ORIENT EXPRESS HOTELS LTD
Form 10-K/A
June 13, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-16017

ORIENT-EXPRESS HOTELS LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**98-0223493**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

22 Victoria Street,

Hamilton HM 12, Bermuda

(Address of principal executive offices)

Registrant s telephone number, including area code: **(441) 295-2244**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	**Name of each exchange on which registered**
Class A Common Shares, $0.01 par value each	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yesx No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (Not applicable. See third paragraph under Item 1 Business on page 4 of Form 10-K)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the Class A common shares held by non-affiliates of the registrant computed by reference to the closing price on June 30, 2010 (the last business day of the registrant s second fiscal quarter in 2010) was approximately $757,000,000.

As of June 6, 2011, 102,469,000 Class A common shares and 18,044,478 Class B common shares of the registrant were outstanding. All of the Class B shares are owned by a subsidiary of the registrant (see Note 15(d) to the Financial Statements (Item 8) in Form 10-K).

DOCUMENTS INCORPORATED BY REFERENCE: **None**

EXPLANATORY NOTE

Orient-Express Hotels Ltd. (the registrant) is filing this Amendment No. 1 (the Amendment) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission (SEC) on February 25, 2011 (The Original Filing).

This Amendment is being filed because, pursuant to Rule 3-09 of SEC Regulation S-X, the registrant is required to file audited and unaudited financial statements of Hotel Ritz Madrid S.A. and Perurail S.A., each a 50% owned unconsolidated company. The financial statements of these two unconsolidated companies are filed in this Amendment under Item 15 - Exhibits and Financial Statement Schedules.

Except as described above, no other changes have been made to the Original Filing, and this Form 10-K/A does not amend, update or change any other items or disclosures in the Original Filing. This Form 10-K/A does not reflect events occurring after the Original Filing and, other than providing the financial statements of the two unconsolidated companies named above under Item 15, does not modify or update the disclosures in the Original Filing in any way.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

1. Financial Statements

(a) Hotel Ritz Madrid S.A.

	Page Number
Report of independent registered public accounting firm	4
Financial statements - year ended December 31, 2009:	
Balance sheet (December 31, 2009)	5
Statements of operations	6
Statements of cash flows	7
Statements of shareholders equity	8
Notes to financial statements	9

Also presented are the unaudited balance sheet as at December 31, 2010 and unaudited statements of operations, cash flows and shareholders equity for the year ended December 31, 2010.

(b) Perurail S.A.

	Page Number
Report of independent registered public accounting firm	17
Financial statements - year ended December 31, 2010 and 2009:	
Balance sheet (December 31, 2010 and 2009)	18
Statement of operations	19
Statement of cash flows	20
Statement of shareholders equity	21
Notes to financial statements	22

Also presented are the unaudited statements of operations, cash flows and shareholders equity for the year ended December 31, 2008.

2. Financial Statement Schedule

Incorporated by reference to the financial statement schedule filed with the Original Filing. No additional financial statement schedule is filed with this report on Form 10-K/A.

3. Exhibits

The index to exhibits appears below, on the pages immediately following the signature page to this report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Hotel Ritz Madrid S.A.:

We have audited the accompanying balance sheet of Hotel Ritz Madrid S.A. as of December 31, 2009, and the related statements of operations, shareholders equity and cash flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hotel Ritz Madrid S.A. at December 31, 2009, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1(b) to the financial statements, the Company has suffered recurring losses from operations and is out of compliance with its mortgage loan facility covenants that raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 1(b). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers Auditores, S.L.
Madrid, Spain
June 7, 2010

Hotel Ritz Madrid S.A.

Balance Sheets

	December 31,	
	2010 000 (unaudited)	2009 000
Assets		
Cash and cash equivalents	969	521
Accounts receivable, net of allowances of 91 and 56	1,925	1,533
Prepaid expenses and other	250	87
Inventories	1,714	1,701
Total current assets	4,858	3,842
Property, plant and equipment, net of accumulated depreciation of 17,006 and 15,341	121,992	123,011
Goodwill	4,200	4,200
Trademark	22,000	22,000
Deferred financing costs	1,054	1,134
	154,104	154,187
Liabilities and Shareholders Equity		
Working capital facilities	1,990	2,191
Accounts payable	2,114	2,120
Due to related parties	23,140	15,309
Accrued liabilities	2,558	2,823
Deferred revenue	365	438
Current portion of long-term debt	72,395	75,800
Total current liabilities	102,562	98,681
Long-term debt	609	800
Other liabilities	1,480	1,532
Deferred income taxes	25,960	27,511
	130,611	128,524
Commitments and contingencies		
Shareholders equity:		
Common shares 3.00 par value (20,000 shares authorized):		
Issued 20,000 (2009 20,000)	60	60
Additional paid-in capital	37,235	37,235
Retained earnings	(13,802)	(11,632)
Total shareholders equity	23,493	25,663
	154,104	154,187

The accompanying notes are an integral part of these financial statements.

5

Hotel Ritz Madrid S.A.

Statements of Operations

	Year ended December 31,		
	2010 000 (Unaudited)	2009 000	2008 000
Revenue	23,966	23,127	29,966
Expenses:			
Depreciation	1,779	2,343	2,410
Cost of services	14,819	14,789	17,374
Goodwill impairment loss			7,105
Trademark impairment loss			2,000
Selling, general and administrative	6,478	6,968	6,693
Total expenses	23,076	24,100	35,582
Earnings/(loss) from operations	890	(973)	(5,616)
Interest expense, net	(4,611)	(4,709)	(4,974)
Net finance costs	(4,611)	(4,709)	(4,974)
Loss before income taxes	(3,721)	(5,682)	(10,590)
Benefit from income taxes	1,551	2,189	1,494
Net loss	(2,170)	(3,493)	(9,096)

The accompanying notes are an integral part of these financial statements.

Hotel Ritz Madrid S.A.

Statements of Cash Flows

	Year ended December 31,		
	2010	**2009**	**2008**
	000	**000**	**000**
	(Unaudited)		
Cash flows from operating activities:			
Net loss	(2,170)	(3,493)	(9,096)
Adjustment to reconcile net loss to net cash (used in)/provided by operating activities:			
Depreciation	1,779	2,343	2,410
Amortization of deferred finance costs	80	81	114
Impairment loss			9,105
Loss from disposal of fixed assets	6	52	24
Other non-cash items			14
Change in deferred tax	(1,551)	(2,189)	(1,494)
Change in assets and liabilities:			
(Increase)/decrease in accounts receivable, prepaid expenses and other	(555)	361	863
(Increase)/decrease in inventories	(13)	312	(123)
(Decrease)/increase in accounts payable, accrued liabilities, deferred revenue and other liabilities	(396)	781	200
Total adjustments	(650)	1,741	11,114
Net cash (used in)/provided by operating activities	(2,820)	(1,752)	2,018
Cash flows from investing activities:			
Capital expenditures	(766)	(476)	(1,471)
Net cash used in investing activities	(766)	(476)	(1.471)
Cash flows from financing activities:			
Proceeds from long-term debt		1,000	
Proceeds from shareholder loans	7,831	12,721	
Net proceeds from working capital facilities	(201)	(9,019)	2,646
Principal payments under long-term debt	(3,596)	(3,100)	(2,800)
Net cash provided by/(used in) financing activities	4,034	1,602	(154)
Net increase/(decrease) in cash and cash equivalents	448	(626)	393
Cash and cash equivalents at beginning of year	521	1,147	754
Cash and cash equivalents at end of year	969	521	1,147

The accompanying notes are an integral part of these financial statements.

Hotel Ritz Madrid S.A.

