CHAIRMAN'S STATEMENT

Results

Total turnover decreased by 4.8% to £15,150,339. Operating profit for the full year increased 10% to £2,192,541 (2007: £1,993,833) and increased 8.6% in the second half of the year from £749,140 to £813,693.

On 3 September 2007 the Company sold the Avon Gorge Hotel together with the associated staff house at 10, Caledonia Place for an aggregate consideration of £15,500,000 in cash paid on 3 September 2007. On 14 December 2007 the Company sold the freehold of its Salem Street site in Bradford with planning permission for 99 apartments, office space and associated car parking for a consideration of £2,000,000. These two disposals have resulted in an exceptional profit on disposal of £8,142,521 in the year and have left the Company with minimal net debt having also taken into account the purchase of the head lease and two small freeholds of the Bull Hotel in Peterborough for £2,350,000 on 4 September 2007.

After taking into account this significant profit on asset disposals of £8,142,521, the pre-tax result was £9,589,533 (2007: £1,563,120). Excluding exceptional profits the comparative pre-tax profits were £1,447,012 (2007: £713,120). After a full tax provision, earnings per share were 63.4p basic and 62.8p on a diluted basis (2007: 9.8p basic and 9.3p diluted).

At 10 February 2008, net debt stood at £40,417 representing loans totalling £3,970,783 and an overdraft of £177,757 less £4,108,123 cash at bank. Gearing on Shareholders' funds was 0.2% with interest covered 13.9 times. Net debt decreased by £15,228,766 compared with the previous year.

Like for like Hotel revenues, excluding the Avon Gorge Hotel, increased 3.7% and Hotel profits after depreciation and before Company administration costs increased 19.2%. REVPAR(accommodation revenue per available bedroom), calculated without the Avon Gorge Hotel, increased 4.4% in the year with occupancy up by 1.5% and average room rate up by 3%.

Individual Hotel results were in the main encouraging with stellar performances from the George Hotel in Wallingford and the Bull Hotel in Peterborough. The Strathdon Hotel in Nottingham continued to lose money, although its Revpar increased by 1.9% which is an encouraging sign in our attempt to turn this particular business around. On 5 September 2007 a fire started in the kitchens of the Golden Lion in Leeds causing damage to kitchen, restaurant and 11 bedrooms. Remedial work is still ongoing and, whilst the costs of the work are fully covered by insurance, it is pleasing to report that, notwithstanding the losses of profit caused by the fire (which are fully insured), the Hotel still managed to increase its profits after depreciation by 12% in the year.

Finance

The disposals in the year effectively left the Company with no net debt. On 10 February 2008 net debt was £40,417. We repaid the £400,000 loan taken out for the refurbishment of the Ballroom of the Midland Hotel, and £7,000,000 of the loan that was due for repayment in 2014, leaving a balance of £4,009,240 to be repaid in instalments from 2009 to 2014. At the year end the Company had £1,500,000 and £2,500,000 on deposit carrying interest rates of 6.30% and 6.31% respectively.

CHAIRMAN'S STATEMENT

The disposals in 2007 give rise to a capital gains liability of £2,400,000 to be paid in November 2008. However should we decide to expand in the current year the liability would be largely mitigated and in any event would in all probability be clawed back through capital expenditure over the next three years.

The Board has considered the financial position of the Company in the light of the disposals and have decided to distribute a one off bonus dividend of 15p per share amounting to £2,101,818. This will be paid out on 28 April 2008 to all Shareholders on the register on 18 April 2008.

In addition to the one off bonus dividend and as promised at the half year, the Board has recommended paying a final dividend of 3.5p amounting to £490,424, which, if approved by Shareholders, will be paid on 22 May 2008 to Shareholders on the register at 25 April 2008 making a total of 5.5p for the year (2007: 5p)

Capital Expenditure

During the period capital expenditure amounted to £3,956,499 of which £2,462,108 was to purchase the head lease and two small freeholds of the Bull Hotel in Peterborough. The balance of £1,494,391 was spent on upgrading the Company's Hotels of which £272,324 was spent on the Avon Gorge Hotel prior to its disposal.

16 of the 68 bedrooms at the Strathdon Hotel in Nottingham were refurbished. Improvements were made to the bedrooms at the Crown and Mitre Hotel in Carlisle and the Golden Lion Hotel in Leeds. Ballrooms were completely renovated at the King Malcolm Hotel in Dunfermline and the George Hotel in Wallingford. Disabled bedrooms were built at the Caledonian Hotel in Newcastle and the Golden Lion Hotel in Leeds. The outside elevations of the Midland Hotel in Bradford continue to be restored and we have invested heavily in two luxury bedroom suites that complement our growing conference and banqueting business. We expect to accelerate our capital expenditure in the current year with a view to further improving our product and thereby the ability to increase average room rates.

