of 25 new bedrooms to the Carlton Edinburgh Hotel. The Group already holds consent to add 33 bedrooms to this high profile, city centre hotel. Implementation of the planning consents would increase capacity by 58 bedrooms bringing the total bedroom count to 247.

In addition, as previously reported three significant planning consents were secured in February 2010. The current status of these planning consents is as follows:

1. **Harrogate Lodge Hotel:** Granted by HBC this planning consent allows for the development of a 107 bedroom lodge hotel on land that is part of the development assets excluded from the Barceló lease. On 23 July 2010, the Group signed an agreement with HBC which provides, inter alia, for the proposed lodge hotel to be directly linked into a new 3,400 sq m exhibition facility which is being built as part of the first phase in the redevelopment of the Harrogate International Centre (HIC). In addition, the Group will have the benefit of 20 car parking spaces on a 99 year lease (initial term of 25 years) from HBC. In return, the Group transferred to HBC a 103 square metre parcel of land to be used by HBC in the expansion of the HIC.

   Discussions continue with branded hotel companies in relation to this development opportunity.

   In addition, as part of our discussions with the HIC, their building plans also provide improved access into the HIC from the four star 170 bedroom Barceló Majestic Hotel, for which a planning consent already exists to extend the hotel by a further 116 bedrooms.

2. **Brighton Old Ship Hotel:** Planning consent was secured for a 3,000 sq m development at this waterfront, city centre hotel which will add 42 bedrooms (a 27% increase to existing room stock), a 248 sq m conference facility and 124 sq m of bar and restaurant facilities.

3. **Gatehouse at Combe Grove Manor:** Planning and listed building consent obtained for a 30% extension of the internal space at this attractive residential property which is part of the development assets excluded from the Barceló lease. In October 2010, the Group completed the sale of this property at a price of £275,000.

In overall terms, PHP has the potential to add over 800 rooms (over 25 per cent of the current estate) of which 579 rooms (2009: 370 rooms, therefore a 56% increase in consented rooms) have already received the necessary planning or listed building consent. There are also schemes for over 3,000 sq m (of which over 70% have planning consent) of additional meeting rooms and upgrades to other hotel facilities. The benefits of adding these rooms and other facilities will be highly attractive for both PHP and Barceló. The impact of the development potential of the portfolio is typically not recognised fully in a professional valuation and PHP therefore believes that implementation of the programme will result in significant benefits.

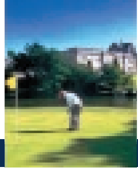
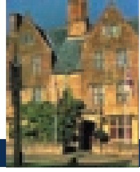
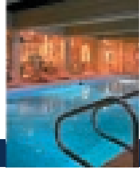
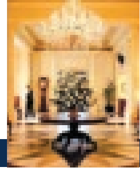
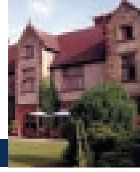
Fire at Harrogate Majestic Hotel

As reported with the Group's 30 June 2010 interim results, on 5 May 2010, the east wing of the Majestic Hotel was partially damaged by fire. The entire hotel remained closed until 5 September 2010 whilst the necessary rectification works were carried out so as to enable a partial reopening on that date. As of 5 September, Barceló have taken possession of 88 of the 170 bedrooms and the majority of the supporting conference and other facilities.

Works continue to reinstate the remaining damaged areas of the hotel and it is envisaged that the final completion of the rectification works should occur during the second quarter of this year. The Company has insurance in place to cover in full property reinstatement costs and loss of rent.

Strategy, Plans and Prospects

PHP's Board continues to focus on unlocking significant value by gaining additional planning consents and considering selective asset disposals as the investment market recovers. The Board considers that as the regional hotel investment market recovers, the Group's assets should prove highly attractive.

Investment Property Overview

CENTRAL ENGLAND

1. Barceló Billesley Manor Hotel, Nr. Stratford*
2. Barceló Cheltenham Park Hotel
3. Barceló Daventry Hotel
4. Barceló Hinckley Island Hotel
5. Barceló Oxford Hotel
6. Barceló Buxton Palace Hotel
7. Barceló Walton Hall Hotel & Spa, Warwickshire* +
8. Barceló The Lygon Arms, Cotswolds*

NORTHERN ENGLAND

9. Barceló Blackpool Imperial Hotel
10. Barceló Harrogate Majestic Hotel
11. Barceló Redworth Hall Hotel, Co. Durham*
12. Barceló Shrigley Hall Hotel, Cheshire*

SCOTLAND

13. Barceló Edinburgh Carlton Hotel
14. Barceló Troon Marine Hotel*
15. Barceló Stirling Highland Hotel

SOUTHERN ENGLAND

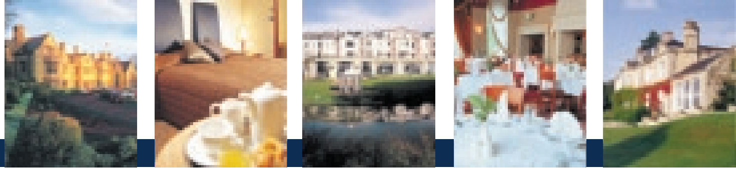
16. Barceló Combe Grove Manor, Bath*
17. Barceló Basingstoke Country Hotel
18. Barceló Torquay Imperial Hotel
19. Barceló Brighton Old Ship Hotel

WALES

20. Barceló Cardiff Angel Hotel

* Barceló Premium Hotels

\+ Operationally, Barceló split this property into a Barceló Premium Hotel, Barceló Walton Hall and a Barceló Hotel, Barceló Walton Hotel



Directors' Biographies

Barclay Douglas LLB CA (age 55)

Barclay now operates as a professional non-executive director for both public and private companies and provides advisory services to private companies. He is also an active investor in private companies.

He was previously an executive director of the private equity divisions of Murray Johnstone and Mercury Asset Management, and has over 10 years experience in the industry. During that time he represented investors on the boards of several private and public companies including Luminar plc, Britt Allcroft plc, and the Stationery Office (formerly HMSO)

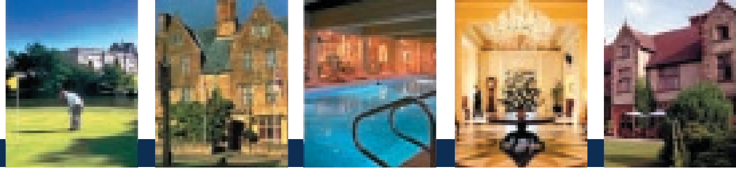
He is Chairman of Parallel Options and Cascade Care Group.

David Craine FCA JP (age 56)

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 Webis Holdings formerly Betinternet.complc plc which is an AIM listed company.

Derek Short FCIB MCSI FinstD (age 68)

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 and Advisers

Directors

James Barclay Douglas CA LLB (Chairman)
Derek William Short FCIB MCSI FinstD
David Peter Craine F.C.A J.P

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 and Stockbroker

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14 Clifford Street
London W1S 4JU

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London WC1X 8XF

Isle of Man Advocates to the Company

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Douglas
Isle of Man IM1 1LB

Auditors

Deloitte LLP
The Old Courthouse
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Douglas
Isle of Man IM99 1XJ

Registrars and Crest Service Provider

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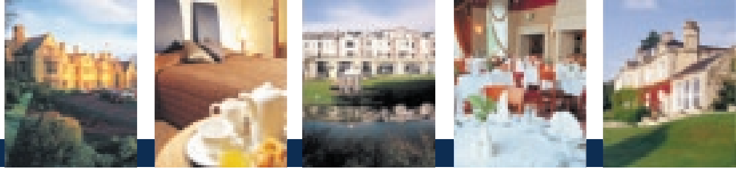
St Helier
Jersey JE4 8PW

Isle of Man Administration

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



Directors' Report

The Directors present their annual report on the affairs of The Hotel Corporation plc ("the Company") and its subsidiary Puma Hotels plc ("PHP") together ("the Group"), together with the Financial Statements and auditor's report for the year ended 31 December 2010.

The comparative figures of the group include the results of the company from 1 January 2009 to 31 December 2009 and the results of PHP from the date of acquisition on 29 June 2009 to 31 December 2009.

The Corporate Governance Statement set out on page 10 forms part of this report.

Principal Activity

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

Business Review

A review of the business of the Group is set out in the Chairman's Statement on pages 1 to 2.

Details of significant events since the balance sheet date being dividends proposed are contained in note 24 to the financial statements.

Results and Dividends

During the year the Company has made a profit before tax excluding unrealised investment losses of £2,591,000 (2009 profit £1,808,000).

During the year the Group, before the decrease in fair value of the investment property, decrease in fair value of the interest rate swaps and unrealised investment surplus, made a profit before tax of £4,012,000 (2009 loss £583,000). Dividends paid of £2,192,000 (2009 £1,797,000) are detailed in note 12.

Directors

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

		Appointed
J. B. Douglas	Chairman	14 Jun 04
D. W. Short		14 Jun 04
D.P. Craine		27 Jan 05

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

Directors' Interests

The following Directors who held office at 31 December 2010 had interests in the shares of the Company.

Ordinary Shares of 5p	31 December 2010		31 December 2009	
Director	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Barclay Douglas	**220,239**	**30,000**	170,239	–
Derek Short	**40,000**	**–**	40,000	–
David Craine	**18,000**	**–**	18,000	–

Barclay Douglas also has beneficial interest in 50,000 (2009: 50,000) preference shares in PHP.