Statements of Shareholders Equity

	Common Shares at Par value 000	Additional Paid-In Capital 000	Retained Earnings 000	Total Comprehensive Income/(Loss) 000
Balance, January 1, 2008 (unaudited)	60	37,235	957	
Comprehensive income:				
Net loss for the year			(9,096)	(9,096)
				(9,096)
Balance, December 31, 2008	60	37,235	(8,139)	
Comprehensive income:				
Net loss for the year			(3,493)	(3,493)
				(3,493)
Balance, December 31, 2009	60	37,235	(11,632)	
Comprehensive income:				
Net loss for the year			(2,170)	(2,170)
				(2,170)
Balance, December 31, 2010 (unaudited)	60	37,235	(13,802)	

The accompanying notes are an integral part of these financial statements.

Hotel Ritz Madrid S.A.

Notes to Financial Statements

1. Summary of significant accounting policies and basis of presentation

(a) Business

In this report Hotel Ritz Madrid SA is referred to as the Company . The Company owns and operates The Hotel Ritz in Madrid, Spain.

The Company is 50% owned indirectly by Orient-Express Hotels Ltd. (OEH) and 50% owned indirectly by Omega Capital S.L. (Omega).

(b) Basis of presentation and liquidity

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect the results of operations, financial position and cash flows of the Company. The financial statements have been prepared using the historical cost basis in the assets and liabilities and the historical results of operations directly attributable to the Company in the normal course of business.

As noted in Note 6, at December 31, 2010 and 2009, the Company was out of compliance with a loan to value ratio and debt service coverage ratio in its first mortgage loan facility. A total of 72,200,000 (unaudited) had been borrowed under this loan facility at December 31, 2010. The Company continues to service fully the interest and principal repayments as these fall due, including a principal repayment of 3,700,000 (unaudited) in April 2011 and is continuing to negotiate with the lender to determine how to bring the Company back into compliance. Although the loan is otherwise non-recourse to and not credit-supported by OEH and Omega, they have provided separate partial guarantees of 7,500,000 each based on respective ownership percentages as of December 31, 2010 to obtain a covenant waiver from the lender.

The risk that the Company may not successfully complete this renegotiation with the lender and obtain the related amendment of certain financial covenants included in the loan facility, and/or the risk that the Company may not have adequate liquidity to fund its operations as a result of not meeting its projected financial results, even if the renegotiation is completed, raise substantial doubt about the Company s ability to continue as a going concern.

During 2009, 2010 and 2011, the Company has taken steps to reduce its operating and selling, general and administrative expenses. In addition, the Company is developing renovation plans that should enhance future revenue growth. Management believes these actions will enable the Company to improve its future profitability. While these activities are on-going, shareholders continue to provide participative loan financing as necessary to support the operations of the Company. As a result, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of

the Company s ability to continue as a going concern.

FASB means Financial Accounting Standards Board. ASC means the Accounting Standards Codification of the FASB and ASU means an Accounting Standards Update of the FASB.

(c) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly-liquid investments having original maturities of three months or less.

(d) Foreign currency

The functional currency of the Company is Euros which is also the local currency and reporting currency of the Company. Foreign currency transaction gains and losses are recognized in earnings as they occur.

(e) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the allowance for doubtful accounts, valuation of intangible assets and goodwill, depreciation and amortization, taxes and contingencies. Actual results could differ materially from management s estimates.

(f) Accounts receivable

The Company states its accounts receivable at their estimated net realizable value. The Company maintains allowance for doubtful accounts for specifically identified estimated losses resulting from the inability of its customers to make required payments.

(g) Deferred financing costs

Debt issuance costs incurred in connection with the placement of long-term debt are capitalized and amortized to interest expense over the lives of the related debt.

(h) Revenue recognition

Hotel and restaurant revenue is recognized when the rooms are occupied and the services are performed. Deferred revenue consisting of deposits paid in advance is recognized as revenue when the services are performed.

(i) Marketing costs

Marketing costs are expensed as incurred and are reported in selling, general and administrative expenses. Marketing costs include costs of advertising and other marketing activities. These costs were 1,003,500 (unaudited) in 2010 (2009- 836,500; 2008- 1,164,000).

(j) Interest expense, net

The Company capitalizes interest during the construction of assets. Interest expense, net excludes interest which has been capitalized in the amount of 136,000 (unaudited) in 2010 (2009- 136,000; 2008- 119,000).

(k) Income taxes

The Company accounts for income taxes in accordance with ASC 740 Income Taxes . The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and to recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company s financial statements or tax returns.

Current and deferred tax assets and liabilities are recognized for estimated taxes payable or refundable due to temporary differences and carryforwards. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment is used in considering the relative impact of negative and positive evidence.

ASC 740-20 requires that any liability created for unrecognized tax benefits is disclosed. The application of ASC 740-20 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets. The Company would recognize interest and penalties related to unrecognized tax benefits in provision for income taxes. At December 31, 2010 (unaudited) and 2009, respectively, the Company did not record any liabilities for uncertain tax positions.

(l) Inventories

Inventories include food, beverages, certain operating stocks and retail goods. Inventories are valued at the lower of cost or market value under the first-in, first-out method.

(m) Property, plant and equipment, net

Property, plant and equipment, net are stated at cost less accumulated depreciation. The cost of significant renewals and betterments is capitalized and depreciated, while expenditures for normal maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Description	**Useful lives**
Building	Up to 40 years
Machinery and equipment	5 to 25 years
Furniture, fixtures and equipment	5 to 15 years

Art and certain antiques are not depreciated.

(n) *Impairment of long-lived assets*

In accordance with ASC 360-10-35 Impairment or Disposal of Long-Lived Assets-Subsequent Measurement , the Company s management reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the event that an impairment occurs, the Company records a charge to income calculated as the excess of the asset s carrying value over the estimated fair value.

(o) *Goodwill*

In accordance with ASC 350 Intangibles-Goodwill and Other , goodwill must be evaluated at least annually to determine impairment. Goodwill is not amortized. The goodwill impairment testing under ASC 350 is performed in two steps, first, the determination of impairment based upon the fair value of a reporting unit as compared with its carrying value and, second, if there is an implied impairment, the measurement of the amount of impairment loss is determined by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Impairment testing is performed annually at year end. Other intangible assets with indefinite useful lives are also reviewed for impairment in accordance with ASC 350. During 2010, no impairment losses (unaudited) relating to goodwill have been identified or recorded (2009- nil; 2008- 7,105,000) (see Note 3).

(p) *Trademark*

Trademark has indefinite useful life and is reviewed annually for impairment in accordance with ASC 350 Intangibles-Goodwill and Other . During 2010, no impairment losses (unaudited) relating to the trademark have been identified or recorded (2009- nil; 2008- 2,000,000) (see Note 4).

(q) *Concentration of credit risk*

Due to the nature of the leisure industry, concentration of credit risk with respect to trade receivables is limited. The Company s customer base is comprised of numerous customers across different geographic areas.

(r) *Other liabilities*

Other liabilities consist of provision for severance payments that are due to be paid to certain employees on their retirement according to local legislation. Employees who are at least 50 years old and worked for the Company for at least 10 years are entitled to receive a lump-sum payment when they leave employment with the Company. The provision is recorded based on the information about staff ages, years of service and history of staff turnover in the Company.

(s) Risks and uncertainties

The Company s future operating results are subject to a number of risks, including, but not limited to, competition, competitive pricing pressures, economic slowdowns, the Company s ability to sustain and manage growth and the Company s ability to attract and retain key personnel.

The Company s primary financial market exposure related to changes in interest rates.

(t) Subsequent events

For the year ended December 31, 2010, the Company has evaluated subsequent events for potential recognition and disclosure through June 7, 2011, the date of financial statement issuance.

(u) Recent accounting pronouncements

In January 2010, the FASB issued an amendment to the accounting for fair value measurements and disclosures requiring a gross presentation of changes within Level 3 valuations period to period as a rollforward, and adding a new requirement to disclose transfers in and out of Level 1 and Level 2 measurements. The new disclosures apply to all entities that report recurring and nonrecurring fair value measurements. This amendment is effective in the first interim reporting period beginning after December 15, 2009, with an exception for the gross presentation of Level 3 rollforward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. The Company s adoption of the provisions of this amendment during 2010 did not have a material impact on the Company s financial statement disclosures.

