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CHAIRMAN'S STATEMENT

Results

The Company has adopted International Financial Reporting Standards (IFRS) for its financial statements for the year ended 6 February 2011. Information relating to the transition from UK GAAP is highlighted in note 23 to the financial statements. The key change to the profit before tax of the Company has been to include the movements in the fair value of the Company's interest rate swap during the year within the profit and loss.

Like for like hotel revenues increased by 2.2% and like for like hotel profits after depreciation and before Company administration costs increased by 14.1%. REVPAR (accommodation revenue per available bedroom) increased 4.7% in the year with occupancy up 8.2% and average room rate down 3.2%.

Total turnover increased 7.6% to £15,263,682 (2010: £14,186,042). Operating profit for the full year increased 38.5% to £1,094,901 (2010: £790,980). EBITDA (Earnings before interest, tax and depreciation) was £2,828,522 (2010: £1,990,627).

The pre-tax result before profit on disposal of a staff house in Newcastle and the fair value movement on the swap was £61,699 (2010: Loss £74,106). The pre-tax result was a profit of £555,329. Tax has been provided at a rate of 28%, less the discount on deferred tax liabilities, giving an effective rate of 25%. Last year there was a substantial credit to the tax provision amounting to £1,214,635. This had arisen from claiming roll over relief on the acquisition of the Norfolk Royale Hotel against a part of the charge to tax on capital gains suffered on the disposal of the Avon Gorge Hotel. Earnings per share on basic and diluted basis were 3.6p (2010: 0.8p basic and diluted adjusted for the adoption of IFRS).

In spite of very difficult market conditions there has been a significant improvement in occupancy and a respectable improvement in REVPAR. Like for like sales have increased whilst wages and ancillary costs have been carefully controlled. At the same time we have continued to ensure the maintenance of our hotels. Guest satisfaction levels have never been higher and the AA (Automobile Association) quality ratings have improved in each of our properties.

Shareholders might have noticed that the Company has been much more proactive throughout the year in its marketing strategy successfully targeting the discretionary spend market through advertising in various journals and the national press to compensate for the Governmental and Corporate cutbacks on overnight accommodation throughout the provincial market within the United Kingdom.

Finance

As at 6 February 2011 net debt stood at £13,443,723 representing loans totalling £12,609,477 and an overdraft of £945,432 less £111,186 cash at bank. Gearing on Shareholders' funds was 61% with interest covered 1.1 times. Net debt decreased by £1,350,847 compared with the previous year.

Shareholders will be aware that the Company has a fixed interest swap at 5.83%, plus margin of 1.95%, on a declining balance currently £9,050,700, until the swap ceases on 11 April 2014. As I informed Shareholders in my statement with the Interim Accounts in October last year, following a review by its bankers in regard to the Company's debt profile, from 12 October 2010 they have increased the margin to 2.5% on £9,500,000

CHAIRMAN'S STATEMENT

whilst increasing the margin on the balance from 1.95% to 4% over six monthly LIBOR. Margin on the Company's overdraft remains the same at 2.5% over Base Rate.

The review cost the Company £72,547 in fees, charges and expenses which is being amortised over the term of the loan and will cost a further £47,520 over the same period. It is indeed unfortunate that the increased margin in the case of our swap translates into an even higher overall cost of borrowing. Shareholders' will note that the cost of buying out the swap has decreased substantially over the past few months and this trend is likely to continue. We continue to monitor the cost of buying out the swap but currently it would make little economic sense.

I pointed out in my interim statement that the severe increase in the costs of borrowing would encourage us to dispose of our ancillary property. We sold 31, Grosvenor Gardens, the staff house for the Caledonian, Newcastle on 2 February 2011 for a consideration of £415,000 giving rise to net profit on disposal of £203,775. Post Balance Sheet and on 28 March 2011 we sold 21/23, The High Street, Wallingford, the staff house for the George Hotel in Wallingford, for a consideration of £470,000 and at a substantial profit.

The proceeds of both these disposals have been used to make additional repayments of part of the Company's bank loan over and above the regular semi annual repayment instalments.

It is perhaps worth mentioning that currently we pay back £446,000 per annum on our loans and this combined with utilisation of the proceeds of the two asset sales, notwithstanding the margin hikes that have been inflicted on us, will ensure an ongoing lessening of the overall annual interest cost.

The Board have decided regrettably not to recommend a Dividend in respect of the 2010/2011 Financial Year. The Board have erred on the side of caution in respect of deciding not to recommend the payment of a Dividend but hope to be in a position to pay a Dividend to Shareholders in respect of the current financial year.

Capital Expenditure

We have slowed down our capital expenditure as indicated in the interim statement and last year's annual report and this we will continue to do until such time as the economy recovers. The acceleration of capital expenditure in the two years following the sale of the Avon Gorge Hotel, has lessened the pressure to embark on major projects. The Estate is broadly in good condition and we continue to work towards achieving AA four star ratings in the majority of our portfolio.

£515,102 was spent in the year and over half of this sum was spent on the Midland Hotel in Bradford and the Norfolk Royale in Bournemouth. We continue to renovate bedrooms at the Midland Hotel and we have completed improvements to one floor of bedrooms at the Norfolk Royale Hotel which completes the upgrade of each of the hotel's 95 bedrooms.

In addition to such capital expenditure a further £570,154 (2010: £509,117) was expensed through the profit and loss account in the year on repairs and renewals which clearly demonstrates our commitment to maintaining and improving the quality of our Estate.

CHAIRMAN'S STATEMENT

Shareholders

It is always a great pleasure to welcome Shareholders and their families to our hotels where they can see for themselves the improvements we have made whilst enjoying a beneficial discount. All Shareholders are entitled to a 30% discount, using the special reservation number 0207 266 1100 or e-mail info@peelhotel.com. Shareholders can keep in touch with progress in the Company and various promotional initiatives by visiting our website www.peelhotels.co.uk.

The Future

Clearly there is oversupply in the provincial market place and the consequential reduction of rates, accelerated through cost cutting by Government Departments and Corporations alike, is a real challenge in the short to medium term.

We believe we can continue to improve our occupancy through aggressively marketing our product which, in the main, is in excellent shape and in prime positions within its various locations. Owing to the high operational gearing of a hotel business relatively modest improvements in sales translate into attractive improvements in profits. We continue to evaluate our cost base with a view to eliminating costs that do not affect the wellbeing and satisfaction of our guests.

We are considering a number of management contract opportunities as we believe entering into such arrangements would help improve profits by effectively amortising the Company's overheads.

