

Corporate Governance

The Board is committed to high standards of corporate governance in its management of the affairs of the Company and the Group. This report, together with the Directors' Remuneration Report on pages 31 to 36, describes how the principles set out in section 1 of the Combined Code on Corporate Governance (revised with effect from 29 June 2008) ('the Code') are being applied.

The Directors consider that throughout the accounting period ended 30 September 2009, the Company has fully complied with the Code except as follows:

- A2.1 The roles of Chairman and Chief Executive should not be exercised by the same individual.
- D1.1 The Senior Independent Director should meet with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

Explanations for non-compliance are set out below.

The Board of Directors

The Board of Directors is currently made up of four Executive Directors, three Non-executive Directors and an interim Executive Chairman. On 29 July 2009, the Board announced that Carl Michel, Group Chief Executive, was leaving the Board with effect from 30 September 2009. Consequently, John Coleman stepped in as Executive Chairman on an interim basis with immediate effect, pending the recruitment of a new Group Chief Executive. At the date of this report, the recruitment process has not yet concluded. James Greenbury, a Non-executive Director, has been designated as Senior Independent Director. Collectively, the Non-executive Directors provide a broad range of knowledge and experience to the Board's deliberations. The complementary range of financial, operational and entrepreneurial experience ensures that no one Director or viewpoint is dominant in the decision making process. Whilst the Company remains a FTSE SmallCap company, it is only required to have two independent Non-executive Directors on the Board. However, following a review in the 2006/2007 financial year, it was concluded that, having regard to the Combined Code, the structure of the Board should progressively change so that there would be a balance in numbers between Executive Directors and Non-executive Directors (excluding the Chairman) and that accordingly it was not the Board's intention to appoint a replacement Executive Director (other than in relation to a change of Group Chief Executive or Group Finance Director), should a vacancy occur, until that balance had been achieved. Simon Tobin, Managing Director of the Adventure Travel Division, stepped down from the Board and his divisional duties at the end of February 2009 and has not been replaced on the Board. Nick Cust, Joint Managing Director of the Hotel Breaks Division, is due to retire on 31 December 2009 and will not be replaced on the Board.

The Board continues to consider its Non-executive Directors as independent from management and each other and that they provide a strong independent element on the Board, being free from any business or other relationship which could materially interfere with the exercise of their judgment. The Board also considers that John Coleman, on his appointment as Chairman, was independent in accordance with the Code. To strengthen the independence of the Non-executive Directors and to enable them to discuss more freely the performance of the Group's management, the Chairman meets with the Non-executive Directors at least once a year without the Executive Directors present.

The independence of the Directors is further supported by the work of the Company Secretary whose appointment and removal is the responsibility of the Board as a whole. The Company Secretary is responsible for good information flow, ensures that Board procedures are complied with and provides advice on corporate governance and regulatory compliance. All Directors have unfettered access to the advice and services of the Company Secretary. Directors can, where necessary for the discharge of their duties, obtain independent professional advice at the Company's expense.

Biographical notes on all the Directors are given on pages 20 and 21 of the Annual Report and Financial Statements. Fuller biographies together with biographies of the Company Secretary and divisional directors are available on the Company's website at www.holidaybreak.co.uk.

Appointments to the Board are made after receiving recommendations from the Nomination Committee.

The practice is to appoint Non-executive Directors whose appointment, provided they have indicated a willingness to serve a term of three years, is subject to a twelve month rolling notice from the Company and also subject to re-election and to Companies Act provisions relating to the removal of a Director. Re-appointment is not automatic. In May 2008, James Wallace's appointment was extended beyond his second three year fixed term whilst a search for his successor was conducted and he retired on 31 December 2008. Robert Ayling also retired at the end of April 2009 after a second three year term. James Greenbury agreed to serve for an additional three year period from 1 January 2008, subject to early termination from the Company on twelve months' notice. New Directors appointed by the Board must submit themselves for re-election by shareholders at the Annual General Meeting following their appointment. Thereafter the Company's Articles of Association require that all Directors stand for re-election at intervals of not more than three years. The Chairman will confirm to shareholders when proposing re-election that, following formal evaluation, the individual's performance continues to be effective and they continue to demonstrate commitment to the role. Any term beyond six years for a Non-executive Director will be subject to rigorous review and will take into account the need for progressive refreshing of the Board. Letters of appointment and service contracts for Directors will continue to be available for inspection at the Company's registered office and on display at the Annual General Meeting.