The Company is considering the guidance issued by the FASB in October 2009 that amends the accounting for revenue recognition on multiple-deliverable revenue arrangements. Specifically, the guidance addresses the unit of accounting for arrangements involving multiple deliverables. It also addresses how arrangement consideration should be allocated to the separate units of accounting, when applicable. The adoption of the provisions of this amendment is required for fiscal years beginning on or after June 15, 2010, and is not expected to have a material impact on the Company s financial statements.

In December 2010, the FASB issued guidance concerning the performance of the second step of goodwill impairment testing, namely measurement of the amount of an impairment loss. The ASU amends the criteria for performing the second step for reporting units with zero or negative carrying amounts and requires performing the second step if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The Company will adopt ASU 2010-28 for impairment tests performed in periods beginning after December 15, 2010, and is currently evaluating the impact of this adoption of the ASU on its financial statements.

2. Property, plant and equipment, net

The major classes of property, plant and equipment are as follows:

	December 31,	
	2010 000 (unaudited)	2009 000
Building	129,820	129,820
Machinery and equipment	4,095	3,922
Fixtures, fittings and office equipment	5,083	4,610
	138,998	138,352
Less: accumulated depreciation	(17,006)	(15,341)
	121,992	123,011

In July 2010, a fire at Hotel Ritz Madrid caused damage to the kitchen and bedrooms, resulting in the closure of the hotel for four days. Initial insurance proceeds associated with business interruption of 297,000 (unaudited) were received in December 2010 and were recorded within revenue. Additional proceeds of 310,000 (unaudited) were received in May 2011.

3. Goodwill

During 2010 (unaudited) and 2009, the Company did not have any goodwill impairment charges as part of its annual impairment testing as of December 31, 2010 and December 31, 2009, respectively. Under the first step of the 2010 and 2009 testing, the fair value of the reporting unit was approximately 5% in excess of its carrying value. There is no guarantee that the Company´s business will achieve the forecasted results which have been included in its impairment analysis due to the impact of the economic downturn in the Spanish market. If the Company is unable to meet these forecasted results in future reporting periods, the Company may be required to record a charge in a future statement of operations for goodwill impairment charges.

The gross goodwill amount at January 1, 2010 was 4,200,000 (unaudited) (January 1, 2009- 4,200,000) and the accumulated impairment at that date was 7,105,000 (unaudited) (2009- 7,105,000).

The Company s goodwill impairment testing is performed in two steps: first, the determination of impairment based upon the fair value of the reporting unit as compared with its carrying value and, second, if there is an implied impairment, the measurement of the amount of the impairment loss is determined by comparing the implied fair value of goodwill with the carrying value of the goodwill. If the carrying value of the reporting unit s goodwill exceeds its implied fair value, the goodwill is deemed to be impaired and is written down to the extent of the difference.

The determination of the impairment incorporates various assumptions and uncertainties that the Company believes are reasonable and supportable considering all available evidence, such as the future cash flows of the business, future growth rates and the related discount rate. However, these assumptions and uncertainties are, by their very nature, highly judgmental.

During 2008, due to the downturn in the economy the Company identified and recorded goodwill impairment loss in the amount of 7,105,000.

4. Trademark

There were no changes in the carrying amount of the trademark (an unamortized intangible asset) of 22,000,000 for the years ended December 31, 2010 (unaudited) and 2009.

The Company s trademark asset was reviewed for impairment by comparing its carrying value with the fair value. An impairment loss of 2,000,000 was identified and recorded as at December 31, 2008. The fair value was estimated based on expected future cash flows, growth rates and discount rates which were lower than in previous years due to the downturn in the market that occurred over the last few months of 2008.

5. Working capital facilities

Working capital facilities are composed of the following, all repayable within one year:

	December 31,	
	2010	**2009**
	000	**000**
	(unaudited)	
Unsecured working capital facilities, with a weighted average annual interest rate of 2.59% and 3.28%, respectively	1,990	2,191

The Company had a 2,000,000 (unaudited) working capital line of credit at December 31, 2010 (2009- 3,000,000) issued by one financial institution and having an expiration date of April 9, 2011, of which 10,000 (unaudited) was undrawn (2009- 809,000). The working capital line has been renewed until April 2012 under the same terms and conditions. OEH and Omega each guaranteed, until April 2010, 1,500,000 and, as from May 2010 until April 2011, 1,000,000 (unaudited) of this working capital facility of the Company. These guarantees were also renewed until April 2012 under the same terms and conditions.

6. Long-term debt

Long-term debt consists of the following:

	December 31,	
	2010	**2009**
	000	**000**
	(unaudited)	
Loans from banks collateralized by property, plant and equipment payable over periods of 1 to 14 years, with a weighted average annual interest rate of 5.5% and 5.5%, respectively	72,200	75,600
Loans from governmental financial institution payable over 4 years, with a weighted average annual interest rate of 1.5%	804	1,000
	73,004	76,600
Less: current portion	(72,395)	(75,800)
	609	800

In July 2009, the Company borrowed 1,000,000 from a governmental financial institution (Instituto de Crédito Oficial) at a fixed rate of 1.5% and with semi-annual installments and a final payment in July 2014.

At December 31, 2010 and 2009, the Company was out of compliance with a loan to value ratio and a debt service coverage ratio in its first mortgage loan facility. A total of 72,200,000 (unaudited) had been borrowed under this loan facility at December 31, 2010. The Company continues to service fully the interest and principal repayments as these fall due, including a principal repayment of 3,700,000 (unaudited) in April 2011, and is continuing to negotiate with the lender to determine how to bring the Company back into compliance. No assurances can be given that the Company will be successful in completing these negotiations and therefore the 72,200,000 (unaudited) borrowings have been shown in the current portion of long-term debt. Although the loan is otherwise non-recourse to and not credit-supported by OEH and Omega, they have provided separate guarantees of 7,500,000 each of principal repayments and payment of interest as of December 31, 2010 to obtain a covenant waiver from the lender.

The following is a summary of the aggregate maturities of long-term debt at December 31, 2010:

Year ending December 31,	**(unaudited) 000**
2011	72,200
2012	195
2013	200
2015	203
2015 and thereafter	206
	73,004

7. Other liabilities

Other liabilities at December 31, 2010 amount to 1,480,000 (unaudited) (2009- 1,532,000) relating to deferred retirement benefit obligations of the Company. There are no assets to be disclosed.

8. Income taxes

The provision for income taxes consists of the following:

	Year ended December 31,		
	2010 000 (unaudited)	2009 000	2008 000
Pre-tax loss			
Spain	(3,721)	(5,682)	(10,590)
Current tax			
Spain			
Deferred tax credit			
Spain	1,551	2,189	1,494

No income taxes were paid during 2010, 2009 and 2008.

The reconciliations of the Spanish income tax rate to the Company s effective tax rate for the three years ended December 31, 2010 are as follows:

	Year ended December 31,		
	2010 % (unaudited)	2009 %	2008 %
Spanish income tax rate	30	30	30
Permanent difference relating to goodwill impairment	12	10	(16)
Other permanent differences		(1)	
Effective tax rate	42	39	14

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following represents the Company s net deferred tax liabilities:

	December 31,	
	2010 000 (unaudited)	2009 000
Gross deferred tax assets:		
Operating loss carryforwards	6,775	5,292
Employee retirement provision	444	460
Less: valuation allowance		

Net deferred tax assets	7,219	5,752
Deferred tax liabilities (depreciation and amortization)	(33,179)	(33,263)
Net deferred tax liabilities	(25,960)	(27,511)

The deferred tax assets consist primarily of tax loss carryforwards. The gross amount of tax loss carryforwards is 22,582,000. Of this amount, nil will expire in the five years ending December 31, 2015, 6,777,000 will expire in the five years ending December 31, 2020, and 15,805,000 will expire in the five years ended December 31, 2025. No valuation allowance has been provided against gross deferred tax assets as we expect to recover the full value of our tax assets.