The refurbished ballroom at the George Hotel, Wallingford.

CHAIRMAN'S STATEMENT

Non-Core Assets

As mentioned above, we successfully completed the sale of the Salem Street site in Bradford for £2,000,000 on 14 December 2007.

We are reviewing the merits of a sale or conversion to five flats of 31 Grosvenor Place in Newcastle, currently used as staff accommodation.

Shareholders

Shareholders are actively encouraged to visit the Company's Hotels and experience the progress that is continually being made in terms of product and services whilst enjoying a beneficial discount. All Shareholders are entitled to a 30% discount, using the special reservations number 0207 266 1100 or e-mail info@peelhotel.com. Shareholders can identify the Hotels using the directory at the back of the annual report. Shareholders can keep in touch with progress in the Company and various promotional initiatives by visiting our website www.peelhotels.co.uk

Staff

The Board would like to thank the management and staff for their contribution to the business of Peel Hotels and for the safety and welfare of its guests. In the final analysis it is their friendliness and care for the guests that will build the Company's reputation and grow the business.

Last year I mentioned that our Finance Director, John Perkins retired due to ill health on the 16 April 2007. I am sad to report that John died on the 24 January 2008 and our thoughts and sympathy are with his family.

The Future

We are in an excellent position, with effectively no net debt, to take advantage of any weakness in the property market should that occur and we continually review Hotels that are on the market. There is still plenty to do in regard to adding value to our existing portfolio and growing profits organically which in turn will self fund capital improvements and deliver to Shareholders a progressive dividend policy.

Robert Peel

Chairman

15 April 2008

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
Sabretooth Law Ltd
1 Berkeley Street, Mayfair, London W1J 8DJ

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

Company registration number 3473990

Auditors
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
Sabretooth Law Ltd
1 Berkeley Street, Mayfair, London W1J 8DJ

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

Nominated Adviser and Stockbroker
KBC Peel Hunt Ltd
4th Floor, 111 Old Broad Street, London EC2N 1PH

DIRECTORS' REPORT

The Directors present their report and the accounts of the Company for the year ended 10 February 2008.

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 £8,373,979 (2007 - £1,264,120). The Directors recommend that a final dividend of 3.5p per share be paid amounting to £490,424, the final dividend together with the interim dividend of 2p per share amounting to £278,242, making a total of 5.5p (2007: 5p) at a cost of £768,666 (2007- £642,856).

The Directors have considered the financial position of the Company in the light of an extremely successful year in terms of disposals and have decided to distribute a one off bonus dividend of 15p per share amounting to £2,101,818.

Executive directors

Robert Peel, age 61, was appointed on 25 November 1997.
Norbert Petersen, age 61, 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.

John Perkins resigned on 16 April 2007.

Non-executive directors

John Govett, age 64, appointed on 23 February 1998, was formerly chairman of Schroder Investment Management and is currently a non-executive director of Rio Tinto Pension Investments Ltd.

Keith Benham, age 65, appointed on 23 February 1998, was formerly a senior partner at Linklaters.

Directors' interests

The Directors' interests are shown in note 24 to the accounts.

Substantial shareholdings

Save for the interests of Robert Peel, which are set out in note 24, 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 10 February 2008.

	Number of shares	Percentage of share capital
Charles Peel	2,685,000	19.2%
JP Morgan Fleming Asset Management	1,366,117	9.8%
Framlington Asset Management	633,471	4.5%
David Urquhart	564,754	4.0%

DIRECTORS' REPORT

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.

Tangible fixed assets

Movements on fixed assets are set out in note 9 to the accounts.

Charitable and political contributions

During the year there were no charitable or political contributions (2007 £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 28.5 days (2007 – 19 days).

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual 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 financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

1. Select suitable accounting policies, and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
4. 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 proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention of fraud and other irregularities.

DIRECTORS' REPORT

In so far as the Directors are aware:

1. There is no relevant audit information of which the Company's auditors are unaware
2. 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 auditors are 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.

Financial risk management

The Directors are confident that the banking facilities currently in place are more than adequate for the Company's working capital requirements. 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 14 to the financial statements.

Annual General Meeting

The notice convening the Annual General Meeting to be held at KBC Peel Hunt, 4th Floor, 111 Old Broad Street, London EC2N 1PH on Wednesday 21 May 2008 at 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 May 2008 to the conclusion of the Company's 2009 Annual General Meeting.