Performance evaluation

Following various changes to the Board during the year, the Board undertook an evaluation of the performance of the Board and of the principal Board Committees internally. This year, each of the Directors completed a questionnaire. It is our policy to follow this with a formal discussion which all Directors and the Company Secretary attend. Some of the actions identified last year are under continuous development including the increase of the focus of the Board on longer-term strategic challenges and opportunities. This year's evaluation did not identify any new action points over and above those being carried forward as described above.

Executive Directors are usually appraised annually by the Group Chief Executive but formal appraisals have not been undertaken in the current year due to the Group Chief Executive leaving the Company. However, the Executive Chairman conducts regular one-to-ones with each Executive Director and has set individual objectives for those Directors.

The Chairman's appraisal is carried out by the Non-executive Directors, led by the Senior Independent Director. Additional feedback on individual Director's performance was received as part of the Board performance evaluation. Continuing training is provided as and when necessary. This year the Board received training on changes to the Listing Rules and the Disclosure and Transparency Rules and on the Bribery Bill which is scheduled to come into force in 2010. The Board have since adopted a Group anti-corruption policy. The Directors also received briefings on social, environmental and ethical matters including the Carbon Reduction Commitment Regulations. Training requirements are also identified as part of the annual appraisal process and/or the Board performance evaluation.

Board committees

The Board has three principal committees, all with written terms of reference which are published on the Company's website and which are available in hard copy form on application to the Company Secretary.

The Audit Committee

The Audit Committee reviews the half-year and annual financial statements and matters related to internal controls, including the external audit function. The Committee also keeps under review non-audit work carried out by the Company's auditors. The Committee reviews the cost effectiveness, independence and objectivity of the external auditors.

The Directors who served on the Audit Committee during the year were as follows:

James Wallace (Chairman until his resignation on 31 December 2008)
Neil Bright (appointed 27 November 2008 and Chairman from 1 January 2009)
James Greenbury
Chris Stephens

The Audit Committee Report is set out on pages 25 and 26.

The Nomination Committee

The Nomination Committee is responsible for recommending candidates for Board appointment.

The Directors who served on the Nomination Committee during the year were as follows:

Robert Ayling (Chairman until his resignation on 30 April 2009)
John Coleman (appointed 8 April 2009 and Chairman from 1 May 2009)
James Greenbury
Chris Stephens
James Wallace (resigned 31 December 2008)

The Nomination Committee Report is set out on page 26.

The Remuneration Committee

The Remuneration Committee is responsible for ensuring that remuneration policy facilitates the attraction, retention and motivation of senior executives of appropriate calibre, whilst avoiding unnecessary costs. Details of membership of the Committee and its current remuneration policies are given in the Directors' Remuneration Report on pages 31 to 36. The Chairman is a member of the Committee but is not the Chair of the Committee.

Dialogue with shareholders

The Directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders and communicate with investors and analysts on a regular basis throughout the year as required. Results presentations are made on a bi-annual basis to market analysts and cover the historical results, current trading and immediate future prospects. A series of one-to-one and group meetings are then held with institutional shareholders and potential institutional investors covering the same material. The primary responsibility for this process lies with the Group Chief Executive and the Group Finance Director. However, the Chairman and other Executive Directors also participate as appropriate. During the year the Company hosted an investor day for institutional investors and analysts at PGL's newly opened Windmill Hill site, which included presentations from each of the Executive Directors and the Chairman. The Company's advisers provide regular feedback from investors and analysts which is communicated to the whole Board together with monthly investor relations reports which are reviewed at monthly Board meetings.

The Code recommends that the Senior Independent Director meets with a range of major shareholders to gain an understanding of their views. In practice, as a result of the regular feedback provided, the Senior Independent Director and the other Non-executive Directors believe that they are aware of such issues and that, unless requested by major shareholders, such meetings are not required. This year the Senior Independent Director consulted with major shareholders on an individual basis and, in some cases, met the shareholder. Where appropriate the Chairman of the Remuneration Committee communicates with major shareholders to canvas opinion when deciding remuneration policy for consideration by the Board. All shareholders have the opportunity to put questions to the Board at the Annual General Meeting and, at all other times, by emailing or writing to the Company. They may also contact the Chairman, the Group Chief Executive or, if more appropriate, the Senior Independent Director to raise any issue with one or all of the Non-executive Directors of the Company. Notice of the Annual General Meeting and related papers are distributed to shareholders at least 20 working days before the meeting. The Company prepares separate resolutions on each substantially separate issue. The notice for the Annual General Meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote at a general meeting. At the Annual General Meeting, the Chairman reports, after the vote on a show of hands, details of all proxy votes lodged for and against each resolution and the number of votes withheld. Details of the proxy votes lodged are made available as soon as practicable after the meeting on the Company's website www.holidaybreak.co.uk.