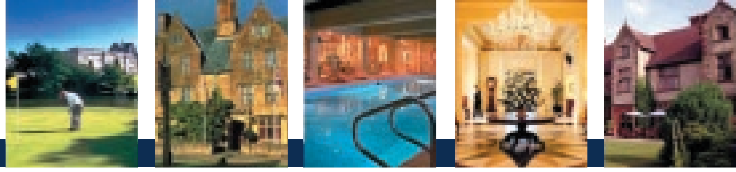
Substantial Shareholdings

On 1 March 2011 the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of Holder	Number	Percentage
Pershing Keen Nominees Limited	8,918,712	17.90
Midas Capital Partners Limited	8,433,333	16.93
Jupiter Asset Management	7,838,713	15.73
JP Morgan Asset Management	4,759,485	9.55
Gartmore Investment Management	2,602,427	5.22
Baring Asset Management	2,500,000	5.02
Rathbone Investment Management	2,078,126	4.17

Going Concern

The Directors have considered the factors which are likely to affect the Group's future development. The Group's business activities, performance and position are set out in the Chairman's Statement. The Group's valuation of its properties and borrowing facilities are set out in the PHP Review of Operations and Financial Performance. In addition, notes 14 and 26 to the financial statements include further details on the valuation of the Group's properties, borrowing facilities and associated interest rate hedge instruments. The maturity of the Group's debt facility is 31 December 2012, interest rate hedges are in place for 100% of the facility and the rental income benefits from guarantees provided by Barcelo Corporation Empresorial SA. Accordingly the directors' believe that this guarantee provides continuing comfort to the Group to enable it to meet its obligations to the bank in respect of loan covenants. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.



After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Financial Instruments

The use of financial instruments and policies are disclosed in note 26 of the financial statements.

Risk and Uncertainties

The Group is exposed to the risk that its hotel tenant Barcelo may be unable to meet its rent obligations. The Group is therefore exposed to risks associated with the hotel industry such as new hotel openings close to its existing sites and any general downturn in the hotel industry. This risk is however mitigated by the rent and other guarantees provided by Barcelo's Corporation Empresorial SA (the tenant's ultimate parent company).

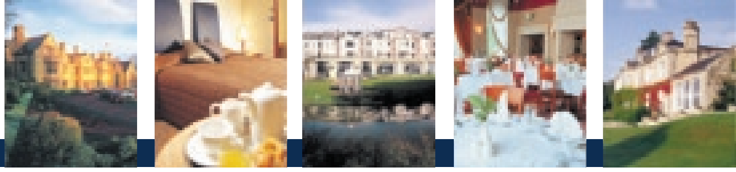
The Group is also exposed to risks regarding property valuations in periods of market instability. This instability means that professional valuers are not able to value properties with the same degree of certainty as would be the case in a more stable market with a good level of transactional evidence to support valuations.

As shown in note 17 of the accounts the Group has bank loans of £332.3m. The Group has taken appropriate measures to ensure that interest rate protection instruments are in place in order to minimise interest rate exposure. Full details of these instruments are given in note 26 of the accounts.

Auditor

Following the transfer of their business to Deloitte LLP with effect from 1 October 2010, Deloitte & Touche resigned as auditor on 8 March 2011 and the directors appointed their successors, Deloitte LLP, as auditor. This appointment will be ratified at the next annual general meeting.

Registered Office	**By Order of the Board**
Burleigh Manor Peel Road Douglas Isle of Man IM1 5EP	**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. Therefore, the directors have chosen to give selected disclosures that they believe are necessary/valuable to readers.

The Board comprises three 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 Fiduciary Service Provider regulated by the Isle of Man Financial Supervision Commission. David Craine is a director of PCS, see related party note 25.

Relations with Shareholders

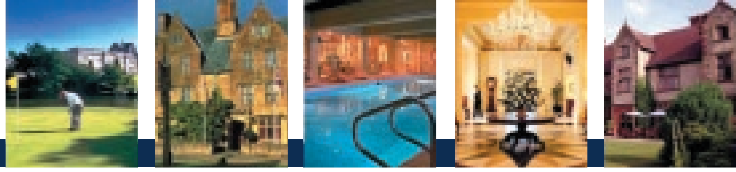
The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Chairman together with the Company's Nominated Advisers undertakes this function and reports back to the Board.

Directors' Remuneration

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

	2010 £'000	2009 £'000
Barclay Douglas (Chairman)	**38**	35
Derek Short	**25**	23
David Craine	**12**	10
Irrecoverable Value Added Tax	**7**	5
Total	**82**	73

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.



Directors' Responsibilities

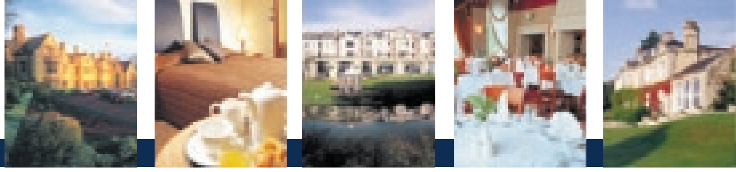
The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations.

Isle of Man company law requires the directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires the directors to:

- properly select and apply accounting standards;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the Company's ability to continue as a going concern; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are 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 that are sufficient to show and explain the Company's transactions which disclose with reasonable accuracy at any time the financial position of the Group, 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 Group and Company financial statements ("the financial statements") of The Hotel Corporation plc for the year ended 31 December 2010, which comprise the Consolidated and Company statement of comprehensive income, Consolidated and Company statement of financial position, Consolidated and Company statement of changes in equity, Consolidated and Company statement of cash flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's and Group's affairs at 31 December 2010 and of the Group loss and Company profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

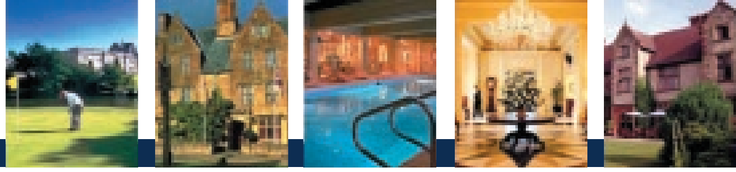
We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept by the Group and the Company and that proper returns adequate for our audit have not been received; or
- the financial statements are not in agreement with the books of account and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief, are necessary for the purpose of our audit; or
- certain disclosures of directors' loans and remuneration specified by law have not been complied with.

Deloitte LLP
Chartered Accountants
Douglas
Isle of Man

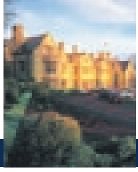
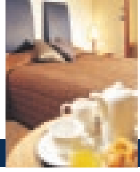
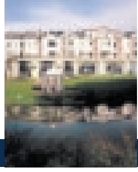
16 March 2011

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 of the group 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.



Consolidated Statement of Comprehensive Income

	Notes	2010 £'000	(Note 5) Restated 2009 £'000
Continuing Operations			
Revenue	7	**30,326**	16,116
Administrative expenses		**(3,302)**	(1,891)
Decrease in fair value of investment property	14	**(6,930)**	(22,474)
Operating Profit/(Loss)		**20,094**	(8,249)
Bank interest receivable		**41**	32
Change in fair value of interest rate swaps	26	**(7,697)**	(1,240)
Investment surplus – unrealised		**–**	1,117
Interest payable	10	**(23,053)**	(14,840)
Loss before tax		**(10,615)**	(23,180)
Tax	11	**4,799**	10,803
Loss after tax for the year	9	**(5,816)**	(12,377)
Loss and total comprehensive loss for the year		**(5,816)**	(12,377)
Attributable to:			
Owners of the Company		**(1,606)**	(3,461)
Non controlling interests		**(4,210)**	(8,916)
		(5,816)	(12,377)
Loss per share			
Basic and diluted from continuing operations	13	**(3.22p)**	(8.15p)

Consolidated Statement of Financial Position

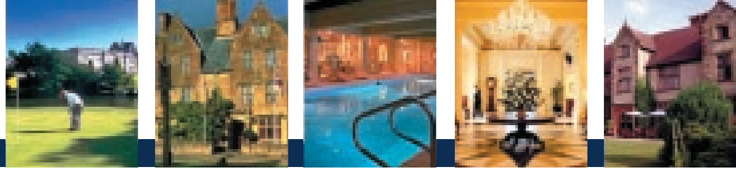
	Notes	2010	(Note 5) Restated 2009
Assets		**£'000**	**£'000**
Non – Current Assets			
Goodwill	6	**28,382**	28,382
Investment Properties	14	**458,321**	463,170
Current Assets			
Trade and Other Receivables	16	**316**	1,502
Cash and Cash Equivalents		**11,586**	10,401
		11,902	11,903
Total Assets		**498,605**	503,455
Liabilities			
Current Liabilities			
Trade and Other Payables	19	**14,143**	14,016
Fair Value of Interest Rate Swaps	26	**4,430**	2,251
Total Current Liabilities		**18,573**	16,267
Non – Current Liabilities			
Borrowings	17	**348,678**	348,545
Preference shares	17	**8,230**	–
Fair Value of Interest Rate Swaps	26	**21,740**	16,222
Deferred Tax Liabilities	20	**28,919**	33,718
		407,567	406,715
Total Liabilities		**426,140**	422,982
Net Assets		**72,465**	80,473
Equity			
Share Capital	21	**2,491**	2,491
Share Premium Account	21	**11,015**	11,015
Retained Earnings		**52,114**	55,912
Equity attributable to owners of the Company		**65,620**	69,418
Non controlling interest	22	**6,845**	11,055
Total Equity		**72,465**	80,473
Net Asset Value per share (Based on number of shares in issue at year end)		**131.7p**	139.3p

The financial statements were approved by the Board of Directors and authorised for issue on 16 March 2011.