Robert Peel

Chairman

12 May 2011

DIRECTORS AND ADVISERS

Directors

Robert Edmund Guy Peel	Executive Chairman
Clement John Govett	Non-executive Director
Keith Peter Benham	Non-executive Director
Norbert Paul Gottfried Petersen	Chief Operating Officer

Secretary
Thrings LLP
Kinnaird House, 1 Pall Mall East, London SW1Y 5AU

Registered Office
4th Floor, 111 Old Broad Street, London EC2N 1PH

Company registration number 3473990

Auditor
Grant Thornton UK LLP
No. 1 Whitehall Riverside, Leeds, LS1 4BN

Bankers
Royal Bank of Scotland Plc
280 Bishopsgate, London EC2M 4RB

Registrars
Computershare Services Plc
PO Box No 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH

Solicitors
Thrings LLP
Kinnaird House, 1 Pall Mall East, London SW1Y 5AU

Davidson Large LLP
Royal House, 110 Station Parade, Harrogate HG1 1EP

Stockbroker
Peel Hunt LLP
4th Floor, 111 Old Broad Street, London EC2N 1PH

DIRECTORS' REPORT

The Directors present their report and the financial statements of the Company for the year ended 6 February 2011.

Principal activity

The principal activity of the Company is the operation of hotels in the United Kingdom.

Review of the business and future prospects

A review of the Company's performance in the year and of its position at the year end is given in the Chairman's statement, together with an indication of likely future developments.

Results and dividends

The profit for the year after tax amounted to £499,978 (2010: £113,562). The Directors recommend that no dividend be paid (2010: £nil).

Executive Directors

Robert Peel, age 64, was appointed on 25 November 1997.

Norbert Petersen, age 64, was appointed on 11 September 1998.

Both of the above individuals held executive positions in the hotel industry for more than 20 years before joining Peel Hotels.

Non-executive Directors

John Govett, age 67, appointed on 23 February 1998, was formerly chairman of Schroder Investment Management.

Keith Benham, age 68, appointed on 23 February 1998, was formerly a senior partner at Linklaters.

Directors' interests

	6 February 2011		7 February 2011	
	Shares Number	**Options Number**	Shares Number	Options Number
Robert Peel	**5,496,900**	**–**	5,496,900	-
Norbert Petersen	**41,830**	**50,000**	41,830	50,000
John Govett	**350,000**	**–**	350,000	-
Keith Benham	**168,801**	**–**	168,801	-

All of the Directors served throughout the year.

Substantial shareholdings

Save for the interests of Robert Peel, which are set out above, the Directors are aware of the following who were interested, directly or indirectly, in 3 percent or more of the Company's shares as at 6 February 2011.

	Number of Shares	Percentage of share capital
Charles Peel	3,228,471	23.0%
J.P. Morgan Fleming Asset Management	1,239,838	8.9%
David Urquhart	564,752	4.0%
NCL Smith & Williamson	453,013	3.2%

The Directors are not aware of any persons, other than Robert Peel and his brother Charles Peel who, directly or indirectly, jointly or severally, exercise control over the Company.

DIRECTORS' REPORT

Property, plant and equipment
Movements on property, plant and equipment are set out in note 11 to the financial statements.

Charitable and political contributions
During the year there were no charitable or political contributions (2010: £nil).

Employees
Every effort is made to keep staff informed of, and involved in, the operation and progress of the Company. The policy of the Company for the employment of disabled persons is to give them equal opportunities with other employees to train for and attain any position in the Company having regard to the maintenance of a safe working environment and the constraints of their disabilities. Close attention is given to employees' health and safety with particular regard to the requirements of the Health and Safety at Work legislation.

Policy on payment to creditors
Whilst there is no formal creditor payment policy, it is the policy of the Company to settle the terms of payment with all suppliers when agreeing the terms for the transaction as a whole and to abide by such terms.

The Company's outstanding creditor days at the end of the year were 23.1 days (2010: 30.2).

Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' and Officers' liability insurance

The company has purchased Directors' and Officers' liability insurance.

Principal risks and uncertainties

The Directors have set in place a thorough risk management process that identifies the key risks faced by the Company and ensures that processes are adopted to monitor and mitigate such risks.

The principal risk affecting the business (apart from the financial risks noted below) relates to the fact that the market in which the Company operates is highly competitive, with constant pressure on rates in the Provincial marketplace. The Company seeks to mitigate this by ensuring its product offering is maintained to a high standard and also by looking to expand its operations into hotel management contracts.

Financial risk management

The Directors are confident that the banking and other borrowing facilities currently in place are more than adequate for the Company's working capital requirements. During the year the Company was financed via a long term loan facility and overdraft from its bankers and a short term, unsecured loan from its major shareholder.

All the Company's sales and purchases are made in sterling; therefore the company is not exposed to any significant currency risks.

The Directors are satisfied that the credit risk is adequately managed and the level of bad debt is consistent with the nature of the industry.

Interest rate risk is dealt with in note 19 to the financial statements.

Annual General Meeting

The notice convening the Annual General Meeting, to be held at The George Hotel on Wednesday 8 June 2011 at 12 noon, is enclosed with this report.

Annual General Meeting resolutions

A resolution will be proposed at the Annual General Meeting, to authorise the Directors, generally and unconditionally, to allot ordinary shares up to an aggregate nominal amount of £585,800 for the period from June 2011 to the conclusion of the Company's 2012 Annual General Meeting.

DIRECTORS' REPORT

A resolution will be proposed, as a special resolution, authorising the Directors to allot ordinary shares for cash other than in accordance with section 561 of the Companies Act 2006. Section 561(1) provides pre-emption rights for Shareholders when shares are issued for cash. The number of shares that may be so allotted will be restricted to 1,401,200 being 10% of the current issued share capital. The disapplication of Section 561 of the Companies Act 2006 will be limited in time and will expire at the same time as the authority to allot.

The usual ordinary business will be considered, including receipt of the Company's Report and Financial Statements and re-appointing Grant Thornton UK LLP as auditors. A resolution will be proposed to re-elect Robert Peel, who retires by rotation in accordance with the Company's Articles of Association and who, being eligible, offers himself for re-election.

Directors' recommendation

The Directors believe that all the resolutions being proposed are in the best interests of the Company, its Shareholders and employees. They recommend Shareholders to vote in favour of the resolutions, as they intend to do in respect of the shares beneficially owned by them. When considering what action to take, Shareholders are advised to consult a stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.

Auditor

The auditor, Grant Thornton UK LLP, has indicated a willingness to be re-appointed and a resolution will be proposed at the Annual General Meeting, to re-appoint Grant Thornton UK LLP and to authorise the Directors to fix the auditor's remuneration.

Registered Office	By order of the board
4th Floor	Things LLP
111 Old Broad Street	Secretary
London EC2N 1PH	12 May 2011

CORPORATE GOVERNANCE

Peel Hotels Plc is listed on AIM and is not subject to the requirements of the UK Corporate Governance Code on corporate governance, nor is it required to disclose its specific policies in relation to corporate governance. However, the Directors are committed to delivering high standards of corporate governance to the Company's Shareholders and other stakeholders including employees.

