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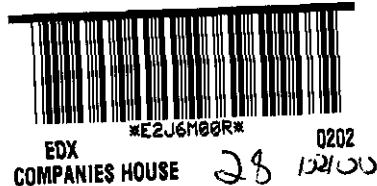
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services Act 1986 immediately.

The Directors, whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

If you have sold or otherwise transferred all your Ordinary Shares, you should send this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Application has been made to the London Stock Exchange for the new Ordinary Shares to be admitted to the Official List. It is expected that Admission will become effective and dealings, for normal settlement, will commence on the London Stock Exchange on 23 March 2000. This document comprises a prospectus relating to, and a circular of, Hanover International PLC which has been prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, and a copy of which has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 149 of that Act.

Hanover International PLC



Proposed acquisition

the training centre business and assets of
Birchin International plc and its subsidiaries

**Placing and Open Offer of 2,788,518 new Ordinary Shares
each at 108p per share
underwritten by Sutherlands Limited**

The Open Offer closes at 3.00 p.m. on 16 March 2000. The procedure for application is set out in Part II of this document. Application Forms for those Qualifying Shareholders wishing to accept should be completed and returned with the appropriate remittance by post to IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by hand only, during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2V 8EY so as to arrive no later than 3.00 p.m. on 16 March 2000.

A notice convening an Extraordinary General Meeting of Hanover to be held at 11.00 a.m. on 16 March 2000 at Kempson House, Camomile Street, London EC3A 7AN is set out at the end of this document. Shareholders will find enclosed a form of proxy for use at the Extraordinary General Meeting.

To be valid, the accompanying form of proxy should be completed, signed and returned in accordance with the instructions printed thereon to IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but, in any event, so as to be received no later than 11.00 a.m. on 14 March 2000.

Sutherlands, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting exclusively for Hanover and no-one else in connection with the Placing and the Open Offer and will not be responsible to anyone other than Hanover for providing the protections afforded to customers of Sutherlands, or for providing advice in relation to the Placing and the Open Offer.

Contents

	<i>Page</i>
Expected Timetable of Principal Events	3
Part I Letter from the Chairman	4
Introduction	4
Background to and reasons for the Acquisition	4
Information on the Birchin Group and the Training Centre Business	5
Information on the Hanover Group	6
Current trading	6
Year 2000	7
Terms of the Acquisition	7
New Banking Facility	7
The Placing and the Open Offer	7
Settlement and dealings	8
Management and employees	8
Extraordinary General Meeting	8
Action to be taken	9
Further information	9
Recommendation	9
 Part II Letter from Sutherlands Limited	 10
 Part III Financial Information relating to the Training Centre Business	
Part A: Information on Eynsham Hall and Chewton Place Training Centres	16
Part B: Information on Swinton Castle Limited	29
 Part IV Financial Information relating to Hanover	
Part A: Unaudited interim report and accounts of the Hanover Group for the six months ended 30 June 1999	38
Part B: Financial Information on the Hanover Group for the three financial years ended 31 December 1998	45
 Part V Valuation Report on the Properties	 71
 Part VI Pro-forma statement of combined net assets of the Enlarged Group	 78
 Part VII Additional information	 82
 Part VIII Definitions	 108
 Notice of Extraordinary General Meeting	 110

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Open Offer	Close of business on 16 February 2000
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m., 14 March 2000
Extraordinary General Meeting	11.00 a.m., 16 March 2000
Latest time and date for receipt of Application Forms and payment in full	3.00 p.m., 16 March 2000
Admission of new Ordinary Shares to the Official List	23 March 2000
Dealings commence in new Ordinary Shares and CREST accounts credited with new Ordinary Shares	23 March 2000
Definitive certificates in respect of the new Ordinary Shares (where applicable) despatched by	30 March 2000

PART I

LETTER FROM THE CHAIRMAN

HANOVER INTERNATIONAL PLC

(Registered in England and Wales with number 3043860)

28 February 2000

Directors:

Peter Eyles (Executive Chairman)
Anthony Kelly (Group Finance Director)
Michael Jourdain (Projects and Administration Director)
Charles Gaunt (Operations Director)
Robin Privett* (Joint Deputy Chairman)
Billy Whitbread*
Bernard Clow* (Joint Deputy Chairman)

Registered and Head Office:

Hanover House
Pingewood
Reading
Berkshire
RG30 3UN

*Non-executive

To Hanover Shareholders and, for information only, to participants in the Hanover Share Schemes

Dear Shareholder,

Introduction

Your Board announced on 23 February 2000 that Hanover had entered into a conditional agreement to acquire the residential training and conference centre business and assets of Birchin and its subsidiaries, for a consideration subject to adjustment, of £17.0 million. The training and conference centres being acquired are Eynsham Hall, Oxford, Chewton Place, Bristol and Swinton Castle, Harrogate.

The consideration for the Acquisition is payable on Completion by Hanover as explained in further detail below under the "Terms of the Acquisition", to be satisfied from Hanover's banking facilities and the issue of 2,788,518 new Ordinary Shares under the Placing, subject to claw-back to satisfy valid applications in the Open Offer, at 108p per share to raise approximately £3.0 million (before expenses). The Placing and the Open Offer are fully underwritten by Sutherlands.

In view of the size of the Acquisition, it is conditional upon, amongst other things, the approval by Shareholders which is to be sought at the EGM, convened for 16 March 2000.

This document provides you with details of the Acquisition and the Placing and the Open Offer and also explains why your Directors recommend Shareholders to vote in favour of the Resolution at the EGM. Shareholders should read the whole document and not just rely upon the key or summarised information contained in this letter.

Background to and reasons for the Acquisition

Since the time of its flotation in August 1995, Hanover has sought to pursue its stated objectives of acquiring, developing and managing a group of four star quality properties primarily targeted at the commercial and individual leisure markets. The Group's strategy is to seek to deliver consistently high standards of facilities and service to achieve a value for money reputation and, as a result, customer loyalty. For the year ended 31 December 1999, approximately 86.0 per cent. of the Group's sales were derived from corporate accounts. Of total business, 65.5 per cent. represented repeat business. Approximately 48.0 per cent. by value of the Group's corporate business, comprises the provision of both conference and training facilities.

The Directors consider that the conference and training market has good potential for growth. Further, the Directors believe that this sector is not as seasonally affected as the hotel sector and therefore provides relatively stable year-round occupancy rates. The Directors consider that the Acquisition represents an excellent opportunity to increase the Group's exposure in the training market and also to enhance and develop the Group's portfolio in accordance with the Group's strategy.

In particular, the Acquisition should benefit the Enlarged Group in the following ways:

- The combination of the business of Hanover and the Training Centre Business of Birchlin represents an excellent geographic fit. Following the Acquisition, the Enlarged Group will have 9 hotels/training and conference centres providing a total of approximately 950 bedrooms.
- There is a strong complementary business mix between the facilities provided by both the Group and Birchlin, as Birchlin's residential facilities are predominantly four star quality and all of Hanover's existing hotels have conference facilities.
- The rebranding of the Training Centre Business as "Hanover", which the Directors intend to effect following the Acquisition, will raise the profile of Hanover, increase distribution and improve the strength of the Hanover brand amongst its target markets.
- The Directors believe that there are opportunities to enhance revenue through:
 - cross referrals from Birchlin's and Hanover's existing customers
 - increased choice and appeal to Hanover's corporate customers of an expanded portfolio
 - rolling out Hanover's loyalty programme to an enlarged customer base
 - common reservation systems
 - applying Hanover's sales and marketing expertise to the Training Centre Business.
- The Directors expect the Acquisition to be earnings enhancing in the first full year of ownership, being the financial year to 31 December 2001.

Information on the Birchlin Group and the Training Centre Business

Financial information on the Training Centre Business, comprising an accountants' report on the Eynsham Hall and Chewton Place Training Centres and a separate accountants' report on Swinton Castle Limited, is set out in Part III of this document. In the year ended 30 September 1999, the Eynsham Hall and Chewton Place Training Centres generated turnover of £4.7 million and, after payment of head office and financing costs to Birchlin, operating profits of £1.1 million. Swinton Castle Limited in the year ended 30 September 1999 generated turnover of £0.3 million and an operating loss, after payment of charges to Birchlin, of £0.1 million. In both cases the head office and related costs payable to Birchlin, which in the year ended 30 September 1999 amounted to approximately £0.8 million, will not be assumed as part of the Acquisition.

Shareholders' attention is drawn to the fact that, owing to the lack of availability of historic financial data, the accountants' reports contained in Part III of this document do not provide a full three year financial record of the Training Centre Business as required by the Listing Rules. The Directors do not consider this to be a matter of significance for investors.

The Birchlin Group is a residential training and conference centre group which owns three training and conference centres located in the UK. Its shares are listed on the Alternative Investment Market of the London Stock Exchange. The Birchlin Group's properties provide a total of 215 bedrooms and 69 meeting rooms.

Brief details of the Properties are as follows:

<i>Name</i>	<i>No. of Bedrooms</i>	<i>No. of meeting rooms</i>	<i>Capacity of largest meeting room (persons)</i>	<i>Leisure facilities</i>
Eynsham Hall, Oxford	144	42	150	Yes
Chewton Place, Bristol	31	9	100	No
Swinton Castle, Harrogate	40	18	70	No
Total	215	69		

Eynsham Hall, Oxford

Eynsham Hall is a leasehold Grade II listed Jacobean style mansion house built in 1903, set in some 42 acres of parkland and converted into a training and conference centre in 1982. Since 1986 the centre has been extended and redeveloped and now incorporates Eynsham Lodge, Eynsham Court, The Cottage and Assessment Centre and The Lindsay Building offering accommodation and meeting rooms and a sports complex.

Chewton Place, Bristol

Chewton Place is a Grade II listed freehold 18th century house set in about 8 acres of grounds with a modern extension, lodge house and separate two storey accommodation block. It is currently operated as a 31 bedroom conference and training centre with 9 meeting rooms.

Swinton Castle, Harrogate

Swinton Castle is a Grade II* listed freehold mansion house originally built in the 17th century but substantially rebuilt in both the 18th and 19th centuries, set in some 11 acres of parkland. The property has 40 bedrooms and 18 meeting rooms. The property is not currently being operated. The role of this property within the Enlarged Group will be subject to a review following Completion.

The Training Centre Business (including the Properties but excluding stocks) has been valued on an existing use value basis by Weatherall Green & Smith, Chartered Surveyors, at £17.0 million. That valuation is set out in Part V of this document.

Information on the Hanover Group

The Hanover Group is involved in the acquisition, development and management of four star quality properties that are primarily targeted at the commercial and individual leisure markets. It currently operates 6 hotels with 739 bedrooms located in Reading, Daventry, Hinckley, Ashbourne, Huddersfield and Skipton. The Group's management approach combines strong central financial control with a policy of encouraging managers and staff to develop and exploit the character and appeal of each property in the attainment of the Group's targets.

In its unaudited interim results for the 6 months ended 30 June 1999 (set out in Part IV of this document), Hanover reported profit on ordinary activities before tax and exceptional items of £1.6 million (1998: £1.3 million) and basic earnings per share before exceptional items of 7.5p (1998: 6.9p) on turnover of £10.0 million (1998: £11.1 million). As at that date, consolidated net assets were £43.2 million (1998: £40.7 million).

Current trading

The Hanover Group continues to focus on corporate business with a view to enhancing the security and quality of its business. As I mentioned in my statement accompanying the interim results of Hanover for the six months ended 30 June 1999, corporate customers have been reluctant to commit to bookings too far in advance. This position did not change for the remainder of the last financial year. The Directors consider that this reluctance was, in part, a result of fears about the potential effects of the Year 2000 date change and since businesses have returned to work after the extended New Year holiday, the position in relation to advance booking commitments has started to improve. The controls exercised by the Group's management continue to contribute to an improvement in gross operating margins. The Directors continue to be cautiously optimistic about the future prospects of the Enlarged Group.

Birchin continues to trade profitably in line with expectations.