They were signed on its behalf by:

……………..................……
Barclay Douglas

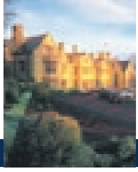
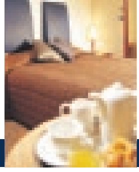
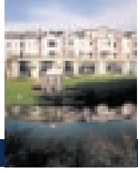
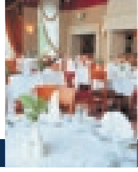
……………..................……
David Craine



Consolidated Statement of Changes in Equity

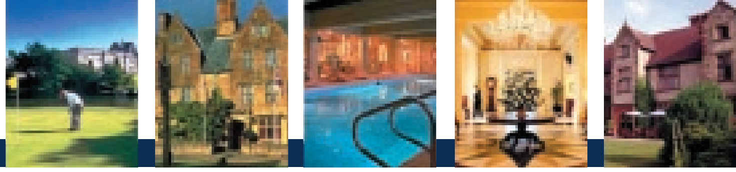
	Share Capital £'000	Share Premium Account £'000	(Note 5) Restated Retained Earnings £'000	(Note 5) Restated Non Controlling interest £'000	Total £'000
Balance at 31 December 2008	1,731	–	61,170	–	62,901
Acquisition of Puma Hotels plc on 29 June 2009 (note 6)	–	–	–	19,644	19,644
Capital contribution from non–controlling interest	–	–	–	327	327
Loss for the year	–	–	(3,461)	(8,916)	(12,377)
Issue of share capital	760	11,400	–	–	12,160
Placing costs	–	(385)	–	–	(385)
Dividends	–	–	(1,797)	–	(1,797)
Balance at 31 December 2009	2,491	11,015	55,912	11,055	80,473
Loss for the year	–	–	(1,606)	(4,210)	(5,816)
Dividends (note 12)	–	–	(2,192)	–	(2,192)
Balance at 31 December 2010	**2,491**	**11,015**	**52,114**	**6,845**	**72,465**
Restatement (note 5)	–	–	372	(8,602)	(8,230)

The restatement is included within the balance as at 31 December 2009, as disclosed above.

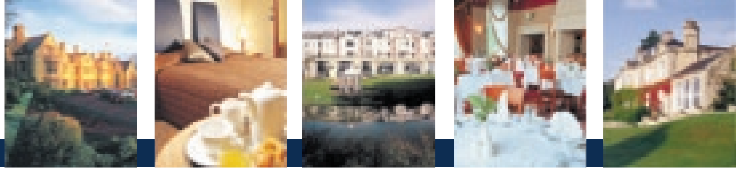

Consolidated Statement of Cash Flows

	Notes	2010 £'000	2009 £'000
Net Cash Inflow From Operating Activities	23	**28,720**	11,135
Investing Activities			
Interest Paid		**(23,053)**	(14,605)
Interest Received		**41**	32
Proceeds received on the maturity of Investments		**–**	1,986
Net cash on acquisition of a subsidiary		**–**	15,224
Additions of investment properties		**(2,349)**	(97)
Sale of investment properties		**268**	463
Net cash (used in) / generated from Investing Activities		**(25,093)**	3,003
Financing Activities			
Shares Issued		**–**	12,160
Placing Costs		**–**	(384)
Dividends Paid		**(2,192)**	(1,797)
Term loans repaid		**–**	(15,000)
Bonds repaid		**–**	(14)
New term loan issue costs		**(250)**	(399)
Net cash used in Financing Activities		**(2,442)**	(5,434)
Net increase in cash and cash equivalents		**1,185**	8,704
Cash and cash equivalents at beginning of year		**10,401**	1,697
Cash and cash equivalents at end of year		**11,586**	10,401



Company Statement of Comprehensive Income

	Notes	2010 £'000	2009 £'000
Continuing Operations			
Revenue	7	**2,811**	1,986
Administrative expenses		**(228)**	(188)
Operating Profit		**2,583**	1,798
Bank interest receivable		**8**	10
Investment losses – unrealised	15	**–**	(9,663)
Profit/(Loss) before taxation		**2,591**	(7,855)
Taxation	11	**–**	–
Profit/(Loss) after taxation and total comprehensive Income/(Loss) for the year	9	**2,591**	(7,855)
Earnings/(Loss) Per Share			
Basic and diluted	13	**5.2p**	(18.5p)



Company Statement of Financial Position

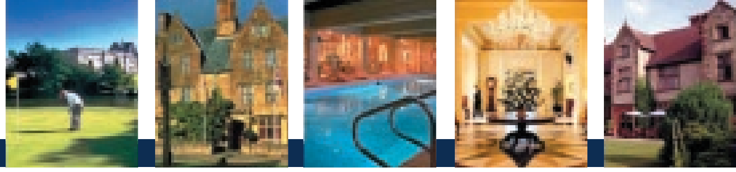
ASSETS	Notes	2010 £'000	2009 £'000
Non-Current Assets			
Investments	15	**63,328**	63,328
Current Assets			
Receivables	16	**9**	8
Cash and Cash Equivalents		**2,109**	1,712
		2,118	1,720
Total Assets		**65,446**	65,048
LIABILITIES			
Current Liabilities			
Trade and Other Payables	19	**23**	24
Total Liabilities		**23**	24
Net Assets		**65,423**	65,024
Equity			
Share Capital	21	**2,491**	2,491
Share Premium Account	21	**11,015**	11,015
Retained Earnings		**51,917**	51,518
Equity attributable to owners of the Company		**65,423**	65,024
Shareholders' Equity		**65,423**	65,024
Net Asset Value per share (Based on number of shares in issue at year end)		**131p**	131p

The financial statements were approved by the Board of Directors and authorised for issue on 16 March 2011.

They were signed on its behalf by:

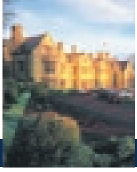
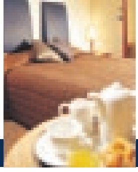
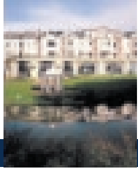
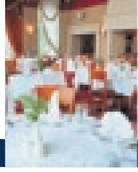
……………..................…. ……………..................….

Barclay Douglas David Craine



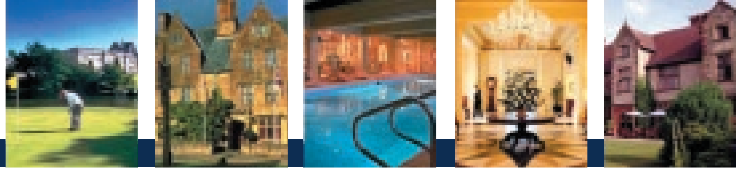
Company Statement of Changes in Equity

	Notes	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Balance at 31 December 2008		1,731	–	61,170	62,901
Loss for the year		–	–	(7,855)	(7,855)
Dividend	12	–	–	(1,797)	(1,797)
Shares Issued	21	760	–	–	760
Premium on Shares Issued	21	–	11,400	–	11,400
Placing costs	21	–	(385)		(385)
Balance at 31 December 2009		2,491	11,015	51,518	65,024
Profit for the year		–	–	2,591	2,591
Dividend	12	–	–	(2,192)	(2,192)
Balance at 31 December 2010		**2,491**	**11,015**	**51,917**	**65,423**


Company Statement of Cash Flows

	Notes	2010 £'000	2009 £'000
Net Cash Outflow From Operating Activities	23	**1,756**	**1,797**
Investing Activities			
Interest Received		8	10
Dividends received on preference share		825	–
Preference Shares in Puma		–	(11,770)
Net cash generated from/(used in) Investing Activities		883	(11,760)
Financing Activities			
Shares Issued		–	12,160
Placing Costs		–	(385)
Dividends Paid		(2,192)	(1,797)
Net cash (used in)/generated from Financing Activities		(2,192)	9,978
Net increase in cash and cash equivalents		**397**	**15**
Cash and cash equivalents at beginning of year		**1,712**	**1,697**
Cash and cash equivalents at end of year		**2,109**	**1,712**



Notes to the Financial Statements

1. General Information

The Hotel Corporation plc is incorporated in the Isle of Man under the Companies Acts 1931 to 2004. The address of the registered office is given on page 7. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 8 to 9 and the Chairman's Statement on pages 1 to 2.

These consolidated Group and Company financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates and rounded to the nearest thousand pounds.

2. New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective.

i. IFRS 9 Financial Instruments

ii. Revised IAS 24 Related Party Disclosures

iii. Amendment to IAS 32 Classification of Rights Issues

iv. Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement

v. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

vi. Improvements to IFRSs - 2010

vii. Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

viii. Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

ix. Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Company.

Standards not affecting the reported results nor the financial position

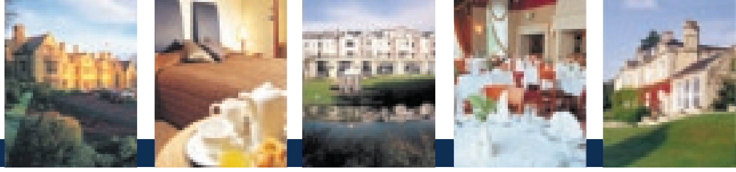
In the current year, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

i. IFRS 3 (revised Jan. 2008) Business Combinations

ii. Amendment to IAS 39 Eligible Hedged Items

iii. Amendments to IAS27(2008) Consolidated and separate Financial statements

iv. Amendments to IAS28 (2008) investment in Associates



Notes to the Financial Statements (continued)

3. Significant accounting policies

Basis of accounting

The Consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain investment property, financial instruments and the investment within the Company only accounts. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Hotel Corporation plc ("the Company") and its subsidiary Puma Hotels plc ("PHP"), which would be controlled by the Company should the Company exercise the conversion rights relating to its holding of preference shares in PHP. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Group's Financial Statements are drawn up to include the results of the Company and the results of PHP for the year. The comparatives include the results of the Company for the previous year and the results of PHP from the date of acquisition on 29 June 2009 to 31 December 2009. During 2009 the additional investment in PHP was made mid-year; consequently there was a six month profit and loss and cash flow impact on the Company on a consolidated basis.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Total comprehensive income (positive or negative) will be allocated between the Group's interest and non-controlling interest even if this results in the non controlling interest having a deficit balance.

