

Hanover International PLC

Directors' Report and Consolidated Financial Statements
for the year ended 31 December 2003

Registered Number: 3043860



Directors' report and consolidated financial statements for the year ended 31 December 2003

Contents

Directors' report	3
Statement of Directors' responsibilities	5
Independent Auditors' report	6
Consolidated profit and loss account	7
Balance sheets	8
Consolidated cash flow statement	9
Consolidated statement of total recognised gains and losses	10
Reconciliation of movement in shareholders' funds	10
Note of historical cost profits and losses	10
Statement of Accounting policies	11
Notes to the financial statements	13

Directors' report

The Directors present their report and audited Accounts for the year ended 31 December 2003.

Principal activity

The principal activity of the Group is the management and development of hotels and training and conference centres.

The subsidiary and joint venture undertakings principally affecting the profits and net assets of the Group during the year are listed in note 11 to the Accounts.

Business review

During the year, the Group was acquired by Trefick Limited and as a result was de-listed from the London Stock Exchange in August 2003.

The Group has experienced a downturn in trading during the year but views the future with cautious optimism.

Directors

The Directors of the Company who served during the year, were as follows:

Executive Directors

P G Eyles (resigned 24 September 2003)
M E Jourdain
A B Kelly (resigned 10 October 2003)
R C Mills (appointed 27 August 2003)
S C Ackerman (appointed 27 August 2003)
K Ranjan (appointed 17 September 2003)

Non-Executive Directors

B J Clow (resigned 17 September 2003)
R J C Privett (resigned 17 September 2003)
H W Whitbread (resigned 17 September 2003)
M F G Crowe (appointed 17 September 2003, resigned 10 November 2003)
D J Morgan (appointed 17 September 2003, resigned 10 November 2003)

Share capital

The authorised share capital of the Company, together with the number of shares allotted, called up and fully paid are set out in Note 18 to the Accounts.

Directors' interests

In respect of Directors in office at 31 December 2003, their interests over Ordinary Shares are set out below. No options were granted to or exercised by these directors during the year,

	At 1 January 2003 or date of appointment (if later)	31 December 2003
S C Ackerman	-	-
M E Jourdain	23,026	-
R C Mills	5,404	5,404
K Ranjan	-	-

Employees

The Group recognises the important role all employees play in meeting the needs of our customers on which our success is based. The Group has developed formal and informal systems of communication with its employees, especially in relation to monthly and accumulated financial results, in order to support and develop the contribution that each employee makes to the business.

The Group's employment policies respect the individual and offer career opportunities regardless of gender, race or religion. It is the Group's policy to give fair consideration to applications for employment received from disabled persons and to ensure continued employment, training and development, where possible, of employees who are, or become, temporarily or permanently disabled according to their skills and capabilities.

Properties

Note 10 to the accounts details the cost and valuations of the Group's operating properties as at the balance sheet date.

Charitable donations

During the period, the Group made charitable donations totalling £12,306 (2002: £2,966). There were no political contributions made by the Group in the year (2002: £Nil).

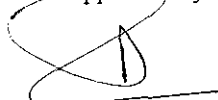
Supplier payments policy

It is Group policy to develop long-term relationships with its suppliers including agreeing payment practices with each of them. The Group does not follow a universal code or standard on payment practices but payments to suppliers are expected to be made on terms of trade consistent with the above policy, provided each supplier complies with all relevant terms and conditions. The number of days credit provided by suppliers to the Group at the year end was 35 days (2002: 57 days). The Company had trade creditors totalling £nil (2002: £3,716) on 31 December 2003.

Auditors

The auditors of the Company, KPMG Audit Plc, have indicated their willingness to continue in office, and a resolution proposing their re-appointment will be put to the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by



K Ranjan

Director

22 July 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those Accounts, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Hanover International PLC

We have audited the financial statements on pages 7 to 22.