Directors

The Board currently comprises two Executive and two Non-executive Directors and meets regularly throughout the year. It leads and controls the Company by taking responsibility for overall projects and consideration of significant financing matters. It reviews the strategic direction of operations and annual budgets, progress towards achievement of those budgets and the longer-term strategies.

The Board is chaired by Robert Peel who also acts as the Company's Chief Executive. Robert Peel was appointed at the incorporation of the Company. Due to the size of its business, the Company has not segregated the position of Chairman and Chief Executive. The Board believes that the presence of strong Non-executives make this position appropriate for the business at this time. All other Board members were appointed during the first fully reported financial period to 21 February 1999. Although the Board presently has only two Non-executive Directors, they have between them considerable and varied experience in the business world and the City. Non-executive Directors are appointed for successive 12-month terms, renewable at the invitation of the Board, and are subject to re-election by Shareholders in accordance with the Company's Articles of Association. Their objective views and sound advice carry considerable weight in relation to all matters considered at Board meetings. Between formal meetings the Chief Executive remains in touch with the Non-executives, consulting them on appropriate issues and updating them on the Company's progress. The responsibility has been shared and neither of the Non-executive Directors has assumed the role of senior independent Director.

The Board meets regularly (meeting on 7 occasions in the financial period to 6 February 2011). Prior to each Board meeting and at the end of each of the Company's four weekly accounting periods, every member of the Board is supplied with a full set of management accounts together with a summary of the key features of the Company's performance overall. This includes an analysis of the performance against the original budget for the year and the previous year's performance. The Board papers also include other documents which relate to matters included in the agenda, as appropriate, in order to ensure that members of the Board are given the fullest opportunity for consideration of matters to be discussed at meetings.

The Board has determined that it is appropriate for matters which would normally be delegated to a nomination committee to be referred to the full Board. The Board, acting as a nomination committee, meets at least once a year to carry out the selection process for new Board members and to propose any new appointments to the Board, whether Executive or Non-executive.

The Articles of Association of the Company require that all Directors submit themselves for re-election and that in any given year the number to retire is not less than one third of the Directors, being those who have been in office for the longest period of time.

CORPORATE GOVERNANCE

There are agreed procedures by which Directors are able to take independent professional advice on matters relating to their duties, if necessary, at the expense of the Company. The Board has also resolved that any question of removal from office of the Company Secretary is a matter to be considered by the Board as a whole.

The Company uses external services provided by Thrings LLP, the Company's solicitors, for Company secretarial matters. All Directors have access to the Company Secretary.

Directors' remuneration

The Company believes and seeks to ensure, that the remuneration packages it offers its Executive Directors are fair. Other elements of the remuneration package offered to Directors include benefits in kind and share options. Further details of the Company's remuneration policy are contained in the Directors' Remuneration Report.

Relations with shareholders

The Chief Executive is always available to meet with key institutional Shareholders. In addition, the Company uses the Annual General Meeting to provide private investors with an update on the Company's progress and strategy. Shareholders are encouraged to attend the Annual General Meeting when members of the Board would be delighted to answer questions.

Accountability and audit

The Board seeks to ensure that it's Annual Report, Financial Statements and other public financial statements provide a balanced and understandable assessment of the Company's position.

The Audit Committee consists of both Non-executive Directors under the Chairmanship of John Govett. The Audit Committee meets at least twice a year. The Committee provides a forum for reporting by the Company's external and internal auditors. Meetings are also attended, by invitation, by Robert Peel.

The Company has an established internal audit function whose primary responsibility is to formalise internal audit procedures and to provide continuous independent review of the Company's internal controls and business practices. The internal audit function reports to the Audit Committee on a regular basis.

Internal controls

The Board is responsible for reviewing the effectiveness of the system of internal control. The Board has delegated, to executive management, the implementation of the systems of internal control.

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.

The following processes take place on an ongoing basis.

- Review of reports prepared throughout the year by the internal auditor.
- Weekly and monthly reporting of financial information including profit and loss accounts, balance sheets, cash flow statements and other key performance indicators.

CORPORATE GOVERNANCE

- Regular reporting to the Board on certain specific matters including treasury management, insurances, legal and health and safety issues.
- The Chairman of the Audit Committee reports the outcome of audit meetings to the full Board of Directors.

Senior management, from all key disciplines, have been involved in the process of risk assessment in order to identify and assess objectives, key issues and controls. Further review has been performed to identify those risks relevant to the Company and to manage operational, compliance, financial and business risk.

The key procedures that have been established and are designed to provide effective internal control are:

FINANCIAL INFORMATION
Detailed annual budgets are prepared in advance of each financial year. These are reviewed and agreed by the Board with subsequent actual monthly performance reported against these budgets, updated forecasts and prior year comparatives. In addition, separate regular reviews of the overall profitability of the individual hotels are performed and monitored by the Chief Executive.

QUALITY AND INTEGRITY OF PERSONNEL
All members of management, responsible for staff recruitment are made aware of the levels of experience and expertise required.

OPERATING UNIT FINANCIAL CONTROLS
Key controls over major financial risks include reviews against performance indicators and exception reporting. The operating units make regular assessments of their exposure to major financial risks and the extent to which these risks are controlled, which are considered during internal audit visits.

COMPUTER SYSTEM
The Company has established controls and procedures over the security of data held on computer systems. The arrangements are tested regularly and reviewed by the Company's management.

CONTROLS OVER CENTRAL FUNCTIONS
A number of the Company's key functions, including treasury and taxation, are dealt with centrally. Each of these functions is required to report to the Board on a regular basis. These central functions are also subject to self-assessment and review by the Company's internal auditor.

The Board has conducted a review of the system of internal control for the year ended 6 February 2011 and up to the date of this report.

DIRECTORS' REMUNERATION REPORT

Composition of the remuneration committee

The remuneration committee ('the committee') is comprised solely of the Non-executive Directors, John Govett and Keith Benham. The committee makes its decisions following consultation with the Chief Executive and has access to professional advice from outside the Company. The remuneration of the Executive Chairman is set by the Non-executives.

Remuneration policy for Executive Directors

The Company wishes to attract and retain senior management of the highest quality. Accordingly, its policy, in a competitive market, is to design remuneration packages which, through an appropriate combination of basic salary and share options, reward senior managers fairly and responsibly for their individual contributions.

Basic salary

An individual's basic salary is reviewed and determined by the committee annually, taking into account his or her performance and responsibilities within the Company. In deciding the appropriate level, the committee has access to external research and information on a range of peer companies.

Share options

The committee believes that share ownership by Executive Directors and senior management also helps to strengthen the link between their personal interests and the longer term interests of the Company's Shareholders. Grants of options are based on performance and are reviewed annually. Exceptionally, grants may be awarded on appointment.