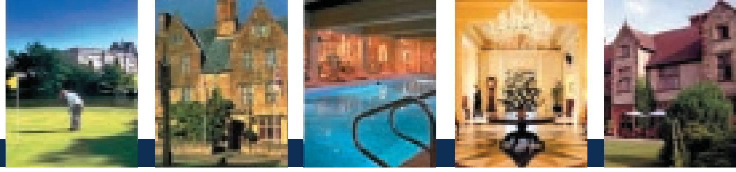
Going concern

The Directors have considered the factors which are likely to affect the group future development. The Group's business activities, performance and position are set out in the Chairman's Statement. The Group's valuation of its properties and borrowing facilities are set out in the PHP Review of Operations and Financial Performance. In addition, notes 14 and 26 to the financial statements include further details on the valuation of the Group's properties, borrowing facilities and associated interest rate hedge instruments. The maturity of the Group's debt facility is 31 December 2012, interest rate hedges are in place for 100% of the facility and the rental income benefits from guarantees provided by Barcelo Corporation Empresorial SA. Accordingly the directors' believe that this guarantee provides continuing comfort to the Group to enable it to meet its obligations to the bank in respect of loan covenants. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition relates costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. The interest of minority shareholders in the acquiree is measured at the minority's proportionate share of the net identifiable assets of the entity acquired



3. Significant accounting policies (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue, which excludes value added tax, transactions between Group Companies and trade discounts, represents the invoiced value of goods and services supplied.

Rental income is recognised when it becomes available.

Dividend and interest income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. During the year the Group and Company did not have any finance leases.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and 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 changes in value.

Taxation

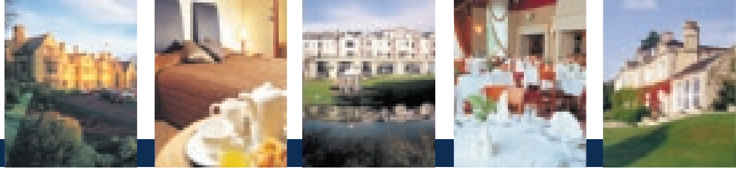
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the comprehensive statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference



Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Financial instruments

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

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

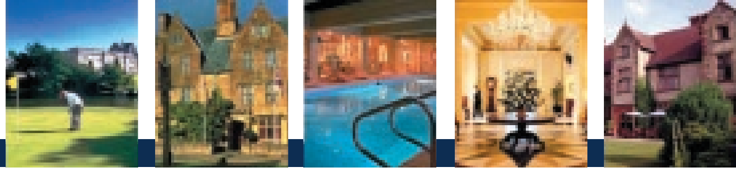
Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.



3. Significant accounting policies (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

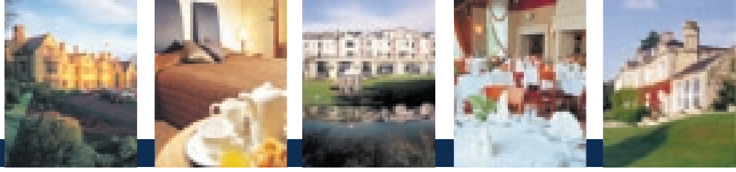
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Compound instruments

The compound parts of compound instruments (convertible preference shares) issued by the Group are classified separately as financial liabilities. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date.



Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements. Further details of derivative financial instruments are disclosed in note 26.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

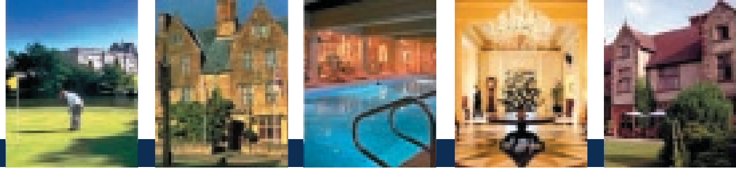
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Group : Investment property value

The directors have used independent valuations as a basis to measure the fair value of the investment property, see note 13. In making this judgement, management have considered the basis of the valuations, and the assumptions used there in. The directors are satisfied that these are appropriate in the current year.

Group : Deferred tax asset

As described in note 3, deferred tax assets are recorded to the extent that sufficient taxable profits are available for the asset to be recovered. In making its judgment, management has considered the future strategy of the group, in particular the nature and timing of any property disposal. The directors are satisfied that there is insufficient certainty to recognise any deferred tax asset.



4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Group : Minority interest

The Company has a holding of £11.8m convertible preference shares in PHP. If all the convertible preference shares held by the company are converted into ordinary shares in the future the Company will own 53.28% of PHP, on a fully converted basis. In accordance with IAS 32 the convertible preference shares are classed under the definition of a debt instrument.

Key sources of estimation uncertainties

Company : Fair value of investment

In line with accounting polices set out in note 3, note 14 sets out in detail the method by which fair value is attributed to the Company's investment in ordinary shares in Puma Hotels plc. The fair value requires an estimation of the present value of the future cash flow arising from the investment in Puma. In determining future cash flows, the Company has analysed current income and asset values and has also applied various sensitivities to these. In relation to potential future realisation proceeds, the Company has taken account of current and expected conditions in the hotel investment and valuation market and has applied discount rates which reflect the market's return expectations. In estimating market expectations, the Company has considered any comparable transactions and has also taken account of key measures such as the interest rate swaps market and returns on government bonds.

Group : Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value of the cash-generating unit to which goodwill has been allocated. An impairment review was performed during the year by the directors, however no impairment was recognised. The carrying amount of goodwill at the balance sheet date was £28,382,000 with no impairment losses recognised between date of acquisition and year end. In determining the net present value of the future cash flows of the cash generating unit, the Company has analysed current income derived from and asset values within the Barcelo lease using a discount rate 6.5% for a period of not less than five years and using a growth rate of 1.8% based on annual cashflows and has also applied various sensitivities to these. In relation to potential future realisation proceeds, the Company has taken account of current and expected conditions in the hotel investment and valuation market and has applied discount rates which reflect the market's return expectations. In estimating market expectations, the Company has considered any comparable transactions and has also taken account of key measures such as the interest rate swaps market and returns on government bonds.

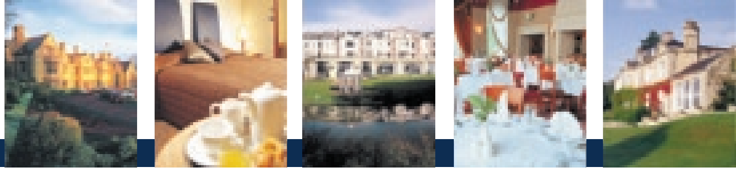
5. Prior year restatement

In the year ended 31 December 2009, the convertible preference shares, to the amount of £8,230,000, have been restated to remove them from non-controlling interest and include them within liabilities in line with IAS 32 "Financial Instruments: Presentation". As part of the adjustment to the non-controlling interest, the percentage applied has been amended to reflect the actual percentage held and not the potential percentage, taking into account the full conversion of the preference shares, in line with IAS 27 "Accounting for subsidiaries".

The impact of these restatements is to recognise the preference shares held outside the Group, of £8,230,000 as part of the non-current liabilities as at 31 December 2009. Consequently the non-controlling interest balance is amended by £8,602,000 as at 31 December 2009.

Losses attributable to the non-controlling interest is therefore increased by £372,000 for the year ended 31 December 2009 to reflect the movement in the balance sheet. These changes in the losses attributable to the non-controlling interests impact the loss per share calculations for the year ended 31 December 2009 to 8.15p from 9.03p.

No additional consolidated statement of financial position has been prepared as at 31 December 2008 since the preference shares were not in issue at that time.



Notes to the Financial Statements (continued)

6. Goodwill

On 29 June 2009 the Company purchased 11,770,000 convertible preference shares of Puma Hotels plc (PHP). The Company already held 16,550,000 ordinary shares of PHP. If this holding were to be converted into PHP ordinary shares the Company's combined investment would be 53.28%. The total fair value of net assets acquired upon acquisition of subsidiary, PHP totalled £17.4m. The goodwill arising on acquisition totalled £28.4m, which has been allocated to the single cash generating unit, which is the Barcelo operating lease.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The Directors have performed an impairment review in accordance with the procedures set out in note 4 and conclude that no impairment provision is required.

7. Revenue

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

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Continuing operations				
Property rental income from lease agreement with Barcelo Hotels and Resorts	**30,326**	**-**	15,123	-
Amortisation of discount on bonds held to maturity (note 15)	**-**	**-**	993	1,986
Interest on bonds	**-**	**1,986**	-	-
Preference share dividend	**-**	**825**	-	-
	30,326	**2,811**	16,116	1,986

Operating lease arrangements

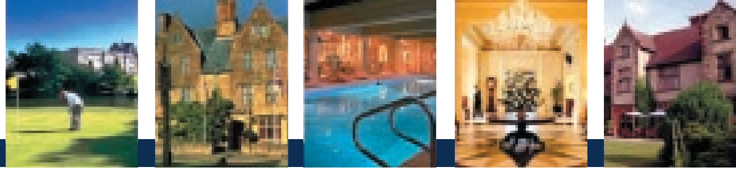
The Group as a lessor

The Group has a 45 year lease (from September 2007) which place full repairing and insuring obligations on the tenant and provides guaranteed rental growth over the first four years (from September 2007 to September 2011); this is inflation-indexed thereafter and can also increase if hotel EBITDA (as defined in the agreement with the tenant) performs well.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payment:

	Group 2010 £'000
Within one year	31,000
In the second to fifth years inclusive	124,000

From September 2011 the leases benefit from an annual RPI increase up to a cap of 5.5%. No RPI increase is built into the second to fifth years disclosure.



