

29 June 2012

## **The Hotel Corporation plc**

### **Final results for the year ended 31 December 2011**

The Hotel Corporation PLC (the Company) an AIM listed investment company owning 49.9%<sup>1</sup> of Puma Hotels plc (PHP) announces its final results for the year to 31 December 2011, which are also available for download from the Company's website: [www.thehotelcorporation.co.im](http://www.thehotelcorporation.co.im) and are being posted to shareholders.

<sup>1</sup> On 29 June 2009, when the PHP 20 million convertible preference share equity raise was completed, HCP subscribed to 11,770,000 convertible preference shares. Therefore, if in the future all the convertible preference shares are converted into ordinary shares, HCP will, on a fully converted basis, own 53.28% of PHP.

#### **Press enquiries**

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## Notes to Editors

1. Puma Hotels plc (“Puma Hotels”) acquired 13 Paramount branded hotels in July 2004. Following further acquisitions it now owns 20 four-star hotels across Scotland, Northern England, Central England, Southern England and Wales. See the table below for a full list of hotels.
1. The hotels offer extensive banqueting, conference and leisure facilities and many of them have architectural and historical significance. The Group has 2,875 bedrooms and around 20,000 square metres of conference and meeting space and offers extensive facilities to both corporate and leisure guests.
2. Since 25 April 2012, Puma Hotels has taken over the direct management of the 20 hotels. The Puma Hotels Collection website can be found at <http://www.pumahotels.co.uk/>
3. Puma Hotels’ locations are shown below:

	<b>Guest Bedrooms</b>	<b>No. of meeting rooms</b>	<b>Health &amp; Leisure</b>	<b>Location</b>
<b>CENTRAL ENGLAND</b>				
1 Billesley Manor Hotel, Nr. Stratford	72	12	Y	Country
2 Cheltenham Park Hotel	152	11	Y	Country
3 The Daventry Hotel	155	8	Y	Country
4 The Hinckley Island Hotel	362	21	Y	Country
5 The Oxford Hotel	168	25	Y	City
6 Palace Hotel, Buxton	122	9	Y	Country
7 Walton Hall Hotel & Spa, Warwickshire	202	20	Y	Country
8 The Lygon Arms, Cotswolds	77	8	Y	Country
<b>NORTHERN ENGLAND</b>				
9 The Imperial Hotel, Blackpool	180	15	Y	Coast
10 The Majestic Hotel, Harrogate	170	10	Y	City
11 Redworth Hall Hotel, Co. Durham	143	10	Y	Country
12 Shrigley Hall Hotel, Cheshire	148	12	Y	Country
<b>SCOTLAND</b>				
13 The Carlton Hotel, Edinburgh	189	10	Y	City
14 The Marine Hotel, Troon	89	4	Y	Coast
15 Stirling Highland Hotel	96	7	Y	City
<b>SOUTHERN ENGLAND</b>				
16 Combe Grove Manor, Bath	42	5	Y	Country
17 Basingstoke Country Hotel	100	10	Y	Country
18 The Imperial Hotel, Torquay	152	7	Y	Coast
19 The Old Ship Hotel, Brighton	154	11	N	Coast
<b>WALES</b>				
20 The Angel Hotel, Cardiff	102	7	N	City
<b>Total</b>	<b>2,875</b>	<b>222</b>		

The financial information set out in the announcement does not constitute the Company's and its subsidiaries (together “the Group’s”) statutory financial statements for the year ended 31 December 2011, but is derived from those financial statements. The auditors have reported on

those financial statements. Their report was unqualified, but did draw attention to matters by way of emphasis relating to significant uncertainty in relation to the Going Concern of its subsidiary company and the carrying value of the investments in the company financial statements, and did not contain statements under s15(4) or (6) of Companies Act 1982 of the Isle of Man.

### **Chairman's Statement**

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

The Company's principal asset comprises its interest in PHP and this statement therefore addresses 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 2011, 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 2011 are also provided as an appendix to this report. I recommend they be read in conjunction with the results that follow.

The results are clearly overshadowed by the announcement by PHP in April 2012 of the early termination of the leases with Barcelo and that PHP was taking back operational control of its hotels on 25th April 2012. The impact of this has been substantial and is reflected within the most recent independent valuation of the PHP hotel portfolio.

### **Results of the Company**

Revenue for the year was £2.8m (2010: £2.8m). Actual income received has halved during the year following the decision by PHP in December 2011 to defer shareholder bond interest and preference share dividend payments until further notice. A provision of £1.4m has therefore been made within administrative expenses. After deducting administrative expenses and interest, profit amounted to £1.2m (2010: £2.6m) however the charge for impairment of investments amounted to £63.3m (2010: nil) resulting in a loss before tax of £62.1m (2010: £2.6m profit). No tax is payable for the year due to the zero income taxation provisions in the Isle of Man. Basic loss per share was 124.7p (2010: earnings per share 5.2p).

The Company's net asset value per share ("NAV"), as at 31 December 2011 is 2.0p (2010: 131.0p) and the Company has written down the value of its investment in PHP to nil. This is based upon the negative Puma NAV per share and projected cash flows in the medium term. The valuation of the hotel assets previously subject to the Barcelo lease was carried out by Christie & Co. Chartered Surveyors, as at March 2012, which valued the hotel portfolio at £211.5m (2010: £455.5m). The negotiations with Barcelo commenced in November 2011 and resulted in the termination of the leases in April 2012, the external valuation of the properties reflects this lease termination. This valuation excludes a further £2.0m (2010: £2.8m) of land and other assets at PHP Directors valuation. This reduction is against the backdrop of a general decline in the hotel operating environment.

### **Chairman's Statement (continued)**

### **Consolidated Results of the Group**

The Company has a holding of £11.8m (2010: £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 the PHP results.

The Group revenue for the year, including bank interest, was £31.4m (2010: £30.3m) and, after deducting 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 before tax amounted to £3.3m (2010: £4.0m). After the decrease in the fair value of the investment property, impairment in goodwill and the movement in interest rate swaps the total loss before tax was £268.0m (2010: £10.6m). A deferred tax liability reversal of £28.9m (2010: £4.8m) reduces the loss after tax to £239.1m (2010: £5.8m). Basic loss per share was 237.0p (2010: (3.2p)) and diluted loss per share was 252.6p (2010: anti-dilutive).

As required by IFRS, the consolidated statement of financial position of the Group takes account of impairments to goodwill, the fair value of interest rate swaps and deferred tax adjustments on consolidation. The resulting consolidated NAV per share for 2011 is (138.4p) (2010: net asset per share 131.7p).

### **Dividend**

The Directors do not recommend a final dividend for 2011 (2010: 2.6p).

### **Annual General Meeting**

The Annual General Meeting will be held on 3rd August 2012.

### **Prospects**

The upheaval created by the dispute and subsequent handover from Barcelo has presented a tough challenge for the Puma management team to re-establish itself against a backdrop of severe trading conditions in the UK regional hotel sector. Note 3 provides further detail in relation to the uncertainties that exist in relation to Puma’s ability to continue as a going concern. Nevertheless the Puma business plan has secured the support of its bank and borrowings have been reduced by the lease termination receipt of £20.25m, which will reduce cash outflows on interest payments. We look towards progress being made by the Puma management team in restoring the trading performance of the business overall and re-create shareholder value.