A resolution will be proposed, as a special resolution, authorising the Directors to allot ordinary shares for cash other than in accordance with section 89 of the Companies Act 1985. Section 89 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 89 of the Companies Act 1985 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 the Report and Accounts, declaring a dividend and re-appointing Grant Thornton UK LLP as auditors. Resolutions will be proposed to re-elect Norbert Petersen and Keith Benham who retire by rotation in accordance with the Company's Articles of Association and who, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

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.

Auditors
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.

15 April 2008	By order of the board
Registered Office	Sabretooth Law Ltd
4th Floor	Secretary
111 Old Broad Street	
London EC2N 1PH	

CORPORATE GOVERNANCE

Peel Hotels Plc is listed on AIM and is not subject to the requirements of the 2003 Combined 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 9 occasions in the financial period to 10 February 2008). 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.

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 Sabretooth Law Ltd, 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 its Annual Report and Accounts 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.
- 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.

CORPORATE GOVERNANCE

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 SYSTEMS
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.

The Board has conducted a review of the system of internal control for the year ended 10 February 2008 and up to the date of this report.

Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

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 Executive Chairman 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 25.

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 Executive 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 annual salary/fees £	Salary/fees £	Compensation for loss of office £	Other benefits £	**52 weeks 10 Feb 2008 £**	52 weeks 11 Feb 2007 £
R E G Peel	*50,000*	35,385	–	1,096	**36,481**	32,102
N P G Petersen	*85,000*	76,827	–	1,496	**78,323**	84,214
J Perkins	–	14,077	40,000	324	**54,401**	62,188
Non-executive						
C J Govett	*20,000*	16,154	–	–	**16,154**	15,000
K P Benham	*20,000*	16,154	–	–	**16,154**	15,000
Total	*175,000*	158,597	40,000	2,916	**201,513**	208,504

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 10 Feb 2008 £**	52 weeks 11 Feb 2007 £
N P G Petersen	**9,000**	9,000
J Perkins	**1,938**	6,300
Total	**10,938**	15,300

Share options granted to Directors – not exercised at the year end

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			

Share options exercised by Directors

Executive	Date of grant	Number of options granted	Exercise price per share (pence)	Earliest exercise date	Expiry date
R E G Peel	27.2.98	250,000	25	27.02.01	25.10.07
R E G Peel	27.2.98	250,000	50	27.02.01	25.10.07
R E G Peel	27.2.98	250,000	75	27.02.01	25.10.07
R E G Peel	27.2.98	250,000	100	27.02.01	25.10.07
N P G Petersen	14.10.98	100,000	116.5	14.10.01	06.11.07
Total		1,100,000			

During the year 65,000 share options granted to John Perkins lapsed. The market price of the shares at 10 February 2008 was 162.5 pence and the range during the year was 151 pence to 192.5 pence.

The options exercised by Robert Peel resulted in a notional gain of £875,000.

The options exercised by Norbert Petersen resulted in an actual gain of £32,899

The tax payable on these transactions was paid under PAYE by the Company and reimbursed by the Directors.

15 April 2008

By order of the board
Keith Benham & John Govett
Non-executive directors

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

We have audited the financial statements of Peel Hotels plc for the year ended 10 February 2008 which comprise the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Director's Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Directors' Report, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion :

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 10 February 2008 and of the profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Leeds

15 April 2008

PROFIT & LOSS ACCOUNT

For the 52 weeks ended 10 February 2008

	Note	£	**10 February 2008** £	£	11 February 2007 £
Turnover	1		**15,150,339**		15,919,976
Cost of sales			**(11,010,153)**		(12,049,329)
Gross profit			**4,140,186**		3,870,647
Administrative expenses					
Depreciation		**(1,092,642)**		(1,133,957)	
Other		**(855,003)**		(742,857)	
			(1,947,645)		(1,876,814)
Operating profit			**2,192,541**		1,993,833
Profit on disposal of property			**8,142,521**		850,000
Interest payable and similar charges	2		**(745,529)**		(1,280,713)
Profit on ordinary activities before taxation	3		**9,589,533**		1,563,120
Tax on profit on ordinary activities	4		**(1,215,554)**		(299,000)
Profit on ordinary activities after taxation			**8,373,979**		1,264,120
Earnings Per Share	8				
Basic			**63.4p**		9.8p
Diluted			**62.8p**		9.3p

Movements on reserves are shown in note 17 to the accounts.

There are no recognised gains and losses for the current financial year and preceding financial year other than the profit shown above.

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

All operations are classified as continuing.