The Directors anticipate that the Acquisition will bring the benefits to Hanover identified earlier in this letter. They believe that bringing together the hotels owned and operated by the Hanover Group with the conference and training centres owned and operated by the Birchin Group, under the umbrella of a single brand name, should enhance the performance of the resulting Enlarged Group.

Year 2000

The Group completed its Year 2000 programme for all business critical systems in both information technology and building services in 1999. Prior to the year end, contingency plans were completed at every site and included provisions for both customers and suppliers. Hanover did not experience any material problems or incur any material costs relating to Y2K over the New Year period and the Directors are confident that the Enlarged Group is well prepared for any future problems associated with this issue.

Terms of the Acquisition

The consideration for the Acquisition is £17.0 million (plus an additional payment to reflect prepayments and stock) in cash payable at Completion and subject to adjustment as described below.

The consideration is to be funded from the net proceeds of the Placing and the Open Offer and from a new banking facility conditionally made available by the Bank of Scotland (as further described below).

At Completion, £2 million of the consideration payable to the Vendors will be placed into an escrow account in the joint names of Hanover and Birchin. If the operating profits (calculated in accordance with the Acquisition Agreement) attributable to the Training Centre Business being acquired for the year ending 30 September 2000 are less than £2 million, Hanover will be entitled to claw-back up to £2 million of such consideration on the basis of £8.50 for each £1 shortfall in such operating profits.

Further details of the Acquisition Agreement are set out in paragraph 8.1.1 of Part VII of this document.

New Banking Facility

The Company has entered into a conditional supplemental banking facility with Bank of Scotland providing for an increase in the amount which may be borrowed by the Group to £34.3 million. Of this facility, approximately £14.4 million will be used to fund, in part, the Acquisition.

The Placing and the Open Offer

The Company is proposing to issue 2,788,518 new Ordinary Shares at 108p per share under the Placing and the Open Offer to raise approximately £3.0 million (before expenses). Sutherlands has agreed to use its reasonable endeavours to procure subscribers for all of the new Ordinary Shares. Of such £3.0 million, approximately £2.6 million will be used to finance the Acquisition with the balance to cover, in part, the expenses of the Proposals.

In order to provide Qualifying Shareholders with an opportunity to acquire new Ordinary Shares, and subject to the fulfilment of the conditions referred to below, the Directors have engaged Sutherlands as agent for the Company to invite applications from Qualifying Shareholders to subscribe for the new Ordinary Shares at 108p each, payable in full on application on the basis of:

3 new Ordinary Shares for every 20 existing Ordinary Shares

held by such Qualifying Shareholders and registered in their respective names on the Record Date and so in proportion for any greater or lesser number of existing Ordinary Shares then held. Entitlements to new Ordinary Shares will be rounded down to the nearest whole number and fractional entitlements which would otherwise have arisen will be aggregated and placed pursuant to the Placing for the benefit of the Company.

The terms of the Open Offer are such that Qualifying Shareholders who validly elect for new Ordinary Shares up to their maximum entitlements will be entitled to receive such new Ordinary Shares. Any application in excess of a Qualifying Shareholder's maximum entitlement will be deemed to be in respect of that Shareholder's maximum entitlement.

The making of the Open Offer to persons not resident in the UK may be affected by the laws or regulatory requirements of the jurisdiction in which they reside. Certain overseas Shareholders will as a result be excluded from the Open Offer, as detailed in paragraph 4 of Part II below.

The Placing and the Open Offer are subject to the Placing and Open Offer Agreement (which is summarised in paragraph 8.1.2 of Part VII of this document), which is conditional, *inter alia*, upon:

- (i) the Placing and Open Offer Agreement becoming unconditional, subject only to Admission, and not having been terminated in accordance with its terms prior to Admission; and
- (ii) Admission.

Application has been made to the London Stock Exchange for the new Ordinary Shares to be admitted to the Official List and it is expected that Admission will become effective, and dealings in the new Ordinary Shares will commence, on 23 March 2000.

The new Ordinary Shares will be issued fully paid at a price of 108p per new Ordinary Share which represents a premium of 83p over the nominal value of each new Ordinary Share. The new Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares.

The new Ordinary Shares will be in registered form and following Admission will be capable of being held in uncertificated form. In relation to new Ordinary Shares issued in certificated form, temporary documents of title will not be issued and, pending the despatch of definitive certificates, transfers will be certified against the register of members.

Qualifying Shareholders who have sold or transferred all or part of their registered holdings prior to 16 February 2000 are advised to consult their stockbroker or other independent professional adviser as soon as possible, since an invitation to subscribe for new Ordinary Shares may represent a benefit which can be claimed from them by purchasers or transferees.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that new Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of those Qualifying Shareholders who do not apply under the Open Offer. Any new Ordinary Shares which are not applied for under the Open Offer will be taken up by placees in accordance with their commitments under the Placing.

Application Forms and remittances in full must be received by post at IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by hand only, during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2V 8EY by no later than 3.00 p.m. on 16 March 2000.

Further details of the Placing and the Open Offer are set out in the letter to Qualifying Shareholders from Sutherlands in Part II of this document.

Settlement and dealings

Please indicate on your Application Form whether you wish your new Ordinary Shares to be credited to your CREST account or whether you wish to be sent a share certificate for your new Ordinary Shares. CREST accounts will be credited on Admission, and it is expected that share certificates will be despatched on or before 30 March 2000.

Dealings in the new Ordinary Shares are expected to commence on 23 March 2000.

Management and employees

Following the Acquisition, (subject to certain agreed exceptions) Hanover will take over the employment of all staff of the Birchin Group on the same terms and conditions as they are presently employed.

Extraordinary General Meeting

The Acquisition, because of its size, requires the approval of Shareholders under the Listing Rules. Approval is also required to increase the borrowing powers of the Group as the Articles of Association of the Company currently contain certain limitations on borrowing powers which are required to be relaxed to enable the acquisition financing to be put in place.

Set out at the end of this document is a notice convening an Extraordinary General Meeting to be held at 11.00 a.m. on 16 March 2000 at Kempson House, Camomile Street, London, EC3A 7AN, at which an ordinary resolution will be proposed to approve the Acquisition and to authorise the Directors to take all other steps necessary or desirable to complete the Acquisition.

Action to be taken

You will find enclosed with this document a form of proxy to be used in connection with the EGM. Whether or not you intend to attend the meeting, please complete the form of proxy and return it in accordance with the instructions printed on it to IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive as soon as possible and in any event no later than 11.00 a.m. on 14 March 2000. A reply-paid envelope is enclosed for your convenience.

Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person, if you so wish.

Further information

Your attention is drawn to the further information set out in the remainder of this document.

Recommendation

Your Directors consider that the Proposals are in the best interests of the Company and its Shareholders as a whole and that the value of the Training Centre Business justifies the price being paid for it. Accordingly, your Directors unanimously recommend Shareholders to vote in favour of the resolution to be proposed at the EGM, as they intend to do in respect of their entire beneficial holdings of 337,221 Ordinary Shares, in aggregate, representing approximately 1.8 per cent of the existing ordinary share capital of the Company.

Yours sincerely,

Peter G. Eyles
Executive Chairman

PART II

LETTER FROM SUTHERLANDS LIMITED

Regulated by The Securities and Futures Authority Limited and Member of the London Stock Exchange
Incorporated in Scotland with limited liability (Registered No. 115136)
Registered office: Lismore House, 127 George Street, Edinburgh EH2 4JX

Sutherlands Limited
Dashwood House
69 Old Broad Street
London EC2M 1NX

28 February 2000

To Qualifying Shareholders

Dear Shareholder,

**Placing and Open Offer to Qualifying Shareholders
of 2,788,518 new Ordinary Shares at the issue price of 108p per share on the basis of
3 new Ordinary Shares for every 20 Ordinary Shares**

1. Introduction

As the letter from the Chairman set out in Part I of this document explains, the Board proposes to raise approximately £3.0 million, before expenses, by way of the Placing and the Open Offer.

This letter sets out the formal terms and conditions of the Open Offer and should be read in conjunction with the remainder of this document and the Application Form.

2. The Open Offer

As agent for and on behalf of the Company, Sutherlands hereby invites Qualifying Shareholders, subject to the terms and conditions set out below and on the Application Form, to apply for new Ordinary Shares at the Placing Price, payable in full on application and free of all expenses on the basis of:

3 new Ordinary Shares for every 20 existing Ordinary Shares

held on the Record Date and so in proportion for any number of existing Ordinary Shares then held. Entitlements to new Ordinary Shares will be rounded down to the nearest whole number and fractional entitlements which would otherwise have arisen will be aggregated and placed pursuant to the Placing for the benefit of the Company. Application may be made by Qualifying Shareholders for any number of new Ordinary Shares up to and including their maximum *pro rata* entitlement, which is indicated on the Application Form accompanying this document. The new Ordinary Shares issued pursuant to the Open Offer will, once allotted fully paid, rank *pari passu* in all respects with the existing Ordinary Shares. Overseas Shareholders should read paragraph 4 below.

Application may only be made on the Application Form, which is personal to the Qualifying Shareholder(s) named thereon and may not be assigned, transferred or split except to satisfy *bona fide* market claims. Qualifying Shareholders who have sold or transferred all or part of their registered holdings are advised to consult their stockbroker, bank or other agent through or by whom the sale or transfer was effected as soon as possible since the benefits arising under the Open Offer may be claimed from them by purchasers or other transferees under the rules of the London Stock Exchange.

The Application Form represents a right to apply for new Ordinary Shares at the Placing Price. It is not a document of title and cannot be traded. Any new Ordinary Shares for which application is not made by Qualifying Shareholders will be issued under the terms of the Placing and Open Offer Agreement to places

and the proceeds retained for the benefit of the Company. There will be no sale in the market of any entitlement to apply for new Ordinary Shares not taken up by Qualifying Shareholders under the Open Offer.

The Placing and the Open Offer is subject, *inter alia*, to the satisfaction of the following conditions on or before 3.30 p.m. on 23 March 2000 (or such later date as Sutherlands may agree, being not later than 5.00 p.m. on 7 April 2000):

- (i) the Placing and Open Offer Agreement having become unconditional (subject only to Admission) and not having been terminated in accordance with its terms; and
- (ii) Admission becoming effective.

3. Procedure for application

The Application Form shows the number of Ordinary Shares registered in your name on the Record Date and also shows your maximum *pro rata* entitlement to new Ordinary Shares under the Open Offer. The Application Form incorporates further terms of the Open Offer and must be used if you wish to apply for new Ordinary Shares under the Open Offer. You may apply for less than your maximum entitlement of new Ordinary Shares if you so wish.

If you wish to apply for all or any of the new Ordinary Shares represented by your entitlement under the Open Offer, you must complete the Application Form in accordance with the instructions printed on it. Completed Application Forms should be returned by post in the reply paid envelope provided to IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only, during normal business hours, to IRG plc, 23 Ironmonger Lane, London EC2V 8EY with a cheque or banker's draft drawn in sterling on an account at a bank or building society in the United Kingdom which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies or those committees. Such cheques or banker's drafts must bear the appropriate sorting code in the top right hand corner, and must be for the full amount payable on application. **Applications and payment in full must be received no later than 3.00 p.m. on 16 March 2000**, after which time Application Forms will not be valid. Once submitted, applications are irrevocable. Cheques should be made payable to "IRG – A/C Hanover International PLC" and crossed "A/C Payee Only". It is a condition of application that cheques will be honoured on first presentation and the Company may elect not to treat as valid those applications in respect of which cheques are not so honoured. A pre-paid addressed envelope is enclosed for your use.

Any application for in excess of a Qualifying Shareholder's maximum entitlement will be deemed to be in respect of that Shareholder's maximum entitlement. It is expected that any monies paid in excess of the amount due in respect of an application made will be posted to the applicant (at the applicant's risk) without interest.

Cheques and banker's drafts are liable to be presented for payment upon receipt. The application monies will be held in a separate bank account and any interest earned on such monies will be retained for the benefit of the Company. If the conditions of the Placing and the Open Offer are not fulfilled on or before 3.30 p.m. on 23 March 2000, (or such later date, being not later than 7 April 2000, as Sutherlands may agree) the Open Offer will lapse and application monies will be returned without interest by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s) as soon as is practicable.