**Barclay Douglas**  
**Chairman**  
**29 June 2012**

## **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**

During 2011 and until 25 April 2012, the hotels owned by Puma Hotels plc (“Puma Hotels” or “the Group”) continued to be managed by Barceló Hotels and Resorts (“Barceló”) under the lease arrangements put in place in September 2007 when the Group transferred its trade to

Barceló. As detailed below, these lease arrangements were terminated on 25 April 2012 and from this time, the hotels have been directly managed by the Group. This statement reviews the activities of the Group during 2011 and also comments on the termination of the lease arrangements.

## **Financial Performance**

Turnover for the twelve months ended 31 December 2011 of £31.4m represents rent received from Barceló (2010: £30.3m). The gross profit, after deduction of other administrative expenses, of £28.0m (2010: £26.7m) is ahead of the prior year reflecting the increased level of rent and lower administrative expenses.

After deducting bank interest payable of £22.1m (2010:£20.1m) on the Group's senior debt facility, the Group showed a net profit of £5.9m (2010:£6.6m) before shareholder finance costs and exceptional items. The increased interest payable in 2011 is due to the step up of the SWAP on £182.3m from 3.33% during 2010 to 3.945% during 2011.

Shareholder finance costs comprise £4m in relation to bondholders of the Group's bonds and £1.4m relating to interest on the convertible preference shares. It should be noted that of the £5.4m of shareholder finance costs deducted as an expense in the 2011 profit and loss account, only the £2.7m which was due on 30 June 2011 was paid. Initially this was due to the reduction in rent paid by Barceló in December 2011. The subsequent termination of the lease arrangements in April 2012, results in the Group receiving significantly lower income from the operation of the hotels (compared to the rent paid by Barceló) and therefore the shareholder payments which would normally be paid on 30 June and 31 December of each year have been deferred until further notice.

As detailed in the Property Revaluation section below, the revised valuation of the properties reflects the lower income following the termination of the leases to Barceló post the year end and the current market conditions in which the Group's hotels operate. The exceptional but non-cash charge of £174.9m is a result of the downward revaluation of properties of £168m (2010:£0.4m) and the write-down of goodwill of £6.9m. After deducting these items, the loss on ordinary activities for the year was £174.7m (2010: profit of £0.5m).

## **Property Revaluation**

The tangible asset values on the consolidated balance sheet of the Group reflect the Group's direct exposure to the UK provincial hotel sector following the termination of the lease arrangements with Barceló. Trading in this sector remains very challenging, thereby leading to significantly lower cashflows from operations versus the previous rent level paid by Barceló. The Group's assets comprise a significant portfolio of hotels some of which occupy large areas of land and many of which are well located in their regional centres. Also, and as discussed in the Planning Update section, many benefit from substantial planning consents.

## **Review of Operations and Financial Performance (continued)**

Therefore, in time and given appropriate management and investment many of the hotels, the Directors believe are capable of profit and value enhancement as the regional economy improves.

For the purpose of preparing its 31 December 2011 financial statements, the Group has used the external professional valuation completed by Christie + Co. This valuation of each hotel in the portfolio is £213.5 million (2011: £458.35) including £2.0m, at Directors' valuation, of ancillary land not utilised as part of the hotel operations.

## **Termination of leases with Barceló**

As previously announced in November 2011, the Group received a letter from lawyers acting for Barceló proposing revised rental and other terms for the hotels. The letter stated that unless a revision to the leases was agreed between the parties, Barceló intended to withdraw financial support from its UK hotels business. Commencing in November 2011, discussions were held with Barceló in an effort to restructure these lease arrangements. Whilst it was not possible to agree a mutually acceptable basis for the leases to continue, the Group was able to successfully negotiate a transfer agreement which, provided for the termination of the leases on 25 April 2012 and the payment to Puma Hotels of a net sum of £20.25m (excluding VAT) in respect of the early termination of the Leases.

The agreement also provided for the orderly handover of the operations of the hotels from Barceló to Puma Hotels. Prior to the grant of the leases in 2007, the Group itself operated the hotels through the head office infrastructure and team which it established in Hinckley. This head office team and all hotel employees were transferred back to the Group upon completion of the agreement. From the date of signing the agreement and the completion date of 25 April, the Puma Hotels' team was on-site, at the head office and at the hotels, to affect an orderly transition. The existing hotels team has been augmented through a number of appointments including Paul Nisbett as Commercial and Finance Director. Paul brings significant experience in the regional UK hotel sector where he has held senior roles such as COO of Principal Hayley and Commercial and Finance Director at Malmaison. In addition, Puma Hotels appointed Chardon Management Ltd ("Chardon"), a leading UK independent hotel management company, to work with our management team in managing the transition of operations to Puma Hotels.

Since taking over the management of the hotels, we have implemented our operational and branding strategy which is to focus on the individual strengths of each of our hotels in their local and regional markets. We have therefore re-launched the hotels as the "Puma Hotels Collection" allowing the Group to align operating standards and to achieve sales and marketing synergies, whilst emphasising the unique nature of each property. Whilst trading conditions remain challenging, we believe that our management team is well placed to drive maximum value from the estate.

### **Senior debt facility arrangements with Irish Bank Resolution Corporation Limited ("IBRC")**

Contemporaneous with the signing of the transfer agreement with Barceló, Puma Hotels agreed with its bankers, IBRC (formerly Anglo Irish Bank Limited), an option to extend its current debt facility until 31 December 2013, subject to meeting certain conditions.

### **Review of Operations and Financial Performance (continued)**

The Group utilised the £20.25m payment from Barceló to reduce the balance of the senior debt facility. At the same time, IBRC provided a working capital facility of £7m for 2012, rising to £10.25m in 2013 if the option to extend the senior facility is exercised. The purpose of the working capital facility is to fund the Group's working capital and its capital expenditure requirements.

### **Planning Update**

The Group continues with its strategy to add value by securing additional planning consents and seeking ways of maximising the value of these consents. The Group has the potential to add over 700 bedrooms of which 472 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 for several leisure clubs.

The planning consents currently held are:

Hotel	Additional Bedrooms	Other facilities
Carlton, Edinburgh	58	
Oxford	71	242 sq m of meeting space
Old Ship, Brighton	42	248 sq m of meeting; 124 sq m of bar/restaurant space
Shrigley Hall	26	
Imperial Torquay	19	81 sq m of meeting space
Imperial Blackpool	4	
Majestic, Harrogate	116	937 sq m of meeting space
Stirling Highland	10	174 sq m of meeting space
Hinckley	60	289 sq m of meeting space
Lygon	1	
Daventry	58	
Cardiff	7	200 sq m of meeting space
Walton Hall		315 sq m of leisure club extension
Redworth Hall		104 sq m of bar space and 34 sq m of meeting space
<b>TOTAL</b>	<b>472</b>	<b>2,205 sq m of meeting space and 543 sq m of other space</b>

### Strategy and Prospects

The regional UK hotel sector continues to be impacted by the severe conditions prevailing in the UK and global economies and this challenging trading environment is expected to continue in the near term. The Puma Board of Directors are however very encouraged by their management team's performance in taking over and stabilising the management of the hotels in a very short period. The team has effectively mitigated the challenges that arise in taking over a business of this scale and the Board and management are looking forward to focusing their efforts on enhancing the service provided to the guests and thereby realise the Group's trading potential in this tough economic environment. Strategically, the Board's priority is its firm commitment to the task of seeking to re-create shareholder value.