Movements in share options are detailed in note 17.

Pension arrangements

The Company operates an approved money purchase pension scheme for Executive Directors and certain other members of staff. Members of the scheme contribute 5% of their salary, and the Company contributes 9%.

The Company has complied with statutory requirements regarding stakeholder pensions.

Non-executive Directors' remuneration

Fees payable to Non-executive Directors are determined by the Board of Directors, other than the Non-executive Directors, within the limits set by the Articles of Association.

Service contracts and re-election to the Board

At the Annual General Meeting, one third of the Directors will retire by rotation and, if eligible, may offer themselves for re-election. All Executives and Non-executive Directors have notice periods or unexpired terms not greater than twelve months.

Executive Directors' other appointments

Executive Directors are not permitted to hold any other Executive positions but, subject to Board approval, may hold Non-executive Directorships.

DIRECTORS' REMUNERATION REPORT

Directors' remuneration

Executive	Current contractual annual salary/fees £	Actual Salary/fees £	Other benefits £	**52 weeks 6 February 2011 £**	52 weeks 7 February 2010 £
R E G Peel	*50,000*	19,231	990	**20,221**	50,998
N P G Petersen	*85,000*	26,154	1,390	**27,544**	74,956
Non-executive					
C J Govett	*20,000*	20,000	–	**20,000**	20,000
K P Benham	*20,000*	20,000	–	**20,000**	20,000
Total	*175,000*	85,385	2,380	**87,765**	165,954

Other benefits consist of private health and life insurance.

Directors' pension arrangements

A contributory money purchase pension scheme is in operation and the amounts paid by the Company were:

Executive	**52 weeks 6 February 2011 £**	52 weeks 7 February 2010 £
R E G Peel	**–**	–
N P G Petersen	**9,000**	9,000
Total	**9,000**	9,000

Share options granted to Directors

Executive	Date of grant	Number of options granted	Exercise price per share (pence)	Earliest exercise date	Expiry date
N P G Petersen	16.05.02	50,000	87.5	16.05.05	15.05.12
Total		50,000			

The market price of the shares at 6 February 2011 was 64 pence and the range during the year was 58.5 pence to 102.5 pence.

12 May 2011

By order of the Board
Keith Benham
John Govett
Non-executive Directors

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEEL HOTELS PLC

We have audited the financial statements of Peel Hotels Plc for the year ended 6 February 2011 which comprise the statement of comprehensive income, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 and 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 6 February 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEEL HOTELS PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Craig Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
12 May 2011

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 6 February 2011

	Note	2011 £	2010 £
Revenue		**15,263,682**	14,186,042
Cost of sales		**(12,271,069)**	(11,546,545)
Gross profit		**2,992,613**	2,639,497
Administration expenses		**(657,721)**	(634,417)
Depreciation	11	**(1,239,991)**	(1,214,100)
Profit on disposal of property		**203,775**	–
Operating profit		**1,298,676**	790,980
Finance income	6	**406**	123
Finance expense	7	**(1,033,608)**	(865,209)
Fair value movement on derivative	19	**289,855**	(14,453)
Profit /(loss) before tax		**555,329**	(88,559)
Income tax	8	**(55,351)**	202,121
Profit and total comprehensive income for the period attributable to owners		**499,978**	113,562
Earnings per share			
Basic & diluted (pence)		**3.6**	0.8

STATEMENT OF CHANGES IN EQUITY

for the year ended 6 February 2011

Year ended 6 February 2011

	Share Capital £	Share premium account £	Profit and loss account £	Total £
Balance brought forward at 8 February 2010	1,401,213	9,743,495	10,401,199	21,545,907
Employee share options	–	–	1,769	1,769
Transactions with owners	–	–	1,769	1,769
Profit and total comprehensive income for the period	–	–	499,978	499,978
Balance at 6 February 2011	1,401,213	9,743,495	10,902,946	22,047,654

Year ended 7 February 2010

	Share Capital £	Share premium account £	Profit and loss account £	Total £
Balance brought forward at 9 February 2009	1,401,213	9,743,495	10,771,808	21,916,516
Employee share options	–	–	6,253	6,253
Dividends paid	–	–	(490,424)	(490,424)
Transactions with owners	–	–	(484,171)	(484,171)
Profit and total comprehensive income for the period	–	–	113,562	113,562
Balance at 7 February 2010	1,401,213	9,743,495	10,401,199	21,545,907

BALANCE SHEET
at 6 February 2011

	Note	2011 £	2010 £	2009 £
Assets				
Non-current assets				
Property, plant and equipment	11	**38,583,903**	39,513,792	29,661,798
Deferred tax asset	16	**251,707**	342,189	338,142
Total non-current assets		**38,835,610**	39,855,981	29,999,940
Current assets				
Inventories	12	**106,788**	112,840	92,945
Trade and other receivables	13	**1,244,761**	1,130,180	1,205,298
Current tax asset		**–**	97,382	–
Cash at bank and in hand		**111,186**	104,912	132,405
Total current assets		**1,462,735**	1,445,314	1,430,648
Total assets		**40,298,345**	41,301,295	31,430,588
Equity and liabilities				
Equity attributable to owners				
Share capital	18	**1,401,213**	1,401,213	1,401,213
Share premium		**9,743,495**	9,743,495	9,743,495
Retained earnings		**10,902,946**	10,401,199	10,771,808
Total equity		**22,047,654**	21,545,907	21,916,516
Liabilities				
Non-current				
Borrowings (due after one year)	15	**10,663,422**	11,557,618	3,004,781
Deferred tax liabilities		**1,618,568**	1,771,811	782,250
Non-current liabilities		**12,281,990**	13,329,429	3,787,031
Current				
Trade and other payables	14	**2,023,531**	1,861,992	1,394,033
Borrowings (due within one year)	15	**2,891,486**	3,341,864	984,540
Current tax liabilities		**121,436**	–	2,140,818
Derivative financial instruments	19	**932,248**	1,222,103	1,207,650
Current liabilities		**5,968,701**	6,425,959	5,727,041
Total liabilities and equity		**40,298,345**	41,301,295	31,430,588

The accompanying accounting policies and notes form an integral part of these financial statements.