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 are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our work was limited as explained below. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited in relation to the company's participation in a joint venture, Tweed Investments Limited. By the date of this report, the financial statements for Tweed Investments Limited for the year ended 31 December 2003 had not been approved by the board of that company, nor had a statutory audit report been issued on those financial statements. While these financial statements include amounts for Tweed Investments Limited based on that company's draft financial statements, as explained in note 26, we have not been able to gain sufficient appropriate audit evidence regarding the group's share of assets, liabilities and results of Tweed Investments Limited appearing in the group balance sheet and profit and loss account as the amounts relating to joint ventures. Any adjustments to these figures would have a consequential effect on the loss for the year.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning Tweed Investments Limited, in our opinion the financial statements give a true and fair view of the state of affairs of the group and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work relating to Tweed Investments Limited we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

27 July 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 December 2003	Year ended 31 December 2002
	Notes	£000	£000
TURNOVER			
<i>Continuing operations: group and share of joint venture</i>		39,630	38,763
<i>Less: share of joint venture's turnover</i>		(7,320)	(7,557)
<i>Group turnover</i>		32,310	31,206
<i>Cost of sales</i>		(13,992)	(12,712)
GROSS PROFIT		18,318	18,494
<i>Administrative expenses (including exceptional costs of £6,418,000 – see note 5)</i>		(21,672)	(14,274)
<i>Other net operating income</i>	4	426	906
OPERATING (LOSS)/PROFIT			
- Continuing operations	2	(2,928)	5,126
- Share of operating profit in joint venture		1,532	1,690
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST & TAXATION		(1,396)	6,816
<i>Net interest payable and similar charges</i>			
- Group	6	(2,664)	(2,759)
- Joint venture	6	(2,312)	(2,179)
		(4,976)	(4,938)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
- Before joint venture		(5,592)	2,367
- Share of loss on joint venture		(780)	(489)
		(6,372)	1,878
<i>Taxation on (loss)/profit on ordinary activities</i>			
- Group	7	(188)	(773)
- Joint venture	7	149	76
		(39)	(697)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(6,411)	1,181
<i>Dividends paid and proposed</i>	8	8	(1,019)
RETAINED (LOSS)/PROFIT		(6,403)	162

Hanover International PLC

BALANCE SHEETS

	Notes	Group		Company	
		31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Fixed assets					
<i>Tangible assets</i>	10	98,500	113,164	-	41
<i>Investments</i>	11	-	-	35,639	36,364
<i>Interest in joint venture</i>					
<i>Share of gross assets</i>	11	28,158	28,824	-	-
<i>Share of gross liabilities</i>	11	(28,603)	(28,637)	-	-
		(445)	187	-	-
<i>Loan to joint venture</i>	11	-	4,650	-	4,650
<i>Investment in own shares</i>	12	-	468	-	468
		98,055	118,469	35,639	41,523
Current assets					
<i>Stocks</i>	13	350	404	-	-
<i>Debtors</i>	14	9,845	4,628	39,264	46,235
<i>Cash at bank and in hand</i>		1,055	2,281	5	4
		11,250	7,313	39,269	46,239
Creditors: amounts falling due within one year					
<i>Creditors</i>	15	(4,831)	(6,066)	(192)	(1,043)
<i>Loans and borrowings</i>	16	(7,075)	(6,077)	(7,050)	(6,050)
		(11,906)	(12,143)	(7,242)	(7,093)
Net current (liabilities)/assets		(656)	(4,830)	32,027	39,146
Total assets less current liabilities		97,399	113,639	67,666	80,669
Creditors: amounts falling due after more than one year					
<i>Loans and borrowings</i>	16	(40,461)	(43,287)	(40,450)	(43,250)
Provisions for liabilities and charges					
<i>Deferred taxation</i>	17	(9,158)	(8,970)	-	6
Net assets		47,780	61,382	27,216	37,425
Equity - capital and reserves					
<i>Share capital</i>	18	7,648	7,593	7,648	7,593
<i>Share premium account</i>	20	21,136	20,987	21,136	20,987
<i>Revaluation reserve</i>	20	11,000	18,403	-	-
<i>Merger reserve</i>	20	7,261	7,261	7,261	7,261
<i>Profit and loss account</i>	20	735	7,138	(8,829)	1,584
Shareholders' funds		47,780	61,382	27,216	37,425

Approved by the Board on 22 July 2004 and signed on its behalf by:

K. Ranjan, Director

Hanover International PLC

CONSOLIDATED CASH FLOW STATEMENT

		Year Ended 31 December 2003	Year Ended 31 December 2002
		£000	£000
	Notes		
Net cash inflow from operating activities		5,274	8,781
Returns on investment and servicing of finance	21	(2,673)	(2,639)
Taxation		-	12
Capital expenditure and financial investment	21	(1,603)	(3,004)
Equity dividends paid		(378)	(719)
Net cash inflow before financing		620	2,431
Financing	21	(1,846)	(945)
Net (decrease)/increase in cash	22	(1,226)	1,486