BALANCE SHEET

As at 10 February 2008

	Note	**10 February 2008 £**	11 February 2007 £
Fixed assets			
Tangible assets	9	**28,724,660**	34,747,844
Current assets			
Stocks	10	**86,786**	116,581
Debtors	11	**1,342,973**	1,052,859
Cash at bank and in hand		**4,108,123**	158,530
		5,537,882	1,327,970
Creditors (due within one year)	12	**(4,784,341)**	(3,206,767)
Net current assets		**753,541**	(1,878,797)
Total assets less current liabilities		**29,478,201**	32,869,047
Creditors (due after one year)	13 a	**(3,970,783)**	(14,670,677)
Provision for liabilities	15	**(707,000)**	(1,664,102)
Total assets		**24,800,418**	16,534,268
Capital and reserves			
Called up share capital	16	**1,401,213**	1,285,713
Share premium account	17	**9,743,495**	9,068,950
Profit and loss account	17	**13,655,710**	6,179,605
Equity shareholders' funds	17	**24,800,418**	16,534,268

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

Approved by the Board on 15 April 2008

Robert Peel, Director

Norbert Petersen, Director

CASH FLOW STATEMENT

For the 52 weeks ended 10 February 2008

	Note	**£**	**52 weeks to 10 February 2008 £**	£	52 weeks to 11 February 2007 £
Net cash inflow from operating activities	19		**3,272,305**		3,239,888
Returns on investments & servicing of finance					
Interest paid		**(1,000,074)**		(1,319,704)	
Net cash outflow from returns on investments and servicing of finance			**(1,100,074)**		(1,319,704)
Taxation					
UK corporation tax paid		**(30,656)**		(107,482)	
Tax paid			**(30,656)**		(107,482)
Capital expenditure					
Purchase of tangible fixed assets		**(3,978,456)**		(1,469,168)	
Sale of tangible fixed assets		**17,148,617**		2,050,000	
Net cash inflow from capital expenditure			**13,170,161**		580,832
Equity dividends paid			**(921,099)**		(608,576)
Net cash inflow before financing			**14,490,637**		1,784,958
Financing					
Issue of ordinary share capital		**790,045**		40,305	
New long term loan		**–**		400,000	
Less loan arrangement fees		**–**		(4,000)	
Loan repayments		**(11,122,945)**		(2,107,945)	
Net cash outflow from financing			**(10,332,900)**		(1,671,640)
Increase in cash	20		**4,157,737**		113,318
Reconciliation of net debt					
Increase in cash			**4,157,737**		113,318
Decrease in debt			**11,122,945**		1,707,945
Reduction in net debt resulting from cash flows			**15,280,682**		1,821,263
Non cash changes			**(51,916)**		(25,659)
Decrease in net debt in the year			**15,228,766**		1,795,604
Net debt at beginning of year			**(15,269,183)**		(17,064,787)
Net debt at end of year	20		**(40,417)**		(15,269,183)

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

STATEMENT OF ACCOUNTING POLICIES

1 Basis of accounting
The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The principal accounting policies of the Company are set out below and have remained unchanged.

2 Basis of preparation
The financial year consists of the 52 weeks ended 10 February 2008.

3 Acquisitions
On the acquisition of a business, fair values are attributable to the Company's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and, following the implementation of FRS 10, is capitalised in the Company balance sheet in the year of acquisition.

The results and cash flows relating to a business are included in the profit and loss account and the cash flow statement from the date of acquisition.

4 Turnover
Turnover represents amounts receivable from the provision of hotel services including room hire, bar and restaurant takings and is stated after deduction of value added tax.

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.

5 Stocks
Stocks are valued at current cost price at date of stock take.

6 Leases
Operating lease rentals are charged to profit and loss account on a straight line basis over the period of the lease.

7 Fixed assets and depreciation
Fixed assets are originally recorded at cost. It is the Company's policy to maintain its properties to a high standard in order to protect its trade.

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

Short leasehold properties are written off over the remaining period of the lease.

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
Computer equipment	3 years

8 Share-based payments
The Company's policy is that all share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to the profit and loss account reserve.

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 revised subsequently 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 that have vested are not exercised.

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

9 Deferred Taxation

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse.

10 Capital Instruments

Capital instruments are recorded at the fair value of the consideration received less issue costs in accordance with FRS4. The difference between the net proceeds of the issue and the total amounts of payments that the issuer may be required to make is recorded as a finance cost of the instrument and written off over the life of the instrument.

11 Pensions

The Company operates a money purchase pension scheme on behalf of individual employees. Contributions to the scheme are charged against profits in the period in which they arise.

12 Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the period of the contracts.