Approved by the board 12 May 2011
Robert Peel, Director
Norbert Petersen, Director

CASH FLOW STATEMENT
for the year ended 6 February 2011

	2011 £	2010 £
Cash flows from operating activities		
Profit for the year	**499,978**	113,562
Adjustments for:		
Equity settled share-based payment expenses	**1,769**	6,253
Financial income	**(406)**	(123)
Financial expense	**1,033,608**	865,209
Fair value movement on derivative	**(289,855)**	14,453
Income tax income	**55,351**	(202,121)
Profit on sale of property	**(203,775)**	–
Depreciation	**1,239,991**	1,214,100
Operating profit before changes in working capital and provisions	**2,336,661**	2,011,333
UK corporation tax received/(paid)	**100,706**	(1,050,566)
(Increase)/decrease in trade and other receivables	**(68,504)**	80,749
Increase in trade and other payables	**109,360**	273,374
Increase/(decrease) in inventories	**6,052**	(19,895)
Net cash from operating activities	**2,484,275**	1,294,995
Cash flows from investing activities		
Interest paid	**(1,063,907)**	(760,549)
Acquisition of property, plant and equipment	**(515,102)**	(11,066,094)
Sale of property, plant and equipment	**408,776**	–
Net cash from investing activities	**(1,170,233)**	(11,826,643)
Cash flows from financing activities		
New loans	**500,000**	13,331,100
Loan repayments	**(861,105)**	(4,228,616)
Equity dividends paid	**–**	(490,424)
Net cash from financing activities	**(361,105)**	8,612,060
Net increase/(decrease) in cash and cash equivalents	**952,937**	(1,919,588)
Cash and cash equivalents at the beginning of the period	**(1,787,183)**	132,405
Cash and cash equivalents at the end of the period	**(834,246)**	(1,787,183)
For the purposes of the cash flow statement, cash and cash equivalents comprise:		
Cash and bank balances	111,186	104,912
Bank overdraft	(945,432)	(1,892,095)

NOTES

(forming part of the financial statements)

1 Accounting policies

Significant accounting policies

Peel Hotels Plc (the "Company") is a public limited company incorporated in the UK.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 9 February 2009 for the purposes of the transition to Adopted IFRSs.

Basis of preparation

The financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are included at their fair value.

These results represent the first annual financial statements the Company has prepared in accordance with its accounting policies under IFRS and the comparatives for 2010 have been restated from UK GAAP to comply with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 23. This note includes reconciliations of equity and profit for comparative periods reported under UK GAAP to those reported for those periods under IFRS.

The IFRS accounting policies have been applied consistently to all periods presented in these financial statements from the date of transition on 9 February 2009. They also have been applied in preparing an opening IFRS balance sheet at 9 February 2009 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from UK GAAP to IFRS is explained in Note 23.

The financial statements are presented in sterling.

Significant judgements and estimates

The preparation of financial statements in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, and underlying assumptions, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider that the key judgements made in the preparation of the financial statements are:

Property, plant and equipment: The assessment of the useful economic lives requires judgement in order that depreciation can be charged over the life selected. This also includes the assessment of the level of residual value that will be attributed to assets. Also, judgement is required in determining whether the carrying values of the assets have any indication of impairment and, if so, whether these values can be supported by the net present value of future cash flows to be derived from the asset. This forecast involves estimates of cash flows and selection of an appropriate discount rate.

Classification of leases: The classification of leases requires judgement in order that they may properly be classified as finance leases or operating leases. This judgement involves assessment of all the terms and conditions of the lease to ascertain whether the Company bears substantially all the risks and rewards related to the ownership of the leased asset.

The key area of estimation uncertainty, that is considered to have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is the cash flows ascribed to support the carrying value of assets within the year end balance sheet.

There are a number of new standards and interpretations issued but not yet effective which the Company has not applied in these Accounts. The principal standards which will have direct applicability to the Company are;

- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The effect of the adoption of these new standards is expected to be presentational only.

Revenue recognition

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured by reference to the fair value of consideration received, or receivable, by the Company for goods supplied and services provided, excluding VAT, rebates, and trade discounts.

Room and inclusive breakfast revenue is recognised at the end of the financial day. All other revenue such, as bar and restaurant takings are recognised at the point of sale.

Any deposits received are utilised at check-in.

Business combinations

Business combinations occurring on, or after 9 February 2009 are accounted for using the acquisition method under the revised IFRS 3 Business Combinations (IFRS 3R). The consideration transferred by the Company to obtain control of a subsidiary or business is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities

NOTES

incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired, and liabilities assumed, are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date, fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Property, plant and equipment

It is the Company's policy to maintain its properties to a high standard in order to protect its trade.

Depreciation is charged on properties, excluding freehold land, at a rate calculated to write off the cost, less residual value, on a straight line basis, over 50 years.

On other assets depreciation is charged to write off their costs by equal annual instalments over their estimated useful lives, which are considered to be:

Plant, fixtures and fittings, and equipment	10 years
Soft furnishings	8 years
Office equipment	5 years
Property management system	5 years
Computer equipment	3 years

Material residual value estimates are updated as required, but at least annually.

Impairment

The carrying amount of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value, less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows.

Impairment losses, recognised in respect of cash-generating units, are allocated to reduce the carrying amount of the assets of the unit (group of units) on a pro-rata basis.

NOTES

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire, or if the Company transfers the financial asset to another party, without retaining control or substantially all risks and rewards of the asset.

Cash and cash equivalents comprise cash balances and call deposits.

All derivative financial instruments are accounted for at fair value through profit or loss.

Trade and other receivables

Trade receivables are initially recognised at fair value and are subsequently carried at amortised cost. Where debtor balances are considered to be irrecoverable an impairment charge is recognised in profit or loss.

Trade payables

Trade payables are not interest-bearing and are stated at their fair value, net of direct issue costs, and are subsequently measured at amortised cost.

Post retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to profit or loss represents the contributions payable to the scheme in respect of the accounting period.

Taxation

Tax on the profit, or loss, for the year comprises current and deferred tax. Current tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity and tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method (using rates enacted at the balance sheet date), providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward, as well as other income tax credits to the Company, are assessed for recognition as deferred tax assets.

Changes in deferred tax assets, or liabilities are recognised as a component of tax expense in profit or loss, except where they relate to items that are charged, or credited directly, to equity in which case the related deferred tax is also charged or credited directly to equity and deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

Leases

In accordance with IAS 17 Leases, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the acquisition of the item. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business, less any applicable selling expenses.

Equity settled share based payments

The fair value of awards to employees, that take the form of shares or rights to shares, is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date using an option pricing model. If vesting periods, or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment, prior to vesting, is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received, net of attributable transaction costs, are credited to share capital, and where appropriate share premium.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Profit and loss reserve" represents retained profits.

NOTES

2 Segment analysis

All revenue and operating profit is derived from the main activity of the Company.

Each hotel is considered to be a separate operating segment of the Company based on the information provided to the Chief Operating Decision Maker (considered to be the Board of Directors). These segments are aggregated for the purposes of disclosure as the aggregation criteria of International Financial Reporting Standard 8 are considered to be met.

All non-current assets are located in the UK.