Reconciliation of operating (loss)/profit to net operating cash flows

Group Operating (loss)/profit	(2,928)	5,126
Depreciation of tangible fixed assets	3,527	2,970
Amortisation of profit share shares	122	99
Exceptional loss (provision on loan to joint venture)	4,650	-
Decrease in stock	54	74
Decrease/(increase) in debtors	118	(147)
(Decrease)/increase in creditors	(269)	659
Net cash inflow from operating activities	5,274	8,781

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash in the period	22	(1,226)	1,486
Cash outflow from movement in debt and lease financing		1,828	936
Decrease in net debt in the period		602	2,422
Net debt at start of year	22	(47,083)	(49,505)
Net debt as at end of year	22	(46,481)	(47,083)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		Year ended 31 December 2003	Year ended 31 December 2002
	Notes	£000	£000
(Loss)/profit for the financial year		(6,411)	1,181
Unrealised deficit on revaluation of properties	20	(7,403)	(671)
Total recognised gains and losses relating to the year		(13,814)	510

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

		Group		Company	
		Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2002
	Notes	£000	£000	£000	£000
(Loss)/profit for the financial year		(6,411)	1,181	(10,421)	1,534
Dividends	8	8	(1,019)	8	(1,019)
Retained (loss)/profit for the financial year		(6,403)	162	(10,413)	515
Other recognised gains and losses relating to the year	20	(7,403)	(671)	-	-
New share capital subscribed - net of costs		204	225	204	225
Net (decrease)/increase in shareholders' funds		(13,602)	(284)	(10,209)	740
Opening shareholders' funds		61,382	61,666	37,425	36,685
Closing shareholders' funds		47,780	61,382	27,216	37,425

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Year ended 31 December 2003	Year ended 31 December 2002
	£000	£000
(Loss)/profit on ordinary activities before taxation	(6,372)	1,878
Difference between historical cost depreciation charge and the actual depreciation charge on the revalued amount	100	102
Historical cost (loss)/profit on ordinary activities before taxation	(6,272)	1,980
Historical cost (loss)/profit for the year retained after taxation and dividends	(6,303)	264

STATEMENT OF ACCOUNTING POLICIES

A summary of the Group's accounting policies, which have been applied consistently, in dealing with items which are considered to be material in relation to these financial statements is set out below.

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the provisions of the Companies Act 1985 and in accordance with applicable accounting standards.

Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings, all of which are made up to 31 December each year. The joint venture is included in the accounts in accordance with FRS 9, Associates and Joint Ventures (See also note 26). There are no associated undertakings.

The acquisition method of accounting has been adopted whereby the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal, such date being the date on which control passes.

In the Company's accounts, investments in subsidiary undertakings are stated at cost less any provision for impairment. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

In accordance with Section 230 (4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The amount of the profit for the financial year dealt with in the accounts of the Company is disclosed in Note 9 to these accounts.

Turnover

Turnover represents amounts derived from the provision of accommodation and related services for hotel, training and conferencing.

Fixed assets and depreciation

Land and buildings are stated at cost or subsequent valuation less depreciation. Other fixed assets are shown at cost less depreciation.

It is Group policy to revalue properties on a rolling basis with each hotel being valued by an external valuer at least every five years. Where it is believed a material change in value has occurred, an interim valuation is carried out. All assets with an estimated useful economic life of greater than 50 years are subject to an impairment review in the intervening years.

Depreciation is provided to write down the cost to the estimated residual value by equal instalments over their estimated useful economic lives as follows:

Buildings core	80 years
Buildings surfaces	25 years
Leasehold land and buildings	Life of the lease
Furniture, fixtures and fittings	5 to 8 years
Computer and other office equipment	5 years
Motor vehicles	4 years

Freehold land is not depreciated.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where the transactions or events that give rise to an obligation to pay more or less tax in the future have occurred by the balance sheet date. A net deferred tax asset is only recognised when it is regarded as more likely than not that it will be recovered.

Deferred tax is measured on a non-discounted basis using tax rates that have been enacted by the balance sheet date.

Stocks

Stocks, which consist of goods purchased for resale and consumption, are stated at the lower of cost and net realisable value.