It is a term of the Open Offer that the Company, or IRG, as receiving agent on its behalf, may in their absolute discretion require verification of identity from persons lodging Application Forms for registration and payment by way of cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant, to ensure compliance with the Money Laundering Regulations 1993. For United Kingdom applicants, this may involve verification of names and addresses of such applicants through a reputable agency. For non-United Kingdom applicants, verification of identity may be sought from your bankers or from another reputable institution or professional adviser in the applicant's country of residence. If by 3.00 p.m. on 16 March 2000 the Company, or IRG as receiving agent, has not received evidence satisfactory to them as aforesaid, the Company may, in its absolute discretion, reject the application, in which event, application monies will be returned to the applicant without interest (at the applicant's risk).

By completing and delivering an Application Form, Qualifying Shareholders:

- (a) agree that all applications, contracts and obligations resulting from such application shall be governed by, and construed in accordance with, English law; and
- (b) confirm that they have not relied on any information or representation other than such as may be contained in this document and the Application Form.

If you do not wish to apply for any new Ordinary Shares you should not complete the enclosed Application Form.

Any enquiries about the Open Offer should be addressed to IRG plc (telephone 020 8639 2000).

4. Overseas Shareholders

The making of the Open Offer to persons not resident in the United Kingdom may be affected by the laws or regulatory requirements of relevant jurisdictions. No person receiving a copy of this document and/or any Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless, in the relevant territory, such Application Form could lawfully be used without compliance with any unfulfilled registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to apply for new Ordinary Shares under the Open Offer to satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required and compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territory.

The Company reserves the right, in its absolute discretion, to treat the Open Offer as having been declined in a particular case if it believes acceptance may violate applicable legal or regulatory requirements.

In particular, overseas Shareholders should note the following:

United States and Canada

The new Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada.

The new Ordinary Shares are not being offered for sale and may not be, directly or indirectly, offered, sold, transferred or delivered in the United States or Canada or to or for the benefit of any US persons or residents of Canada. Application Forms will therefore not be sent to Shareholders who have registered addresses in the United States or Canada, nor will applications be accepted from anyone who does not make the declaration of non-United States and non-Canadian beneficial ownership on the Application Form.

For the purposes of this document "United States" means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction; "Canada" means Canada and each province thereof; "US person" has the meaning given in Regulation S promulgated under the Securities Act; and "resident of Canada" means a citizen, national or resident of Canada, the estate of any such person, a partnership, corporation or other entity created or organised in or under the laws of Canada, or any estate or trust, the income of which is liable to Canadian income tax regardless of its source.

The Republic of Ireland and Australia

The Open Offer is not being made in the Republic of Ireland or the Commonwealth of Australia, its states, territories or possessions nor will this document, any advertisement or other offering material in relation to the new Ordinary Shares be distributed directly or indirectly in the Republic of Ireland or Australia.

The new Ordinary Shares have not been nor will be available for subscription or purchase by any resident of the Republic of Ireland or Australia (including corporations and other entities organised under the laws of Australia, but not including a permanent establishment of any such corporation or entity located outside

Australia). Applications will not therefore be accepted from anyone who does not make the declaration of non-Irish or non-Australian beneficial ownership contained in the Application Form.

This document is being sent for information only to those Shareholders who are unable to comply with the requirements of the laws of the overseas territory to which they are subject and will not constitute any offer or invitation to such persons to subscribe or purchase new Ordinary Shares.

The Company and Sutherlands nonetheless reserve the right to make new Ordinary Shares available to overseas shareholders notwithstanding any statement contained in this document, if they are advised to their satisfaction that any such shareholder can properly accept an offer or invitation to subscribe for new Ordinary Shares without observance by the Company or Sutherlands of any requirement which it (in its sole discretion) regards as unduly burdensome.

5. United Kingdom taxation

The following statements, intended only as a general guide, are based on current UK tax legislation and Inland Revenue practice (which may change). The paragraphs below summarise the position of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

5.1 Taxation of chargeable gains

It is understood that the Inland Revenue will treat the issue of new Ordinary Shares by the Company to a Qualifying Shareholder up to and including his *pro rata* entitlement as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation on capital gains ("CGT", which expression shall include, unless the context indicates otherwise, corporation tax in respect of chargeable gains). Accordingly, a Qualifying Shareholder will not be treated as making a disposal of any part of his existing Ordinary Shares by reason of the Open Offer.

New Ordinary Shares issued to a Qualifying Shareholder should be treated for CGT purposes as the same asset as his or its holding of existing Ordinary Shares as if they had been acquired at the same time as his or its holding of existing Ordinary Shares. The subscription monies for the new Ordinary Shares which a Qualifying Shareholder takes up will be added to the acquisition cost of his or its holding of existing Ordinary Shares. Indexation allowance will, however, only be available from the date on which payment for the new Ordinary Shares is made or liable to be made.

The Finance (No 2) Act 1997 included various proposals regarding the change of CGT on gains made by individuals, trustees and personal representatives on or after 6 April 1998. The CGT rules described above have been amended in the following manner:

- (i) indexation ceased to run from April 1998. Assets held on that date will therefore have a final adjustment to reflect indexation up until that date, but will have no subsequent indexation adjustment;
- (ii) indexation has been replaced by a taper which will reduce the amount of the chargeable gain according to how many complete tax years the asset has been held after 5 April 1998. In relation to assets which were acquired before 17 March 1998, there is an addition of one year to the period for which they are treated as held after 5 April 1998. This addition is the same for all assets, whenever they were actually acquired, provided they were acquired before 17 March 1998. So, for example, an asset purchased on 1 January 1998 and disposed of on 1 July 2000 will be treated for the purposes of the taper as if it had been held for three years (two completed years after 5 April 1998 plus one additional year); and
- (iii) if any Qualifying Shareholders hold existing Ordinary Shares which have been acquired on or after 6 April 1998, then such existing Ordinary Shares will not be treated as the same asset as any other existing Ordinary Shares acquired before that date. The consequence of this will be that, in applying the reorganisation rules, an apportionment will have to be made between the existing Ordinary Shares held before 6 April 1998, and those acquired on or after that date. Such apportionment will be made on a *pro rata* basis. To the extent to which new Ordinary Shares are

apportioned to the existing Ordinary Shares which were held before 6 April 1998, then the rules described above regarding reorganisation will still apply. Any existing Ordinary Shares acquired after 6 April 1998, however, will constitute a separate holding, or (if acquired on more than one day) a series of separate holdings, and the reorganisation rules described above will apply separately in relation to each such existing holding, again on a *pro rata* basis.

As mentioned above, these new rules apply only in relation to CGT on gains made by individuals, trustees and personal representatives on or after 6 April 1998. They do not apply in relation to corporation tax on chargeable gains made by companies, to which the rules relating to indexation still apply.

5.2 Taxation of dividends

The tax treatment in relation to dividends paid by the Company will be as follows:

- (i) From 6 April 1999, the Government abolished the system of advance corporation tax ("ACT"). Accordingly, companies paying dividends after 6 April 1999 will no longer be required to pay ACT in respect of distributions paid to shareholders. Previously, companies had to pay ACT, calculated as 25 per cent. of the dividend paid to shareholders, to the Inland Revenue when the company made a dividend payment to shareholders. This ACT could be deducted, subject to certain restrictions, from the company's corporation tax liability. For shareholders, the ACT was a tax credit which was deemed to satisfy the lower and basic rate liabilities of the individual receiving the dividend. For non-taxpayers, the tax credit could sometimes be recovered from the Inland Revenue.

For corporate shareholders, the tax credit could be used to offset the ACT which they would pay on their dividend payments to their own shareholders.

- (ii) From 6 April 1999, the amount of the tax credit has been reduced to one-ninth of the amount of the dividend, equivalent to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend") paid on or after 6 April 1999. The reduced tax credit on dividends paid on or after 6 April 1999 referred to above will discharge in full the liability of a United Kingdom resident individual shareholder whose income is within the lower and basic rate bands to income tax in respect of such a dividend. Higher rate taxpayers will be able to offset the tax credit against their liability to tax on the gross dividend but will have a reduced tax liability of 32.5 per cent. on the gross dividend. Accordingly, there will be a further tax liability of 22.5 per cent. of the gross dividend for such taxpayers. Notwithstanding that a United Kingdom resident shareholder's total tax credit on such dividends exceeds his overall United Kingdom tax liability, any excess will in general not be repaid.
- (iii) For a corporate shareholder, any dividends received will continue to be non-taxable income for United Kingdom corporation tax purposes. However, the gross dividend, including the notional tax credit, will continue to be taken into account when computing profits for marginal relief purposes.
- (iv) For companies which pay dividends on or after 6 April 1999, there may be a restriction on the offset of surplus ACT which is being carried forward at 6 April 1999. There has been introduced the concept of "shadow" ACT, such that the ACT which would have been payable on the post 5 April 1999 dividend if ACT had continued must be notionally set off against the company's corporation tax liability before the company can set off its actual ACT brought forward. The Company does not have surplus ACT at 6 April 1999 and will not therefore encounter this problem.

5.3 Stamp duty and stamp duty reserve tax

Except in relation to depository receipt arrangements or clearance services, where special rules apply, no stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the new Ordinary Shares.

A conveyance or transfer on sale of new Ordinary Shares will generally be subject to *ad valorem* stamp duty on the instrument of transfer at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration. A charge to SDRT at the rate of 0.5 per cent. of the consideration will arise in relation to an unconditional agreement to transfer new Ordinary Shares. However, where within six years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid. A transfer of new Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the consideration, which will be collected in CREST.

Transfers to certain categories of person are not liable to stamp duty or SDRT, and the transfer of new Ordinary Shares to certain other categories of person may be liable to stamp duty or SDRT at a higher rate.

The above summary is intended as a general guide. It is based on law and practice currently in force in the United Kingdom and is subject to any changes in the relevant legislation, its application and practice. It may not apply to certain categories of Shareholder, such as dealers in securities.

Any person who is in any doubt as to his taxation position or who is subject to taxation in a jurisdiction other than the United Kingdom should consult his professional advisers immediately.

6. Settlement and dealings

Application has been made to the London Stock Exchange for the admission of the new Ordinary Shares to be issued pursuant to the Placing and the Open Offer to trading on the Official List. It is expected that Admission will take place and that dealings in those new Ordinary shares will commence on 23 March 2000, subject to the conditions to the Placing and the Open Offer having been satisfied by that time.

CREST accounts will be credited with new Ordinary Shares issued pursuant to the Placing and the Open Offer with effect from Admission, which is expected to become effective on 23 March 2000. Definitive certificates for new Ordinary Shares issued pursuant to the Placing and the Open Offer are expected to be despatched by 30 March 2000. In the case of joint holders, despatch will be to the address of that joint holder whose name stands first in the register of members in respect of the joint holding concerned. Temporary documents of title will not be issued and, pending the despatch of definitive certificates, transfers will be certified against the register of members. All documents or remittances sent by or to any applicant, or as they may direct, will be sent through the post at their risk.

Any instructions with regard to payments or notices recorded by the Company or its registrars in respect of holdings of existing Ordinary Shares will also apply to the new Ordinary Shares.

7. Timetable

The dates set out in the timetable of events on page 3 and mentioned throughout this document and the Application Form may be adjusted by agreement between the Company and Sutherlands, in which event details of the new dates will be notified to the London Stock Exchange and, where appropriate, to Qualifying Shareholders. However the latest time for acceptance and payment in full under the Open Offer will not be later than 3.00 p.m. on 16 March 2000.

8. Further information

Your attention is drawn to the additional information set out in Part I and in Parts III to Part VII (inclusive) of this document.