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2011 £	2010 £
Depreciation	**1,239,991**	1,214,100
Repairs and renewals - hotels	**582,127**	521,857
Repairs and renewals – other	**19,022**	16,662
Lease payments – land and buildings	**589,492**	559,737
Lease payments – plant and equipment	**173,481**	176,475

Auditor's remuneration:

	2011 £	2010 £
Auditor's remuneration for audit services	**29,000**	29,000
Other services	**5,900**	–
Auditor's remuneration for tax compliance services	**8,900**	23,940
Audit – Company pension scheme	**585**	550

4 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees 2011	2010
Directors	**4**	4
Other employees	**452**	436
	456	440

The aggregate payroll costs of these persons were as follows:

	2011 £	2010 £
Wages and salaries	**5,209,102**	4,975,205
Share based payments (See note 17)	**1,769**	6,253
Social security costs	**367,685**	348,726
Pension costs	**56,006**	58,113
	5,634,562	5,388,297

NOTES

5 Remuneration of Directors

	2011 £	2010 £
Directors emoluments	**87,765**	165,954
Company contributions to money purchase pension schemes	**9,000**	9,000
	96,765	174,954

The aggregate of emoluments of the highest paid Director was £27,544 (2010: £74,956) and company pension contributions of £9,000 (2010:£ 9,000) were made to a personal pension scheme on his behalf. The total employer's national insurance paid in respect of Directors was £7,437 (2010: £16,329). Details of amounts paid to individual Directors is shown on page 14.

There were no (2010: nil) members of key management other than the Directors of the Company.

6 Finance income

Recognised in profit or loss

	2011 £	2010 £
Interest receivable	**406**	123

7 Finance expense

Recognised in profit or loss

	2011 £	2010 £
Interest on long term bank loan	**834,263**	551,164
Interest on other loans	**42,453**	15,121
Interest on bank loans	**35,610**	34,734
Bank charges, fees and instrument costs	**121,282**	264,190
	1,033,608	865,209

8 Income tax expense

Recognised in the income statement

	2011 £	2010 £
Current year	**121,436**	(97,382)
Adjustments for prior years	**(3,324)**	(1,090,253)
	118,112	(1,187,635)

NOTES

Deferred tax expense

Origination and reversal of temporary differences	**(112,000)**	(27,000)
Adjustments for prior years	**2,000**	1,016,561
Movement on deferred tax asset relating to derivative	**90,482**	(4,047)
Effect of rate change	**(43,243)**	–
	(62,761)	985,514
Total tax in income statement	**55,351**	202,121

Reconciliation of effective tax rate

	2011 **£**	2010 £
Profit/(loss) before tax for the period	**555,329**	(88,559)
Tax using the UK corporation tax rate of 28% (2010: 28%)	**155,492**	(24,797)
Non-deductible expenses	**(29,612)**	(48,173)
Margin relief	**(17,562)**	(6,877)
Capital allowances for the year in excess of depreciation	**–**	(16,333)
Other short-term timing differences	**(8,400)**	(32,249)
Tax rates	**(43,243)**	–
Over provided in prior years	**(1,324)**	(73,692)
Total tax expense/(credit)	**55,351**	(202,121)

9 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 6 February 2011, was based on the profit attributable to ordinary shareholders of £499,978 (2010: £113,562) and a weighted average number of ordinary shares outstanding of 14,012,123 (2010: 14,012,123). No shares were issued in 2011 or 2010.

Diluted earnings per share

There were no potentially dilutive options in issue in 2011 and 2010 and consequently there is no difference between basic and diluted earnings per share.

10 Dividends

Details of the dividend payments made during the year are set out below.

	2011 **£**	2010 £
Dividend of 3.5p per share paid 26 June 2009	**nil**	490,424

The aggregate amount of dividends proposed, and not recognised as liabilities as at the year end, is nil.

NOTES

11 Property, plant and equipment

	Land and buildings £	Plant and Machinery £	Furniture, furnishings and equipment £	Total £
Cost				
Balance at 9 February 2009	25,313,645	4,255,665	6,404,368	**35,973,678**
Additions	8,404,520	984,090	1,677,484	**11,066,094**
Fully depreciated items	–	–	(1,347,725)	**(1,347,725)**
Balance at 7 February 2010	33,718,165	5,239,755	6,734,127	**45,692,047**
Additions	150,436	85,972	278,694	**515,102**
Disposals	(180,000)	–	(25,000)	**(205,000)**
Fully depreciated items	–	–	(1,843,319)	**(1,843,319)**
Balance at 6 February 2011	33,688,601	5,325,727	5,144,502	**44,158,830**
Depreciation				
Balance at 9 February 2009	464,923	2,361,433	3,485,524	**6,311,880**
Provision for the year	88,451	515,871	609,778	**1,214,100**
Fully depreciated items	–	–	(1,347,725)	**(1,347,725)**
Balance at 7 February 2010	553,374	2,877,304	2,747,577	**6,178,255**
Provision for the year	105,296	524,468	610,227	**1,239,991**
Fully depreciated items	–	–	(1,843,319)	**(1,843,319)**
Balance at 6 February 2011	658,670	3,401,772	1,514,485	**5,574,927**
Net book value				
At 9 February 2009	24,848,722	1,894,232	2,918,844	**29,661,798**
At 7 February 2010	33,164,791	2,362,451	3,986,550	**39,513,792**
At 6 February 2011	**33,029,931**	**1,923,955**	**3,630,017**	**38,583,903**

The bank loan and overdraft are secured by a debenture dated 6 March 1998 over all the Company's properties.

12 Inventories

Inventories comprise food and liquor.

The cost of inventories recognised as an expense, and included in cost of sales, is £1,905,808 (2010: £1,832,329).

NOTES

13 Trade and other receivables

	2011 £	2010 £	2009 £
Trade receivables	**449,692**	500,243	497,499
Prepayments and accrued income	**795,069**	629,937	707,799
	1,244,761	1,130,180	1,205,298

14 Trade and other payables

	2011 £	2010 £	2009 £
Trade payables	**483,963**	572,998	351,712
Social security and other taxes	**519,895**	468,458	270,307
Accruals and deferred income	**1,019,673**	820,536	772,014
	2,023,531	1,861,992	1,394,033

15 Borrowings

	2011 £	2010 £	2009 £
Financial liabilities measured at amortised cost:			
Current			
Bank overdrafts	**945,432**	1,892,095	–
Bank loans	**446,054**	449,769	984,540
Directors loans	**1,500,000**	1,000,000	–
Total current	**2,891,486**	3,341,864	984,540
Non-current			
Bank loans	**10,663,422**	11,557,618	3,004,781
Total	**13,554,908**	14,899,482	3,989,321

NOTES

16 Deferred tax

	2011 £	2010 £
Deferred tax asset		
At 8 February 2010	**342,189**	338,142
Income statement charge:		
Origination and reversal of temporary timing differences	**(81,160)**	4,047
Changes in rates	**(9,322)**	–
At 6 February 2011	**251,707**	342,189
Deferred tax liability		
At 8 February 2010	**1,771,811**	782,250
Income statement charge:		
Origination and reversal of temporary timing differences	**(110,000)**	989,561
Changes in rates	**(43,243)**	–
At 6 February 2011	**1,618,568**	1,771,811