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### Consolidated Statement of Comprehensive Income

	Notes	2011 £'000	2010 £'000
<b>Continuing Operations</b>			
Revenue	6	31,373	30,326
Administrative expenses		(3,055)	(3,302)
Decrease in fair value of investment property	13	(246,056)	(6,930)
<b>Operating (Loss)/Profit</b>		<b>(217,738)</b>	<b>20,094</b>
Goodwill impairment	5	(28,382)	-
Bank interest receivable		48	41
Change in fair value of interest rate swaps	25	3,164	(7,697)

Interest payable	9	(25,083)	(23,053)
		<u>                    </u>	<u>                    </u>
<b>Loss before tax</b>		<b>(267,991)</b>	<b>(10,615)</b>
Tax	10	28,919	4,799
		<u>                    </u>	<u>                    </u>
<b>Loss after tax for the year</b>	8	<b>(239,072)</b>	<b>(5,816)</b>
		<u>                    </u>	<u>                    </u>
<b>Loss and total comprehensive loss for the year</b>		<b>(239,072)</b>	<b>(5,816)</b>
		<u>                    </u>	<u>                    </u>
Attributable to:			
Owners of the Company		(118,051)	(1,606)
Non controlling interests		(121,021)	(4,210)
		<u>                    </u>	<u>                    </u>
		<u>                    </u>	<u>                    </u>
<b>Loss per share</b>			
Basic from continuing operations	12	(237.0p)	(3.22p)
Diluted from continuing operations	12	(252.58p)	(3.22p)

## Consolidated Statement of Financial Position

	Notes		<b>2011</b>		<b>2010</b>
		£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Non - Current Assets</b>					
Goodwill	5		-		28,382
Investment Property	13		213,500		458,321
<b>Current Assets</b>					
Trade and Other Receivables	15	2,284		316	
Cash and Cash Equivalents		<u>9,471</u>		<u>11,586</u>	
			<u>11,755</u>		<u>11,902</u>
<b>Total Assets</b>			<u>225,255</u>		<u>498,605</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Borrowings	16	332,212		-	
Trade and Other Payables	18	14,106		14,143	
Fair Value of Interest Rate Swaps	25	<u>5,222</u>		<u>4,430</u>	
<b>Total Current Liabilities</b>			(351,540)		(18,573)
<b>Non - Current Liabilities</b>					
Borrowings	16	16,600		348,678	
Preference shares	16	8,230		8,230	
Fair Value of Interest Rate Swaps	25	17,784		21,740	
Deferred Tax Liabilities	19	<u>-</u>		<u>28,919</u>	
			<u>(42,614)</u>		<u>(407,567)</u>
<b>Total Liabilities</b>			<u>(394,154)</u>		<u>(426,140)</u>
<b>Net (Liabilities)/Assets</b>			<u>(168,899)</u>		<u>72,465</u>
<b>Equity</b>					
Share Capital	20	2,491		2,491	
Share Premium Account	20	11,015		11,015	
Retained Earnings		<u>(68,229)</u>		<u>52,114</u>	
<b>Equity attributable to owners of the Company</b>		(54,723)		65,620	
Non controlling interest	21	<u>(114,176)</u>		6,845	
<b>Total Equity</b>			<u>(168,899)</u>		<u>72,465</u>
Net (Liability)/Asset Value per share (Based on number of shares in issue at year end)			(138.37)		131.7p

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2012.

They were signed on its behalf by;

.....  
**Barclay Douglas**

.....  
**David Craine**

### Consolidated Statement of Changes in Equity

	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Non Controlling interest £'000	Total £'000
<b>Balance at 31 December 2009</b>	<u>2,491</u>	<u>11,015</u>	<u>55,912</u>	<u>11,055</u>	<u>80,473</u>
Loss for the year	-	-	(1,606)	(4,210)	(5,816)
Dividends	<u>-</u>	<u>-</u>	<u>(2,192)</u>	<u>-</u>	<u>(2,192)</u>
<b>Balance at 31 December 2010</b>	<u>2,491</u>	<u>11,015</u>	<u>52,114</u>	<u>6,845</u>	<u>72,465</u>
Loss for the year	-	-	(118,051)	(121,021)	(239,072)
Dividends (Note 11)	<u>-</u>	<u>-</u>	<u>(2,292)</u>	<u>-</u>	<u>(2,292)</u>
<b>Balance at 31 December 2011</b>	<u>2,491</u>	<u>11,015</u>	<u>(68,229)</u>	<u>(114,176)</u>	<u>(168,899)</u>

## Consolidated Statement of Cash Flows

	Notes	2011 £'000	2010 £'000
<b>Net Cash Inflow From Operating Activities</b>	22	28,101	28,720
<b>Investing Activities</b>			
Interest Paid		(26,488)	(23,053)
Interest Received		48	41
Additions of investment properties		(1,235)	(2,349)
Sale of investment properties		-	268
Net cash (used in) / generated from Investing Activities		(27,675)	(25,093)
<b>Financing Activities</b>			
Dividends Paid		(2,292)	(2,192)
New term loan issue costs		(249)	(250)
Net cash used in Financing Activities		(2,541)	(2,442)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(2,115)	1,185
<b>Cash and cash equivalents at beginning of year</b>		11,586	10,401
<b>Cash and cash equivalents at end of year</b>		9,471	11,586

		<b>2011</b>	<b>2010</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Continuing Operations</b>			
Revenue	6	2,810	2,811
Administrative expenses		<u>(1,617)</u>	<u>(228)</u>
Operating Profit		1,193	2,583
Bank interest receivable		8	8
Investment write down	14	<u>(63,328)</u>	<u>-</u>
(Loss)/Profit before taxation		(62,127)	2,591
Taxation	10	<u>-</u>	<u>-</u>
<b>(Loss)/Profit after taxation and total comprehensive (Loss)/Income for the year</b>	<b>8</b>	<b><u>(62,127)</u></b>	<b><u>2,591</u></b>
 <b>(Loss)/Earnings Per Share</b>			
Basic and diluted	12	(124.7p)	5.2p

## Company Statement of Financial Position

Assets	Notes	2011		2010	
		£'000	£'000	£'000	£'000
<b>Non-Current Assets</b>					
Investments	14		-		63,328
<b>Current Assets</b>					
Receivables	15	5		9	
Cash and Cash Equivalents		1,031		2,109	
			1,036		2,118
<b>Total Assets</b>			1,036		65,446
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Trade and other payables	18	32		23	
<b>Total Liabilities</b>			(32)		(23)
<b>Net Assets</b>			1,004		65,423
<b>Equity</b>					
Share Capital	20	2,491		2,491	
Share Premium Account	20	11,015		11,015	
Retained Earnings		(12,502)		51,917	
<b>Equity attributable to owners of the Company</b>			1,004		65,423
<b>Shareholders' Equity</b>			1,004		65,423
Net Asset Value per share (Based on number of shares in issue at year end)			2.02p		131p

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2012.