Board responsibilities and planning

All members of the Board take collective responsibility for the Company's performance. The Board is responsible for promoting the long-term success of the Company and for creating shareholder value, while having regard to other stakeholders' interests. A formal schedule of matters reserved for the Board covers key areas of the Group's affairs including the formulation of the Group's corporate strategy, treasury policies and risk management policy, approval of acquisitions and disposals, annual Group budget and major capital expenditure. Control of operational matters is delegated through the Group Chief Executive (or, pending the appointment of a new Group Chief Executive, the Executive Chairman), the Group Finance Director, the respective divisional and subsidiary managing directors and local directors as appropriate. This structure ensures a strong link between corporate strategy and its effective implementation.

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The Board meets regularly to review the affairs and trading progress of the various businesses within Holidaybreak plc and the Group as a whole. If and when required, meetings in addition to the scheduled meetings are held either in person or by telephone conference. Each of the Executive Directors reports to the Board on relevant matters relating to their areas of responsibility, having previously circulated written or electronic reports to all Board members. The attendance records of individual Directors at scheduled meetings of the Board and its Committees can be found in the table below:

Table of attendance for the year ended 30 September 2009

	Scheduled Board Meetings	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Robert Ayling	7(7)	1(1)	N/A	2(2)	0(3)
Bob Baddeley	12(12)	1(1)	N/A	N/A	N/A
Neil Bright	9(10)	1(1)	2(2)	3(3)	4(4)
John Coleman	6(6)	N/A	N/A	2(2)	2(2)
Nick Cust	12(12)	1(1)	N/A	N/A	N/A
Martin Davies	12(12)	1(1)	N/A	N/A	N/A
James Greenbury	12(12)	1(1)	3(3)	4(4)	5(5)
Carl Michel	10(12)	1(1)	N/A	N/A	N/A
Chris Stephens	12(12)	1(1)	3(3)	4(4)	5(5)
Simon Tobin	5(5)	1(1)	N/A	N/A	N/A
James Wallace	3(3)	N/A	1(1)	2(2)	1(1)
Steve Whitfield	12(12)	1(1)	N/A	N/A	N/A

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a member of the Board or the relevant Committee. Neil Bright was unable to attend one meeting due to a prior commitment. Carl Michel did not attend the two Board meetings following the announcement that he would be leaving the Board. Robert Ayling did not attend the meetings of the Nomination Committee at which the recruitment process for his successor was discussed.

The Chairman and the Non-executive Directors have met without the Executive Directors being present. The Non-executive Directors have also met separately without the Chairman present.

The four trading divisions of the Group, Education, Hotel Breaks, Adventure Travel and Camping also hold monthly board meetings to report on and review trading progress and discuss future plans. The Group Chief Executive or, on an interim basis, the Executive Chairman and the Group Finance Director sit on the divisional boards and attend meetings.

The planning and budgeting cycle enables management at all levels to identify and address all significant business risks and to control the strategic and financial objectives of the Group. The Board is responsible for the formulation of medium-term corporate strategy. This, in turn, provides a basis for the formulation and review of divisional strategy by the divisional boards. All strategic plans are subject to annual review. Divisional strategic plans and annual reviews are presented to and reviewed by the Board and, once approved, form the basis of annual budgets.

Detailed reviews of the trading divisions are included within the Business and Financial Review (pages 4 to 14). The Board uses these, together with the Chairman's Statement, to present a balanced and understandable assessment of the Group's position and prospects.

Conflicts of interest

At the 2009 Annual General Meeting the shareholders approved an amendment to the Company's Articles of Association to allow the Board to authorise actual or potential conflicts of interest that may arise and to impose such limits and conditions as it thinks fit. Conflicts of interest and duties can only be authorised by those Directors who do not have an interest in the matter being considered, and in making such decision, the Directors must act in a way they consider, in good faith, will most likely promote the success of the Company. The Company has established a procedure whereby actual and potential conflicts of interest and duties (and any changes) are advised to the Company Secretary and reviewed. The Board considers these procedures to have operated effectively during the year.