The deferred tax liabilities consist primarily of differences between the tax basis of depreciable assets and the adjusted basis as reflected in the financial statements.

9. Supplemental cash flow information

	Year ended December 31,		
	2010	**2009**	**2008**
	000	**000**	**000**
	(unaudited)		
Cash paid for:			
Interest	4,139	4,717	4,913

10. Shareholders equity

(a) Share capital and additional-paid in capital

At December 31, 2010, the Company s share capital consisted of 20,000 fully subscribed and paid shares with a par value of three euros each, all carrying the same rights. The additional paid-in capital amounts to 37,235,000 (unaudited) and is a distributable reserve, except an amount of 3,000,000 at December 31, 2010 (unaudited) (2009- 1,500,000) which is non-distributable under Spanish Law.

The shareholders of the Company are as follows:

	No. of shares	Percent of ownership
Orient-Express Spanish Holding, S.L.	9,995	49.98
Landis Inversiones S.L.	9,995	49.98
Other	10	0.04
	20,000	100.00

Landis Inversiones S.L. is a wholly-owned subsidiary of Omega Capital S.L.

(b) Retained earnings

Within retained earnings there is an amount of 3,202,000 at December 31, 2010 (unaudited) (2009- 3,202,000) which is non-distributable under Spanish Law.

11. Commitments and contingencies

Outstanding contracts to purchase fixed assets were approximately nil at December 31, 2010 (unaudited) (2009- nil). There are no operating leases.

12. Other comprehensive (loss)/income

The components of comprehensive loss are as follows:

	Year ended December 31, 2010 000 (unaudited)	2009 000	2008 000
Net loss	(2,170)	(3,493)	(9,096)
Comprehensive loss	(2,170)	(3,493)	(9,096)

13. Fair value

Certain methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and working capital facilities approximates fair value because of the short maturity of those instruments. The fair value of debt is calculated by discounting back future interest and principal payments using a discount factor which reflects the Company s current credit metrics. This factor is derived from credit analysis using inputs such as profit, cash generation, and level of debt.

The estimated fair values of the Company s financial instruments as of December 31, 2010 and 2009 are as follows:

December 31, 2010 (unaudited)	Carrying amount 000	Fair value 000
Cash and cash equivalents	969	969
Accounts receivable	1,924	1,924
Working capital facilities	1,990	1,990
Accounts payable	2,113	2,113
Accrued liabilities	2,557	2,557
Long-term debt, including current portion	73,004	62,970

December 31, 2009	Carrying amount 000	Fair value 000
Cash and cash equivalents	521	521
Accounts receivable	1,533	1,533
Working capital facilities	2,191	2,191
Accounts payable	2,120	2,120
Accrued liabilities	2,823	2,823
Long-term debt, including current portion	76,600	58,866

The carrying values of non-financial assets that are measured on a non-recurring basis approximate their fair values.

14. Related party transactions

OEH holds an indirect 50% interest in the Company accounted for under the equity method. For the year ended December 31, 2010, OEH earned 719,000 (unaudited) (2009- 694,000; 2008- 883,000) in management fees, which are included in the Company s selling, general and administrative expenses. The amount due to OEH from the Company at December 31, 2010 was 11,630,000 (unaudited) (2009- 7,380,000), with the increase primarily due to OEH providing participative loans to the Company in 2010 of 3,821,000 (unaudited) (2009- 6,100,000) to fund operations in 2010, at an interest rate of 3.05% with an original maturity in April 2010 and subject to automatic renewal for additional periods as necessary.

The amount due to Omega from the Company at December 31, 2010 was 11,510,000 (unaudited) (2009- 7,926,000), with the increase due to Omega providing participative loans to the Company in 2010 of 3,300,000 (unaudited) (2009- 6,621,000) to fund operations in 2010, at an interest rate of 3.05% with an original maturity in April 2010 and subject to automatic renewal for additional periods as necessary.

OEH and Omega have provided separate partial guarantees of 7,500,000 each as of December 31, 2010 to obtain a covenant waiver from a third party lender which provides an otherwise non-recourse first mortgage loan facility to the Company.

In July 2009, the Company entered into a restructuring plan involving certain employees. All the employees took their cases to court. As of December 31, 2009, several of the cases had been resolved and the remaining ones were scheduled for a hearing in February 2010. In February 2010, the Company settled with the Union (cancelling all court hearings) and agreed the employment status of several of the employees and signed voluntary agreements with the remaining employees to leave employment with the Company.

BDO Pazos, López de Romaña, Rodriguez S.C.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Perurail S.A.

We have audited the accompanying balance sheets of Perurail S.A. as of December 31, 2010 and 2009, and the related statements of operations, cash flows and shareholders equity for the years then ended. These financial statements are the responsibility of the Company´s management. Our responsability is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perurail S.A. at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Pazos, López de Romaña, Rodriguez S.C.
Lima, Peru
May 20, 2011

Countersigned by:

/s/ MANUEL PAZOS VÉLEZ
Manuel Pazos Vélez
Certified Chartered Public Accountant
Register No. 01-05095

Perurail S.A.

Balance Sheets

	December 31,	
	2010	**2009**
	$ 000	**$ 000**
Assets		
Cash and cash equivalents	3,340	3,377
Accounts receivable, net of allowances of $nil and $nil	5,530	4,713
Due from related parties	8,020	2,758
Prepaid expenses	1,218	1,042
Inventories	5,736	6,645
Total current assets	23,844	18,535
Deferred employees profit sharing, net		
Property, plant and equipment, net of accumulated depreciation of $8,872 and $6,273	31,028	29,023
Intangibles, net	190	215
	55,062	47,773
Liabilities and Shareholders Equity		
Working capital facilities	3,570	4,855
Accounts payable	4,172	2,892
Accrued liabilities	4,979	2,309
Current portion of long-term debt	2,069	2,013
Total current liabilities	14,790	12,069
Long-term debt	3,264	5,333
Deferred employees profit sharing, net		2
Deferred tax liability, net	5,270	4,439
	23,324	21,843
Commitments and contingencies		
Shareholders equity:		
Common shares S/1.00 par value (20,000,000 shares authorized) Issued - 20,000,000 (2009 - 20,000,000)	6,684	6,684
Legal reserve	821	14
Retained earnings	24,233	19,232
Total shareholders equity	31,738	25,930
	55,062	47,773

The accompanying notes are an integral part of these financial statements.

Perurail S.A.

Statements of Operations

	Year ended December 31,		
	2010	**2009**	**2008**
	$ 000	**$ 000**	**$ 000**
			(unaudited)
Revenue	53,218	63,509	70,187
Expenses:			
Cost of services	(31,887)	(35,204)	(39,611)
Depreciation and amortization	(2,739)	(1,820)	(1,701)
Selling, general and administrative	(10,350)	(10,536)	(11,725)
Total expenses	(44,976)	(47,560)	(53,037)
Gain on insurance settlement	646		
(Loss)/gain on disposal of fixed assets	(211)	149	(12)
Earnings from operations	8,677	16,098	17,138
Interest expense, net	(684)	(1,031)	(906)
Foreign currency	67	429	(660)
Net finance costs	(617)	(602)	(1,566)
Earnings before income tax	8,060	15,496	15,572
Provision for income taxes	(2,252)	(4,102)	(5,817)
Net earnings	5,808	11,394	9,755

The accompanying notes are an integral part of these financial statements.

Perurail S.A.