NOTES TO THE ACCOUNTS

Financial year ended 10 February 2008

1 Turnover and profit

Turnover represents amounts derived from the provision of goods and services which fall within the Company's ordinary activities after deduction of value added tax. All of the turnover and profit on ordinary activities before taxation arises in the United Kingdom.

All net assets are based in the United Kingdom.

2 Net Interest

	2008 £	2007 £
Interest on long term bank loans	**440,588**	645,790
Interest on bank overdraft	**–**	37,036
Bank charges, fees and instrument costs	**411,670**	597,887
	852,258	1,280,713
Interest receivable	**(106,729)**	–
Net interest	**745,529**	1,280,713

3 Profit on ordinary activities before taxation

This is stated after charging:	2008 £	2007 £
Depreciation	**1,092,642**	1,133,957
Repairs and renewals – hotels	**542,982**	548,758
Repairs and renewals – other	**11,677**	11,278
Auditors' remuneration for audit services	**29,625**	35,750
Auditors' remuneration for tax compliance services	**28,075**	5,500
Auditors' remuneration for audit service to company pension scheme	**500**	500

4 Tax on profit on ordinary activities

a) Analysis of charge in year

	2008 £	2007 £
Current Tax		
Corporation tax charge for year	**2,400,000**	258,000
Under/(over) provision in respect of prior years	**(227,344)**	7,390
Total current tax	**2,172,656**	265,390
Deferred Tax		
Origination and reversal of timing differences	**(1,544,003)**	178,701
Decrease/(increase) in discount	**587,404**	(167,385)
Prior year adjustment	**(503)**	22,294
Total deferred tax	**(957,102)**	33,610
Tax on profit on ordinary activities	**1,215,554**	299,000

Origination and reversal of timing differences primarily relates to the removal of Industrial Building Allowances and the disposal of properties.

Financial year ended 10 February 2008

b) Factors affecting tax charge for year

The current tax charge is less than 30% of profit on ordinary activities for the reasons set out in the following reconciliation:

	2008	2007
	£	£
Profit on ordinary activities before tax	**9,589,533**	1,563,120
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007 - 30%)	**2,876,860**	468,936
Effects of:		
Movements in other timing differences	**(132)**	–
Deduction for charges on exercise of share options	**(285,710)**	–
Disallowable expenditure and IBA's claimed	**(64,477)**	45,156
Capital allowances for the period in excess of depreciation and short term timing differences	**(7,553)**	(178,701)
Difference between chargeable gains and profit on disposal	**(118,988)**	(78,363)
Rate differences on current tax	**–**	972
Adjustment in respect of prior year	**(227,344)**	7,390
Corporation tax charge for the year	**2,172,656**	265,390

c) Factors that may affect future tax charges

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

5 Staff costs

Wages and salaries	**4,826,115**	5,053,993
Employer's social security costs	**366,718**	376,368
Pension costs	**56,842**	56,753
	5,249,675	5,487,114
Average number of people employed under contracts of service:	Number	Number
Directors	**4**	5
Other employees	**421**	464
	425	469

NOTES TO THE ACCOUNTS

Financial year ended 10 February 2008

6 Directors' remuneration	2008 £	2007 £
Aggregate emoluments:		
Fees	**32,308**	30,000
Salaries and benefits	**129,205**	178,504
Compensation for loss of office	**40,000**	–
	201,513	208,504
Company contributions to money purchase pension schemes	**10,938**	15,300

	Number	Number
Number of directors who are members of a money purchase pension scheme	**1**	2

Further details of Directors' remuneration are contained in the Directors' Remuneration Report on pages 12 and 13.

7 Dividends	2008 £	2007 £
Equity dividends on ordinary shares		
Paid during the year	**921,099**	608,576
Proposed after the year end (not recognised as a liability)	**490,424**	642,856
Bonus dividend proposed after the year end (not recognised as a liability)	**2,101,819**	–

8 Earnings per share

Basic	**13,214,179**	12,831,222
Calculated on the average number of shares in issue during the year and on profit after taxation	**£8,373,979**	£1,264,120
Diluted	**13,344,490**	13,512,236
Calculated on average of number of shares available during year and on the profit after taxation	**£8,373,979**	£1,264,120

In calculating the diluted earnings per share, the weighted average number of shares is adjusted for the dilutive effect of the share options by 130,311 (2007 – 681,014) shares, giving an adjusted number of shares of 13,344,490 (2007 – 13,512,236).