Yours faithfully
for and on behalf of
Sutherlands Limited

Paul Newman
Director

PART III

Financial Information relating to the Training Centre Business

Part A: Information on Eynsham Hall and Chewton Place Training Centres

The Directors
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Berkshire
RG30 3UN



KPMG Audit Plc
PO Box 486
1 Puddle Dock
London EC4V 3PD
United Kingdom

The Directors
Sutherlands Limited
Dashwood House
69 Old Broad Street
LONDON
EC2M 1NX

28 February 2000

Dear Sirs

Eynsham Hall and Chewton Place Training Centres

Basis of preparation

The financial information set out in paragraphs 1 to 4 is based on the combined financial statements which contain the assets and businesses that Hanover International PLC ("the Company") is proposing to acquire from Birchin International plc ("Birchin") ('the Acquisition'). The assets and businesses being acquired are collectively referred to herein as the Eynsham Hall and Chewton Place Training Centres or the group. No consolidated audited accounts have been prepared for the Eynsham Hall and Chewton Place Training Centres as a whole for any of the periods included in this report.

The Eynsham Hall and Chewton Place Training Centres comprise the assets and operations of Eynsham Hall Limited, the Chewton Place asset which is held by Birchin and the assets and operations of Chewton Place Limited. The Company proposes to acquire the following:

- the assets and business of Eynsham Hall Limited;
- the property known as Chewton Place; and
- the assets and business of Chewton Place Limited.

The Company also proposes to acquire the assets and business of Swinton Castle Limited; we have separately reported on the financial statements of that entity.

Eynsham Hall Limited

Luckyprime Limited was incorporated on 23 May 1997 and on 3 July 1997 changed its name to Eynsham Hall Limited ("EHL").

The financial information set out below is based upon the audited financial statements of EHL for the period from 23 May 1997 to 30 September 1998 and the year ended 30 September 1999 after making such adjustments as we consider necessary. Information for the four month period from 23 May 1997 to 30 September 1997, based on management accounts for the period, has been excluded from the primary statements and included as note 4.20 to this report.

The financial information on Eynsham set out in note 4.20 has been derived from the audited financial statements for the period from 23 May 1997 to 30 September 1998 and consists of a profit and loss account only. Neither a balance sheet as at 30 September 1997 nor a cash flow statement for the period from 23 May 1997 to 30 September 1997 have previously been prepared. Further it has not been possible to compile these statements for the purposes of this report as certain necessary records for this period is no longer available.

No financial information has been presented for Eynsham Hall prior to 23 May 1997 since access to accounting information for those periods has not been granted by the former owners of the Eynsham Hall business.

No audited financial statements have been prepared for EHL in respect of any period subsequent to 30 September 1999.

Baker Tilly, Chartered Accountants and Registered Auditors, were auditors of EHL for the period from 23 May 1997 to 30 September 1998 and the year ended 30 September 1999. Their audit reports in respect of those periods were unqualified.

The property known as Chewton Place

The property known as Chewton Place was purchased by Birchin on 25 September 1997 from Coutts Consulting Group plc.

The financial information set out below in respect of the property is extracted from the financial statements of Birchin for the two years ended 30 September 1999 after making such adjustments as we consider necessary.

No audited financial statements have been prepared for Birchin in respect of any period subsequent to 30 September 1999.

Baker Tilly, Chartered Accountants and Registered Auditors, were auditors of Birchin for the two years ended 30 September 1999. Their audit report in respect of the year ended 30 September 1998 was unqualified. The audit report for the year ended 30 September 1999 has not yet been finalised and therefore no audit report has yet been issued in respect of that year.

Chewton Place Limited

Placebroad Limited was incorporated on 13 November 1987 and on 8 January 1988 changed its name to Chewton Place Limited ("CPL").

The financial information set out below is based upon the audited financial statements of CPL for the period 1 January 1997 to 30 September 1997 and for the two years ended 30 September 1999 after making such adjustments as we consider necessary. Information for the period 1 January 1997 to 30 September 1997 has been excluded from the primary financial statements and included as note 4.21 to this report.

A cash flow statement for the period from 1 January 1997 to 30 September 1997 has not previously been prepared and it has not been possible to compile this statement for the purposes of this report as certain necessary records for this period are no longer available.

No financial information has been presented for the period prior to 31 December 1996 since access to accounting information for those periods has not been granted by the former owners of the CPL business.

No audited financial statements have been prepared for CPL in respect of any period subsequent to 30 September 1999.

Baker Tilly, Chartered Accountants and Registered Auditors, were auditors of CPL for the two years ended 30 September 1999. Their audit reports in respect of those periods were unqualified.

BDO Stoy Hayward, Chartered Accountants and Registered Auditors, were auditors of CPL for the period from 1 January 1997 to 30 September 1997. Their audit report in respect of this period was unqualified.

Responsibility

The consolidated financial statements of Birchin International plc together with the financial statements of Eynsham Hall Limited and Chewton Place Limited are the responsibility of the directors of those companies and have been approved by them.

The Directors of the Company are responsible for the contents of the prospectus dated 28 February 2000 (the "Prospectus") in which this report is included.

It is our responsibility to compile the combined financial information set out in our report from the financial information referred to above, to form an opinion on the combined financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the combined financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the combined financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information set out in note 4.20, for the purposes of the Prospectus, gives a true and fair view of the profits of EHL for the period from 23 May 1997 to 30 September 1997. As explained above, the financial information does not include a balance sheet as at 30 September 1997 or a statement of cash flows.

In our opinion the financial information set out in note 4.21, for the purposes of the Prospectus, gives a true and fair view of the state of affairs of CPL as at 30 September 1997 and of the profits for the period from 1 January 1997 to 30 September 1997. As explained above, the financial information does not include a statement of cash flows.

In our opinion the combined financial information set out in parts 1 to 4 gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Eynsham Hall and Chewton Place Training Centres as at the dates stated and of its profits and cash flows for the periods then ended.

1 Combined profit and loss accounts for the two years ended 30 September 1999

	<i>Notes</i>	<i>1998</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Turnover	4.1	4,548	4,716
Cost of sales		(1,350)	(1,810)
Gross profit		3,198	2,906
Administrative expenses		(1,648)	(1,845)
Other income		9	—
Operating profit		1,559	1,061
Interest receivable and similar income	4.4	28	16
Interest payable and similar charges	4.5	—	(7)
Profit on ordinary activities before taxation	4.6	1,587	1,070
Tax on profit on ordinary activities	4.7	(280)	(39)
Profit on ordinary activities after taxation and retained profit for the financial year		1,307	1,031

The group's historical cost results are the same as its reported results. All activities are derived from continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

2 Combined balance sheets as at 30 September 1998 and 1999

	<i>Notes</i>	<i>1998</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>
Fixed assets			
Tangible assets	4.9	6,224	6,293
		6,224	6,293
Current assets			
Stocks	4.10	40	47
Debtors due within one year	4.11	2,370	3,601
Cash at bank and in hand		247	37
		2,657	3,685
Creditors: amounts falling due within one year	4.12	(858)	(838)
Net current assets		1,799	2,847
Total assets less current liabilities		8,023	9,140
Creditors: amounts falling due after more than one year	4.13	—	(49)
Provisions for liabilities and charges	4.14	(14)	(51)
Net assets	4.15	8,009	9,040

3 Combined cash flow statements for the two years ended 30 September 1999

	Notes	1998	1999
		£'000	£'000
Net cash flow inflow from operating activities	4.18	2,124	1,301
Returns on investments and servicing of finance			
Interest received		28	16
Interest paid		—	(3)
Interest element of finance lease payments		—	(4)
		28	8
Taxation (paid)/recovered		(112)	12
Capital expenditure and financial investment			
Purchase of tangible assets		(127)	(125)
Sale of tangible assets		9	—
Loans to parent and fellow subsidiary undertakings		(1,650)	(1,375)
		(1,768)	(1,500)
Cash inflow/(outflow) before financing		272	(179)
Financing			
Capital element of finance lease rental payments		—	(31)
Net cash outflow from financing		—	(31)
Increase/(decrease) in cash		272	(210)
Reconciliation of net cash flow to movement in net debt			
	Note	1998	1999
		£'000	£'000
Increase/(decrease) in cash in the period		272	(210)
Net borrowings repaid		—	31
Change in net debt resulting from cash flows		272	(179)
New finance leases		—	(101)
Movement in net debt in the period		272	(280)
Net (debt)/funds at beginning of year		(25)	247
Net funds/(debt) at end of year	4.19	247	(33)

4 Notes to the financial statements

4.1 Accounting policies

The principal accounting policies, which have been applied consistently throughout the period, are set out below.

Basis of preparation and combination

During the period under review the Eynsham Hall and Chewton Place Training Centres were not constituted as a legal group. The combined financial information of the Eynsham Hall and Chewton Place Training Centres has been prepared on the following bases:

- the combined financial information includes the property known as Chewton Place together with certain of Birch International plc's assets which relate specifically to the Chewton Place property;
- balances owing between companies forming the Eynsham Hall and Chewton Place Training Centres have been eliminated;
- interest on the mortgages of Eynsham Hall and Chewton Place which is recharged to Eynsham Hall Limited and Chewton Place Limited by Birch International plc for statutory financial reporting purposes has been excluded from the combined financial information presented as the financing arrangements for the properties will change following the Acquisition;
- the combined financial information has been prepared under the historical cost convention and is in accordance with applicable accounting standards;
- the combined financial information has been prepared using the same accounting principles and policies adopted by the Company.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised through the profit and loss account over the directors' estimate of its useful economic life which ranges from 10 to 20 years.

The profit or loss on disposal of a business includes any goodwill arising on acquisitions which was previously eliminated against reserves.

Fixed assets and depreciation

Depreciation is provided to write off the cost, less estimated residual value, of all fixed assets, except for freehold land and buildings and leasehold with more than 25 years remaining, evenly over their expected useful economic lives. Depreciation is provided at the following rates:

Leasehold land and buildings	over the length of the lease
Plant and machinery	15%-20% per annum on cost
Fixtures and fittings	10%-15% per annum on cost
Motor vehicles	20% per annum on cost

It is the group's policy to maintain certain freehold and leasehold buildings in a continual state of sound repair. Accordingly, the directors consider that the lives of these assets and their residual values, based on prices prevailing at the time of their acquisition are such that their depreciation would not be material. Provision will be made for any permanent diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Raw materials	cost of purchase on a first in, first out basis
Work in progress, consumables and finished goods	cost of raw materials and labour together with attributable overheads

Net realisable value is based on estimated selling price less further costs to completion and disposal. Provision is made for obsolete or slow moving items.

Leases

Assets financed by way of finance leases, which transfer substantially all the risks and rewards of ownership to the group, are recorded at the present value of the minimum lease payments payable over the terms of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax. It is recognised as the service is provided. Amounts invoiced in advance are treated as deferred income until the service is provided.

Pension costs

Contributions to the defined contribution scheme which was operated by Coutts Consulting Group PLC, the former parent undertaking of Eynsham Hall Limited and of Chewton Place Limited, are charged to the profit and loss account in the year in which they become payable.

The employees operate within a defined contribution pension scheme, the group pension plan, of their parent company, Birchin International plc. The amounts charged against profits in respect of the scheme represents the contributions payable by the group for the accounting periods.

Deferred taxation

Provision for deferred taxation is calculated using the liability method on timing differences and is made only to the extent that it is probable that liabilities will crystallise within the foreseeable future.

Finance costs

Finance costs associated with the issue of debt are carried forward and charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

Foreign exchange

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

4.2 Segmental information

The group's turnover and profit before taxation were derived from conference and training activities. All sales were made in the United Kingdom.

4.3 Employees and remuneration

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

	1998 Number	1999 Number
Administration	16	14
Conference and training activities	89	85
	<u>105</u>	<u>99</u>

The aggregate payroll costs of these persons were as follows:

	1998 £'000	1999 £'000
Wages and salaries	943	1,176
Social security costs	66	103
Other pension costs	15	23
	<u>1,024</u>	<u>1,301</u>

4.4 Interest receivable and similar income

	1998 £'000	1999 £'000
Bank interest receivable	23	13
Other interest receivable	5	3
	<u>28</u>	<u>16</u>

4.5 Interest payable and similar charges

	1998 £'000	1999 £'000
On bank loans and overdrafts repayable within five years	—	3
Finance charges payable in respect of finance leases	—	4
	<u>—</u>	<u>7</u>

4.6 Profit on ordinary activities before taxation

	1998 £'000	1999 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
Owned assets	158	145
Leased assets	—	13
Auditors' remuneration		
Audit services	18	5
Rentals payable under operating leases		
Plant and machinery	34	2
(Profit)/loss on disposal of fixed assets	<u>(4)</u>	<u>—</u>

4.7 Taxation

The tax charge comprises:

	1998 £'000	1999 £'000
Corporation tax charge at 30% (1998: 30.5%)	280	132
Adjustments relating to previous years	—	(130)
Deferred taxation	—	37
	<u>280</u>	<u>39</u>

Details of deferred taxation are given in note 4.14.