STATEMENT OF ACCOUNTING POLICIES continued

Leases

Leases which entail the Group retaining all, or substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Assets obtained under finance leases are included in tangible fixed assets at cost and are depreciated over their useful economic lives. Future instalments under such leases, net of finance charges, are included within loans. Rental payments are apportioned between the finance element, which is charged as interest to the profit and loss account, and the capital element, which reduces the outstanding obligations for future instalments, so as to give a constant rate of charge on the outstanding obligation.

Rental payments under operating leases are charged to the profit and loss account on a straight-line basis in arriving at operating profit.

Pensions

The Company operates defined contribution contributory and non-contributory pension schemes in the UK. The costs of these schemes are charged to the profit and loss account in the year to which they relate.

Fixed asset work in progress

Capital expenditure on major projects is recorded separately within fixed assets as work in progress. Once the project is complete, the balance is transferred to the appropriate fixed asset category and depreciated accordingly. Fixed asset work in progress is not depreciated.

NOTES TO THE ACCOUNTS

1. Segmental information

Turnover and profit before taxation are derived from the provision of accommodation and related services for hotel, training and conferencing in the UK. All assets are held in the UK.

2. Profit on ordinary activities before taxation

This is stated after charging:

	2003 £000	2002 £000
Depreciation	3,527	2,970
Rentals payable under operating leases		
Land and buildings	247	225
Plant and machinery	390	376

The remuneration of the Group's auditors for the year ended 31 December 2003 for statutory audit work was £64,000 (2002: £100,000) including £5,000 (2002: £5,000) for the Company. In addition £33,000 (2002: £52,000) was paid to the auditors and its associates for taxation services.

3. Staff numbers and costs

The average number of persons employed by the Group, including Executive Directors, during the year was 857 (2002: 921). Of the persons employed, 501 (2002: 538) were full time and 356 (2002: 383) were part time. All employees were involved with the provision of hotel and training and conference services.

The total payroll costs comprised the following:

	2003 £000	2002 £000
Wages and salaries	10,382	10,143
Social security costs	809	741
Other pension costs	142	156
	11,333	11,040

Directors' emoluments

	2003 £000	2002 £000
Directors' emoluments	617	686
Company contributions to money purchase pension schemes	72	90
Compensation for loss of office	460	70
	1,149	846

The emoluments of the highest paid director were £581,000 and his company pension contributions were £49,000. During the year, the highest paid Director exercised share options.

	Number of Directors	
	2003	2002
Retirement benefits are accruing to the following numbers of directors under money purchase schemes	-	4
The number of directors who exercised share options during the year was	3	-

4. Other net operating income

	2003 £000	2002 £000
Net business interruption insurance proceeds on Basingstoke Hotel	426	906

NOTES TO THE ACCOUNTS

5. Exceptional Items

	2003 £000	2002 £000
Exceptional costs included within operating profit		
Provision for loan to joint venture	4,650	-
Costs associated with takeover of the Group (including directors' compensation for loss of office)	1,768	-
	6,418	-

6. Net interest payable and similar charges

	2003 £000	2002 £000
Interest payable and similar charges:		
On bank loans and overdrafts	(2,906)	(3,018)
On loan note	(146)	(146)
On finance leases	(9)	(4)
Group interest payable	(3,061)	(3,168)
Bank interest receivable and similar income	37	33
Interest receivable on loan to joint venture	360	376
Net Group interest payable	(2,664)	(2,759)
Share of joint venture's interest payable	(2,312)	(2,179)
	(4,976)	(4,938)

7. Taxation

	2003 £000	2002 £000
Deferred taxation	(188)	(785)
Corporation tax – adjustment in respect of prior year	-	12
Total Group tax charge	(188)	(773)
Share of joint venture's deferred taxation	149	76
	(39)	(697)

There is no current UK corporation tax charge in the year as a result of the availability of capital allowances and the tax losses arising in certain of the Company's subsidiary undertakings.

The current tax charge for the year is lower than the standard rate of UK Corporation tax of 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before tax	(6,372)	1,878
Tax on ordinary activities at the standard rate of Corporation tax of 30% (2002: 30%)	(1,912)	563
Expenses not deductible for tax purposes	1,738	251
Utilisation of losses	(9)	-
Accelerated capital allowances and other timing differences	183	(826)
Total current tax charge for the year	-	(12)

8. Dividends

	2003 £000	2002 £000
Interim dividend of 0.0p (2002: 1.4p) per share – paid	-	411
Final dividend of 0.0p (2002: 2.0p) per share – proposed	-	608
Write back of over-accrual of dividends in prior year	(8)	-
	(8)	1,019

NOTES TO THE ACCOUNTS

9. Company profit and loss account

In accordance with the exemption granted under Section 230(4) of the Companies Act 1985, a separate profit and loss account for the Company has not been presented. The Company's loss for the year before dividends was £10,421,000 (2002: £1,534,000).