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
<b>Balance at 31 December 2009</b>		<u>2,491</u>	<u>11,015</u>	<u>51,518</u>	<u>65,024</u>
Profit for the year		-	-	2,591	2,591
Dividend	11	-	-	(2,192)	(2,192)
<b>Balance at 31 December 2010</b>		<u>2,491</u>	<u>11,015</u>	<u>51,917</u>	<u>65,423</u>
Loss for the year		-	-	(62,127)	(62,127)
Dividend	11	-	-	(2,292)	(2,292)
<b>Balance at 31 December 2011</b>		<u>2,491</u>	<u>11,015</u>	<u>(12,502)</u>	<u>1,004</u>

## Company Statement of Cash Flows

	Notes	2011 £'000	2010 £'000
<b>Net Cash Outflow From Operating Activities</b>	22	<u>1,206</u>	<u>2,581</u>
<b>Investing Activities</b>			
Interest received		<u>8</u>	<u>8</u>
Net cash generated from Investing Activities		<u>8</u>	<u>8</u>
<b>Financing Activities</b>			
Dividends Paid		<u>(2,292)</u>	<u>(2,192)</u>
Net cash (used in)/generated from Financing Activities		<u>(2,292)</u>	<u>(2,192)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,078)	397
<b>Cash and cash equivalents at beginning of year</b>		<u>2,109</u>	<u>1,712</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>1,031</u></u>	<u><u>2,109</u></u>

## Notes to the Consolidated and Company 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 8. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 9 to 11 and the Chairman's Statement on pages 3 to 4.

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. Annual improvements to IFRSs: 2009-2011 Cycle (May 2012)
- ii. Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- iii. Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- iv. IFRS 9 – Financial Instruments
- v. Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
- vi. IAS 19 – Employee Benefits
- vii. IFRS 13 – Fair Value Measurement
- viii. IFRS 12 – Disclosure of Interests in Other Entities
- ix. IFRS 11 – Joint Arrangements
- x. IFRS 10 – Consolidated Financial Statements
- xi. IAS 27 – Separate Financial Statements
- xii. Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets

#### 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. IAS 24 – Related Party Disclosures
- ii. IFRS 3 – Business Combinations
- iii. Amendments to IAS 27 – Consolidated and Separate Financial Statements

## Notes to the Consolidated and Company 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 financial statements. 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 and the results of PHP for the previous year.

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 note 5) 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 Company has adequate financial resources. In considering the ability of the Company to continue as a Going Concern the directors have considered the Company cashflow forecasts. These cashflow forecasts indicate that the Company has sufficient resources to meet its ongoing operating expenses into the foreseeable future. It also has resources to invest in other opportunities if they were to arise and if investment was considered appropriate by the Directors and therefore the Directors are of the view that the Company still has a trade even though there is uncertainty associated with the going concern of its subsidiary company, Puma Hotels Plc (“PHP”). As a consequence, the Directors believe that the Company is well placed to manage its business risks satisfactorily.

### 3 Significant accounting policies (continued)

The Board has also undertaken a recent and thorough review of the PHP's forecasts and associated risks and sensitivities. The extent of this review reflects the uncertain economic outlook for the UK economy, the specific risks associated with the hotel sector and the fact that PHP is in a net liabilities position. Although PHP is in a net liability and current net liability position, PHP's operations are profitable and operational profits are forecast to increase over the medium term, thereby enhancing the current level of positive cash flows. However in order for PHP to fully meet its debt service obligations in relation to its senior facility, a revolving credit facility was made available by the senior lender in April 2012 when an amended facility agreement was signed by PHP post the termination of the lease agreement and the transfer of the operations of the hotels to PHP. In prior years when PHP's activities related to the holding of investment property, PHP was able to meet all of its obligations, including any payments to the bank under the facility agreement, from the rent received from its tenant. Although the termination of the lease arrangements in April 2012 has resulted in a lower level of net income to PHP, PHP's operations as a direct hotel operator are forecast to remain profitable and cashflow positive before deducting interest payable on its debt facilities.

Based on the current terms of the senior facility, in order for this facility and the revolving credit facility to continue to be made available credit from the date of signing these financial statements to 31 December 2012, and then beyond that date to 31 December 2013, PHP are required to meet certain conditions in relation to the senior and revolving credit facilities some of which relate to unpredictable market activity. The Puma Directors believe they can either meet these conditions, or can successfully renegotiate terms with the senior lender for PHP or another lender.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about PHP's ability to continue as a going concern and therefore PHP may be unable to realise assets and / or discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result if the PHP was unable to continue as a going concern.

After making such enquires as necessary, and considering the uncertainties described above, the Directors have a reasonable expectation that the PHP have adequate resources to continue in operational existence for the foreseeable future. Also because PHP has limited recourse to the Company which is solvent and able to continue trading even in the absence of any income generated from its investment in PHP, the Directors have concluded that the Company is a going concern. Accordingly, they continue to adopt the going concern basis in preparing the annual report and 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 related 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.

#### **Notes to the Consolidated and Company Financial Statements (continued)**

### 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.

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **3. Significant accounting policies (continued)**

#### **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 at the statement of financial position 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 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 statement of financial position 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.

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **3. Significant accounting policies (continued)**

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's statement of financial position 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.

### **Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **3. Significant accounting policies (continued)**

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's document risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 4 and note 14.

### **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.

### **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 statement of financial position 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.

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **3. Significant accounting policies (continued)**

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 Consolidated and Company 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.

#### **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 25.

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 statement of financial position 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 therein. The directors are satisfied that these are appropriate in the current year.

##### **Notes to the Consolidated and Company Financial Statements (continued)**

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

##### **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 in the current year in relation to the valuation of the investment property to recognise any deferred tax asset.

##### **Group : Non Controlling 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. The results of PHP have also been consolidated.

### **Key sources of estimation uncertainties**

#### **Company : Fair value of investment**

In line with accounting policies 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 PHP and the uncertainties associated with this in the current year which has led to a valuation of £nil (2010: £63,328,000). The fair value requires an estimation of the present value of the future cash flow arising from the investment in PHP. 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 particular, the Company has taken into account the recent changes of PHP's position and its future uncertainty, detailed in note 23. 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. Following review of the PHP consolidated accounts to 31 December 2011, it is noted that PHP have impaired the value of the hotel properties, resulting in net liabilities of £176.6m. Considering the position of PHP, an impairment review was performed during the year by the directors and full impairment has been made on the carrying amount of goodwill at the balance sheet date.

In 2010 the carrying amount of goodwill at the balance sheet date was £28,382,000 with no impairment losses recognised between date of the acquisition and the 2010 year end.