8. Business and geographical segments

The Group's turnover, loss before taxation and net assets are derived from its principal activity, the rental under an operating lease with Barcelo of its portfolio of hotels within the UK. The Board regularly receive information regarding the sole operating segment and therefore consider the results and performance disclosed in the financial statements is appropriate disclosure to comply with IFRS 8.

9. Loss after tax for the year

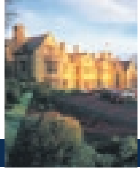
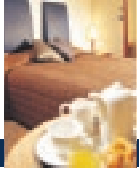
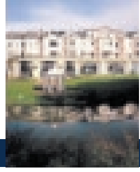
Loss for the year has been arrived at after charging:

	Group 2010 £'000	**Company 2010 £'000**	**Group 2009 £'000**	**Company 2009 £'000**
Auditors' remuneration for:				
Audit fees payable for the audit of the Group and Company's annual accounts	**22**	**22**	22	16
Audit fees payable for the audit of the Company's subsidiaries pursuant to legislation	**32**	**–**	18	–
Other services relating to taxation	**14**	**–**	7	–
Total	**68**	**22**	47	16

10. Interest Payable

	Group 2010 £'000	**Company 2010 £'000**	**Group 2009 £'000**	**Company 2009 £'000**
Interest payable on bank loans and overdraft	**20,103**	**–**	12,392	–
Notional finance cost on non – controlling interest	**–**	**–**	327	–
Interest payable on bonds	**1,992**	**–**	1,929	–
Finance cost on preference shares	**575**	**–**	–	–
Amortisation of bank loan issue costs	**383**	**–**	192	–
	23,053	**–**	14,840	–

From 1st January 2010 interest was paid on the preference shares, hence no comparative cost during the comparative year. The finance cost on preference shares reflects interest paid to preference shareholders outside the Group.

Notes to the Financial Statements (continued)

11. Group Tax on loss on ordinary activities

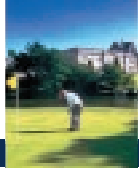
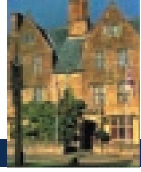
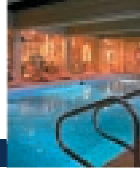
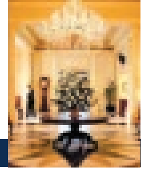
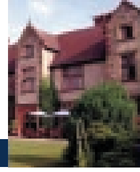
	2010 £'000	2009 £'000
UK corporation tax charge	**–**	–
Current period		
Current tax	**–**	–
Deferred tax		
Origination and reversal of timing differences (note 19)	**4,799**	9,734
Prior year adjustment	**–**	1,069
Tax on loss on ordinary activities	**4,799**	10,803

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax (given the substantial group operations within the UK) to the loss before tax is as follows.

	2010 £'000	2009 £'000
Current tax reconciliation		
Loss on ordinary activities before taxation	**(10,615)**	(23,180)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (2009:28%)	**(2,972)**	(6,490)
Effects of:		
Temporary timing differences arising from the write down of assets not deductible for tax purposes	**3,950**	6,292
Expenses not deductible for tax purposes	**149**	511
Income not taxable for tax purposes	**(10)**	(33)
Capital allowances in excess of depreciation for period	**(2,458)**	(3,021)
Unprovided tax losses	**2,848**	3,886
Permanent Industrial Buildings Allowances claimed	**(334)**	(614)
Utilisation of tax losses	**(447)**	(592)
Tax losses (provided)	**–**	879
0% rate (Company tax on loss on ordinary activities)	**(726)**	(818)
Current tax charge for period	**–**	–

Company Tax on loss on ordinary activities

The Income Tax (Amendment) Act 2006 provides that a standard zero rate of income tax will apply to the Company for 2009/10 and subsequent years of assessment. Therefore no provision for liability to Manx income tax has been included in these financial statements.

12. Dividends

On 25 March 2010 the Company declared a dividend of 1.8 pence per share in respect of the year to 31 December 2009. The dividend, which amounted to £896,743 was paid on 9 May 2010.

The Company declared an interim dividend of 2.6 pence per ordinary share on 23 September 2010. The dividend, which amounted to £1,295,050 was paid on 29 October 2010. In 2009 the company declared an interim dividend of 1.8 pence per ordinary share, which amounted to £896,743.

A final dividend of 2.6 pence per share has been proposed (Note 24).

13. Earnings per Share

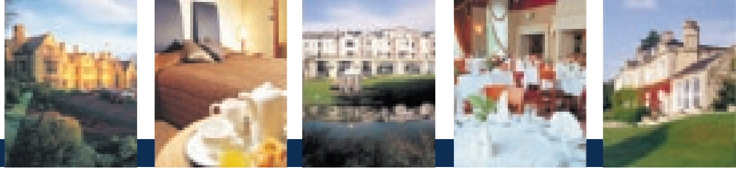
Earnings: Company	**2010 £'000**	**2009 £'000**
Earnings for the purposes of basic earnings per share being net profit/(loss) attributable to owners of the Company	**2,591**	(7,855)

There were no convertible instruments in existence as at 31 December 2010.

Earnings: Group	**2010 £'000**	**Restatement (note 5) 2009 £'000**
Earnings for the purposes of basic earnings per share being net profit/(loss) attributable to owners of the Company	**(1,606)**	(3,461)

Number of Shares	**2010**	**2009**
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**49,819,050**	42,448,091

The preference shares issued by PHP are non-dilutive for the calculation of diluted earnings per share because the group is loss making.



Notes to the Financial Statements (continued)

14. Investment property

Fair Value	Group £'000
At 29 June 2009 (Date of Puma acquisition – note 6)	486,010
Additions	97
Disposals	(463)
Decrease in fair value during the year	(22,474)
At 31 December 2009	463,170
Additions	2,349
Disposals	(268)
Decrease in fair value during the year	(6,930)
At 31 December 2010	458,321

The fair value of the group's investment property at 31 December 2010 has been arrived at on the basis of a valuation carried out at that date by Colliers Robert Barry & Co. Chartered Surveyors, independent valuers not connected with the group. The investment properties have been valued at £455.6m. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

A further £2.8m has been included in the value in respect of assets excluded from the valuation lease to Barcelo.

Annual rental income of £30.3m is earned on the investment property, see note 7.

15. Investments

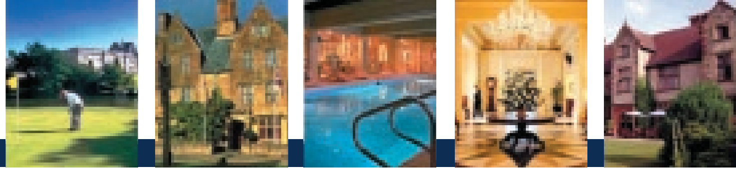
Company Investments – non current

Classified as:	2010 £'000	2009 £'000
Investment at fair value through profit and loss	**46,778**	46,778
Bonds Held to Maturity	**16,550**	16,550
	63,328	63,328

Investments at fair value through profit and loss

	2010 £'000	2009 £'000
Fair value at start of year	**46,778**	44,671
Investments in convertible preference shares made during year	**–**	11,770
Decrease in fair value	**–**	(9,663)
Fair value at end of year	**46,778**	46,778

The investment at 31 December 2010 includes an investment in convertible preference shares of £11,770,000 and investment at fair value of £35,008,000.



15. Investments (continued)

The investment classified as 'Fair Value through Profit and Loss' shown above represents a holding of 16,550,000 non–quoted ordinary shares of £1 par value in Puma Hotels plc (PHP), which comprises 49.92% of the issued share capital of that company.

In determining the fair value attributable to the ordinary shares and convertible preference shares in PHP, the Directors drew upon the discounted future net cash flows arising from PHP and utilised that net asset value for each ordinary share.

Following a thorough review using the above method, the directors have concluded that the change in fair value of the investment has been so minimal as to require no recognition in these financial statements to the year ended 31 December 2010.

Bonds held to maturity	**2010 £'000**	**2009 £'000**
At start of year	**16,550**	16,550
Redeemed in year	**–**	(993)
Amortisation of discount	**–**	993
At end of year	**16,550**	16,550

The investments included above represent investments in unsecured deep discount bonds issued by Puma Hotels (Finance) plc, a subsidiary of Puma Hotels plc, maturing at nominal value on 31 December 2012. The bonds have a coupon rate of 12%.

The maturity profile of the bonds held at 31 December 2010 is shown below:

Maturing	Nominal Value	
	2010 £'000	2009 £'000
Within one year	–	–
One to two years	16,550	–
Two to three years	–	16,550
Total	16,550	16,550

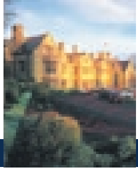
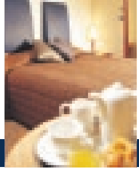
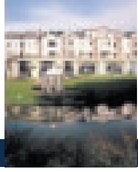
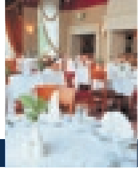
The investments disclosed above are shown in the Company statements only. The investments represent holdings within the subsidiary, PHP, hence the balances are eliminated upon consolidation.