Statements of Cash Flows

	Year ended December 31,		
		Restated(1)	Restated(1)
	2010 $ 000	2009 $ 000	2008 $ 000 (unaudited)
Cash flows from operating activities:			
Net earnings	5,808	11,394	9,755
Adjustment to reconcile net earnings to net cash provided by operating activities:			
Depreciation	2,694	1,778	1,675
Amortization	45	42	26
Loss/(gain) on disposal of fixed assets	211	(149)	12
Change in deferred tax	831	1,400	672
(Decrease)/increase in employees profit sharing	(2)	20	(4)
Change in allowance for doubtful accounts		(1)	(21)
Change in assets and liabilities:			
(Increase)/decrease in accounts receivable	(817)	(394)	3,772
Decrease/(increase) in inventories	909	(1,974)	(1,207)
(Increase)/decrease in prepaid expenses	(176)	367	(943)
Increase/(decrease) of accounts payable	1,280	(785)	1,488
Increase/(decrease) in accrued liabilities	2,670	(2,462)	(2,216)
Increase in due from related parties	(5,262)	(89)	(724)
Total adjustments	2,383	(2,247)	2,530
Net cash provided by operating activities	8,191	9,147	12,285
Cash flows from investing activities:			
Proceeds from disposal of fixed assets		460	
Capital expenditures	(4,930)	(7,089)	(6,314)
Net cash used in investing activities	(4,930)	(6,629)	(6,314)
Cash flows from financing activities:			
Payment of dividends		(4,800)	(6,360)
Net proceeds from working capital facilities	(1,285)	3,987	348
Principal payments under long-term debt	(2,013)	(1,617)	(1,281)
Proceeds from long-term debt		73	2,267
Net cash used in financing activities	(3,298)	(2,357)	(5,026)
Net (decrease)/increase in cash and cash equivalents	(37)	161	945
Cash and cash equivalents at beginning of year	3,377	3,216	2,271
Cash and cash equivalents at end of year	3,340	3,377	3,216

(1) Net earnings, change in deferred tax, (increase)/decrease in accounts receivable, increase/(decrease) in accrued liabilities and increase in due from related parties for the years ended December 31, 2009 and 2008 have been restated. See Note 15.

The accompanying notes are an integral part of these financial statements.

Perurail S.A.

Statements of Shareholders Equity

	Common Shares at Par value $ 000	Legal reserve $ 000	Retained Earnings $ 000	Total Comprehensive Income/(Loss) $ 000
Balance, January 1, 2008 (unaudited)	59	14	15,868	
Dividends			(6,360)	
Net earnings			9,755	9,755
				9,755
Balance, December 31, 2008 (unaudited)	59	14	19,263	
Capitalization	6,625		(6,625)	
Dividends			(4,800)	
Net earnings			11,394	11,394
				11,394
Balance, December 31, 2009	6,684	14	19,232	
Legal Reserve		807	(807)	
Net earnings			5,808	5,808
				5,808
Balance, December 31, 2010	6,684	821	24,233	

The accompanying notes are an integral part of these financial statements.

Perurail S.A.

Notes to Financial Statements

1. Summary of significant accounting policies and basis of presentation

(a) Business

Perurail S.A. (hereinafter the Company) was incorporated in the city of Lima, Peru in 1999.

The Company is 50% owned by Orient-Express Hotels Ltd. (OEH) incorporated in Bermuda, and 50% owned by Peruvian Trains & Railways S.A. incorporated in Peru.

Its headquarters and registered address are located at Av. Alcanfores # 775, District of Miraflores, Department of Lima.

The purpose of the Company is the operation of passenger and freight transport by rail, as well as ground cargo transport services for the Cerro Verde mine.

In order to perform its corporate purpose, in August 2000 the Company entered a lease with Ferrocarril Transandino S.A. by which the Company was granted access to and use of the tracks, locomotives, coaches, wagons, machine shops and parts of the train stations of the South and South-East Railways operated by Ferrocarril Transandino S.A. Under this contract, various rates are established and payable for the use of locomotives, coaches and wagons based on traveled kilometers, which are settled on a monthly basis.

In January 2010, heavy rains caused floods that destroyed various sections of the railway on the Cuzco-Machu Picchu route. As a result, the Company could not operate on this route for approximately three months while repairs were carried out. Management claimed under the Company s insurance for the costs of repairs and the disruption of the Company s business. In October 2010, the Company received settlement of outstanding insurance claims and recognized a gain of $646,000 related to business interruption insurance.

(b) Basis for the presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect the results of operations, financial position and cash flows of the Company. The financial statements have been prepared using the historical cost basis in the assets and liabilities and the historical results of operations directly attributable to the Company in the

normal course of business.

FASB means Financial Accounting Standards Board. ASC means the Accounting Standards Codification of the FASB and ASU means an Accounting Standards Update of the FASB.

(c) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the allowance for doubtful accounts, allowance on devaluation of various supplies, valuation of fixed assets, depreciation, taxes and contingencies. Actual results could differ materially from management s estimates.

(d) Foreign currency

The functional currency of the Company is the US Dollar which is also the reporting currency of the Company. The local currency is Nuevos Soles. Foreign currency transaction gains and losses are recognized in earnings as they occur.

(e) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly-liquid investments having original maturities of three months or less.

(f) Accounts receivable and allowance for doubtful accounts

The Company states its accounts receivable at their estimated net realizable value. The Company maintains allowance for doubtful accounts for specifically identified estimated losses resulting from the inability of its customers to make required payments.

(g) Inventories

Inventories include supplies for minor maintenance of fixed assets. Inventories are valued at the lower of cost or market value under the average cost method.

22

(h) Income taxes

Current portion of income tax

Income tax for the current period is measured at the amount expected to be paid to the taxation authorities. The rates and laws used to compute the amount are those in force as of the balance sheet date.

Deferred portion of income tax

Deferred income taxes are provided using the balance sheet method on temporary differences at the balance sheet date between the tax and book bases of assets and liabilities.

All deductible temporary differences and loss carryforwards generate the recognition of deferred tax assets to the extent that it is probable that they can be used in calculating taxable income in future years. Deferred income tax is recognized for all deductible temporary differences and tax loss carryforwards, to the extent that is more likely than not that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The carrying amount of the deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred asset to be utilized. Unrecognized deferred assets are reassessed at each balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

ASC 740-20 Income Taxes requires that any liability created for unrecognized tax benefits is disclosed. The application of ASC 740-20 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets. The Company would recognize interest and penalties related to unrecognized tax benefits in provision for income taxes. At December 31, 2010 and 2009, the Company did not record any liabilities for uncertain tax positions.

(i) Property, plant and equipment, net

Property, plant and equipment, net are stated at cost less accumulated depreciation. The cost of significant renewals and betterments is capitalized and depreciated, while expenditures for normal maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Installations	33 years
Machinery and equipment	10 years
Transport units	5 years
Improvements to locomotive and rolling stock assets under lease	26 years
Owned locomotives and rolling stock	26 years
Furniture and fixtures	10 years
Computer equipment	4 years
Operating assets	10 years

(j) Intangibles, net

Software costs are recorded under assets and classified as intangibles if such costs are not part of the related hardware. Software is amortized using the straight-line method.

Amortization expense is computed using the straight-line method over the following estimated useful lives:

Logo and trademarks	30 years
Software and licenses	4 years

(k) Impairment of long-lived assets

The Company s management evaluates the carrying value of long-lived assets for impairment by comparing the expected undiscounted future cash flows of the assets to the net book value of the assets if certain trigger events occur. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value is charged to current earnings. Fair value is based upon discounted cash flows of the assets at a rate deemed reasonable for the type of asset and prevailing market conditions, sales of similar assets, appraisals and, if appropriate, current estimated net sales proceeds from pending offers. The Company evaluates the carrying value of its long-lived assets based on its plans, at the time, for such assets and such qualitative factors as future development in the surrounding area, status of expected local competition and projected incremental income from renovations. Changes to the Company s plans, including a decision to dispose of or change the intended use of an asset, can have a material impact on the carrying value of the asset.

(l) Financial leasing

For financial leasing transactions, the method used consists of showing under fixed assets the total cost of the contract and its corresponding liability. Financial expenses are charged to operations in the period in which they become due, and depreciation of assets is charged to operations based on their useful life.

(m) Employees length of service compensation

The provision for employees length of service compensation included under taxes and other accounts payable is charged to operations as the compensation becomes due.

(n) Revenue recognition

Passenger transport revenue includes ticket revenue that is recognized when the related services are provided. Rail freight and cargo revenues are recognized when the freight and cargo reaches its destination. Ground cargo transport services revenues are recognized on a fixed fee basis per month, plus variable fees per ton transported when the services are provided. Revenues are presented net of taxes collected from customers and remitted to governmental authorities.