Internal control

The Board of Directors has overall responsibility for ensuring that the Company maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication, and that assets are safeguarded.

There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and safeguarding of assets. The Board regularly reviews the effectiveness of the systems, control and reporting procedures and will continue to do so, making any changes required as a result of the review and the development of the Group.

The key features of the control system include:

- an established internal organisation structure with clearly defined lines of responsibility and accountability;
- comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the following year and projections for subsequent years;
- well established and documented accounting policies and procedures for individual businesses and the Group as a whole;
- a monthly Board review of divisional management accounts information which is used to compare actual performance with budget and medium-term plans. These accounts include updated forecasts and other information to enable the Board to assess the prospects of all businesses in the Group;
- a monthly Board review of significant changes in the external environment;
- specific guidelines for the appraisal and authorisation of all capital expenditure and disposal proposals;
- centralised treasury operations operating within defined limits which are subject to regular reporting to the Group Finance Director and monthly to the Board;
- certain of the Group's key functions (including company secretarial, legal, taxation (compliance and planning) and business risk insurance) are undertaken centrally under the direct control of the Group Chief Executive (or, on an interim basis, the Executive Chairman) or the Group Finance Director. The Board is updated regularly on specific matters including taxation, interest and foreign exchange exposures;
- annual risk assessment exercise involving self-assessment by management of all major business risks; and
- post acquisition appraisals which are carried out twelve months after major acquisitions and capital investments.

Risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is necessary to take commercial risks in the course of the management of the Group's operations but those risks are fully evaluated as part of the decision making process.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks that the Group faces. The Board regularly reviews the process, which has been in place for the whole of the 2008/2009 financial year and has continued to the date of approval of this report. The processes are in accordance with the revised Turnbull Guidance.

The Board continuously reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management processes. It is based principally on reviewing monthly reports from executive management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities and considers reports from the Group's auditors on the effectiveness of the operation of internal control procedures. The Board has considered the need to establish an internal audit resource and has concluded that the current control mechanisms are sufficient for the size of the Group. The Board will continue to review this decision.

The Board also conducts an annual self-assessment process designed to review the effectiveness of all internal controls and risk management processes at both subsidiary and Group level. This process is designed to highlight key risks to the business (including social, environmental and ethical risks) and to consider what action should reasonably and cost effectively be taken to manage them.

Audit Committee Report

The Audit Committee presents its report in relation to the financial year ended 30 September 2009.

Composition of the Audit Committee

During the year the Committee comprised three Non-executive Directors, all of whom are considered by the Board to be independent. Details of those who served on the Committee during the year are set out on page 23. James Wallace, who was Chairman of the Committee until his retirement on 31 December 2008, is a qualified chartered accountant and formerly a finance director of another company listed on the London Stock Exchange. Neil Bright, who was appointed Chairman of the Committee with effect from 1 January 2009, is a qualified chartered accountant and is currently finance director of HMV Group plc. As a whole, the Committee has recent and relevant financial expertise and is appropriately qualified to undertake its duties in an effective manner.

The Committee's terms of reference are published on the Company's website and are available on request from the Company Secretary.

Operation of the Audit Committee

The Committee met three times during the year. The Group Chief Executive, the Group Finance Director and the Chairman, together with representatives from the external auditors, attend meetings at the invitation of the Committee. The Committee has also met the external auditors without executive management present. The external auditors may also request a meeting if they consider it necessary. Members' attendance at the meetings held during the year can be found on page 24. The Committee's duties included:

- monitoring the integrity of and reviewing the Company's financial statements and the material financial reporting judgments contained in them;
- reviewing the Company's financial risk management and internal control processes;
- reviewing the external auditors' terms of engagement and plan for the audit of the accounts;
- approving non-audit work provided by the Company's auditors for fees in excess of £10,000;
- considering and making recommendations on the requirement for an internal audit function; and
- reviewing arrangements for reporting and investigating employee concerns.

During the year the Committee considered the FRC's updated exposure draft for Going Concern and Liquidity Risk: Guidance for Directors of UK Companies. It also updated its policy for reporting employee concerns.