Group Investments

For the purpose of preparing PHP's 31 December 2010 financial statements, the directors of PHP have used the external professional valuation of its Hotel portfolio completed by Colliers Robert Barry & Co Chartered Surveyors, independent valuers, as at 31 December 2010 as a basis for their assessment of the investment properties carrying value.

The directors of Hotel Corporation plc have reviewed the assessment and the supporting independent valuation to conclude on the investment properties value in these consolidated financial statements.

The convertible preference shares in PHP will rank ahead of the ordinary share capital in a winding up of PHP and can be converted into ordinary shares in the capital of PHP at any time at the option of the holder of these preference shares upon 21 days notice. These preference shares don't carry the right to vote except on a resolution modifying the rights attaching the convertible preference shares.


Notes to the Financial Statements (continued)

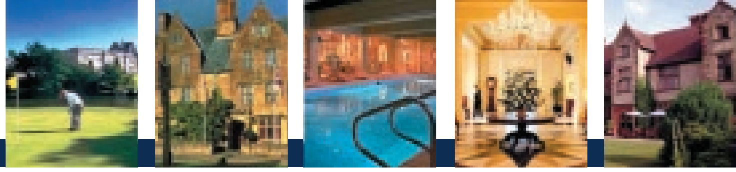
15. Investments (continued)

Subsidiary Undertakings

During the year and up to the year end, the Group has the following subsidiaries:

	Activity	Country of incorporation	% of shares capital owned
Puma Hotels plc	Holding company	England	49.92%
Paramount Hotels Group Limited	Holding company	England	*
Paramount Hotels Holdings Limited	Holding company	England	*
Paramount Hotels Investments Limited	Holding company	England	*
Paramount Hotels Limited	Property investment company	England	*
Paramount Hotel Services Limited	Employment services	England	*
Old Ship Hotel (Brighton) Limited	Property investment company	England	*
Scottish Highland Hotels Limited	Property investment company	Scotland	*
Carlton Hotel (Edinburgh) Limited	Property investment company	Scotland	*
Stirling Highland Hotel Limited	Property investment company	Scotland	*
Puma Hotels (Finance) plc	Finance company	England	*
Paramount Hotels (Hinckley) Limited	Property investment company	England	*
Paramount Hotels (Daventry) Limited	Property investment company	England	*
Paramount Hotels (Basingstoke) Limited	Property investment company	England	*
Furlong Hotels Limited	Property investment company	England	*
Furlong Cotswolds Limited	Property investment company	England	*
Combe Grove Manor Hotel and Country Club Limited	Property investment company	England	*
Paramount Hotels Walton Hall Limited	Property investment company	England	*
The Lygon Arms Hotel Limited	Dormant	England	*
Puma Hotels (Guernsey) Limited	Holding company	Guernsey	*

* 100% owned by Puma Hotels plc



16. Trade and Other Receivables

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Amounts falling due within one year				
Trade receivables	**170**	**–**	–	–
Other receivables	**117**	**9**	1,465	8
Prepayments and accrued income	**11**	**–**	19	–
Corporation tax debtor	**18**	**–**	18	–
	316	**9**	1,502	8

The Directors consider that the carrying amount of trade and other receivables approximates to their Fair Value. All receivables are less than 180 days and are not past due or impaired.

17. Group Borrowings

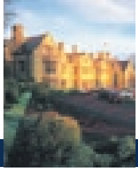
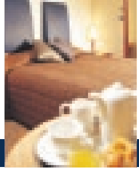
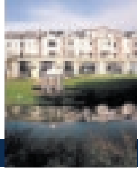
	2010 £'000	2009 £'000
Unsecured borrowing at amortised cost		
Bonds	**16,600**	16,600
	16,600	16,600
Secured borrowing at amortised cost		
Bank loans	**332,345**	332,345
Accrued finance cost	**(267)**	(400)
	332,078	331,945
Total borrowings	**348,678**	348,545
Amount due for settlement within 12 months	**–**	–
Amount due for settlement after 12 months	**348,678**	348,545
7% convertible preference share	**8,230**	8,230

The other principal features of the group's borrowings are as follows:

i. The Group has bank loans within one of its subsidiaries Puma Hotels plc with Anglo Irish Bank Limited that mature on 31 December 2012. All loans bear interest at variable rates based on LIBOR but are subject to the interest rate protection instruments. The total interest charge in the current period resulted in an average interest rate of 6.05% (2009 7.47%). All the bank loans are fully drawn down. The borrowings are secured against the investment property included in note 14.

ii. The Group has no finance lease obligations.

iii. The final redemption date for the bonds is dependent on the issuer Puma Hotels (Finance) plc issuing a redemption notice. This redemption notice will not be issued prior to 31 December 2012. On redemption the bonds will return the equivalent of 6% compound return every 6 months based on the discounted subscription price of the bonds. They are not secured against any of the assets of the Group.

Notes to the Financial Statements (continued)

18. Trade and other payables: amounts falling due after more than one year

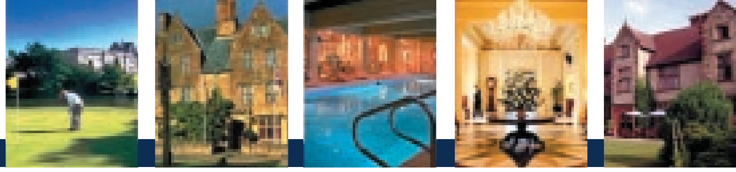
Maturity of bank and other loans

	Bank Loans		Bonds		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Repayable:						
Within one year or on demand	**–**	–	**–**	–	**–**	–
Between one and two years	**332,345**	–	**–**	–	**348,945**	–
Between two and five years	**–**	332,345	**16,600**	16,600	**–**	348,945
Accrued finance cost	**(267)**	(400)	**–**	–	**(267)**	(400)
	332,078	331,945	**16,600**	16,600	**348,678**	348,545

19. Trade and other Payables: Amounts falling due within one year

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Trade creditors	**1,274**	**–**	–	–
Other taxation and social security	**896**	**–**	982	–
Other creditors	**368**	**23**	40	24
Accruals and deferred income	**11,605**	**–**	12,994	–
	14,143	**23**	14,016	24

The directors consider the carrying value of Trade and other payables is approximately equal to their fair value.



20. Deferred tax liability

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Deferred taxation				
At beginning of year	**33,718**	**–**	44,521	–
Transfer to statement of comprehensive income	**(4,799)**	**–**	(10,803)	–
	28,919	**–**	33,718	–

The amounts provided for deferred taxation are set out below:

	2010 Provided £'000	2009 Provided £'000
Difference between accumulated depreciation and capital allowances	**10,739**	8,665
Losses	**(18,351)**	(16,617)
On revaluation of land and buildings	**36,531**	41,670
	28,919	33,718

The Group has not recognised deferred tax asset in relation to the fair value of the swap liabilities of £7,328,000 (2009: £5,172,000).

21. Share Capital

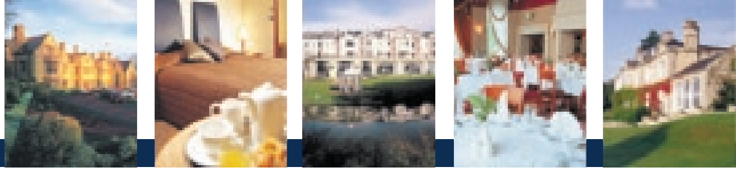
Authorised: Ordinary Shares of £0.05	2010 Number	2010 £'000
As at 31 December	80,000,000	4,000

Issued and fully paid: Ordinary Shares of £0.05	2010 Number	2010 £'000
Balance at Start of Year	49,819,050	2,491
Issued during year	–	–
As at 31 December	49,819,050	2,491

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

Share Premium Account

On 29 June 2009 the Company issued 15,200,000 new ordinary shares of 5p each at a placing price of 80p resulting in 75p premium on each share, a total of £11,400,000 premium. Placing costs of £385,000 were deducted from the premium achieved resulting in a net share premium of £11,015,000.



Notes to the Financial Statements (continued)

22. Non controlling Interest

	2010 £'000	Restated 2009 £'000
Balance at 1 January	**11,055**	–
Balance at date of acquisition (note 6) previously reported	**–**	27,874
Restated (note 5)	**–**	(8,230)
	11,055	19,644
Share of loss for the year	**(4,210)**	(8,589)
Balance at 31 December 2010	**6,845**	11,055

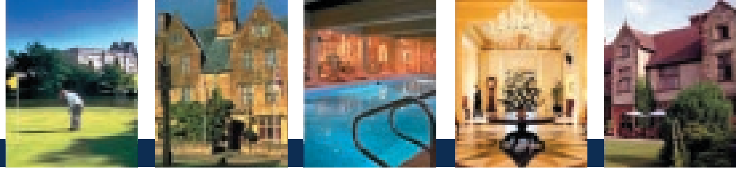
Included within the balance of non–controlling interest is the share of the results of the other Ordinary, Preference and Founder Shareholders of PHP.

The rights attached to the Founder Shareholders result in them receiving a variable share of the profit or loss of PHP dependant on a certain level of reserves within PHP.

23. Notes to the Statement of Cash Flows

Reconciliation of Profit/(Loss) from Operations to Net Cash from Operating Activities.