Revenues in providing these services are recognized, as appropriate, when:

1. The amount of revenues can be reliably quantified;

2. The transaction-related economic benefits are likely to flow to the Company;

3. The degree of completion of the transaction, on the date of the balance, can be reliably quantified; and

4. The costs incurred in providing the services, as well as those still to be incurred until completed, can be reliably quantified.

Deferred revenue includes all ticket revenue for tickets sold, but the related services have not yet been provided.

(o) Interest expense, net

The Company capitalizes interest during the construction of assets. There was no capitalized interest in 2010, 2009 and 2008.

(p) Deferred financing costs

Debt issuance costs incurred in connection with the placement of long-term debt are capitalized and amortized to interest expense over the term of the related debt.

(q) Risk and uncertainties

The Company s activities expose it to a variety of financial risks: market risks (including interest rate risk and exchange risk), credit risk, and liquidity risk. The Company s risk management program tries to minimize the potential adverse effects on its financial performance. Management is aware of the market conditions and, based on its knowledge and experience, controls the exchange, interest rate, credit and liquidity risks, following the policies approved by the Board of Directors. The most important aspects of these risks are:

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations at their maturity at a fair value. The Company controls the required liquidity through a proper management of asset and liability maturity dates, so that the flow of cash matches future payments.

Credit risk

The Company s financial assets that are potentially exposed to concentration of credit risk are mainly trade accounts receivable, accounts receivable from related parties and from shareholders, and various accounts receivable.

Interest rate risk

The Company´s exposure to this risk arises from changes in the interest rates in its financial assets and liabilities. The Company keeps mainly long-term debt subject to a floating interest rate. Management does not expect to incur significant losses due to interest rate risk.

Exchange risk

The Company carries out its transactions mostly in foreign currency, but management estimates that any fluctuation will not adversely affect the results of the Company s operations.

(r) Employee profit sharing

In accordance with Peruvian law, employee profit sharing is limited to 18 times an employee s monthly average salary. The excess of calculated statutory employee profit sharing is paid to the Peruvian government and is treated as an additional tax. The Company s practice is to recognize the employee profit sharing as part of operating cost and any excess profit sharing is recognized as part of current income tax. The Company has a 5% rate for calculating employee profit sharing. To date, no excess profit sharing has been recognized.

(s) Recent accounting pronouncements

In January 2010, the FASB issued an amendment to the accounting for fair value measurements and disclosures requiring a gross presentation of changes within Level 3 valuations period to period as a rollforward, and adding a new requirement to disclose transfers in and out of Level 1 and Level 2 measurements. The new disclosures apply to all entities that report recurring and nonrecurring fair value measurements. This amendment is effective in the first interim reporting period beginning after December 15, 2009, with an exception for the gross presentation of Level 3 rollforward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. The Company s adoption of the provisions of this amendment during 2010 did not have a material impact on the Company s financial statement disclosures.

The Company is considering the guidance issued by the FASB in October 2009 that amends the accounting for revenue recognition on multiple-deliverable revenue arrangements. Specifically, the guidance addresses the unit of accounting for arrangements involving multiple deliverables. It also addresses how arrangement consideration should be allocated to the separate units of accounting, when applicable. The adoption of the provisions of this amendment is required for fiscal years beginning on or after June 15, 2010, and is not expected to have a material impact on the Company s financial statements.

2. Property, plant and equipment, net

The major classes of property, plant and equipment are as follows:

	December 31,	
	2010 $ 000	2009 $ 000
Land	437	437
Installations	653	465
Machinery and equipment	1,418	925
Transport units	2,404	2,500
Improvements to locomotive and rolling stock assets under lease	26,599	22,289
Owned locomotives and rolling stock	3,221	3,221
Furniture and fixtures	3,068	2,864
Works in progress	2,100	2,595
Less: accumulated depreciation	(8,872)	(6,273)
	31,028	29,023

The major classes of assets under capital leases included above are as follows:

	December 31,	
	2010 $ 000	2009 $ 000
Locomotives and rolling stock	2,340	2,340

Less: accumulated depreciation	(173)	(82)
	2,167	2,258

3. Intangibles, net

Intangibles consist of the following as of December 31, 2010 and 2009:

	Year ended December 31, 2010		
	Logo and trademarks $ 000	Software and licenses $ 000	Total $ 000
Carrying amount:			
Balance as of January 1, 2010	122	266	388
Additions		20	20
Transfers			
Balance as at December 31, 2010	122	286	408
Accumulated amortization:			
Balance as of January 1, 2010	38	135	173
Charge for the period	4	41	45
Balance as at December 31, 2010	42	176	218
Net book value:			
As at December 31, 2009	84	131	215
As at December 31, 2010	80	110	190

	Year ended December 31, 2009		
	Logo and trademarks $ 000	Software and licenses $ 000	Total $ 000
Carrying amount:			
Balance as of January 1, 2009	122	159	281
Additions		63	63
Transfers		44	44
Balance as at December 31, 2009	122	266	388
Accumulated amortization:			
Balance as of January 1, 2009	34	97	131
Charge for the period	4	38	42
Balance as at December 31, 2009	38	135	173
Net book value:			
As at December 31, 2008	88	62	150
As at December 31, 2009	84	131	215

Amortization expense for the year ended December 31, 2010 was $45,000 (2009-$42,000; 2008-$26,000 (unaudited)).

Estimated amortization expense for each of the years 2011 to 2015 is $45,000.

4. Working capital facilities

Working capital facilities are composed of the following, all repayable within one year:

	December 31, 2010 $ 000	2009 $ 000
Working capital facilities	3,570	4,855

Bank loans accrue an annual average interest rate of 4.95% (2009-3.7%).

The Company had approximately $5,900,000 of working capital lines of credit at December 31, 2010 (2009-$5,215,000) issued by various financial institutions and having various expiration dates, of which $2,330,000 was undrawn (2009-$360,000).

5. Accrued liabilities and deferred revenue

A breakdown of accrued liabilities and deferred revenue is as follows:

	December 31, 2010 $ 000	December 31, 2009 $ 000
Value added tax	173	
Other taxes	309	176
Employees length of service compensation	80	67
Vacation payable	424	348
Remuneration and profit sharing payable	717	1,093
Advance payments received from passengers	524	427
Deferred revenue	1,203	
Provision for purchases and services	1,236	198
Other accounts payable	313	
	4,979	2,309

6. Long-term debt, obligations under capital lease and fair value disclosures

(a) Long-term debt

Long-term debt consists of the following:

	December 31, 2010 $ 000	December 31, 2009 $ 000
Loans from banks collateralized by property, plant and equipment payable over periods of 1 to 5 years, with a weighted average interest rate of 4.07% and 6.29%, respectively.	4,100	5,362
Obligations under capital lease (see Note 6(b))	1,233	1,984
	5,333	7,346
Less: current portion	2,069	2,013
	3,264	5,333

Deferred financing costs related to the above outstanding long-term debt were $124,529 at December 31, 2010 (2009-$161,400) and are amortized to interest expense over the term of the corresponding long-term debt.

The following is a summary of the aggregate maturities of long-term debt excluding obligations under capital leases at December 31, 2010:

Year ending December 31,	**$ 000**
2011	1,262
2012	1,262
2013	1,262
2014	314
	4,100

(b) Obligations under capital leases

The following is a summary of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31, 2010:

Year ending December 31,	**$ 000**
2011	870
2012	435
Minimum lease payments	1,305
Less: amount of interest contained in above payments	72
Present value of minimum lease payments	1,233
Less: current portion	807
	426

The amount of interest deducted from minimum lease payments to arrive at the present value is the interest contained in each of the leases.