4.8 Related party transactions

The Eynsham Hall and Chewton Place Training Centres have taken advantage of the exemption contained in Financial Reporting Standard 8: Related Party Disclosures and have therefore not disclosed transactions or balances with entities which form the Birchin International plc group.

4.9 Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 October 1997	6,523	1,375	782	52	8,732
Additions	2	22	77	26	127
Disposals	—	—	(4)	(17)	(21)
At 30 September 1998	<u>6,525</u>	<u>1,397</u>	<u>855</u>	<u>61</u>	<u>8,838</u>
Additions	11	47	108	61	227
At 30 September 1999	<u>6,536</u>	<u>1,444</u>	<u>963</u>	<u>122</u>	<u>9,065</u>
Depreciation					
At 1 October 1997	932	1,211	285	45	2,473
Charge for the year	—	72	80	6	158
On disposals	—	—	(1)	(16)	(17)
At 30 September 1998	<u>932</u>	<u>1,283</u>	<u>364</u>	<u>35</u>	<u>2,614</u>
Charge for the year	—	62	85	11	158
At 30 September 1999	<u>932</u>	<u>1,345</u>	<u>449</u>	<u>46</u>	<u>2,772</u>
Net book value					
At 30 September 1999	<u>5,604</u>	<u>99</u>	<u>514</u>	<u>76</u>	<u>6,293</u>
At 30 September 1998	<u>5,593</u>	<u>114</u>	<u>491</u>	<u>26</u>	<u>6,224</u>

Land and buildings include leasehold assets (with a remaining life of 27 years) with a net book value of £2,648,000 (1998:£2,536,000).

The net book value of tangible fixed assets for the group includes an amount of £89,000 (1998: £nil), in respect of assets held under finance leases.

4.10 Stocks

	1998 £'000	1999 £'000
Raw materials and consumable	28	35
Finished goods	12	12
	<u>40</u>	<u>47</u>

4.11 Debtors

	1998 £'000	1999 £'000
<i>Amounts falling due within one year:</i>		
Trade debtors	509	525
Amounts owed by parent undertaking	1,590	2,621
Amounts owed by fellow subsidiary undertakings	63	200
Other debtors	2	28
Prepayments and accrued income	206	227
	<u>2,370</u>	<u>3,601</u>

4.12 Creditors: amounts falling due within one year

	1998 £'000	1999 £'000
Trade creditors	201	271
Amounts owed to parent undertakings	61	—
Other creditors	27	6
Tax and social security	156	176
Obligations under finance leases and hire purchase contracts	—	21
Corporation tax	266	280
Accruals and deferred income	147	84
	<u>858</u>	<u>838</u>

4.13 Creditors amounts falling due after more than one year

	1998 £'000	1999 £'000
Obligations under finance leases and hire purchase contracts	—	49

The maturity of obligations under finance leases is as follows:

	1998 £'000	1999 £'000
Within one year	—	21
In the second to fifth year	—	49
Over five years	—	—
	<u>—</u>	<u>70</u>
Included in creditors falling due within one year	—	(21)
	<u>—</u>	<u>49</u>

4.14 Provisions for liabilities and charges

Deferred taxation	1998 £'000	1999 £'000
Balance brought forward	14	14
Provided in the profit and loss account	—	37
Balance carried forward	<u>14</u>	<u>51</u>

	1998 £'000	Unprovided 1999 £'000	Provided 1998 £'000	1999 £'000
Accelerated capital allowances	<u>—</u>	<u>60</u>	<u>14</u>	<u>51</u>

4.15 Reconciliation of movements in net assets

	Total £'000
Balance at 30 September 1998	8,009
Retained profit for the year	1,031
Balance at 30 September 1999	<u>9,040</u>

4.16 Financial commitments

Annual commitments under non cancellable operating leases are as follows:

	1998		1999	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire				
Within one year	—	3	—	44
In the second to fifth years inclusive	—	43	—	30
Over five years	<u>110</u>	<u>—</u>	<u>116</u>	<u>—</u>
	<u>110</u>	<u>46</u>	<u>116</u>	<u>74</u>

4.17 Pension scheme

The former parent undertaking of Chewton Place Limited and Eynsham Hall Limited, Coutts Consulting Group plc, operated a defined contribution pension scheme which the directors and all employees were eligible to join, the latter on the basis of age and length of service. It was the policy of the group to charge contributions to this scheme to the profit and loss account over the year of the employees' membership of the scheme. Contributions to this scheme of £nil (1998:£nil) were charged in the year.

The employees operate within a defined contribution pension scheme, the group pension plan, of their parent company, Birchin International plc. The amounts charged against profits in respect of the scheme represents the contributions payable by the group for the accounting periods.

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

	1998 £'000	1999 £'000
Operating profit	1,559	1,061
Depreciation and amortisation charges	158	158
Gain on disposal of fixed assets	(4)	–
Increase in stocks	(3)	(7)
Decrease in debtors	485	144
Decrease in creditors	(71)	(55)
Net cash inflow from continuing operating activities	<u>2,124</u>	<u>1,301</u>

4.19 Analysis of net debt

	At beginning of the year £'000	Cash flow £'000	New finance leases £'000	At end of the year £'000
1999				
Cash at bank and in hand	247	(210)	–	37
Finance leases	–	31	(101)	(70)
Total	<u>247</u>	<u>(179)</u>	<u>(101)</u>	<u>(33)</u>
1998				
Cash at bank and in hand	2	245	–	247
Overdrafts	(27)	27	–	–
Total	<u>(25)</u>	<u>272</u>	<u>–</u>	<u>247</u>

4.20 Eynsham Hall Limited

The profit and loss for the period from 23 May 1997 to 30 September 1997 has been provided below so as to ensure the completeness of the information available. The profit and loss has been derived from the audited accounts from 23 May 1997 to 30 September 1998, based on the management accounts for the period. Adjustments have been made for the interest on the mortgage of Eynsham Hall, consistent with the treatment elsewhere in this report. No balance sheet has been provided as the information is not available.

Profit and loss account for the period from 23 May 1997 to 30 September 1997

	1997 £'000
Turnover	903
Cost of sales	(284)
Gross profit	<u>619</u>
Administrative expenses	(401)
Operating profit	<u>218</u>
Interest receivable and similar income	8
Interest payable and similar charges	–
Profit on ordinary activities before taxation	<u>226</u>
Tax on profit on ordinary activities	–
Profit on ordinary activities after taxation and retained profit for the financial year	<u>226</u>

All amounts related to continuing activities

4.21 Chewton Place Limited

The profit and loss account and the balance sheet of CPL for the period from 1 January 1997 to 30 September 1997 are provided below so as to ensure the completeness of the information available. No adjustments have been deemed necessary from the information as provided in the audited financial statements from 1 January 1997 to 30 September 1997.

Periods prior to 1 January 1997 have not been included for CPL as permission allowing access to that information has not been granted.

Profit and loss account for the period from 1 January 1997 to 30 September 1997

	1997 £'000
Turnover	511
Cost of sales	(170)
Gross profit	341
Administrative expenses	(247)
Operating profit	94
Interest receivable and similar income	2
Interest payable and similar charges	(1)
Profit on ordinary activities before taxation	95
Tax on profit on ordinary activities	—
Profit on ordinary activities after taxation and retained profit for the financial year	95

All amounts related to continuing activities

Balance sheet at 30 September 1997

	1997 £'000
Fixed assets	
Tangible assets	219
Administrative expenses	219
Current assets	
Stocks	5
Debtors due within one year	174
Cash at bank and in hand	1
	180
Creditors: amounts falling due after more than one year	(247)
Net current liabilities	(67)
Total assets less current liabilities	152
Provisions for liabilities and charges	(14)
Net assets	138

Yours faithfully

KPMG Audit Plc
Chartered Accountants

Part B: Information on Swinton Castle Limited

The Directors
Hanover International PLC
Hanover House
Pingewood
READING
Berkshire
RG30 3UN



KPMG Audit Plc
PO Box 486
1 Puddle Dock
London EC4V 3PD
United Kingdom

The Directors
Sutherlands Limited
Dashwood House
69 Old Broad Street
LONDON
EC2M 1NX

28 February 2000

Dear Sirs

Swinton Castle Limited

Basis of preparation

The financial information set out in paragraphs 1 to 4 is based on the financial statements which contain the assets and business of Swinton Castle Limited that Hanover International PLC ("the Company") is proposing to acquire from Birchin International plc ("Birchin") ("the Acquisition").

The Company also proposes to acquire the assets and operations of Eynsham Hall Limited, the property known as Chewton Place which is held by Birchin and the assets and operations of Chewton Place Limited; we have separately reported on the financial statements of those entities.

Swinton Castle Limited

Brookpower Limited was incorporated on 3 December 1997, on 11 March 1998 changed its name to Swinton Castle Limited and commenced trading on 1 May 1998.

The financial information set out below is based upon the audited financial statements of Swinton Castle Limited for the period from 1 May 1998 to 30 September 1998 and the year ended 30 September 1999 after making such adjustments as we consider necessary.

No financial information has been presented for Swinton Castle Limited prior to 1 May 1998 since access to accounting information for those periods has not been granted by the former owners of the Swinton Castle business.

No audited financial statements have been prepared for Swinton Castle Limited in respect of any period subsequent to 30 September 1999.

Baker Tilly, Chartered Accountants and Registered Auditors, were auditors of Swinton Castle Limited for the period from 1 May 1998 to 30 September 1998 and the year ended 30 September 1999. Their audit report in respect of that period was unqualified.

Responsibility

The financial statements of Swinton Castle Limited are the responsibility of the directors of that company and have been approved by them.

The Directors of the Company are responsible for the contents of the Prospectus dated 28 February 2000 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial information referred to above, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Swinton Castle Limited as at the dates stated and of its results and cash flow for the periods then ended.

1 Profit and loss accounts

		<i>Period</i>	<i>Year ended</i>
		<i>1 May 1998</i>	<i>30 Sept</i>
	<i>Notes</i>	<i>to 30 Sept</i>	<i>1999</i>
		<i>1998</i>	<i>1999</i>
		<i>£'000</i>	<i>£'000</i>
Turnover	4.1	168	309
Cost of sales		(79)	(162)
Gross profit		89	147
Administrative expenses		(70)	(253)
Other income		—	17
Operating profit/(loss)		19	(89)
Interest payable and similar charges	4.4		(1)
Profit/loss on ordinary activities before and after taxation and retained loss for the financial year	4.5-4.6	19	(90)

Swinton Castle Limited's historical cost results are the same as its reported results. All activities are derived from continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

2 Balance sheets

		<i>30 Sept</i>	<i>30 Sept</i>
		<i>1998</i>	<i>1999</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>
Fixed assets			
Tangible assets	4.8	1,583	1,858
		1,583	1,858
Current assets			
Stocks	4.9	14	12
Debtors due within one year	4.10	116	68
Cash at bank and in hand		28	7
		158	87
Creditors: amounts falling due within one year	4.11	(1,722)	(2,003)
Net current liabilities		(1,564)	(1,916)
Total assets less current liabilities		19	(58)
Creditors: amounts falling due after more than one year	4.12	—	(12)
Net assets/(liabilities)		19	(70)

3 Cash flow statements

	Notes	Period 1 May 1998 to 30 Sept 1998		Year ended 30 Sept 1999	
		£'000	£'000	£'000	£'000
Net cash flow inflow from operating activities	4.14		1,616		183
Returns on investments and servicing of finance					
Interest element of finance lease payments		—		(1)	
			—		(1)
Capital expenditure and financial investment					
Purchase of tangible assets		(1,588)		(198)	
			(1,588)		(198)
Cash outflow before financing			28		(16)
Financing					
Capital element of finance lease rental payments		—		(5)	
Net cash outflow from financing			—		(5)
Increase/(decrease) in cash			28		(21)
Reconciliation of net cash flow to movement in net debt					
	Note	1998	1999		
		£'000	£'000	£'000	£'000
Increase/decrease in cash in the period		28		(21)	
Net borrowings repaid		—		5	
Change in net debt resulting from cash flows			28		(16)
New finance leases			—		(21)
Movement in net debt in the period			28		(37)
Net funds at beginning of year			—		28
Net cash/(debt) at end of year	4.15		28		(9)

4 Notes to the financial statements

4.1 Accounting policies

The principal accounting policies, which have been applied consistently throughout the period, are set out below.