17 Share options

The Company has granted share options to employees of the Company. Such options are exercisable at a price established at the date the option is granted. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Date granted	No. of shares	Exercise price	Exercise dates From	Exercise dates To
16 May 2002	53,000	87.5p	16 May 2005	15 May 2012
14 April 2004	47,000	88.5p	14 April 2007	13 April 2014
31 May 2005	166,000	102.0p	31 May 2008	31 May 2015
23 May 2007	28,000	163.5p	23 May 2010	22 May 2017
	294,000			

The number and weighted average exercise prices of share options are as follows:

	2011 Weighted Average Exercise price (pence)	2011 Number of options	2010 Weighted Average Exercise price (pence)	2010 Number of options
Outstanding at 8 February 2010	103.3	342,000	103.3	342,000
Lapsed during the year	104.3	(48,000)	–	–
Outstanding at 6 February 2011	103.1	294,000	103.3	342,000
Exercisable at 6 February 2011	103.1	294,000	97.9	314,000

18 Share capital

	2011 £	2010 £	2009 £
Authorised – 25,000,000 ordinary shares of 10p each	**2,500,000**	2,500,000	2,500,000
Allotted, called up and fully paid – 14,012,123 ordinary shares of 10p each	**1,401,213**	1,401,213	1,401,213

The holders of ordinary shares are entitled to receive dividends, as declared from time to time, and are entitled to one vote per share at meetings of the Company.

19 Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Interest rate risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies, and systems, are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash holdings.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred, but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

NOTES

Capital management

The Board's policy is to maintain a strong capital base (being share capital and premium plus retained earnings) so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital and the level of dividends to ordinary Shareholders. The Company considers whether future acquisitions, or significant capital expenditure, are best achieved through the raising of new share capital, the raising of new debt or a combination of these two by consideration of the effect on gearing, cost of borrowing and dividend yields expected.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

Financial assets and liabilities

Summary of financial assets and liabilities by category:

Loans and other receivables: measured at amortised cost

	2011	2010
	£	£
Cash and cash equivalents	**111,186**	104,912
Trade and other receivables excluding prepayments	**449,682**	500,243
	560,868	605,155

Financial liabilities measured at amortised cost

	2011	2010
Current		
Trade and other payables	**483,963**	572,998
Borrowings	**2,891,486**	3,341,864
Non-current		
Borrowings	**10,663,422**	11,557,618
	14,038,871	15,472,480

Financial liabilities at fair value through the profit and loss account

	2011	2010
Derivative financial instruments	**932,248**	1,222,103

Credit risk

Exposure to credit

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2011	2010
	£	£
Cash and cash equivalents	**111,186**	104,912
Trade and other receivables excluding prepayments	**449,682**	500,243
	560,868	605,155

NOTES

All of the Company's trade and other receivables have been reviewed for indicators of impairment. An impairment provision of £nil (2010: £nil) has been made against specific balances.

In addition some of the unimpaired trade receivables are past due as at the reporting date. The age of the trade receivables past due, but not impaired, are as follows:

	2011	2010
	£	£
Not past due	**255,131**	330,117
Past due 0-30 days	**113,158**	108,418
Past due 31-120 days	**44,808**	43,991
Past due 120 days+	**36,595**	17,717
	449,692	500,243

Liquidity risk

The following are the contractual maturities of the Company's non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements:

6 February 2011

	Current On demand	Current Within 6 months	Current Within 6-12 months	Non-current 1 to 5 years
	£	£	£	£
Trade and other payables	–	483,963	–	–
Bank overdrafts	945,432	–	–	–
Bank loans	-	422,458	418,699	11,311,982
Directors loans	1,500,000	–	–	–

7 February 2010

	Current On demand	Current Within 6 months	Current Within 6-12 months	Non-current 1 to 5 years
	£	£	£	£
Trade and other payables	–	572,998	–	–
Bank overdrafts	1,892,095	–	–	–
Bank loans	–	380,103	376,902	12,839,692
Directors loans	1,000,000	–	–	–

Liquidity needs are managed by regular review of the timing of expected receivables and the availability of facilities and levels of cash on deposit, via the preparation of cash flow forecasts. The interest payable on the bank loan is fixed by the interest rate swap agreement.

The amount, on which the derivative financial instrument is fixed, decreases from £10,034,700 at 12 October 2009 by £492,270 every six months until maturity on 11 April 2014.

NOTES

Interest rate risk

The Company manages the majority of its interest rate risk via the use of an interest rate swap agreement. Borrowings not covered by this agreement have interest rates payable at between 2.5% and 4% over six month LIBOR.

The Company entered into a GBP roller coaster callable interest rate swap agreement which commenced on 11 April 2003 and ends on 11 April 2014, with an option for the Royal Bank of Scotland to terminate the agreement from 11 October 2009. Under the terms of this agreement the Company fixed its interest payments on £3,526,970 of the loan until 12 October 2009, increasing on that date to £10,034,700. This amount decreases by £492,270 every six months until 11 April 2014.

Under the fixed interest swap the Company pays 5.83% plus margin of 1.95% on these amounts.

An increase in interest rates of 1% would have had an adverse impact on the result for the year of £34,000 (2010: £38,000)

Currency risk

The Company has no material foreign currency risk.

Fair values of derivative financial instruments

The fair value of this financial instrument is classified within level 2 of the IFRS 7 fair value hierarchy. Derivatives are classified as fair value through the profit and loss under IAS 39. The estimated fair value of these financial instruments, at the end of the period, has been calculated using the net present value of the expected cash flows from the transactions and assumes that no unusual market conditions, or forced liquidation, will occur during their term.

The gain recognised in profit and loss for the year ended 6 February 2011 was £289,855 (2010: loss £14,453). This is disclosed separately on the face of the statement of comprehensive income.

Fair values of non-derivative financial instruments

The carrying value of the Company's financial instruments (trade and other receivables, cash and bank balances, bank overdrafts, trade and other payables and borrowings) approximate to their fair value.

Market rate risk

The Company is exposed to market rate risk through its use of derivatives whose value will fluctuate depending on a number of market conditions. The Directors constantly monitor the value of the derivative and whether its current market value may make it advantageous, in the future, to buy itself out of the commitments. There is only one such instrument in issue at the year end.

NOTES

20 Operating leases

The Company's minimum operating lease payments are as follows:

	2011 Land and buildings £	2010 Land and buildings £	**2011 Plant and machinery £**	2010 Plant and machinery £
Within one year	**592,852**	563,503	**173,481**	197,873
Within one to five years	**2,204,048**	2,148,728	**173,481**	197,873
After five years	**22,535,139**	22,663,311	**–**	–
	25,332,039	25,375,542	**346,962**	395,746

The leases over land and buildings have rent review clauses within them for rentals to be amended to market rent every 5-10 years.