(c) Fair value of financial instruments

Certain methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value. The carrying amount of cash and cash equivalents, accounts payable, accrued liabilities and working capital facilities approximates fair value because of the short maturity of those instruments. The fair value of debt is calculated by discounting back future interest and principal payments using a discount factor which reflects the Company s current credit metrics. This factor is derived from credit analysis using inputs such as profit, cash generation, and level of debt.

The estimated fair values of the Company s financial instruments as of December 31, 2010 and 2009 are as follows:

	December 31, 2010	
	Carrying amount $ 000	**Fair value $ 000**
Cash and cash equivalents	3,340	3,340
Accounts receivable	5,530	5,530
Working capital facilities	3,570	3,570
Accounts payable	4,172	4,172
Accrued liabilities	4,979	4,979
Long-term debt, including current portion	5,333	5,348

	December 31, 2009	
	Carrying amount $ 000	**Fair value $ 000**
Cash and cash equivalents	3,377	3,377
Accounts receivable	4,713	4,713
Working capital facilities	4,855	4,855
Accounts payable	2,892	2,892
Accrued liabilities	2,309	2,309
Long-term debt, including current portion	7,346	7,055

The carrying values of non-financial assets that are measured on a non-recurring basis approximate their fair values.

7. Income taxes

The provision for income taxes consists of the following:

	Year ended December 31,		
	2010 **$ 000**	**2009** **$ 000**	**2008** **$ 000** **(unaudited)**
Pre-tax income	8,060	15,496	15,572
Current tax	(1,421)	(2,702)	(5,145)
Deferred tax charge	(831)	(1,400)	(672)

The reconciliations of the Peru income tax rate to the Company s effective tax rate for the three years ended December 31, 2010 are as follows:

	Year ended December 31,		
	2010 **%**	**2009** **%**	**2008** **%** **(unaudited)**
Peru income tax rate	30	30	30
Permanent differences	(2)	(4)	7
Effective tax rate	28	26	37

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following represents the Company s net deferred tax liabilities:

	December 31,	
	2010 $ 000	2009 $ 000
Provisions included in books	240	
Other deferred tax assets	40	
Net deferred tax assets	280	
Fixed assets and intangibles	(5,345)	(4,382)
Structure fee loans	(37)	(48)
Exchange rate related to fixed assets	(104)	
Other deferred tax liabilities		(9)
Tia Maria project expenses	(64)	
Deferred tax liabilities	(5,550)	(4,439)
Net deferred tax liabilities	(5,270)	(4,439)

8. Shareholders equity

(a) Share capital and additional-paid in capital

At December 31, 2010, the Company s share capital consisted of 20,000,000 fully subscribed and paid shares (2009-20,000,000) with a par value of S/1.00 each, all carrying the same rights.

In May 2009, the Company recorded a capitalization of earnings from exposure to inflation in 1999 to 2004 amounting to 21,188 shares, equivalent to S/21,188. As of the capitalization date, earnings from exposure to inflation was included as part of common shares. As a consequence, no additional movement was required in the statements of shareholders equity.

Also in May 2009, the Company recorded a capitalization of retained earnings amounting to 19,776,812 shares, equivalent to S/19,776,812 ($6,625,398), increasing common shares at par value.

The shareholders of the Company are as follows:

	Number of shares	Percent of Ownership

Orient-Express Hotels Ltd.	10,000,000	50.00
Peruvian Trains & Railways S.A.	10,000,000	50.00
	20,000,000	100.00

(b) Legal reserve

In accordance with Peruvian law, a minimum 10% of the annual profits that can be distributed have to be transferred to a legal reserve until it equals 20% of the paid-in capital. The legal reserve can be used only to offset losses, but must be replenished and cannot be distributed as dividends, except in case of liquidation. The Company may capitalize the legal reserve but must replenish it in the year immediately after profits are obtained.

For the year ending December 31, 2010, the Company increased its legal reserve by the amount of $807,000, which has been set aside from the earnings corresponding to the 2010 period.

(c) Retained earnings

Retained earnings may be capitalized or distributed as dividends, by resolution of the shareholders. The Company´s distributable profits are limited to the amount of retained earnings available under local statutory provisions. As from 2003, dividends and any other form of distributed profit are subject to a withholding tax at a 4.1% rate on the distributed amount to be borne by the shareholders who are individuals, whether or not domiciled in Peru, or who are juridical persons not domiciled in Peru. Any dividends distribution must be proportionate to the shareholders contribution.

9. Employees profit sharing

According to Peruvian law, employees have a share of 5% of the Company profits before income tax. Employees profit sharing is computed on the taxable net income balance of the year subject to tax, as assessed for local purposes.

10. Information by segments

Accounting standards require that the Company present financial information by segments. Segments are determined by the form in which the management organizes the Company to make decisions and assess the business performance. In this regard, management considers that the Company operates one single reportable segment.

11. Commitments and contingencies

The Peruvian Association of Railway Operators began in January 2009, through the National Institute of Antitrust and Intellectual Property Protection (INDECOPI), an administrative sanctioning proceeding against the Company, Ferrocarril Transandino S.A., Peruval Corp S.A., and Peruvian Trains & Railways S.A., for alleged abuse of dominant position in the form of abuse of legal proceedings. In May 2010, INDECOPI notified the Company and the other parties of its ruling in the first instance and imposed a penalty of 657.5 UIT equivalent to S/2,400,000 ($822,000) against the Company and issued a warning to the other parties. The Company filed an appeal to the tribunal of INDECOPI (in the second instance) and believes, based upon current facts and circumstances, that a material payment upon final resolution of this proceeding, including all future judicial remedies, is unlikely.

In addition, INDECOPI has begun sanctioning proceedings against the Company because of separate accidents that occurred in January and December 2008 on the Cuzco-Machu Picchu route. The proceeding relating to the incident occurring in January 2008 concluded in March 2011 and the penalty assessed was $19,200, which will be paid when the final legal notifications in the case have been concluded. The proceeding relating to the incident occurring in December 2008 is still in process. The maximum penalty on the still pending proceeding is expected to be of a similar amount.

12. Supplemental cash flow information

		Year ended December 31,	
	2010	**2009**	**2008**
	$ 000	**$ 000**	**$ 000**
			(unaudited)
Cash paid for:			
Interest	306	1,034	953
Income taxes	2,048	3,356	5,126

13. Other comprehensive income

The components of comprehensive income were as follows:

Year ended December 31,

	2010 $ 000	2009 $ 000	2008 $ 000 (unaudited)
Net earnings	5,808	11,394	9,755
Comprehensive income	5,808	11,394	9,755

14. Related party transactions

Accounts receivable include non-interest bearing loans extended to the Company s shareholders. The amount due from shareholders to the Company at December 31, 2010 was $ 4,081,712 (2009-$173,215). In 2008, it was resolved to distribute dividends of $6,360,000 (unaudited), of which $1,150,000 (unaudited) were applied to the accounts receivable from shareholders.

Accounts receivable from Ferrocarril Transandino S.A. for working capital, according to estimates, will start to be paid in 2011. The amount due from Ferrocarril Transandino S.A. at December 31, 2010 was $7,733,398 (2009-$6,599,619).

The amount due to Ferrocarril Transandino S.A. at December 31, 2010 was $78,958 (2009-$38,476) and relates to the invoicing for the access and use of the railway, locomotives and rolling stock, stations and yards, and loans. These accounts accrue no interest. In 2010, the Company received services from Ferrocarril Transandino S.A. in the amount of $ 15,076,132 (2009-$20,218,000; 2008-$22,467,000 (unaudited)), including the value added tax (19%).

The amount due to Orient-Express Peru S.A. at December 31, 2010 was $1,340,664 (2009-$3,975,535) relating to the invoicing of management fees and expense reimbursements established in the current management agreement.

The amount due to Peru OEH S.A. at December 31, 2010 was $2,374,850 (2009-$nil) relating to temporary working capital facilities provided, which accrues no interest and will be paid in 2011.