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **5. 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 the subsidiary, PHP totalled £17.4m. The goodwill arising on acquisition totalled £28.4m, which was allocated to the single cash generating unit, which was 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. Following review of the PHP consolidated accounts to 31 December

2011, it is noted that PHP have impaired the value of the hotel properties, resulting in net liabilities of £176.6m. Subsequently, the fair value of the existing interest in the investment in PHP has been re-measured to £nil. The re-measurement to fair value has resulted in a goodwill write down of £28.4m, which has been recognised in the statement of comprehensive income.

## 6. Revenue

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

	<b>Group 2011 £'000</b>	<b>Company 2011 £'000</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>
<b>Continuing operations</b>				
Property rental income from lease agreement with Barcelo Hotels and Resorts	31,373	-	30,326	-
Interest on bonds	-	1,986	-	1,986
Preference share dividend	-	824	-	825
	<u>31,373</u>	<u>2,810</u>	<u>30,326</u>	<u>2,811</u>

### Operating lease arrangements

#### Group as a lessor

Prior to 15 December 2011, the Group had a 45 year lease (from September 2007) which placed full repairing and insuring obligations on the tenant and provided guaranteed rental income over the first four years (from September 2007 to September 2011); this was inflation-indexed thereafter and could also increase if hotel EBITDA (as defined in the agreement with the tenant) performed well.

## Notes to the Consolidated and Company Financial Statements (continued)

### 6. Revenue (continued)

On 15 December 2011 a standstill agreement was signed between PHP and Barcelo Corporacion Empresarial S.A ("BCE"), which relates to the leases of the hotels owned by PHP, which are held by the BCE Entities. On 25 April 2012 PHP completed the business transfer agreement effecting the early termination of leases with BCE and various UK subsidiary undertakings of BCE. See note 23 for further details on events after the balance sheet date.

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

	<b>Group 2011 £'000</b>	<b>Group 2010 £'000</b>
Within one year	2,250	31,000
In the second to fifth years inclusive	-	124,000

## Company

In light of the reduced future rent, as described above, PHP announced on the 16<sup>th</sup> December 2011 and confirmed on the 2<sup>nd</sup> April 2012 that the payments due on the Bonds and Cumulative Preference Shares will be deferred until further notice. See note 23 for further details on events after the balance sheet date.

### 7. Business and geographical segments

During the year the Group's turnover, loss before taxation and net liabilities 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.

## Notes to the Consolidated and Company Financial Statements (continued)

### 8. Loss after tax for the year

Loss for the year has been arrived at after charging:

	<b>Group 2011 £'000</b>	<b>Company 2011 £'000</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>
Auditors' remuneration for: Audit fees payable for the audit of the Group and Company's annual accounts	17	17	22	22
Audit fees payable for the audit of the Company's subsidiaries pursuant to legislation	26	-	32	-
Impairment loss recognised on trade receivables	-	1,405	-	-
Other services relating to				

taxation	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>
<b>Total</b>	<u><u>57</u></u>	<u><u>1,422</u></u>	<u><u>68</u></u>	<u><u>22</u></u>

**Notes to the Consolidated and Company Financial Statements (continued)**

**9. Interest Payable**

	<b>Group 2011 £'000</b>	<b>Company 2011 £'000</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>
Interest payable on bank loans and overdraft	22,132	-	20,103	-
Interest payable on bonds	1,992	-	1,992	-
Finance cost on preference shares	576	-	575	-
Amortisation of bank loan issue costs	<u>383</u>	<u>-</u>	<u>383</u>	<u>-</u>
	<u><u>25,083</u></u>	<u><u>-</u></u>	<u><u>23,053</u></u>	<u><u>-</u></u>

The finance cost on preference shares and bonds reflects interest paid to preference shareholders and bond holders outside the Group. It is noted that on 16 December 2011, the interest payments were deferred until further notice, see note 23 for further details.

**10. Group Tax on loss on ordinary activities**

	<b>2011 £'000</b>	<b>2010 £'000</b>
UK corporation tax charge	<u>-</u>	<u>-</u>
Current period		
Current tax	-	-
Deferred tax		
Origination and reversal of timing differences (note 19)	28,919	4,799
Prior year adjustment	<u>-</u>	<u>-</u>
Tax on loss on ordinary activities	<u><u>28,919</u></u>	<u><u>4,799</u></u>

## 10. Group Tax on loss on ordinary activities

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.

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Current tax reconciliation		
Loss on ordinary activities before taxation	(267,991)	(10,615)
Tax on loss on ordinary activities at standard UK corporation tax rate of 26.5% (2010:28%)	(71,018)	(2,972)
Effects of:		
Temporary timing differences arising from the write down of assets not deductible for tax purposes	53,799	3,950
Expenses not deductible for tax purposes	1,974	149
Income not taxable for tax purposes	-	(10)
Capital allowances in excess of depreciation for period	-	(2,458)
Unprovided tax losses	-	2,848
Net finance cost on preference shares	152	-
Permanent Industrial Buildings Allowances claimed	(66)	(334)
Utilisation of tax losses	-	(447)
Tax losses (unprovided)	155	-
0% rate (Company tax on loss on ordinary activities)	15,004	(726)
<b>Current tax charge for period</b>	<b>-</b>	<b>-</b>

## Company Tax on loss on ordinary activities

A 0% rate of corporate income tax is applicable to the Company's income and therefore no provision for liability to Manx income tax has been included in these financial statements.

## 11. Dividends

On 16 March 2011 the Company declared a final dividend of 2.6p per share in respect of the year ended 31 December 2010. The dividend, which amounted to £1,295,295 was paid on 28 April 2011. The Company declared an interim dividend of 2.0p per ordinary share on 29 September 2011. The dividend, which amounted to £996,381, was paid on 2 November 2011. Total dividends paid during the year amounted to £2,291,676. The Directors do not recommend the payment of a final dividend in respect of the year to 31 December 2011.

## Notes to the Consolidated and Company Financial Statements (continued)

## 12. Earnings per Share

<b>Earnings : Company</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
(Loss)/Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	(62,127)	2,591
<b>Earnings : Group</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Loss for the purposes of basic earnings per share being net loss attributable to owners of the Company	(118,051)	(1,606)
Loss for the purposes of diluted earnings per share being net loss attributable to owners of the Company	(125,834)	(1,606)
<b>Number of Shares</b>	<b>2011</b>	<b>2010</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	49,819,050	49,819,050
Weighted average number of ordinary shares for the purpose of diluted earnings per share	49,819,050	49,819,050

### 13. Investment property

<b>Fair Value</b>	<b>Group</b>
	<b>£'000</b>
At 31 December 2009	463,170
Additions	2,349
Disposals	(268)
Decrease in fair value during the year	<u>(6,930)</u>
<b>At 31 December 2010</b>	<b>458,321</b>
Additions	1,235
Disposals	-
Decrease in fair value during the year	<u>(246,056)</u>
<b>At 31 December 2011</b>	<b><u>213,500</u></b>