Financial year ended 10 February 2008

9 Tangible fixed assets	Land & buildings £	Plant & machinery £	Furniture, furnishings & equipment £	**Total £**
Cost				
At beginning of year	29,821,708	3,803,328	6,528,600	**40,153,636**
Additions	2,970,981	335,155	650,363	**3,956,499**
Disposals	(7,850,574)	(469,884)	(1,508,715)	**(9,829,173)**
At end of year	24,942,115	3,668,599	5,670,248	**34,280,962**
Depreciation				
At beginning of year	330,377	1,752,256	3,323,159	**5,405,792**
Provision for the year	85,421	358,755	648,466	**1,092,642**
Disposals	(38,119)	(167,040)	(736,973)	**(942,132)**
At end of year	377,679	1,943,971	3,234,652	**5,556,302**
Net book value				
At beginning of year	**29,491,331**	**2,051,072**	**3,205,441**	**34,747,844**
At end of year	**24,564,436**	**1,724,628**	**2,435,596**	**28,724,660**

Analysis of the net book value of land & buildings	**2008 £**	2007 £
Freehold	**15,524,623**	22,904,006
Long leasehold	**6,611,997**	4,112,182
Short leasehold	**2,427,816**	2,475,143
	24,564,436	29,491,331

10 Stocks

Stocks comprise food and liquor.

11 Debtors	**2008 £**	2007 £
Trade debtors	**641,973**	548,731
Prepayments	**701,000**	504,128
	1,342,973	1,052,859

Financial year ended 10 February 2008

12 Creditors due within one year

	2008 £	2007 £
Bank loans and overdraft (secured)	**177,757**	757,036
Trade creditors	**535,131**	395,184
Tax and social security	**789,433**	914,092
Corporation tax	**2,400,000**	258,000
Other creditors	**192,834**	201,793
Accruals and deferred income	**689,186**	680,662
	4,784,341	3,206,767

Bank loans and overdraft includes an amount for bank overdraft of £177,757 (2007 - £385,901). The overdraft facility of £1,000,000 is due for review on 6 February 2009.

13a Creditors due after one year

Bank loan (secured)	**4,009,240**	14,761,050
Less loan arrangement fees prepaid	**(38,457)**	(90,373)
	3,970,783	14,670,677

The original bank loan is repayable by 8 semi-annual instalments plus a final payment on 11 April 2014. Interest is charged at 1.0% over LIBOR. The Company has entered into a collar agreement on £7 million which caps the Company interest cost at 6.99% plus margin of 1.0%. The minimum interest cost is 4.99% plus margin of 1.0%, up to 12 October 2009, except when LIBOR is below 4.99% between 24 June 2003 and 12 October 2009; in which case an additional 2% of interest is payable. The Company repaid the £7 million loan on 7 October 2007 but the collar agreement remains in place.

The Company has 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 fixes its interest payments up to 11 April 2014 on outstanding loan balances which are not covered by the collar agreement. The fixed interest swap requires the Company to pay 5.83% on these amounts and therefore effectively fixes its borrowing costs on this portion of its debt portfolio at 6.83% (after inclusion of the 1.0% margin).

A loan of £2.5 million was taken to part fund the acquisition of the 3 hotels in the year ended 12 February 2006. The outstanding balance of £2 million was repaid on 5 September 2007.

The £400,000 loan taken out during the year ended 11 February 2007 was also repaid on 5 September 2007.

The loans and overdraft are secured by debentures dated 7 December 1998, 8 September 1999, 21 June 2002 and 17 May 2005 over all of the Company's freehold and long leasehold properties.

Financial year ended 10 February 2008

Instalments due after more than one year are as follows:

	2008 £	2007 £
Between 1 and 2 years	**984,540**	988,405
Between 2 and 5 years	**2,953,620**	3,703,620
Over 5 years	**71,080**	10,069,025
	4,009,240	14,761,050
Less loan arrangement fees	**(38,457)**	(90,373)
	3,970,783	14,670,677

13b Total borrowings

	2008 £	2007 £
Between 1 and 2 years	**984,450**	988,405
Between 2 and 5 years	**2,953,620**	3,703,620
Over 5 years	**71,080**	10,069,025
	4,009,240	14,761,050
Less loan arrangement fees	**(38,457)**	(90,373)
	3,970,783	14,670,677
On demand and less than one year	**177,757**	757,036
Total borrowings	**4,148,540**	15,427,713

14 Financial Instruments

The Company has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash and borrowings. Short term debtors/creditors, taxation and prepayments and accruals have been excluded. Financial assets and liabilities are all in sterling and are linked to the London Interbank Offer Rate, before consideration of the effect of the collar arrangement as described in note 13. The interest rate swap agreement, which converts part of the floating rate borrowing to a fixed rate, became effective on 11 April 2003.