10. Tangible fixed assets

Group	Freehold land & buildings £000	Short Leasehold land & buildings £000	Furniture, fixtures & fittings £000	Computer & other office equipment £000	Motor vehicles £000	Work in progress £000	Total £000
Cost or valuation							
<i>At 1 January 2003</i>	92,567	12,143	13,022	3,159	255	2,755	123,901
<i>Net downwards revaluation</i>	(7,441)	-	-	-	-	-	(7,441)
<i>Transfers</i>	1,442	6	1,190	117	-	(2,755)	-
<i>Additions</i>	772	112	1,183	178	-	-	2,245
<i>Disposals</i>	-	-	-	(9)	(210)	-	(219)
<i>Transfer to current assets</i>	(5,870)	-	(1,246)	(30)	-	-	(7,146)
<i>At 31 December 2003</i>	81,470	12,261	14,149	3,415	45	-	111,340
Depreciation							
<i>At 1 January 2003</i>	1,317	790	7,153	1,323	154	-	10,737
<i>Revaluations</i>	(38)	-	-	-	-	-	(38)
<i>Charge for the year</i>	924	333	1,674	557	39	-	3,527
<i>Disposals</i>	-	-	-	(9)	(158)	-	(167)
<i>Transfer to current assets</i>	(115)	-	(1,079)	(25)	-	-	(1,219)
<i>At 31 December 2003</i>	2,088	1,123	7,748	1,846	35	-	12,840
Net book value at 31 December 2003	79,382	11,138	6,401	1,569	10	-	98,500
<i>Net book value at 31 December 2002</i>	91,250	11,353	5,869	1,836	101	2,755	113,164
Company							
Cost							
<i>At 1 January 2003</i>	-	-	9	-	86	-	95
<i>Disposals</i>	-	-	(9)	-	(86)	-	(95)
<i>At 31 December 2003</i>	-	-	-	-	-	-	-
Depreciation							
<i>At 1 January 2003</i>	-	-	9	-	45	-	54
<i>Charge for the year</i>	-	-	-	-	16	-	16
<i>Disposals</i>	-	-	(9)	-	(61)	-	(70)
<i>At 31 December 2003</i>	-	-	-	-	-	-	-
Net book value at 31 December 2003	-	-	-	-	-	-	-
<i>Net book value at 31 December 2002</i>	-	-	-	-	41	-	41

The net downwards revaluation comprises a gain on revaluation of £0.3m on the Group's property at Basingstoke and a £7.7m reversal of previous revaluation gains on the Group's portfolio.

On 31 January 2003, the Group's property at Basingstoke was revalued to £12.0m giving rise to a surplus on revaluation of £0.3m. The historical cost was £11.7m. This property has been valued on an existing-use basis as an operational entity, having regard to trading potential, by ATIS REAL Weatheralls, Chartered Surveyors acting as external valuers, in accordance with the current edition of the RICS Appraisal and Valuation Manual. Other properties have been subject to an interim valuation by the Directors.

NOTES TO THE ACCOUNTS

Included in the total net book value of computer and office equipment are assets held under finance lease with a net book value of £51,000 (2002: £66,000). Depreciation for the year on these assets was £15,000 (2002: £9,000).

11. Fixed asset investments

Cost	Company Investment in joint venture		Company Shares in subsidiary undertakings		Company Total	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
At 1 January:						
Shares	725	725	35,639	35,639	36,364	36,364
Loan	4,650	4,650	-	-	4,650	4,650
Total	5,375	5,375	35,639	35,639	41,014	41,014
Provision (note 26)						
At 1 January	-	-	-	-	-	-
Charged in the year	(5,375)	-	-	-	(5,375)	-
At 31 December	(5,375)	-	-	-	(5,375)	-
Carrying value						
At 1 January	5,375	5,375	35,639	35,639	41,014	41,014
At 31 December	-	5,375	35,639	35,639	35,639	41,104

The subsidiary undertakings, all of which are wholly owned by the Company, at 31 December 2003 were as follows:

	Country of incorporation and principal place of business	Issued ordinary share capital	Issued preference share capital
Hanover International Hotels Limited	UK	£2	-
Hanover International Hotels Management (Daventry) Limited	UK	£20,000	-
Hanover International Hotels Management (Reading) Limited	UK	£20,000	£600,000
Hanover Hotels No 2 Limited	UK	£26,644,222	-
Hanover International Club Limited (Dormant)	UK	£1	-
Basingstoke Country Hotel Limited (Dormant)	UK	£100	-
Basingstoke Country Club Limited (Dormant)	UK	£2	-
Cardiff Bay Hotel Limited (Dormant)	UK	£28,000	-
Hartford Entertainments Limited (Dormant)	UK	£4	-

All of the above trading subsidiaries are involved in the provision of accommodation for hotel, training and conferencing and related services.

The Company owns 50% of the issued ordinary share capital of Tweed Investments Limited. Tweed Investments Limited owns hotels and residential training and conference centres which are operated and managed by Hanover International Hotels Limited. See also Note 26.

	2003 £000	2002 £000
Share of turnover	7,320	7,557
Share of loss before taxation	(780)	(489)
Share of taxation	149	76
Share of loss after taxation	(631)	(413)
Share of fixed assets	27,010	27,562
Share of current assets	1,148	1,262
Share of liabilities due within one year*	3,633	1,580
Share of liabilities due after more than one year*	24,970	27,057
Share of capital commitments on operating leases in the year ahead	65	80

*The debt within Tweed Investments Limited is wholly non-recourse to the Group.

NOTES TO THE ACCOUNTS

12. Fixed asset investment in own shares

Investment in own shares

Cost	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
At 1 January	468	567	468	567
Disposals	(346)	-	(346)	-
Amortisation of allotted shares	(122)	(99)	(122)	(99)
At 31 December	-	468	-	468

13. Stocks

These represent stocks held for resale and consumption and are stated at the lower of cost and net realisable value.

14. Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year:				
Trade debtors	2,150	2,100	-	-
Amounts due from subsidiary undertakings	-	-	39,080	45,899
Other debtors	557	1,418	184	336
Prepayments and accrued income	1,211	1,110	-	-
Properties held for resale	5,927	-	-	-
	9,845	4,628	39,264	46,235

15. Creditors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year:				
Trade creditors	2,163	2,582	-	4
Other tax and social security	899	646	-	35
Other creditors	724	530	154	1
Accruals and deferred income	1,045	1,700	38	395
Proposed final dividend	-	608	-	608
	4,831	6,066	192	1,043

NOTES TO THE ACCOUNTS

16. Loans and borrowings

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Due within one year:				
Bank loans	3,800	3,300	3,800	3,300
Loan note	-	2,750	-	2,750
Loan from parent	3,250	-	3,250	-
Obligations under finance leases	25	27	-	-
	7,075	6,077	7,050	6,050
Due after more than one year:				
Bank loans	40,450	43,250	40,450	43,250
Obligations under finance leases	11	37	-	-
	40,461	43,287	40,450	43,250
Repayable:				
In one year	7,075	6,077	7,050	6,050
Between two and five years	40,461	3,825	40,450	3,800
After more than five years	-	39,462	-	39,450
	47,536	49,364	47,500	49,300

All the above are repayable in instalments as set out below:

	£000	Rate (2)	Repayment Profile
Royal Bank of Scotland	13,250 (1)	LIBOR +1.41%	3 monthly instalments over 7 years commencing December 2000
Royal Bank of Scotland	31,000 (1)	LIBOR +1.41%	Repayable on 23 March 2007
Finance leases	36	11.97%	Monthly instalments
Total	<u>44,286</u>		

- (1) Secured by way of a first legal charge over each freehold and leasehold property owned by each Group company. A first and only debenture from each Group company and a composite guarantee by each Group company in favour of Royal Bank of Scotland on account of each Group company.
- (2) The margin is based upon a ratchet mechanism whereby the margin payable is linked to the Group's interest cover achieved during the year.

17. Deferred taxation

	Deferred taxation	
	Group	Company
	2003	2003
	£000	£000
At 1 January	8,970	(6)
Charges in the year	188	6
At 31 December	9,158	-

Provision for tax payable on capital gains on the disposal of revalued properties is made only when there is a binding agreement to dispose of the asset. The tax effect if all properties had been sold at their book values, assuming no reinvestment in similar properties and therefore without the benefit of roll over relief being available, is estimated to be £2.5m (2002: £2.7m).