## Notes to the Consolidated and Company Financial Statements (continued)

### 13. Investment property (continued)

An external valuation of the Group's freehold and long leasehold properties was performed by Christie & Co. Chartered Surveyors in March 2012 which valued the investment properties at £211.5m. Pursuant to the negotiations with Barcelo which commenced in November 2011 and resulted in the termination of the leases in April

2012, the external valuation of the properties reflects this lease termination. A further £2m has been included in the value in respect of land assets excluded from the external valuation and land continues to be valued at director's valuation. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

#### 14. Investments

##### Company Investments – non current

Classified as:	<b>2011</b> <b>£'000</b>	<b>Restated</b> <b>2010</b> <b>£'000</b>
Investment at fair value through profit and loss	-	<b>63,328</b>
	<u>-</u>	<u><b>63,328</b></u>
<b>Investments at fair value through profit and loss</b>	<b>2011</b> <b>£'000</b>	<b>Restated</b> <b>2010</b> <b>£'000</b>
Fair value at start of year	<b>63,328</b>	<b>63,328</b>
Decrease in fair value during the year	<u>(63,328)</u>	<u>-</u>
Fair value at end of year	<u>-</u>	<u><b>63,328</b></u>

The investment at 31 December 2011 includes an investment in convertible preference shares of £nil (2010: £11,770,000). The Company holds 11,770,000 preference shares of £1 each in Puma Hotels plc ("PHP").

It also includes an investment in ordinary shares of £nil (2010: £35,008,000). The Company holds 16,550,000 ordinary shares of £1 par value in (PHP). These ordinary shares amount to 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 share.

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 shares are convertible into 1 ordinary share and 19 preference shares for every 1 convertible preference share at the option of the holder. These preference shares do not carry the right to vote except on a resolution modifying the rights attaching to the preference shares.

#### Notes to the Consolidated and Company Financial Statements (continued)

#### 14. Investments (continued)

The 2010 comparative has been restated to include the investment in unsecured bonds issued by Puma Hotels (Finance) plc, a subsidiary of Puma Hotels plc. The Bonds have a coupon rate of 12%.

The final redemption date for the bonds is dependent on the issuer issuing a redemption notice which cannot be issued without the approval of Irish Bank Resolution Corporation Limited ("IBRC"), PHP's senior lender, or until such time that all liabilities

to IBRC have been fully discharged. As the bonds have no fixed maturity date they should be classified as fair value through profit and loss and have been restated in the prior year to reflect this.

### **Decrease in fair value of investment**

The Directors have reviewed the investment at 31 December 2011 and note that PHP is in a net liability position of £176.6m (2010: net asset position £76.2m) and a net current liability position of £336.9m (2010: £4.3m). Furthermore, the Company has been informed by PHP that the interest on the preference shares and the bonds will not be paid in the foreseeable future.

As detailed in note 3, significant uncertainty exists in relation to PHP's ability to continue as a going concern. However, the Company has been informed by PHP that they have the continuing support of their senior lenders in relation to a recovery plan to continue to trade and the plan is supported by a detailed cash flow and budget forecast covering the period from 2012 to 2013. The Directors of the Company have also prepared a discounted cash flow valuation. Should the forecasts prove to be achievable and PHP continue to receive support from their senior lender into the foreseeable future then there may be future value in the investment in PHP; therefore the Company continues to hold the investment to protect shareholders value. However, due to the significant uncertainty described above, the Directors believe that the fair value of the investment in PHP should be £nil as at 31 December 2011 (2010: £63.3m). The Directors therefore recognise that there is a significant level of uncertainty relating to this fair value estimate, which may be greater than £nil which in turn could have a material impact on the write down on this investment that has been recognised during the year.

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 2011 financial statements, the directors of PHP have used the external professional valuation of its Hotel portfolio completed by Christie & Co. Chartered Surveyors, independent valuers, at 28 March 2012 as a basis for their assessment of the investment properties carrying value.

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

## **Notes to the Consolidated and Company Financial Statements (continued)**

### **14. Investments (continued)**

#### **Subsidiary Undertakings**

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

	<b>Activity</b>	<b>Country of incorporation</b>	<b>% of share capital owned</b>
Puma Hotels plc	Holding company	England	49.92%
Puma Hotels UK Limited	Holding company	England	*
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	*
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

#### **Notes to the Consolidated and Company Financial Statements (continued)**

##### **15. Trade and Other Receivables**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>				

Trade receivables	2,250	-	170	-
Other receivables	-	-	117	-
Prepayments and accrued income	16	5	11	9
Corporation tax debtor	18	-	18	-
	<u>2,284</u>	<u>5</u>	<u>316</u>	<u>9</u>

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.

## 16. Group Borrowings

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Unsecured borrowing at amortised cost		
Bonds	16,600	16,600
	<u>16,600</u>	<u>16,600</u>
Secured borrowing at amortised cost		
Bank loans	332,345	332,345
Accrued finance cost	(133)	(267)
	<u>332,212</u>	<u>332,078</u>
Total borrowings	<u>348,812</u>	<u>348,678</u>
Amount due for settlement within 12 months	<u>332,212</u>	<u>-</u>
Amount due for settlement after 12 months	<u>16,600</u>	<u>348,678</u>
7% convertible preference share	<u>8,230</u>	<u>8,230</u>

## Notes to the Consolidated and Company Financial Statements (continued)

### 16. Group Borrowings (continued)

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

- i. Under the terms of the original facility it was due to expire on 31 December 2012. On 2 April 2012, an option to extend the bank facility until 31 December 2013 subject to meeting certain conditions as detailed in note 3, Going Concern, was agreed. This is still secured by fixed charges over the properties within the Group. 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 6.667% (2010 6.05%). All the bank loans are fully drawn down. The borrowings are secured against the investment property included in note 13.

- 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 cannot be issued without the approval IBRC PHP's senior lender or until such time that all liabilities to IRBC have been fully discharged. The bonds therefore have no fixed maturity date and a coupon rate of 12%. They are not secured against any of the assets of the Group.

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

**Maturity of bank and other loans**

Although the bond value has decreased to nil during the year, the maturity analysis is as follows:

	Bank Loans		Bonds		Total	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Repayable:						
Within one year or on demand	332,345	-	-	-	332,345	-
Between one and two years	-	332,345	-	-	-	332,345
Between two and five years	-	-	16,600	16,600	16,600	16,600
Accrued finance cost	(133)	(267)	-	-	(133)	(267)
	<u>332,212</u>	<u>332,078</u>	<u>16,600</u>	<u>16,600</u>	<u>348,812</u>	<u>348,678</u>

**Notes to the Consolidated and Company Financial Statements (continued)**

**18. Trade and Other Payables: Amounts falling due within one year**

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Trade creditors	375	-	1,274	-
Other taxation and social security	825	-	896	-
Other creditors	325	32	368	23
Accruals and deferred income	12,581	-	11,605	-
	<u>14,106</u>	<u>32</u>	<u>14,143</u>	<u>23</u>

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

## 19. Deferred tax liability

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred taxation				
At beginning of year		-	33,718	-
Transfer to statement of comprehensive income	28,919	-	(4,799)	-
	(28,919)			
	-----	-----	-----	-----
	-	-	28,919	-
	=====	=====	=====	=====

The amounts provided for deferred taxation are set out below:

	<b>2011</b>	<b>2010</b>
	<b>Provided</b>	<b>Provided</b>
	<b>£'000</b>	<b>£'000</b>
Difference between accumulated depreciation and capital allowances	-	10,739
Losses	-	(18,351)
On revaluation of land and buildings	-	36,531
	-----	-----
	-	28,919
	=====	=====

The Group has not recognised a deferred tax asset in relation to the fair value of the swap liabilities of £5,982,000 (2010: £7,328,000).