21 Capital commitments

Amounts contracted for but not provided in these financial statements amounted to £48,250 (2010: 22,000)

22 Related parties

During the year premiums of £48,657 (2010: £199,186), were paid to T L Dallas & Co Ltd, in which Robert Peel is a shareholder, and there is a £108,728 outstanding balance at the year end (2010: £nil).

The Company pays rent on the London property used as its Head Office, which is owned by Robert Peel. The passing rent is £35,000 per annum.

The Director's loan of £1,500,000, due to Robert Peel is unsecured and is repayable on demand. The loan bears interest at 2.5% over base rate.

There were no other significant transactions between these parties during the year.

NOTES

23 Explanation of transition to Adopted IFRSs

As stated, in the accounting policies, these are the Company's first annual financial statements prepared in accordance with IFRS. In preparing its opening IFRS balance sheet and comparative information for the financial statements for the year ended 6 February 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

IFRS 1 'First Time Adoption of International Financial Reporting Standards' – contains certain optional exemptions to assist companies in the transition to IFRS. The Company has elected to take the following exemptions:

IFRS 3 'Business Combinations' – advantage has been taken of the optional exception from full retrospective application of IFRS3, and consequently, this standard has not been applied to acquisitions made before 8 February 2009.

The details of how the transition from UK GAAP to IFRS has affected the Company's financial position and financial performance, are set out in the tables on pages 38 and 39. The adjustments have been required to comply with the following reporting standards:

IAS39 – derivatives are required to be included in the balance sheet at their fair value. This has resulted in the recognition of a liability at 9 February 2009 of £1,207,650, representing the fair value of the interest rate swaps in existence at that date. The results for the year ended 7 February 2010 have been reduced by £14,453, representing the increase in the fair value of the instruments in the year. A deferred tax asset has been recognised in relation to this liability.

IAS12 – previously under UK GAAP, there was no requirement to provide deferred tax, in respect of those assets, against which capital gains rollover relief had been claimed. Under IAS 12, deferred tax must be provided against the difference between the qualifying net book value of those assets and their reduced tax base cost. Accordingly, the deferred tax provision was increased by £194,250, as at 9 February 2009 and by a further £1,016,561 in the year ended 7 February 2010.

NOTES

23 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity

	9 February 2009 UK GAAP £	9 February 2009 Effect of transition to adopted IFRSs £	9 February 2009 Adopted IFRSs £	7 February 2010 **UK GAAP** **£**	7 February 2010 **Effect of transition to adopted IFRSs** **£**	7 February 2010 **Adopted IFRSs** **£**
Non-current assets						
Property, plant and equipment	29,661,798	–	29,661,798	**39,513,792**	**–**	**39,513,792**
Deferred tax asset	–	338,142	338,142	**–**	**342,189**	**342,189**
Current assets						
Inventories	92,945	–	92,945	**112,840**	**–**	**112,840**
Trade and other receivables	1,205,298	–	1,205,298	**1,130,180**	**–**	**1,130,180**
Taxation receivable	–	–	–	**97,382**	**–**	**97,382**
Cash and cash equivalents	132,405	–	132,405	**104,912**	**–**	**104,912**
	1,430,648	–	1,430,648	**1,445,314**	**–**	**1,445,314**
Total assets	31,092,446	338,142	31,430,588	**40,959,106**	**342,189**	**41,301,295**
Non-current liabilities						
Borrowings	3,004,781	–	3,004,781	**11,557,618**	**–**	**11,557,618**
Deferred tax liabilities	588,000	194,250	782,250	**561,000**	**1,210,811**	**1,771,811**
Current liabilities						
Trade and other payables	1,394,033	–	1,394,033	**1,861,992**	**–**	**1,861,992**
Borrowings	984,540	–	984,540	**3,341,864**	**–**	**3,341,864**
Income tax	2,140,818	–	2,140,818	**–**	**–**	**–**
Derivative financial instruments	–	1,207,650	1,207,650	**–**	**1,222,103**	**1,222,103**
Total liabilities	8,112,172	1,401,900	9,514,072	**17,322,474**	**2,432,914**	**19,755,388**
Net assets	22,980,274	(1,063,758)	21,916,516	**23,636,632**	**(2,090,725)**	**21,545,907**
Equity attributable to equity holders of the parent						
Share capital	1,401,213	–	1,401,213	**1,401,213**	**–**	**1,401,213**
Share premium	9,743,495	–	9,743,495	**9,743,495**	**–**	**9,743,495**
Retained earnings	11,835,566	(1,063,758)	10,771,808	**12,491,924**	**(2,090,725)**	**10,401,199**
Total equity	22,980,274	(1,063,758)	21,916,516	**23,636,632**	**(2,090,725)**	**21,545,907**

23 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of profit for 12 months ended 7 February 2010

	UK GAAP £	Effect of transition to Adopted IFRSs £	Adopted IFRSs £
Revenue	14,186,042	–	14,186,042
Cost of sales	(11,546,545)	–	(11,546,545)
Gross profit	2,639,497	–	2,639,497
Administrative expenses	(634,417)	–	(634,417)
Depreciation	(1,214,100)	–	(1,214,100)
Operating profit before net financing costs	790,980	–	790,980
Financial income	123	–	123
Financial expenses	(865,209)	–	(865,209)
Fair value movement on derivative	–	(14,453)	(14,453)
Profit / (loss) before tax	(74,106)	(14,453)	(88,559)
Taxation	1,214,635	(1,012,514)	202,121
Profit for the year	1,140,529	(1,026,967)	113,562

There is no material differences between the cash flow statement presented under Adopted IFRSs and the cash flow statement presented under UK GAAP.

HOTEL DIRECTORY

PEEL HOTELS PLC

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Location	Hotel	Rating	Rooms	Telephone	Facsimile
Bournemouth	Norfolk Royale	★★★★	95	01202 551521	01202 299729
Bradford	Midland Hotel	★★★★	90	01274 735735	01274 720003
Carlisle	Crown & Mitre Hotel	★★★★	94	01228 525491	01228 514553
Dunfermline	King Malcolm Hotel	★★★★	48	01383 722611	01383 730865
Leeds	Cosmopolitan Hotel	★★★★	89	0113 2436454	0113 2429327
Newcastle upon Tyne	Caledonian Hotel	★★★★	91	0191 2817881	0191 2816241
Nottingham	Strathdon Hotel	★★★★	68	0115 9418501	0115 9483725
Peterborough	Bull Hotel	★★★★	118	01733 561364	01733 557304
Wallingford	George Hotel	★★★★	39	01491 836665	01491 825359
Total of 9 Hotels			732		

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