The elements of deferred tax are as follows:

	2003	2002
	£000	£000
Accelerated capital allowances	9,277	9,092
Short term timing differences	(2)	(5)
Losses carried forward	(117)	(117)
Deferred tax liability	9,158	8,970

NOTES TO THE ACCOUNTS

18. Called up share capital

	2003 £000	2002 £000	2003 Number	2002 Number
Authorised				
Ordinary Shares of 25p each	15,000	15,000	60,000,000	60,000,000
Allotted, called up and fully paid				
Ordinary Shares of 25p each	7,648	7,593	30,592,670	30,370,112

During the year the following ordinary shares of 25p each were issued:

Type of issue	Number of shares	Aggregate value (£)	Consideration received (£'000)
Scrip dividend alternative	222,558	55,640	-

19. Share options

Under the Company's Executive Share Option Schemes and its SAYE Share Option Schemes, there are no outstanding options at 31 December 2003.

	At 1 January 2003	Exercised during year	Lapsed during year	At 31 December 2003
Executive Share Option Schemes	2,063,000	(1,170,000)	(893,000)	-
SAYE Share Option Schemes	93,610	(93,610)	-	-
	2,156,610	(1,263,610)	(893,000)	-

Details of Directors options are set out below:

Executive Share Option Schemes						
	Date Granted	At 1 January 2003	Exercise Price	Exercised during year	Lapsed during year	At 31 December 2003
P G Eyles	10/09/96	288,000	125.5	-	(288,000)	-
	23/11/98	35,000	79.5	(35,000)	-	-
	05/10/99	50,000	135.5	-	(50,000)	-
	05/10/00	130,000	101.5	(130,000)	-	-
M E Jourdain	04/04/97	70,000	148.5	-	(70,000)	-
	23/11/98	20,000	79.5	(20,000)	-	-
	05/10/99	45,000	135.5	-	(45,000)	-
	05/10/00	50,000	101.5	(50,000)	-	-
A B Kelly	30/09/97	20,000	141.5	-	(20,000)	-
	23/11/98	15,000	79.5	(15,000)	-	-
	05/10/99	50,000	135.5	-	(50,000)	-
	05/10/00	120,000	101.5	(120,000)	-	-
P J Taylor	05/10/00	230,000	101.5	(230,000)	-	-
Other Employees	30/09/97	30,000	141.5	-	(30,000)	-
	04/04/97	80,000	148.5	-	(80,000)	-
	23/11/98	35,000	79.5	(35,000)	-	-
	05/10/99	95,000	135.5	-	(95,000)	-
	05/10/00	105,000	101.5	(105,000)	-	-
	04/05/01	10,000	106.5	(10,000)	-	-
	30/05/02	585,000	118.5	(420,000)	(165,000)	-
		2,063,000		(1,170,000)	(893,000)	-

NOTES TO THE ACCOUNTS

SAYE Share Option Scheme

	At 1 January 2003	Lapsed during year	Exercised during year	At 31 December 2003
P G Eyles	12,746	-	(12,746)	-
M E Jourdain	11,029	-	(11,029)	-
A B Kelly	12,746	-	(12,746)	-
Other Employees	57,089	-	(57,089)	-
	93,610	-	(93,610)	-

20. Share premium and reserves

	Share premium £000	Revaluation reserve £000	Merger reserve £000	Profit & loss account £000	Total £000
Group					
As at 1 January 2003	20,987	18,403	7,261	7,138	53,789
Premium on shares issued – net of costs	149	-	-	-	149
Revaluation of fixed assets	-	(7,403)	-	-	(7,403)
Retained loss for the year	-	-	-	(6,403)	(6,403)
Balance at 31 December 2003	21,136	11,000	7,261	735	40,132
Company					
As at 1 January 2003	20,987	-	7,261	1,584	29,832
Premium on shares issued – net of costs	149	-	-	-	149
Retained loss for the year	-	-	-	(10,413)	(10,413)
Balance at 31 December 2003	21,136	-	7,261	(8,829)	19,568