The Group has not recognised a deferred tax asset in relation to the revaluation of land and buildings of £16,062,666 (2010: £nil).

## Notes to the Consolidated and Company Financial Statements (continued)

### 20. Share Capital

<b>Authorised: Ordinary Shares of £0.05</b>	<b>2011</b>	<b>2011</b>
	<b>Number</b>	<b>£'000</b>
As at 31 December	80,000,000	4,000
	-----	-----
<b>Issued and fully paid: Ordinary Shares of £0.05</b>	<b>2011</b>	<b>2011</b>
	<b>Number</b>	<b>£'000</b>
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.

## 21. Non controlling Interest

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Balance at 1 January	6,845	11,055
Share of loss for the year	(121,021)	(4,210)
Balance at 31 December	<u>(114,176)</u>	<u>6,845</u>

Included within the balance of non-controlling interest is the share of the results of the other Ordinary and Founder Shareholders of PHP; Preference Shareholders are excluded.

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. There is no liability recognised for this at 31 December 2011 (2010: £nil).

## Notes to the Consolidated and Company Financial Statements (continued)

### 22. Notes to the Statement of Cash Flows

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

	<b>Group</b> <b>2011</b> <b>£'000</b>	<b>Company</b> <b>2011</b> <b>£'000</b>	<b>Group</b> <b>2010</b> <b>£'000</b>	<b>Company</b> <b>2010</b> <b>£'000</b>
Operating (loss)/profit	(217,738)	1,193	20,094	2,583
Adjustment for:				
Decrease/(Increase) in Receivables	(1,968)	4	1,186	(1)
Increase/(Decrease) in Trade and other payables	(37)	9	127	(1)
Amortisation of debt	383	-	383	-

issue costs				
Impairment loss recognised on trade receivables	1,405			
Loss on change in fair value of investment property	<u>246,056</u>	<u>-</u>	<u>6,930</u>	<u>-</u>
<b>Net cash inflow from operating activities</b>	<u>28,101</u>	<u>1,206</u>	<u>28,720</u>	<u>2,581</u>

## 23. Events after the Balance Sheet Date

### Group

As detailed in the Directors' Report, after year end a transfer agreement was signed by the Group and Barceló which, inter alia, provided for the termination of the leases between the parties on 25 April 2012. On termination of these leases Barceló paid to Puma Hotels the net sum of £20.25m (excluding VAT) in respect of the early termination of the Leases. In conjunction with termination of the transfer agreement with Barceló, the Group agreed with its bankers, IBRC (formerly Anglo Irish Bank Limited), an option to extend its current debt facility from 31 December 2012 until 31 December 2013, subject to meeting certain conditions as detailed in note 3, Going Concern. As part of securing the option to extend the senior facility and gaining access to a revolving credit facility from IBRC, the Group utilised the £20.25m payment from Barceló to reduce the balance of the senior debt facility on 25 April 2012.

### Company

As announced on the 15 December 2011, in light of the reduced amount of rent received, the shareholder payments normally paid by PHP on 31 December, relating to the Bonds and Cumulative Convertible Preference Shares, will be deferred until further notice. As at the authorisation date, no further payments have been received by the Company.

## Notes to the Consolidated and Company Financial Statements (continued)

## 24. 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:

	<b>Group 2011 £'000</b>	<b>Company 2011 £'000</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>
Short-term employee benefits and directors fees	<u>225</u>	<u>83</u>	<u>222</u>	<u>82</u>
<b>Total</b>	<u>225</u>	<u>83</u>	<u>222</u>	<u>82</u>

Barclay Douglas was until 26 March 2010 a non-executive director of Shore Capital Group plc. An amount of £23,500 was paid to Shore Capital and Corporate Limited, a subsidiary of Shore Capital Group plc, during 2010. Management fees of £3,019,000 were charged during 2010 by Shore Capital Limited to Puma Hotels plc.

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 £50,184 (2010: £54,430) 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 £933,000 (2010: £1,986,000) of interest on bonds and £412,000 (2010: £825,000) dividends on preference shares from PHP.

## 25. 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 16, 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.

## Notes to the Consolidated and Company Financial Statements (continued)

### 25. Financial Instruments (continued)

The Group is not subject to any externally imposed capital requirements, except for borrowing covenants of Irish Bank Resolution Corporation Limited (formerly Anglo Irish Bank Limited) 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 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
------------------------	--------------------------	------------------------	--------------------------

### Financial assets

Investment at fair value	-	-	-	63,328
Cash and cash equivalents	9,471	1,031	11,586	2,109
Loans and receivables	2,284	5	316	9
<b>Financial liabilities</b>				
Interest rate swap contract	23,006	-	26,170	-
Bank loan	332,212	-	332,078	-
Bonds	16,600	-	16,600	-
Preference shares	8,230	-	8,230	-

### Company

The investment at fair value which includes the bonds and the preference shares are designated level three (2010: level three) financial assets and liabilities within the definitions of IFRS 7. As per note 14, the investments held by the Company have been valued at nil as at 31 December 2011. Notes 3 and 4 detail the valuation techniques used by the Company in determining the fair value and note 14 details the uncertainties associated with the valuation in the current year.

The interest rate swaps are designated level two (2010: level two) financial assets and liabilities within the definitions of IFRS 7.

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.

## Notes to the Consolidated and Company Financial Statements (continued)

### 25. Financial Instruments (continued)

#### 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 mitigating 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 statement of financial position 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.

## Notes to the Consolidated and Company Financial Statements (continued)

### 25. Financial Instruments (continued)

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 2011 would have decreased to £19.8m (2010: £21.5m). 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 2011 would have increased to £26.2m (2010: £30.8m). 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.

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

### Current year sensitivity

Notional Principle Value	Start Date	Maturity Date	Current Rate	Current fair value	Sensitised fair value	
					-50 bp	+50 bp
£'000			%	2011 £'000	2011 £'000	2011 £'000
182,345	31/12/11	31/12/12	3.95%	(5,222)	(6,121)	(4,323)

150,000	16/09/08	31/12/14	5.15%	(17,784)	(20,101)	(15,467)
				<b>(23,006)</b>	<b>(26,222)</b>	<b>(19,790)</b>

### 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:

## Notes to the Consolidated and Company Financial Statements (continued)

### 25. Financial Instruments (continued)

	Outstanding receive floating pay fixed contracts	Average contract fixed interest rate		Notional principal value		Fair value	
		2011	2010	2011	2010	2011	2010
		%	%	£'000	£'000	£'000	£'000
Less than 1 year		3.95	2.23	182,345	182,345	(5,222)	(4,430)
1 to 2 years		-	3.95	-	182,345	-	(4,098)
2 to 5 years		5.15	5.15	150,000	150,000	(17,784)	(17,642)
						<b>(23,006)</b>	<b>(26,170)</b>

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

During 2011 the Group was exposed to the risk that its hotel manager Barcelo Hotels and Resorts ("Barcelo") may be unable to meet its rent obligations. As detailed in note 23 an agreement has been signed providing for the early termination of leases with Barcelo.