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by revaluations of certain fixed assets and are in accordance with applicable accounting standards;

The financial statements have been prepared using the same accounting principles and policies adopted by the Company.

Certain interest which is recharged to Swinton Castle Limited by Birchin International plc for statutory financial reporting purposes has been excluded from the financial statements presented as the financing arrangements for the entity will change following the Acquisition.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets other than freehold land and buildings at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Office and computer equipment	20% per annum on cost
Fixtures and fittings	10% per annum on cost
Motor vehicles	20% per annum on cost

Stocks

Stocks are valued at the lower cost and net realisable value. Cost is calculated as follows:

Raw materials	cost of purchase on a first in, first out basis
Work in progress, consumables and finished goods	cost of raw materials and labour together with attributable overheads

Net realisable value is based on estimated selling price less further costs to completion and disposal. Provision is made for obsolete or slow moving items.

Leases

Assets financed by way of finance leases, which transfer substantially all the risks and rewards of ownership to the company, are recorded at the present value of the minimum lease payments payable over the terms of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax. It is recognised as the service is provided. Amounts invoiced in advance are treated as deferred income until the service is provided.

Pension costs

Swinton Castle Limited operates within a defined contribution pension scheme, the group pension plan, of its parent company, Birchin International plc. The amounts charged against profits in respect of the scheme represents the contributions payable by Swinton Castle Limited for the accounting periods.

Deferred taxation

Provision for deferred taxation is calculated using the liability method on timing differences and is made only to the extent that it is probable that liabilities will crystallise within the foreseeable future.

4.2 Segmental information

The company's turnover and profit/(loss) before taxation were derived from conference and training activities. All sales were made in the United Kingdom.

4.3 Employees and remuneration

The average number of persons employed by Swinton Castle Limited (including directors) during the year, analysed by category, was as follows:

	1998 Number	1999 Number
Administration	13	11
Conference and training activities	3	3
	<u>16</u>	<u>14</u>

The aggregate payroll costs of these persons were as follows:

	1998 £'000	1999 £'000
Wages and salaries	66	131
Social security costs	4	10
Other pension costs	2	3
	<u>72</u>	<u>144</u>

4.4 Interest payable and similar charges

	1999 £'000	1999 £'000
Finance charges payable in respect of finance leases	—	1

4.5 Loss on ordinary activities before taxation

	1998 £'000	1999 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
Owned assets	5	27
Leased assets	—	2
Auditors' remuneration		
Audit services	2	5

4.6 Taxation

No tax charge is payable due to the availability of brought forward losses.

4.7 Related party transactions

Swinton Castle Limited has taken advantage of the exemption contained in Financial Reporting Standard 8: Related Party Disclosures and has therefore not disclosed transactions or balances with entities which form the Birchin International plc group.

4.8 Tangible fixed assets

	<i>Land and buildings £'000</i>	<i>Computer and office equipment £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost or valuation					
At 30 September 1998	1,464	5	113	6	1,588
Additions	162	1	56	—	219
Disposals	—	—	—	(1)	(1)
Transfers from Birchin International plc	—	3	194	—	197
At 30 September 1999	<u>1,626</u>	<u>9</u>	<u>363</u>	<u>5</u>	<u>2,003</u>
Depreciation					
At 30 September 1998	—	—	4	1	5
Charge for the year	—	1	25	3	29
Disposals	—	—	—	(1)	(1)
Transfers from Birchin International plc	—	1	111	—	112
At 30 September 1999	<u>—</u>	<u>2</u>	<u>140</u>	<u>3</u>	<u>145</u>
Net book value					
At 30 September 1999	<u>1,626</u>	<u>7</u>	<u>223</u>	<u>2</u>	<u>1,858</u>
At 30 September 1998	<u>1,464</u>	<u>5</u>	<u>109</u>	<u>5</u>	<u>1,583</u>

In the period to 30 September 1999 fixed assets with original cost of £197,409 and accumulated depreciation of £112,331 were transferred from Birchin International plc. The charge for depreciation is based on original cost.

The net book value of tangible fixed assets includes an amount of £19,250 (1998: £nil), in respect of assets held under finance leases.

4.9 Stocks

	<i>1999 £'000</i>	<i>1999 £'000</i>
Raw materials and consumables	12	10
Finished goods	<u>2</u>	<u>2</u>
	<u>14</u>	<u>12</u>

4.10 Debtors

	1998 £'000	1999 £'000
<i>Amounts falling due within one year:</i>		
Trade debtors	69	33
Other debtors	—	5
Prepayments and accrued income	47	30
	<u>116</u>	<u>68</u>

4.11 Creditors: amounts falling due within one year

	1998 £'000	1999 £'000
Trade creditors	86	44
Amounts owed to parent undertakings	1,620	1,735
Amounts owed to fellow subsidiary undertaking	3	200
Other creditors	3	11
Tax and social security	6	9
Accruals and deferred income	4	—
Obligations under finance leases and hire purchase contracts	—	4
	<u>1,722</u>	<u>2,003</u>

4.12 Creditors amounts falling due after more than one year

	1998 £'000	1999 £'000
Obligations under finance leases and hire purchase contracts	<u>—</u>	<u>12</u>
The maturity of obligations under finance leases is as follows:		
	1998 £'000	1999 £'000
Within one year	—	4
In the second to fifth year	<u>—</u>	<u>12</u>
	—	16
Included in creditors falling due within one year	<u>—</u>	<u>(4)</u>
	<u>—</u>	<u>12</u>

4.13 Pension scheme

Swinton Castle Limited operates within a defined contribution pension scheme, the group pension plan, of its parent company, Birchin International plc. The amounts charged against profits in respect of the scheme represents the contributions payable by Swinton Castle Limited for the accounting periods.

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

	1998 £'000	1999 £'000
Operating loss	19	(89)
Depreciation and amortisation charges	5	29
Decrease in stocks	(14)	1
Decrease in debtors	(116)	49
Increase in creditors	1,722	193
Net cash inflow from continuing operating activities	<u>1,616</u>	<u>183</u>

4.15 Analysis of net debt

	At beginning of the year £'000	Cash flow £'000	New finance leases £'000	At end of the year £'000
30 September 1998				
Cash at bank and in hand	—	28	—	28
Total	<u>—</u>	<u>28</u>	<u>—</u>	<u>28</u>
30 September 1999				
Cash at bank and in hand	28	(21)	—	7
Finance leases	—	5	(21)	(16)
Total	<u>28</u>	<u>(16)</u>	<u>(21)</u>	<u>(9)</u>

Yours faithfully

KPMG Audit Plc
Chartered Accountants

PART IV

FINANCIAL INFORMATION RELATING TO HANOVER

PART A:

Unaudited interim report and accounts of the Hanover Group for the six months ended 30 June 1999

The following is the full text of the interim results of Hanover for the six months ended 30 June 1999 which was announced on 28 September 1999:

“CHAIRMAN’S STATEMENT

The majority of hotel operators have commented on the conditions prevailing during this period as difficult, but I am delighted to inform you that Hanover has once again improved its hotel operating performance. Turnover during the six months ending 30 June 1999 was £10.0 million (1998: £11.0 million), last year’s first half results having included turnover from the Imperial Hotel Cork of £1.0 million. On a like for like basis, turnover improved to £10.0 million, an increase of 1% during the period under review.

Profit before tax was £1.58 million (1998: £1.34 million), an increase of 18 per cent. Diluted earnings per share were also increased to 7.4p (1998: 6.7p) an increase of 10 per cent. In addition, net assets per share increased to 233p (1998: 219p) an increase of 6 per cent.

These results have been achieved by maintaining our sales and marketing efforts in a highly competitive market and continuing our emphasis on increasing hotel operating profits through cost control, margin and quality improvements and effective yield management. These are, of course, continuing activities.

Dividend

Your Board has declared an interim dividend of 0.8p per share (1998: 0.6p), a significant increase of 33 per cent., payable on 17 December 1999 to all shareholders on the register as at 29 October 1999. Shareholders will be given the opportunity to take this dividend in cash or in ordinary shares.

Financing

The Group has continued to produce a positive operating cashflow, which has enabled us to reduce further Group indebtedness. By the end of the first half, gearing was 39 per cent. (1998: 54 per cent.).

In July this year the Group signed a 7-year banking arrangement with the Bank of Scotland providing Hanover with greater flexibility and lower interest charges and capital repayments. In cancelling its original banking facility, Hanover incurred costs and fees in relation to early repayment totalling £529,000. The reduction in interest costs arising from this new facility meant that it would be advantageous to buy out the original hedging mechanism.

In deciding to cancel the hedging arrangement, the Board accepted that there was a cost of £454,000. Both of these costs will be treated as exceptional interest charges in the year end accounts. Your Board is of the opinion that the savings in interest payments to be made under the new banking facility will more than recoup the costs incurred in cancelling the old facility during the term of the new debt structure.

Year End Exceptional Charge

Hanover was in discussions relating to a possible bid for Scottish Highland Hotels. Whilst Hanover was not successful in acquiring this company, it received an indemnity under a break fee arrangement towards its costs incurred in preparing for this bid. There will be an exceptional charge, carried in the year end accounts, to cover the non-refunded part of our costs expected to be in the region of £250,000.

Review 99

In my Chairman's statement covering the year 1998, I mentioned that we had implemented a review of the Group's operating methods under the title 'Review 99'. This is an ongoing process that involves all members of the Hanover team in a top to bottom assessment of current working practices. The first exercise has resulted in a streamlined hotel management structure with improved lines of reporting and communication. The newly evolved structure has been piloted in our Hinckley hotel with considerable success, both in terms of savings and team motivation and we have now decided to roll the new structure out to the other hotels within the Group.

Review 99 is tasked with and given the authority to examine any area of the Group with the objective of submitting proposals for improvement. The review committee chaired by an independent executive selects the topics for review. Working parties are then set up comprising representatives of all levels of employees from each hotel to appraise the chosen topics. I am extremely encouraged by the enthusiasm and refreshing approach taken by all concerned and the very promising results achieved to date.

Board Changes

I am delighted to welcome Mr Anthony Kelly to the Board, who replaces Andrew Page as Group Finance Director. Prior to his new post, Tony has been Group Financial Controller since 1996. The Executive Directors have had the opportunity of working with Tony for some time and are delighted by his promotion. In addition, Mr Bernard Clow joins Robin Privett, the Senior Non-Executive Director, as a Deputy Chairman.

Sales and Marketing

The strategic positioning and branding of our hotels and our success in targeting our markets effectively has enabled us to achieve an above average performance during the period under review. Hanover's performance in the first half of the year has again been better than the market average (as recorded by Arthur Andersen). Our rooms yield has increased by 1.5 per cent. against a market that has seen a decline of 0.6 per cent. This performance, relative to the average market (England excluding London) performance, and that of many of our competitors, shows the tangible benefits to be gained from our innovative approach to hotelkeeping and the strength of our sales, marketing, product and customer service. The contributing factors to our rooms yield were an occupancy of 63 per cent. (1998: 64 per cent.) and a achieved room rate of £58.45 (1998: £56.32) an increase of 4 per cent.

We are very aware of the increasing importance of e-commerce. As a Group, we make use of this facility throughout the organisation. We have seen a substantial increase in the number of visitors and as a result, an increase in the number of bookings and enquiries that we receive especially with regard to leisure travel. It is our objective to maximise the use of this medium in order to increase the Group's exposure to its target markets. We are therefore in a programme of continuous updating of our web site in order to improve its 'hit rate'. Shareholders will be interested to know that from November this year they will be able to purchase Hanover shares through the Hanover web site (www.hanover-international.com).