Review of the external auditors

The Committee has been delegated responsibility for making recommendations to the Board on the appointment and removal of the external auditors.

Subject to the annual appointment of the auditors by shareholders, the Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

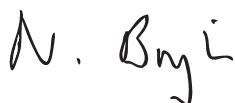
- the consideration of audit fees and advance approval of any fees for non-audit related work in excess of £10,000 for an individual assignment;
- the consideration of the auditors' independence and objectivity; and
- the nature and scope of the external audit.

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The current auditors were appointed following a detailed tender process in 2003. The auditors confirm annually their policies on ensuring audit independence and provide the Committee with a report on their own audit quality procedures. A rotation of the audit partner took place during the 2006/07 financial year. The Committee is satisfied that the independence of the external auditors has been maintained. A full breakdown of the audit and non-audit related fees is set out in note 3 to the financial statements on page 49. The Committee discussed the level of fees and considered them appropriate given the current size of the Group and the work carried out in relation to the Rights Issue during the year. The Committee endorses the use of the auditors for tax compliance work and some specific tax advisory work. In respect of due diligence reports the Board considers what is appropriate at the time of the acquisition, which does not preclude it from appointing the audit firm. Indeed, in some instances there is a clear benefit from using professional advisers who have a good understanding of the Group's operations and the Audit Committee considered this to be the case in relation to the working capital exercise undertaken for the Rights Issue. Other accounting firms have been used during the year where the Group recognises them as having particular areas of expertise or where there is an independence issue. The Committee believes the level and scope of non-audit services does not impair the objectivity of the auditors.

Based on the Committee review of the performance of the external auditors and on the planning and execution of the annual audit, the Committee has recommended to the Board that a resolution to reappoint Deloitte LLP be proposed at the forthcoming Annual General Meeting.



Neil Bright
Chairman of the Audit Committee
27 November 2009

Nomination Committee Report

The Nomination Committee presents its report in relation to the financial year ended 30 September 2009.

Composition and role of the Nomination Committee

During the year the Committee comprised three Non-executive Directors and the Chairman (being Robert Ayling until 30 April 2009 and John Coleman thereafter). The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board and, where appropriate, recommending candidates for appointment. During the year the Company prepared job specifications for the Chairman and the Group Chief Executive and engaged external consultants to assist

in identifying appropriate candidates. The Committee proposed its candidates for appointment and, following disclosure of the candidates' other significant commitments, the full Board made the final decision. Robert Ayling did not participate in those meetings at which his successor was discussed and James Greenbury, the Senior Independent Director, chaired these meetings. The search for the Group Chief Executive has not been concluded at the date of this report.

For Non-executive Directors, their individual letter of appointment sets out the expected time commitment.

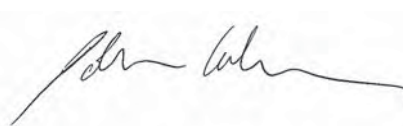
The Committee's terms of reference are published on the Company's website and are available on request from the Company Secretary.

Induction procedure

The Company Secretary supports the Chairman in ensuring new Directors receive appropriate induction and training. On joining the Board, a Director undergoes a structured induction programme, including the receipt of a comprehensive induction pack which includes various governance related issues. The new Director meets with each of the Executive Directors and senior management. If appropriate, the new Director also attends external training courses following his or her appointment which is tailored to his or her requirements.

Succession planning

The Board and the Nomination Committee recognise the importance of succession planning to ensure that the Group continues to prosper in the longer term. Operational matters are delegated through the Group Chief Executive and the Group Finance Director to the divisional directors with clearly defined lines of responsibility and accountability. This provides the opportunity for senior management to develop in some of the smaller business units before progressing to wider and more responsible roles. The Company has introduced a senior executive development programme which is aimed at enhancing the calibre of its senior management. The Committee is satisfied that Directors retiring in accordance with the Articles of Association at the forthcoming Annual General Meeting are properly qualified for reappointment by virtue of their skills and experience and their contribution of guidance and time to Board deliberations. The Committee is mindful of the need to ensure appropriate succession arrangements are in place for the Directors. The Committee seeks to identify new Directors and senior managers to ensure succession of Directors is conducted in a managed way, without significant disruption to the ongoing business of the Group.



John Coleman
Chairman of the Nomination Committee
27 November 2009