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.

### Financial assets and other credit exposures

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



**31 December  
2011**

Non-interest bearing	-	2,250	34	-	-	2,284
Variable interest rate instruments	0.52	9,471	-	-	-	9,471
		<u>9,471</u>	<u>2,250</u>	<u>34</u>	<u>-</u>	<u>11,755</u>

**Notes to the Consolidated and Company Financial Statements (continued)**

**25. 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
<b>31 December 2010</b>							
Non-interest bearing		-	287	29	-	-	316
Variable interest rate instruments	0.52	11,586	-	-	-	-	11,586
		<u>11,586</u>	<u>287</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>11,902</u>

The amounts included above for variable interest rate instruments for non-derivative financial assets 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



**31 December  
2011**

Non-interest bearing - 1,525 - - - 1,525

Variable interest rate instruments 6.99 1,836 3,673 16,528 374,611 - 396,648

1,836 5,198 16,528 374,611 - 398,173

**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

**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.

**Notes to the Consolidated and Company Financial Statements (continued)**

**25. Financial Instruments (continued)**

Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1 – 5 years £'000	5 + years £'000	Total £'000
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**2011**

Net settled:

Interest rate swaps	-	-	(5,222)	(17,784)	-	(23,006)
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**2010**

Net settled:

Interest rate swaps	-	-	(4,430)	(21,740)	-	(26,170)
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At 31 December 2011 the Group fair valued the interest rate swaps at a net liability of £23,006,222. The movement of £3,164,208 during the year is included in the Group statement of comprehensive income.

**Financing facilities**

See analysis of borrowings, detailed in note 16.

**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.

## 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 2011 together with the balance sheet of Puma as at 31 December 2011 is provided below and has been prepared in accordance with applicable United Kingdom accounting standards. These are extracted from the audited financial statements of Puma as at 31 December 2011. This additional information does not form part of the audited financial statements and is for information only. The audit report of Puma was not modified, but did draw attention by way of emphasis of matter relating to significant uncertainty over going concern.

#### Puma Hotels plc

#### Consolidated Profit and Loss Account

#### Year ended 31 December 2011

	<b>Year ended 31 December 2011 £'000</b>	<b>Year ended 31 December 2010 £'000</b>
<b>TURNOVER</b>	31,373	30,326
Cost of sales	-	-
	<b>31,373</b>	<b>30,326</b>
<b>GROSS PROFIT</b>		
Other administrative expenses	(3,364)	(3,594)
Administrative expenses - exceptional (Deficit on revaluation of properties)	(168,588)	(386)
Administrative expenses - exceptional (Deficit on revaluation of properties)	(6,920)	-
Total administrative expenses	(178,872)	(3,980)
<b>OPERATING (LOSS)/PROFIT</b>	<b>(147,499)</b>	<b>26,346</b>
Interest receivable and similar income	40	33
Interest payable and similar charges	(27,893)	(25,864)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(175,352)</b>	<b>(515)</b>
Tax on (loss) on ordinary activities	-	-
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	<b>(175,352)</b>	<b>515</b>
<b>RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	<b>(175,352)</b>	<b>515</b>

**Puma Hotels plc**  
**Consolidated and Company Balance Sheet**  
**As at 31 December 2011**

	<b>Group As at 31 December 2011 £'000</b>	<b>Company As at 31 December 2011 £'000</b>	<b>Group As at 31 December 2010 £'000</b>	<b>Company As at 31 December 2010 £'000</b>
<b>FIXED ASSETS</b>				
Intangible assets – goodwill	-	-	7,440	-
Tangible assets	213,500	-	458,321	-
Investments	-	63,618	-	469,668
	<u>213,500</u>	<u>63,618</u>	<u>465,761</u>	<u>469,668</u>
<b>CURRENT ASSETS</b>				
Debtors	2,279	570,203	308	510,662
Cash at bank and in hand	8,440	8,440	9,477	9,477
	<u>10,719</u>	<u>578,643</u>	<u>9,785</u>	<u>520,139</u>
<b>CREDITORS: amounts falling due within one year</b>	<u>(347,691)</u>	<u>(782,320)</u>	<u>(14,121)</u>	<u>(432,028)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	(336,972)	(203,677)	(4,336)	88,111
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	(123,472)	(140,059)	461,425	557,779
<b>CREDITORS: amounts falling due after more than one year</b>	(53,150)	(20,000)	(385,228)	(302,488)
<b>PROVISION FOR LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LIABILITIES/ASSETS</b>	<u>(176,622)</u>	<u>(160,059)</u>	<u>76,197</u>	<u>255,291</u>
<b>CAPITAL AND RESERVES</b>				
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	721	-	78,188	-
Profit and loss account	(211,138)	(193,854)	(35,786)	221,496
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<u>(176,622)</u>	<u>(160,059)</u>	<u>76,197</u>	<u>255,291</u>

**Puma Hotels plc**  
**Consolidated Statement of Total Recognised Gains and Losses**  
**Year ended 31 December 2011**

	<b>Year ended 31 December 2011 £'000</b>	<b>Year ended 31 December 2010 £'000</b>
Profit/ (loss) for the financial period	(175,352)	515
Unrealised (deficit)/surplus on revaluation of properties	<u>(77,467)</u>	<u>(6,544)</u>
<b>Total recognised losses relating to the period</b>	<u>(252,819)</u>	<u>(6,029)</u>

**Puma Hotels plc**  
**Consolidated Cash flow statement**  
**Year ended 31 December 2011**

	<b>Year ended 31 December 2011 £'000</b>	<b>Year ended 31 December 2010 £'000</b>
<b>Net cash inflow from operating activities</b>	<b>24,714</b>	<b>29,939</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	40	33
Interest paid	(24,307)	(26,853)
Interest paid on finance leases	-	-
Dividends paid	-	-
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(24,267)</b>	<b>(26,820)</b>
<b>Taxation</b>		
Corporation tax paid	-	-
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(1,235)	(2,349)
Sale of tangible fixed assets	-	268
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(1,235)</b>	<b>(2,081)</b>
<b>Net cash outflow before financing</b>	<b>(788)</b>	<b>1,038</b>
<b>Financing</b>		
New term loans raised	-	-
Issue of preference share capital	-	-
Term loans repaid	-	-
Bonds repaid	-	-
New term loan issue costs	(249)	(250)
Repayment of principal under finance leases	-	-
<b>Net cash (outflow)/inflow from financing</b>	<b>(249)</b>	<b>(250)</b>
<b>(Decrease)/Increase in cash</b>	<b>(1,037)</b>	<b>788</b>