Year 2000 and Information Technology

As planned, we have completed our Y2K programme for all business critical systems in both IT and building services. In addition our contingency plans are being completed at every site, and include provisions for both customers and suppliers. The total Y2K budget of £250,000 will not be exceeded. IT is a subject that is under constant review by both the main and subsidiary boards of directors.

Environmental Policy

In line with our stated policy to conserve resources and energy within our hotels, while safeguarding safety standards and ensuring guest satisfaction, we are currently installing a reed bed process to deal with the hotel sewage and waste water at our Reading hotel. This will remove the necessity to use the local services thereby enhancing the local environment. We believe that this application will be one of the first such uses in the UK and further confirms the Group's commitment to environmentally friendly processes.

Future Trading

The directors of Hanover consider that corporate business continues to afford greater security and quality than other types of business. Whilst potential corporate customers are more cautious presently about booking far in advance, strong advance reservations secured during the past year from existing customers continue to benefit current trading. We are constantly seeking new customers and our strong sales and marketing presence has helped secure a growth in short term business in relation to our historic business profile. Accordingly, the directors of Hanover continue to be cautiously optimistic about the future prospects of the Group.

My fellow Directors and I would like to take this opportunity to thank everyone in the Hanover team for their hard work and commitment in the achievement of these splendid results.

Peter G Eyles
Executive Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		6 months to 30 June 1999 Unaudited £'000	6 months to 30 June 1998 Unaudited £'000	Year Ended 31 December 1998 Audited £'000
	Notes			
TURNOVER		10,038	11,054	21,416
Cost Of Sales		(3,731)	(4,471)	(8,440)
GROSS PROFIT		6,307	6,583	12,976
Administrative expenses				
– Before Exceptional costs		(3,955)	(4,177)	(7,876)
– Exceptional costs		–	–	(144)
		(3,955)	(4,177)	(8,020)
OPERATING PROFIT				
– Before Exceptional costs		2,352	2,406	5,100
– Exceptional costs		–	–	(144)
		2,352	2,406	4,956
Exceptional profit on the sale of subsidiary undertaking		–	–	455
PROFIT ON ORDINARY ACTIVITIES				
BEFORE INTEREST & TAX		2,352	2,406	5,411
Net Interest Payable and similar charges		(770)	(1,064)	(1,938)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX				
– Before Exceptional items		1,582	1,342	3,162
– Exceptional items		–	–	311
		1,582	1,342	3,473
Tax		(205)	(134)	(443)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		1,377	1,208	3,030
Dividends paid and proposed		(149)	(111)	(278)
RETAINED PROFIT FOR THE PERIOD		1,228	1,097	2,752
BASIC EARNINGS PER SHARE				
– Including Exceptional items	3	7.5p	6.9p	16.8p
– Excluding Exceptional items	3	7.5p	6.9p	15.8p
DILUTED EARNINGS PER SHARE				
– Including Exceptional items		7.4p	6.7p	16.5p
– Excluding Exceptional items		7.4p	6.7p	15.5p
DIVIDENDS PER SHARE		0.8p	0.6p	1.5p

CONSOLIDATED BALANCE SHEET

	6 months to 30 June 1999 <i>Unaudited</i> £'000	6 months to 30 June 1998 <i>Unaudited</i> £'000	Year Ended 31 December 1998 <i>Audited</i> £'000
Fixed Assets			
Tangible Assets	61,169	64,071	60,984
Investments in own shares	190	—	190
	<u>61,359</u>	<u>64,071</u>	<u>61,174</u>
Current Assets			
Stocks	152	171	189
Debtors	2,418	2,959	2,453
Cash at bank and in hand	853	68	1,361
	<u>3,423</u>	<u>3,198</u>	<u>4,003</u>
Creditors: Amounts Falling Due Within One Year			
Creditors	(2,975)	(4,227)	(3,616)
Loans and borrowings	(1,841)	(2,315)	(1,760)
	<u>(4,816)</u>	<u>(6,542)</u>	<u>(5,376)</u>
Net Current Liabilities	<u>(1,393)</u>	<u>(3,344)</u>	<u>(1,373)</u>
Total Assets Less Current Liabilities	<u>59,966</u>	<u>60,727</u>	<u>59,801</u>
Creditors: Amounts Falling Due After More Than One Year			
Creditors	—	(11)	—
Loans and borrowings	(15,975)	(19,633)	(17,256)
	<u>(15,975)</u>	<u>(19,644)</u>	<u>(17,256)</u>
Provisions for liabilities and charges	(721)	(334)	(516)
Net Assets	<u>43,270</u>	<u>40,749</u>	<u>42,029</u>
Equity – Capital And Reserves			
Called up share capital			
– ordinary shares	4,645	4,640	4,641
Share premium account	16,724	16,733	16,715
Revaluation reserve	15,392	15,392	15,392
Other reserves	690	1,048	690
Profit and loss account	5,819	2,936	4,591
Shareholders' Funds	<u>43,270</u>	<u>40,749</u>	<u>42,029</u>

Approved by the Board on 28 September 1999 and signed on its behalf by:

Peter G. Eyles

Anthony B. Kelly ACMA

CONSOLIDATED CASH FLOW STATEMENT

	<i>6 months to 30 June 1999 Unaudited £'000</i>	<i>6 months to 30 June 1998 Unaudited £'000</i>	<i>Year Ended 31 December 1998 Audited £'000</i>
RECONCILIATION OF OPERATING PROFIT TO NET OPERATING CASH FLOWS			
Operating profit	2,352	2,406	4,956
Depreciation of tangible fixed assets	295	318	600
Amortisation of government grants	–	(6)	(6)
Loss on sale of fixed assets	–	–	1
Decrease in stock	37	48	8
(Increase)/Decrease in debtors	36	(664)	(472)
Increase/(Decrease) in creditors	(602)	488	138
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,118	2,590	5,225
CASH FLOW STATEMENT			
Net cash inflow from operating activities	2,118	2,590	5,225
Returns on investments and servicing of finance	(770)	(1,027)	(1,942)
Taxation paid	(28)	(22)	(170)
Capital expenditure and financial investment	(451)	(190)	(811)
Net proceeds from disposal of subsidiary undertaking	–	–	2,542
Equity dividends paid	(149)	(86)	(197)
NET CASH INFLOW BEFORE FINANCING	720	1,265	4,647
FINANCING	(1,228)	(687)	(2,463)
NET INCREASE/(DECREASE) IN CASH	(508)	578	2,184
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash for the period	(508)	578	2,184
Cash outflow from decrease in debt and lease financing	1,228	687	2,463
Change in net debt resulting from cashflows	720	1,265	4,647
Loans and finance leases disposed of in subsidiary undertaking	–	–	957
New finance leases	(28)	(11)	(125)
Conversion of Convertible Loan Notes into new ordinary shares	–	2,000	2,000
Foreign exchange difference	–	34	34
DECREASE IN NET DEBT	692	3,288	7,513
Net debt at 1 January	(17,655)	(25,168)	(25,168)
Net debt at 30 June/31 December	(16,963)	(21,880)	(17,655)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 June 1999 Unaudited £'000	6 months to 30 June 1998 Unaudited £'000	Year Ended 31 December 1998 Audited £'000
Profit for the financial year	1,377	1,208	3,030
Foreign exchange differences	—	(86)	(86)
Total recognised gains and losses for the period	<u>1,377</u>	<u>1,122</u>	<u>2,944</u>

RECONCILIATION IN MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 30 June 1999 Unaudited £'000	6 months to 30 June 1998 Unaudited £'000	Year Ended 31 December 1998 Audited £'000
Total recognised gains and losses for the period	1,377	1,122	2,944
Dividends	(149)	(111)	(278)
	<u>1,228</u>	<u>1,011</u>	<u>2,666</u>
New share capital issued on conversion of Loan Notes – net of expenses	—	2,255	2,238
New share capital issued in respect of scrip dividend	4	2	2
Expenses charged to share premium account in relation to issue of scrip dividend	9	—	—
Capital reserve realised on sale of subsidiary undertaking	—	—	(358)
Net increase in Shareholders' Funds	<u>1,241</u>	<u>3,268</u>	<u>4,548</u>
Opening Shareholders' Funds	42,029	37,481	37,481
Closing Shareholders' Funds	43,270	40,749	42,029
Net Assets per share	<u>233p</u>	<u>219p</u>	<u>226p</u>

NOTES TO THE INTERIM STATEMENT

- 1 This interim statement has been prepared on the basis of the accounting policies set out in the Group's report and accounts for the year ended 31 December 1998.
- 2 Segmental Information – all third-party income and costs are derived from the provision of hotel accommodation and related services in the UK and the Republic of Ireland. Overhead costs relating to headquarters are allocated to the individual hotels. All net assets are currently held in the UK.
- 3 Basic and diluted earnings per ordinary share are calculated in accordance with Financial Reporting Standard No.14: Earnings Per Share. The comparative figures for 30 June 1998 have been restated in accordance with the standard. Basic earnings per share are calculated on Group profit after taxation of £1,377,000 and on 18,387,643 ordinary shares of 25p each, being the weighted average number of ordinary shares in issue throughout the period.
- 4 The comparative figures for the year ended 31 December 1998 and the other financial information contained in these interim results do not constitute statutory accounts of the Group within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 1998 have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was not qualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.
- 5 This interim statement will be posted to all shareholders of the Company and is available at Hanover International PLC's registered office at Hanover House, Pingewood, Reading, Berkshire, RG30 3UN."

PART B:

Financial Information on the Hanover Group for the three financial years ended 31 December 1998

1. Nature of the financial information

The financial information contained in Part II of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act but has been extracted without material adjustment from the consolidated statutory accounts of Hanover for the three financial years ended 31 December 1998.

Changes in presentation have been made in order to present the financial information for the financial years ended 31 December 1996 and 31 December 1997 on the same basis as that adopted by Hanover in its audited consolidated financial statements for the financial year ended 31 December 1998. Accordingly, the earnings per share figures and associated notes for the financial years ended 31 December 1996 and 31 December 1997 have been adjusted to comply with Financial Reporting Standard No. 14 ('Earnings per Share').

Hanover has voluntarily adopted the disclosure requirements of Financial Reporting Standard No. 13 ('Derivatives and other Financial Instruments: Disclosures') for the financial year ended 31 December 1998. No similar disclosure was available for the years ended 31 December 1997 and 31 December 1998.

An unqualified report within the meaning of section 235 of the Companies Act has been given in respect of the accounts for each of the three financial years ended 31 December 1996, 31 December 1997 and 31 December 1998. Such reports did not contain a statement under section 237(2) and (3) of the Companies Act. Copies of the accounts for the financial years ended 31 December 1996, 31 December 1997 and 31 December 1998 have been delivered to the Registrar of Companies in England and Wales.

KPMG Audit Plc, Registered Auditors of 1 Puddle Dock, London EC4V 3PD, were the auditors of Hanover in respect of the financial years ended 31 December 1996, 31 December 1997 and 31 December 1998 and are currently the auditors of Hanover.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

for the years ended 31 December

		1998 £'000	1997 £'000	1996 £'000
	<i>Notes</i>			
Turnover – continuing operations	2	21,416	19,868	8,865
Cost of sales	1, 3	(8,440)	(8,727)	(4,330)
Gross profit		<u>12,976</u>	<u>11,141</u>	<u>4,535</u>
Administrative expenses	1, 3			
Before Exceptional costs		(7,876)	(7,132)	(2,898)
Exceptional costs	6	(144)	(105)	–
		<u>(8,020)</u>	<u>(7,237)</u>	<u>(2,898)</u>
Operating profit – continuing operations	3			
Before exceptional costs		5,100	4,009	1,637
Exceptional costs		(144)	(105)	–
		<u>4,956</u>	<u>3,904</u>	<u>1,637</u>
Exceptional profit on the sale of subsidiary undertaking	6, 25	455	–	–
Profit on ordinary activities before interest & tax		<u>5,411</u>	<u>3,904</u>	<u>1,637</u>
Net interest payable and similar charges	7	(1,938)	(2,055)	(780)
Profit on ordinary activities before tax	10			
Before exceptional items		3,162	1,954	857
Exceptional items		311	(105)	–
		<u>3,473</u>	<u>1,849</u>	<u>857</u>
Tax	8	(443)	(152)	(85)
Profit on ordinary activities after tax	10	<u>3,030</u>	<u>1,697</u>	<u>772</u>
Dividends paid and proposed	9	(278)	(173)	–
Retained profit for the year	23	<u>2,752</u>	<u>1,524</u>	<u>772</u>
Basic earnings per share				
Including exceptional items	10	16.8p	9.9p	11.7p
Excluding exceptional items	10	15.8p	10.5p	11.7p
Diluted earnings per share				
Including exceptional items (Restated notes 1 and 10)	10	16.5p	9.9p	10.2p
Excluding exceptional items	10	15.5p	10.4p	10.2p
Dividends per share	9	1.5p	1.0p	–

There is no material difference in the profit for any of the three years on an historical cost basis.