15. Adjustments to prior period amounts

Subsequent to the issuance of the Company s financial statements for the year ended December 31, 2009, management determined that certain immaterial adjustments were processed in the Statements of Operations of the Company and were not similarly processed in the Statements of Cash Flows. These related to net earnings, change in deferred tax, and (increase)/decrease in accrued liabilities. Additionally, certain reclassifications between movements in accounts receivable and due from related parties had not been separated in the Statements of Cash Flows. The Company considers these adjustments to be immaterial, both quantitatively and qualitatively, as they have no impact on net cash provided by operating activities (see analysis provided below), as well as no impact to the Statements of Operations or the Balance Sheets for the periods presented.

	Year ended December 31,					
	2009			2008		
	As previously reported $ 000	As adjusted $ 000	Adjustment $ 000	As previously reported $ 000 (unaudited)	As adjusted $ 000 (unaudited)	Adjustment $ 000 (unaudited)
Cash flows from operating activities						
Net earnings	11,408	11,394	(14)	9,744	9,755	11
Change in deferred tax	1,386	1,400	14	675	672	(3)
(Increase)/decrease in accounts receivable	(483)	(394)	89	3,048	3,772	724
(Decrease)/increase in accrued liabilities	(2,462)	(2,462)		(2,208)	(2,216)	(8)
Increase in due from related parties		(89)	(89)		(724)	(724)
Total adjustments	(2,261)	(2,247)	14	2,541	2,530	(11)
Net cash provided by operating activities	9,147	9,147		12,285	12,285	

16. Subsequent events

For purposes of the Company s December 31, 2010 financial statements, management has evaluated subsequent events through May 20, 2011.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 13, 2011

ORIENT-EXPRESS HOTELS LTD.

By: /s/ Martin O Grady
Martin O Grady
Vice President Finance and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Incorporated by Reference to	Description
3.1	Exhibit 3.1 to July 9, 2007 Form 8-K Current Report (File No. 1-16017)	Memorandum of Association and Certificate of Incorporation of Orient-Express Hotels Ltd.
3.2	Exhibit 3.2 to June 15, 2007 Form 8-K Current Report (File No. 1-16017)	Bye-Laws of Orient-Express Hotels Ltd.
3.3	Exhibit 1 to April 23, 2007 Amendment No. 1 to Form 8-A Registration Statement (File No. 1-16017)	Rights Agreement dated June 1, 2000, and amended and restated April 12, 2007, between Orient-Express Hotels Ltd. and Computershare Trust Company N.A., as Rights Agent
3.4	Exhibit 4.2 to December 10, 2007 Form 8-K Current Report (File No. 1-16017)	Amendment No. 1 dated December 10, 2007 to Amended and Restated Rights Agreement (Exhibit 3.3)
3.5	Exhibit 4.3 to May 27, 2010 Form 8-K Current Report (File No. 1-16017)	Amendment No. 2 dated May 27, 2010 to Amended and Restated Rights Agreement (Exhibit 3.3)
4.1	Exhibit 1.1 to November 3, 2010 Form 8-K Current Report (File No. 1-16017)	Secured Facility Agreement dated October 28, 2010 for Orient-Express Hotels Ltd. and certain subsidiaries arranged by Barclays Bank PLC and other banks

The registrant has no instrument with respect to long-term debt not listed above under which the total amount of securities authorized exceeds 10% of the total assets of the registrant on a consolidated basis. The registrant agrees to furnish to the SEC upon request a copy of each instrument with respect to long-term debt not filed as an exhibit to this report.

Exhibit No.	Incorporated by Reference to	Description
10.1	Exhibit 10.1 to 2008 Form 10-K Annual Report (File No. 1-16017)	Orient-Express Hotels Ltd. 2000 Stock Option Plan
10.2	Exhibit 10.2 to 2008 Form 10-K Annual Report (File No. 1-16017)	Orient-Express Hotels Ltd. 2004 Stock Option Plan
10.3	Exhibit 10.3 to 2008 Form 10-K Annual Report (File No. 1-16017)	Orient-Express Hotels Ltd. 2007 Performance Share Plan
10.4	Exhibit 10.4 to 2009 Form 10-K Annual Report (File No. 1-16017)	Orient-Express Hotels Ltd. 2007 Stock Appreciation Rights Plan
10.5	Exhibit 10.1 to June 4, 2010 Form 8-K Current Report (File No. 1-16017)	Orient-Express Hotels Ltd. 2009 Share Award and Incentive Plan
10.6	Exhibit 10.3 to 2004 Form 10-K Annual Report (File No. 1-16017)	Amended and Restated Agreement Regarding Hotel Cipriani Interests dated February 8, 2005 between James B. Sherwood, Hotel Cipriani S.r.l. and Orient-Express Hotels Ltd.
10.7	Exhibit 10.4 to 2004 Form 10-K Annual Report (File No. 1-16017)	Amended and Restated Right of First Refusal and Option Agreement Regarding Indirectly Held Hotel Cipriani Interests dated February 8, 2005 between James B. Sherwood and Orient-Express Hotels Ltd.
10.8	Exhibit 10.4 to Form S-1 Registration Statement No. 333-12030	Agreement dated February 18, 1982 between James B. Sherwood and Hotel Cipriani S.p.A. regarding apartment
10.9	Exhibit 10.10 to 2003 Form 10-K Annual Report (File No. 1-16017)	Contract of Special Partnership or Joint Venture dated August 1, 2002 between Alberghiera Fiesolana S.p.A. and Capannelle S.r.l.
10.10	Exhibit 10 to July 25, 2007 Form 8-K Current Report (File 1-16017)	Form of Severance Agreement dated December 1, 2006, as amended July 25, 2007, between Orient-Express Hotels Ltd. and Paul White
10.11	Exhibit 10.11 to 2006 Form 10-K Annual Report (File No. 1-16017)	Form of Severance Agreement between Orient-Express Hotels Ltd. and each of Filip Boyen (dated December 1, 2006), Roger Collins (dated December 1, 2006), Martin O Grady (dated November 15, 2007), Philip Calvert (dated December 5, 2008) and Roy Paul (dated February 1, 2011)
10.12	Exhibit 10.12 to 2006 Form 10-K Annual Report (File No. 1-16017)	Form of Severance Agreement dated between Orient-Express Hotels Ltd. and each of Edwin Hetherington (dated December 1, 2006), David Williams (dated December 1, 2006) and Phillip A. Gesue (dated February 9, 2009)
11		Statement of computation of per share earnings*
12		Statement of computation of ratios*
14	Exhibit 14 to 2003 Form 10-K Annual Report (File No. 1-16017)	Code of Business Practices for Principal Executive, Financial and Accounting Officers

* Previously Filed

33

Exhibit No.	Incorporated by Reference to	Description
21		Subsidiaries of Orient-Express Hotels Ltd.*
23.1		Consent of Deloitte LLP relating to Form S-3 Registration Statement No. 333-158308 and Form S-8 Registration Statements No. 333-58298, No. 333-129152, No. 333-147448, No. 333-161459 and 333-168588.*
23.2		Consent of PricewaterhouseCoopers Auditores, S.L. relating to Form S-3 Registration Statement No. 333-165092 and Form S-8 Registration Statements No. 333-58298, No. 333-129152, No. 333-147448, No. 333-161459 and 333-168588.
23.3		Consent of BDO Pazos, Lopez de Romaña, Rodriguez S.C. relating to Form S-3 Registration Statement No. 333-165092 and Form S-8 Registration Statements No. 333-58298, No. 333-129152, No. 333-147448, No. 333-161459 and 333-168588.
31		Rule 13a-14(a)/15d-14(a) Certification
32		Section 1350 Certification
99.1	Exhibit 99 to 2004 Form 10-K Annual Report (File No. 1-16017)	Corporate Governance Guidelines of Orient-Express Hotels Ltd.
99.2	Exhibit 99.1 to June 1, 2010 Form 8-K Current Report (File No. 1-16017)	Judgment of Bermuda Supreme Court dated June 1, 2010 in D.E. Shaw Oculus Portfolios LLC et al. vs. Orient-Express Hotels Ltd. et al.
100		Interactive Data File*

* Previously Filed