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Operating profit/(loss)	**20,094**	**2,583**	(8,249)	1,798
Adjustment for:				
Decrease/(Increase) in Receivables	**1,186**	**(1)**	(1,491)	3
Increase/(Decrease) in Trade and other payables	**127**	**(1)**	(606)	(4)
Amortisation of debt issue costs	**383**	**–**	–	–
Amortisation of deep discounted bonds	**–**	**–**	(993)	–
Interest received on preference shares	**–**	**(825)**	–	–
Loss on change in fair value of investment property	**6,930**	**–**	22,474	–
Net cash from operating activities	**28,720**	**1,756**	11,135	1,797



24. Events after the Balance Sheet Date

On 16 March 2011 the Company declared a dividend of 2.6p per share. The ex-div date will be 23 March 2011 and a record date of 25 March 2011. Payment will be made to shareholders on 28 April 2011.

25. Related Party Transactions

Immediate and Ultimate Controlling Party

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

Key Management Compensation

The remuneration of the Directors of the Company and of the Group, which includes its subsidiaries, who are the key management personnel, is set out below:

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Short–term employee benefits and directors fees	**222**	**82**	204	73
Total	**222**	**82**	204	73

Purchase of Ordinary Shares of 5p during year

Director	**Beneficial**	**Non–Beneficial**
Barclay Douglas	50,000	30,000
Derek Short	–	–
David Craine	–	–

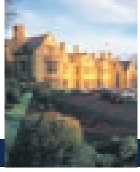
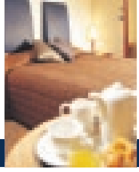
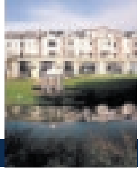
Barclay Douglas was until 26 March 2010 a non-executive director of Shore Capital Group plc who act both as Nominated Advisers and Stockbrokers to the Company, and to whom fees, including VAT, amounting to £23,500 (2009: £23,233) in respect of acting as Nominated Adviser were paid during the year. Management fees of £3,019,000 (2009: £3,019,000) have been charged during the year by Shore Capital to Puma Hotels plc, of which £1,274,000 remains outstanding at the year end. The management fee charged by Shore Capital Limited is based on 60 basis points of gross asset value per annum.

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 £54,430 (2009: 28,562) were paid to PCS during the year.

Derek Short's directors fees are paid to English and Continental Properties Limited.

David Craine's directors fees are paid to Burleigh Offshore Services Limited.

During the year the Company received £1,986,000 (2009: £1,986,000) of interest on bonds and £825,000 dividends on preference shares from PHP (2009 : £nil)



Notes to the Financial Statements (continued)

26. Financial Instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, this is achieved by maintaining sufficient liquid resources to meet ongoing liabilities as they fall due, including payment of interest and dividends, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group does not have a target gearing ratio.

The Group is not subject to any externally imposed capital requirements, except for borrowing covenants of Anglo Irish Bank lending facilities.

Debt is defined as long– and short–term borrowings (excluding derivatives and financial guarantee contracts).

Equity includes all capital and reserves of the Group that are managed as capital.

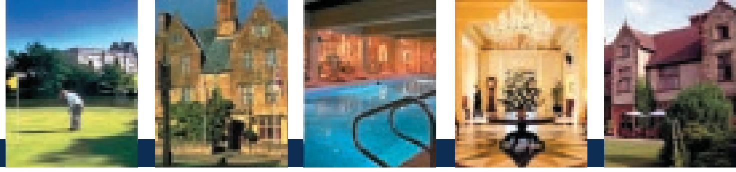
Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

	Group 2010 £'000	**Company 2010 £'000**	**Group 2009 £'000**	**Company 2009 £'000**
Financial assets				
Bonds held to maturity	**–**	**16,550**	–	16,550
Investment at fair value	**–**	**46,778**	–	46,778
Cash and cash equivalents	**11,586**	**2,109**	10,401	1,720
Loans and receivables	**316**	**9**	1,502	8
Financial liabilities				
Interest rate swap contract	**26,170**	**–**	18,473	–
Bank loan	**332, 078**	**–**	331,945	–
Bonds	**16,600**	**–**	16,600	–
Preference shares	**8,230**	**–**	8,230	–

The bonds held to maturity, the investment at fair value and the preference shares are designated level three financial assets and liabilities within the definitions of IFRS 7. There have been no movements in these balances since the full consolidation of PHP in 2009. Notes 3 and 4 details the valuation techniques used by the company in determining the fair value.



26. Financial Instruments (continued)

At the end of the reporting year, there are no significant concentrations of credit risk for loans and receivables. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Financial risk management objectives

The Group management monitors and manages financial risk, relating to the operation of the Group, through periodic assessment of its exposure to them. These risks include interest rate risk, credit risk, cash flow interest rate risk and liquidity risk. The Group seeks to minimise the effects of these risks by using appropriate derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on interest rate risk, credit risk, the use of financial derivatives and non–derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates (see below). The Group has entered into derivative financial instruments, interest rate swaps, to manage its exposure to interest rate movements, including to mitigate the risk of rising interest rates.

Interest rate exposures are considered in a separate section of this note.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

Group operations are based in the UK and as a result have no exposure to foreign currency risk.

Interest rate risk management

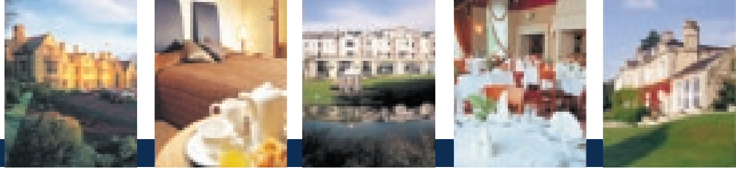
The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost–effective hedging strategies are applied. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 50 base points increase and decrease is used internally by key management personnel and represents management's assessment of the reasonably possible change in interest rates. Following a review, the directors have determined that the cash flow hedges are ineffective.

The following table shows that if interest rates had been 50 base points higher and all other variables were held constant, the Group's loss on fair value of the interest rate swaps for the year ended 31 December 2010 would have decreased to £21.5m (2009: £12.4m). Similarly, if interest rates had been 50 base points lower and all other variables were held constant, the Group's loss on fair value of the interest rate swaps for the year ended 31 December 2010 would have increased to £30.8m (2009: £24.5m). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings and the associated interest rate swaps in place.

It is noted that all the Group's floating rate liabilities are fully hedged and on a cash basis there would be no effect if interest rates had varied by 50 base points during the year. The impact is only in terms of profit and loss on the fair value movement of the interest rate swaps.



Notes to the Financial Statements (continued)

26. Financial Instruments (continued)

The Groups sensitivity to interest rates has not changed during the current period.

Current year sensitivity

Notional Principle Value	Start Date	Maturity Date	Rate	Current fair value	Sensitised fair value –50 bp	Sensitised fair value +50 bp
				2010	2010	2010
£'000			%	£'000	£'000	£'000
182,345	31/12/09	31/12/10	2.230%	–	–	–
182,345	31/12/10	30/12/11	3.330%	(4,430)	(3,740)	(5,119)
182,345	31/12/11	31/12/12	3.945%	(4,098)	(3,175)	(5,021)
150,000	16/09/08	31/12/14	5.145%	(17,642)	(14,603)	(20,681)
				(26,170)	(21,518)	(30,821)

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Outstanding receive floating pay fixed contracts	Average contract fixed interest rate		Notional principal value		Fair value	
	2010 %	2009 %	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Less than 1 year	**3.33**	2.23	**182,345**	182,345	**(4,430)**	(2,251)
1 to 2 years	**3.95**	3.95	**182,345**	182,345	**(4,098)**	(265)
2 to 5 years	**5.15**	4.84	**150,000**	313,477	**(17,642)**	(15,957)
					(26,170)	(18,473)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

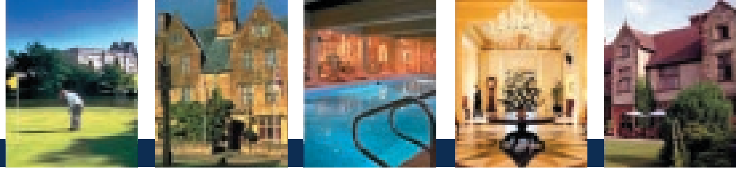
Credit risk management

The Group is exposed to the risk that its hotel manager Barcelo Hotels and Resorts ("Barcelo") may be unable to meet its rent obligations. The risk is mitigated as the rental income is received in advance and by the rent and other guarantees provided by Barcelo Corporation Empressorial SA (the tenant's ultimate parent company).

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit–ratings assigned by international credit–rating agencies.

Based on past experience, the Group believes that cash risk is limited in respect of financial assets held with financial institutions, as the financial institutions all have high credit ratings.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.



26. Financial Instruments (continued)

Financial assets and other credit exposures

The table below shows the credit limit and balance of its sole counterparty at the balance sheet date.

		2010		2009	
Counterparty asset	**Location**	**Credit limit**	**Carrying amount**	**Credit limit**	**Carrying amount**
		£'000	**£'000**	**£'000**	**£'000**
Barcelo Hotels and Resorts	UK	–	117	–	1,465

As at the balance sheet date the Group held £117,000 financial assets in regards to funds paid to Barcelo by Puma under the terms of the rental agreement. These funds are to be used by Barcelo for capital expenditure. Once invoices have been received by the Group, these funds are reclassified within investment property.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long–term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

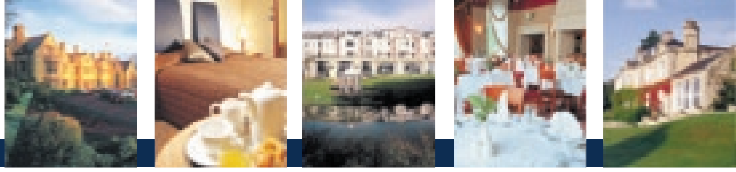
Liquidity and interest risk tables

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
	%	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2010							
Non–interest bearing		–	287	29	–	–	316
Variable interest rate instruments	0.52	11,586	–	–	–	–	11,586
		11,586	287	29	–	–	10,717

	Weighted average effective interest rate	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
	%	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2009							
Non–interest bearing		–	1,465	37	–	–	1,502
Variable interest rate instruments	0.52	10,401	–	–	–	–	10,401
		10,401	1,465	37	–	–	11,903

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the reporting date. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.