Total gross financial assets at 10 February 2008 were £4,108,123 (2007 - £158,530) and total gross financial liabilities were £4,148,540 (2007 - £15,427,713).

TREASURY POLICY

The Company finances its activities by a combination of long and short term bank facilities.

It is, and has been throughout the period under review, the Company's policy not to trade in financial instruments.

LIQUIDITY RISK

The only financial asset held by the Company is that of cash at bank and in hand and is repayable on demand.

The maturity profile of the Company's overdraft and long term borrowings is included in note 13 b).

The Company produces cash flow forecasts in order to ensure that liabilities are met as they fall due.

NOTES TO THE ACCOUNTS

Financial year ended 10 February 2008

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Directors believe that there is no material difference between the book value and the fair value of all financial assets and liabilities as at the balance sheet date, except as noted below.

The Directors have reviewed the fair value of the collar agreement described in note 13. The estimated value of this financial instrument is a liability of £154,369 (2007 - £44,783). The Company entered into a GBP roller coaster callable interest rate swap which came into effect on 11 April 2003 (as set out in note 13). The estimated value of this financial instrument is a liability of £390,823 (2007 - £273,068). The fair value of all financial liabilities has been reached using the net present value of the expected cash flows from the transactions and based on the assumption of no unusual market conditions or forced liquidation.

CURRENCY RISK

The Company has no material currency risk exposure due to the absence of any assets or liabilities denominated in foreign currencies.

15 Provision for liabilities

	2008 £	2007 £
Accelerated capital allowances	**657,000**	2,198,148
Short term timing differences	**50,000**	53,358
Undiscounted deferred tax	**707,000**	2,251,506
Discount	**–**	(587,404)
Discounted provision for deferred tax	**707,000**	1,664,102
Provision at start of year	**1,664,102**	1,630,492
Adjustment in respect of prior years	**(503)**	22,294
Profit and loss account credit	**(956,599)**	11,316
Provision at end of year	**707,000**	1,664,102

As at the end of the year there is no unprovided deferred tax (2007 – nil).

16 Called up share capital

	Number	Amount £
Authorised		
Ordinary shares of 10p each		
At beginning and end of year	**25,000,000**	2,500,000
Allotted and fully paid		
Ordinary shares of 10p each		
At beginning of year	**12,857,123**	1,285,713
Issued during the year	**1,155,000**	115,500
At end of year	**14,012,123**	1,401,213

Financial year ended 10 February 2008

During the year 1,155,000 share options were exercised:

250,000 share options were exercised at 25p
250,000 share options were exercised at 50p
250,000 share options were exercised at 75p
13,000 share options were exercised at 87.5p
42,000 share options were exercised at 88.5p
250,000 share options were exercised at 100p
100,000 share options were exercised at 116.5p

17 Combined statement of the movement in Shareholders' funds and statement of movement on reserves

	Called up share capital £	Share premium account £	Profit & loss account £	**2008 Total £**	2007 Total £
Opening balance	1,285,713	9,068,950	6,179,605	**16,534,268**	15,813,706
Profit attributed to members of the company	–	–	8,373,979	**8,373,979**	1,264,120
Dividends paid	–	–	(921,099)	**(921,099)**	(608,576)
Issue of share capital	115,500	674,545	–	**790,045**	40,305
Recognition of equity-settled share based payments in the year	–	–	23,225	**23,225**	24,713
Closing balance	1,401,213	9,743,495	13,655,710	**24,800,418**	16,534,268

	2008 £	2007 £
18 Capital commitments		
Contracted for but not provided in the accounts	**60,000**	125,000

19 Reconciliation of operating profit to net cash inflow from operating activities

	2008 £	2007 £
Operating profit	**2,192,541**	1,993,833
Depreciation	**1,092,642**	1,133,957
Recognition of equity-settled share-based payments	**23,225**	24,713
Decrease in stocks	**29,795**	416)
Increase in debtors	**(257,867)**	(86,795)
Increase in creditors	**191,969**	173,764
Net cash inflow from operating activities	**3,272,305**	3,239,888

Financial year ended 10 February 2008

20 Analysis of net debt	At beginning of year £	Cash flow £	Non cash changes £	**At end of year £**
Cash at bank and in hand	158,530	3,949,593	–	**4,108,123**
Bank overdrafts	(385,901)	208,144	–	**(177,757)**
	(227,371)	4,157,737	–	**3,930,366**
Debt due within one year	(371,135)	371,135	–	**–**
Debt due after one year	(14,670,677)	10,751,810	(51,916)	**(3,970,783)**
Total	(15,269,183)	15,280,682	(51,916)	**(40,417)**

21 Leases	**2008 £**	2007 £
Operating lease rentals charged to profit & loss account:		
Land & buildings	**601,520**	668,941
Hire of plant & machinery	**149,215**	158,096
	750,735	827,037
Commitments under operating leases to pay rentals during the next year:		
Land & buildings		
Expiring after 5 years	**550,789**	670,614
Plant & Machinery		
Expiring in more than 2 years but less than 5 years	**149,215**	158,096

22 Related party transactions

During the year premiums of £174,397 (2007 - £162,974) were paid to T L Dallas & Co Limited in which Robert Peel is a Shareholder. There was no outstanding amount at the balance sheet date (2007 -£nil).