21. Analysis of cash flows

	2003 £000	2002 £000
Returns on investment and servicing of finance		
Interest received	397	376
Interest paid	(3,407)	(3,011)
Interest element of finance lease payments	(9)	(4)
Sale of investment in own shares	346	-
	(2,673)	(2,639)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,650)	(3,238)
Sale of tangible fixed assets	47	234
	(1,603)	(3,004)
Financing		
Issue of Ordinary share capital	(18)	(9)
Capital element of finance lease rental payments	(28)	64
Debt due within one year		
Increase in short term borrowings	1,050	3,300
Repayments	(3,300)	(2,750)
Debt due after more than one year		
Increase in long term borrowings	(550)	(1,550)
Repayments	1,000	-
	(1,846)	(945)

NOTES TO THE ACCOUNTS

22. Analysis of net debt

	At 1 January 2003 £000	Cash flow movements £000	Non-cash Movement* £000	At 31 December 2003 £000
Cash at bank and in hand	2,281	(1,226)	-	1,055
Debt due after more than one year	(43,250)	(1,000)	550	(43,700)
Debt due within one year	(6,050)	3,300	(1,050)	(3,800)
Finance leases	(64)	28	-	(36)
	(47,083)	1,102	(500)	(46,481)

* Non-cash movements comprise the reclassification of short and long term debt and a loan from the parent company.

23. Capital commitments

Capital expenditure authorised and contracted at the balance sheet date but for which no provision has been made in the Accounts amounts to £nil (2002: £400,000).

The commitments of the Group in respect of expenditure in the year ahead arising from operating leases are set out below:

	Land and buildings 2003 £000	Other 2003 £000	Land and buildings 2002 £000	Other 2002 £000
Committed expenditure in 2004 arising from operating leases ending:				
Within one year	-	33	-	165
Between two and five years	-	153	-	102
More than five years	242	-	227	-
	242	186	227	267

24. Pensions

The Company operates defined contribution contributory and non-contributory UK pension schemes providing for fixed rates of contribution based upon salaries. Contributions are fully accrued and charged to the profit and loss account in the year to which they relate.

The total pension charge for the year was £142,000 (2002: £156,000).

There were outstanding contributions as at 31 December 2003 of £9,000 (2002: £Nil) in respect of the schemes.

25. Related party transactions

The company is controlled by Trefick Ltd, the 99% shareholder. The ultimate controlling party is The Bulgham Trust, resident in the Isle of Man.

The Group owns 50% of Tweed Investments Limited. The Group operates and manages the properties owned by the joint venture. The transactions in the year between Tweed Investments Limited and the Group amounted to £2,223,000 (2002: £2,001,000) and were all at arms length. The nature of these transactions comprises an apportionment of the costs related to the joint venture incurred by the Group, management fees, charges for the use of central services and interest receivable on the loan to the joint venture.

The related party balances as at 31 December are as follows:

	2003 £000	2002 £000
Loan from Trefick Limited	(3,250)	-
Loan to Tweed Investments Limited (before provision)	4,650	4,650
Amounts due from Tweed Investments Limited	384	195
	1,784	4,845

NOTES TO THE ACCOUNTS

26. Joint venture

Tweed Investments Limited (Tweed), a joint venture in which Hanover International PLC has a 50% interest, has continued to make losses and have net cash outflows. By the date of approval of these financial statements, the two shareholders, through their equal participation on the board of Tweed, had not reached agreement as to how to resolve the profitability and cashflow issues, nor had they agreed a long term strategic direction for the company. Following this, the financial statements for Tweed for the year ended 31 December 2003 (due to be filed with the Registrar of Companies by 31 October 2004) have not yet been approved. The Directors of Hanover International PLC have included Tweed Investments Limited in these accounts using the amounts from the draft financial statements. In response to the ongoing trading difficulties at Tweed, the board have made provision in these accounts for Hanover International PLC's investment in and its loan to Tweed (see note 11).

27. Post balance sheet events

On 2 July 2004, the Group entered into a sale and purchase agreement to dispose of its property at Harpenden. Subject to certain conditions being met, this transaction will complete on 1 September 2004. Accordingly this hotel has been transferred to current assets.

On 13 July 2004, the Group entered into a sale and purchase agreement to dispose of its property at Dunstable. Subject to certain conditions being met, this transaction will complete on 31 August 2004. Accordingly this hotel has been transferred to current assets.

28. Ultimate parent company

99% of the shares of Hanover International PLC are owned by Trefick Ltd, a company resident in the Isle of Man, which is ultimately owned by the Bulgham Trust, a discretionary trust, resident in the Isle of Man. The trustees of the Bulgham Trust are Mr DJ Morgan and Mr MFG Crowe. No other group accounts include the results of the company.