Notes to the Financial Statements (continued)

26. Financial Instruments (continued)

	Weighted average effective interest rate	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
	%	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2010							
Non–interest bearing		–	2,538	–	–	–	2,538
Variable interest rate instruments	6.92	5,509	5,009	11,079	371,898	–	393,495
		5,509	7,547	11,079	371,898	–	396,033
31 December 2009							
Non–interest bearing		–	998	–	–	–	998
Variable interest rate instruments	6.62	6,446	5,009	10,019	398,693	–	420,167
		6,446	6,007	10,019	398,693	–	421,165

Liquidity Analysis

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2010						
Net setteled:						
Interest rate swaps	–	–	(4,430)	(21,740)	–	(26,170)
2009						
Net settled:						
Interest rate swaps	–	–	(2,251)	(16,222)	–	(18,473)

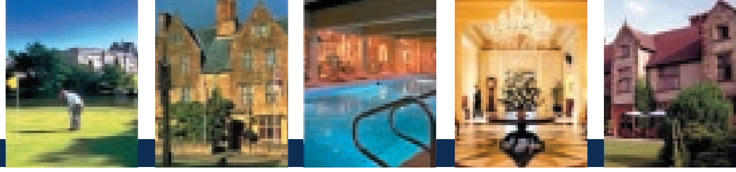
At 31 December 2009 Group fair valued the interest rate swaps at a net liability of £18,473,000. The movement of £7,697,000 during the year is included in the Group statement of comprehensive income.

Financing facilities

See analysis of borrowings, detailed in note 17.

Fair value of financial instruments carried at amortised cost

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.



Notice of Annual General Meeting

To the Members of The Hotel Corporation plc:

We hereby give notice that the Annual General Meeting of the shareholders of The Hotel Corporation plc will be held at Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP on the 26 April 2011 at 11.00 am.

Agenda

1. To receive and if approved, adopt the Report of the Directors and the Financial Statements for the Year ended 31 December 2010, together with the Report of the Independent Auditors.
2. To declare a final dividend for the Year ended 31 December 2010.
3. To re-appoint Director:

   David Craine who retires by rotation and being eligible, offers himself for re-appointment; and
4. To appoint Auditors, Deloitte LLP, Chartered Accountants who, being eligible, have expressed their willingness to continue in office. Following the transfer of their business to Deloitte LLP with effect from 1 October 2010, Deloitte & Touche resigned as auditors on 8 March 2011 and the directors appointed their successors, Deloitte LLP, as auditors.
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 2012 but not as to prejudice the completion of a purchase contracted before that date.

We enclose:

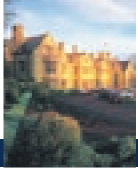
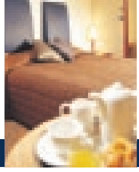
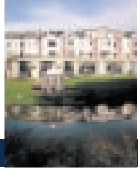
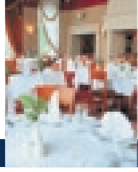
- a form of proxy which, to be valid, must be lodged at the registered office of Company not less than 48 hours before the time of the meeting.

  Please return the completed forms, as appropriate.

On behalf of the Board

David P Craine FCA

Company Secretary
16 March 2011

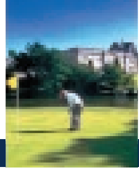
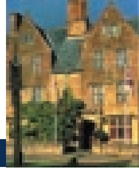
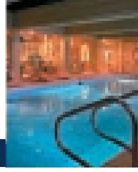
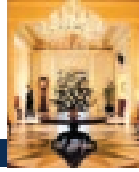
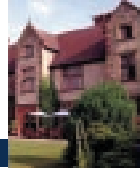

Appendix to the Annual Report

Information relating to Puma Hotels plc. ("Puma")

The profit and loss account of Puma for the Year ended 31 December 2010 together with the balance sheet of Puma as at 31 December 2010 is provided below and have been prepared in accordance with applicable United Kingdom accounting standards. These are extracted from the audited financial statements of Puma as at 31 December 2010. This additional information does not form part of the audited financial statements and is for information only.

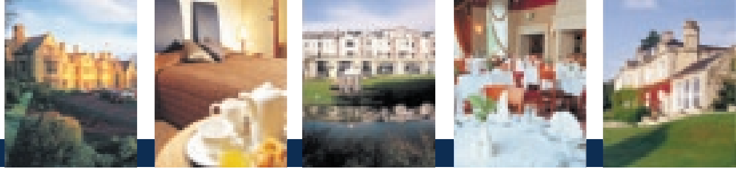
Puma Hotels plc
Consolidated Profit and Loss Account
Year ended 31 December 2010

	Year ended 31 December 2009 £'000	**Year ended 31 December 2009 £'000**
TURNOVER	**30,326**	30,000
Cost of sales	**–**	–
GROSS PROFIT	**30,326**	30,000
Other administrative expenses	**(3,594)**	(3,873)
Administrative expenses – exceptional	**(386)**	(2,102)
(Deficit on revaluation of properties)		
Total administrative expenses	**(3,980)**	(5,975)
OPERATING PROFIT	**26,346**	24,025
Interest receivable and similar income	**33**	39
Interest payable and similar charges	**(25,864)**	(30,301)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	**515**	(6,237)
Tax on profit/(loss) on ordinary activities	**–**	–
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**515**	(6,237)
Equity dividend paid	**–**	–
RETAINED LOSS FOR THE FINANCIAL YEAR	**515**	(6,237)

Puma Hotels plc
Consolidated and Company Balance Sheet
Year ended 31 December 2009

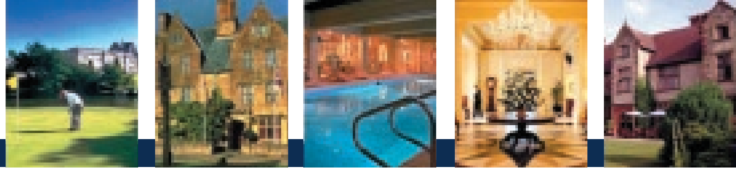
	Group	Company	Group	Company
	As at 31 December 2010 £'000	As at 31 December 2010 £'000	As at 31 December 2009 £'000	As at 31 December 2009 £'000
FIXED ASSETS				
Intangible assets – goodwill	**7,440**	**–**	7,960	–
Tangible assets	**458,321**	**–**	463,170	–
Investments	**–**	**469,668**	–	469,668
	465,761	**469,668**	471,130	469,668
CURRENT ASSETS				
Debtors	**308**	**510,662**	1,494	556,286
Cash at bank and in hand	**9,477**	**9,477**	8,689	8,689
	9,785	**520,139**	10,183	564,975
CREDITORS: amounts falling due within one year	**(14,121)**	**(432,028)**	(13,992)	(404,892)
NET CURRENT (LIABILITIES)/ASSETS	**(4,336)**	**88,111**	(3,809)	160,083
TOTAL ASSETS LESS CURRENT LIABILITIES	**461,425**	**557,779**	467,321	629,751
CREDITORS: amounts falling due after more than one year	**(385,228)**	**(302,488)**	(385,095)	(302,355)
PROVISION FOR LIABILITIES			–	–
NET ASSETS	**76,197**	**255,291**	82,226	327,396
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	**78,188**	**–**	84,732	–
Profit and loss account	**(35,786)**	**221,496**	(36,301)	293,601
EQUITY SHAREHOLDERS' FUNDS	**76,197**	**255,291**	82,226	327,396



Appendix to the Annual Report continued

Puma Hotels plc
Consolidated Statement of Total Recognised Gains and Losses
Year ended 31 December 2010

	Year ended 31December 2010 £'000	Year ended 31December 2009 £'000
Profit/(loss) for the financial period	**515**	(6,237)
Unrealised (deficit)/surplus on revaluation of properties	**(6,544)**	(20,372)
Total recognised losses relating to the period	**(6,029)**	(26,609)



Appendix to the Annual Report continued

Puma Hotels plc
Consolidated Cashflow statement
Year ended 31 December 2010

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net cash inflow from operating activities	**29,939)**	26,636
Returns on investments and servicing of finance		
Interest received	**33**	39
Interest paid	**(26,853)**	(27,894)
Interest paid on finance leases	**–**	–
Dividends paid	**–**	–
Net cash outflow from returns on investments and servicing of finance	**(26,820)**	(27,855)
Taxation		
Corporation tax paid	**–**	–
Capital expenditure		
Purchase of tangible fixed assets	**(2,349)**	(2,587)
Sale of tangible fixed assets	**268**	463
Net cash outflow from capital expenditure and financial investment	**(2,081)**	(2,124)
Net cash outflow before financing	**1,038**	(3,343)
Financing		
New term loans raised	**–**	–
Issue of preference share capital	**–**	20,000
Term loans repaid	**–**	(15,000)
Bonds repaid	**–**	(1,124)
New term loan issue costs	**(250)**	(592)
Repayment of principal under finance leases	**–**	–
Net cash (outflow)/inflow from financing	**(250)**	3,284
(Decrease)/Increase in cash	**788**	(59)

The Hotel Corporation plc
Peregrine Corporate Services Limited
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Peel Road
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