A PAYE liability of £350k (arising from exercise of share options) was paid by the Company on behalf of Robert Peel, who in turn repaid the amount to the Company together with interest.

The Company has agreed to pay rent on the London property used as its Head Office, which is owned by Robert Peel. The passing rent is £35k per annum.

23 Controlling interests

Robert Peel is the largest Shareholder. Together with his brother Charles Peel, by reason of their interest they are deemed to control the Company.

NOTES TO THE ACCOUNTS

Financial year ended 10 February 2008

24 Directors' interests

	10 February 2008 10p ordinary shares		11 February 2007 10p ordinary shares	
	Shares Number	**Options Number**	Shares Number	Options Number
Robert Peel	**5,496,900**	**–**	4,496,900	1,000,000
Norbert Petersen	**41,830**	**50,000**	41,830	150,000
John Govett	**350,000**	**–**	350,000	–
Keith Benham	**168,801**	**–**	168,801	–
Total	**6,057,531**	**50,000**	5,057,531	1,150,000

Keith Benham's interest includes 42,200 (2007 – 42,200) shares owned by his wife.

Details of options granted to the Directors can be found on page 13.

No Director was materially interested, either at the year end or during the year, in any contract of significance to the Company except for the related party transactions as disclosed in note 22.

25 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.

Details of the share options outstanding during the year are as follows:

Exercise price	Earliest exercise date	Latest exercise date	Options held at 11/02/07	Options granted during the year	Options exercised during the year with a market price of 164.5p	Options exercised during the year with a market price of 176.6p	Options exercised during the year with a market price of 150.0p	Options forfeited during the year	Options held at 10/02/08
25.0p*	27.02.01	26.02.08	250,000	-	-	-	(250,000)	-	-
50.0p*	27.02.01	26.02.08	250,000	-	-	-	(250,000)	-	-
75.0p*	27.02.01	26.02.08	250,000	-	-	-	(250,000)	-	-
100.0p*	27.02.01	26.02.08	250,000	-	-	-	(250,000)	-	-
116.5p*	14.10.01	13.10.08	140,000	-	-	-	(100,000)	(40,000)	-
118.5p*	19.12.03	18.12.10	10,000	-	-	-	-	-	10,000
87.5p*	16.05.05	15.05.12	91,000	-	(10,000)	(3,000)	-	(25,000)	53,000
88.5p	14.04.07	13.04.14	104,000	-	(29,000)	(13,000)	-	(2,000)	60,000
102.0p	31.05.08	31.05.15	198,000	-	-	-	-	(9,000)	189,000
163.5p	23.05.10	22.05.17	-	47,000	-	-	-	-	47,000
			1,543,000	47,000	(39,000)	(16,000)	(1,100,00)	(76,000)	359,000

The emoluments of the Executive and the Non-executive Directors are set out in the Directors' Remuneration Report.

NOTES TO THE ACCOUNTS

Financial year ended 10 February 2008

The market price of the shares at 10 February 2008 was 162.5 pence and the range in the year was 151 pence to 192.5 pence.

The input into the Black Scholes option pricing model are as follows:

	2008	2007
Expected volatility	**30%**	30%
Expected life	**3 years**	3 years
Risk-free rate	**4.50%**	4.50%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural contributions.

The Company recognised total expenses of £23,225 related to equity-settled share based payment transactions in the year ended 10 February 2008 (2007 £24,713).

* FRS 20 does not apply to these options as they were issued prior to 7 November 2002.

HOTEL DIRECTORY

PEEL HOTELS PLC
19 WARWICK AVENUE LONDON W9 2PS
TELEPHONE: 020 7266 1100 FAX: 020 7289 5746

Location	Hotel	Rating	Rooms	Telephone	Facsimile
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	Golden Lion Hotel	★★★★	89	0113 2436454	0113 2434241
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 8 Hotels			637		

For reservations at any Peel Hotel call **020 7266 1100**
or log onto our web site on **www.peelhotels.co.uk**
e-mail – info@peelhotel.com