CONSOLIDATED BALANCE SHEETS

As at 31 December

	Notes	1998 £'000	1997 £'000	1996 £'000
Fixed assets				
Tangible assets	11	60,984	64,314	46,646
Investments in own shares	12	190	—	—
		<u>61,174</u>	<u>64,314</u>	<u>46,646</u>
Current assets				
Stocks	13	189	221	196
Debtors	14	2,453	2,299	2,033
Cash at bank and in hand		1,361	168	2,513
		<u>4,003</u>	<u>2,688</u>	<u>4,742</u>
Creditors: amounts falling due within one year				
Creditors	15	(3,616)	(3,940)	(4,073)
Loans and borrowings	16	(1,760)	(3,694)	(1,861)
		<u>(5,376)</u>	<u>(7,634)</u>	<u>(5,934)</u>
Net current assets/(liabilities)		<u>(1,373)</u>	<u>(4,946)</u>	<u>(1,192)</u>
Total assets less current liabilities		<u>59,801</u>	<u>59,368</u>	<u>45,454</u>
Creditors: amounts falling due after more than one year				
Creditors		—	(17)	(34)
Loans and borrowings	16	(17,256)	(19,642)	(22,389)
Convertible loan notes		—	(2,000)	(2,000)
		<u>(17,256)</u>	<u>(21,659)</u>	<u>(24,423)</u>
Provision for liabilities and charges	18	<u>(516)</u>	<u>(228)</u>	<u>(112)</u>
Net assets		<u>42,029</u>	<u>37,481</u>	<u>20,919</u>
Equity—capital and reserves				
Called up share capital—ordinary shares	19	4,641	4,272	4,272
Share premium account	21	16,715	14,844	14,844
Revaluation reserve	21	15,392	15,392	—
Other reserves	21	690	1,048	1,048
Profit and loss account	21	4,591	1,925	755
Shareholders' funds		<u>42,029</u>	<u>37,481</u>	<u>20,919</u>

CONSOLIDATED CASH FLOW STATEMENTS

for the years ended 31 December

	Notes	1998 £'000	1997 £'000	1996 £'000
Reconciliation of operating profit to net operating cash flows				
Operating profit		4,956	3,904	1,637
Depreciation of tangible fixed assets	3	600	490	222
Amortisation of government grants	3	(6)	(12)	(16)
Loss on sale of fixed assets		1	—	(29)
Decrease/(increase) in stock		8	(32)	(104)
(Increase) in debtors		(472)	(285)	(837)
Increase/(decrease) in creditors		138	(336)	2,726
Net cash inflow from operating activities		5,225	3,729	3,599
CASHFLOW STATEMENT				
Net cash inflow from operating activities		5,225	3,729	3,599
Returns on investments and servicing of finance	22	(1,942)	(1,903)	(553)
Taxation paid	22	(170)	7	—
Capital expenditure and financial investment	22	(811)	(3,156)	(40,145)
Acquisitions and disposals	22	2,542	—	(436)
Equity dividends paid		(197)	(85)	—
Net cash inflow/(outflow) before financing		4,647	(1,408)	(37,535)
Financing	22	(2,463)	(1,854)	39,759
Net increase/(decrease) in cash	25	2,184	(3,262)	2,224
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash for the period		2,184	(3,262)	2,224
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		2,463	1,854	(24,506)
Change in net debt resulting from cash flows		4,647	(1,408)	(22,282)
Loans and finance leases disposed of in subsidiary undertaking		957	—	—
New finance leases		(125)	(164)	(220)
Conversion of convertible loan notes into new ordinary shares		2,000	—	—
Foreign exchange difference		34	142	36
Decrease/(increase) in net debt		7,513	(1,430)	(22,466)
Net debt at 1 January 1998		(25,168)	(23,738)	(1,272)
Net debt at 31 December 1998		(17,655)	(25,168)	(23,738)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the years ended 31 December

	Notes	1998 £'000	1997 £'000	1996 £'000
Profit for the financial year		3,030	1,697	772
Foreign exchange differences	21	(86)	(354)	(70)
Unrealised surplus on revaluation of properties	21	—	15,392	—
Total recognised gains and losses for the period		<u>2,944</u>	<u>16,735</u>	<u>702</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the years ended 31 December

	Notes	1998 £'000	1997 £'000	1996 £'000
Total recognised gains and losses for the period		2,944	16,735	702
Dividends	9	(278)	(173)	—
		<u>2,666</u>	<u>16,562</u>	<u>702</u>
New share capital subscribed – net of expenses		—	—	17,453
New share capital issued on conversion of loan notes – net of expenses		2,238	—	—
New share capital issued in respect of scrip dividend		2	—	—
Capital reserve movements on acquisition/(sale) of subsidiary undertaking	21	(358)	—	8
Net increase in shareholders' funds		<u>4,548</u>	<u>16,562</u>	<u>18,163</u>
Opening shareholders' funds		37,481	20,919	2,756
Closing shareholders' funds		<u>42,029</u>	<u>37,481</u>	<u>20,919</u>
Net assets per share*		<u>226p</u>	<u>219p</u>	<u>122p</u>

* Being shareholders' funds at 31 December 1998 of £42.0 million (1997: £37.5 million; 1996: £20.9 million) divided by the number of ordinary shares in issue at 31 December 1998 being 18,562,611 (1997: 17,086,705; 1996: £17,086,705).

1. Accounting policies

Hanover has adopted the following accounting policies in dealing with items which are considered to be material in relation to this financial information.

Basis of preparation

The financial information is based on the Accounts of the Hanover Group, which were prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, and in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards.

Changes in accounting presentation

The Hanover Group has adopted all new Financial Reporting Standards in issue as at 31 December 1998 to the extent applicable. Comparative figures for diluted earnings per share have been restated in accordance with Financial Reporting Standard No. 14: Earnings per Share (FRS 14).

In preparing accounts for 31 December 1998 the Hanover Group voluntarily adopted the requirements of Financial Reporting Standard No. 13: Derivatives and other Financial Instruments: Disclosures (FRS 13).

Basis of consolidation

The financial information reflects the consolidated Accounts of Hanover PLC and its subsidiary undertakings, all of which are made up to 31 December each year.

Unless otherwise stated the acquisition method of accounting has been adopted. Under this method 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. From 1 January 1998, goodwill arising on consolidation and on acquisition of all subsidiary undertakings is capitalised and amortised through the profit and loss account on a straight line basis over the Directors' estimate of its useful life. In prior years positive goodwill was written off against reserves on acquisition or capitalised and amortised through the profit and loss account over the Directors' estimate of its useful life and any negative goodwill was credited directly to reserves.

On the subsequent disposal of a previously acquired business the profit and loss on disposal is calculated including the gross amount of any goodwill previously written off directly to reserves, or the net amount of goodwill remaining unamortised as appropriate.

Turnover

Turnover represents amounts, excluding VAT, derived from the provision of goods and services to third party customers during the period.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the balance sheet date and any gains or losses on translation are included in the profit and loss account.

For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rate.

Fixed assets and depreciation

It is Group policy to maintain hotel land and buildings at all times in sound condition and to a high standard. The Directors' review the estimates of useful lives and residual values regularly, based on prices prevailing at the time of acquisition or subsequent valuation, and based on their estimates, are of the opinion that the useful life and residual values are such that any provision for depreciation would not be material. Therefore, no depreciation is provided on the Group's hotel land and buildings, in common with normal practice within

the hotel industry. Any permanent diminution in the value of such properties is charged to the profit and loss account as appropriate.

For all other tangible fixed assets, depreciation is provided to write down the cost to the estimated residual value by equal instalments over their estimated useful economic lives as follows:

Furniture, fixtures and fittings	– 5 to 8 years
Computer and other office equipment	– 5 to 10 years
Motor vehicles	– 4 years

Taxation

The taxation charge is based upon the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is only made to the extent that it is probable that a taxation liability will crystallise in the foreseeable future.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account by equal instalments over the estimated useful life of the related asset.

Stocks

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

Brand costs

The Hanover Group, in 1997, incurred expenditure on the initial launch and development of the Hanover International Brand. These costs have not been capitalised on the balance sheet; however the Group is aware that the benefits will be recognised over a considerable length of time. Therefore, costs representing part of the external expenditure incurred in 1997 have been deferred and held within prepayments and are being charged to the profit and loss account in equal instalments over the five years to April 2002. The balance deferred will be subject to regular review with any impairment charged immediately to the profit and loss account.

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 or the term of the lease, whichever is shorter. 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.

Financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest rates. Receipts and payments on the interest rate instruments are recognised on an accruals basis, over the life of the instrument.

Finance costs associated with bank borrowings are charged to the profit and loss account over the period of the borrowing. Short term debtors and creditors that meet the definition of a financial asset or liability respectively, have been excluded from all FRS 13 analysis as permitted by the Standard.

Pensions

The Hanover Group operates defined contribution 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.

2. Segmental information

All third-party incomes and costs are derived from the provision of hotel accommodation and related services in the UK and, until 9 July 1998, the Republic of Ireland. Overhead costs relating to headquarters are included within administrative expenses. All net assets as at 31 December 1998 are held in the UK. All net assets as at 31 December 1997 and 1996 were held in the UK and the Republic of Ireland.

3. Profit on ordinary activities before taxation

Operating profit is stated after charging:

	1998 £'000	1997 £'000	1996 £'000
Depreciation	600	490	222
Amortisation of government grant	(6)	(12)	(16)
	<hr/> 594	<hr/> 478	<hr/> 206
Rentals payable under operating leases			
Land and buildings	—	52	60
Other	107	89	10
	<hr/>	<hr/>	<hr/>

The remuneration of the company's auditors for the year ended 31 December 1998 for statutory audit work was £55,000 (1997: £73,400; 1996: £71,000) including £35,000 (1997: £35,000; 1996: £35,000) for the company. In addition £210,000 (1997: £171,000; 1996: £209,500) was paid to the auditors and its associates for non-audit work, primarily in respect of taxation activities and corporate transaction work.

4. Remuneration of directors

Total emoluments, as defined by the Companies Act 1985, of the Directors for the year were £595,000 (1997: £495,000; 1996: £159,000). For 1998, this includes £85,000 payable in respect of compensation for loss of office to a former Director.

The emoluments of the highest paid Director, excluding pension contributions, were £266,000 (1997: £218,190; 1996: £70,078). P G Eyles has waived £5,000 in respect of his 1998 commission entitlement.

Pension contributions of £57,000 (1997: £51,000; 1996: £14,900) were provided in the Accounts in respect of the Directors, including £38,000 in respect of the highest paid Director (1997: £27,000; 1996: £7,500).

Further information concerning Directors' shareholdings are contained in Part V of this document. Details of Directors' share options are included in note 20. Directors' emoluments during the year are set out below.

Remuneration and benefits

	Executive directors					Non-executive directors		
	PG Eyles	CR Gaunt	*DJ Greene	ME Joudain	*A Page	NP List	HW Whitbread	RJC Privett
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees/salary	180	62	25	53	35	13	13	16
Commission entitlement	77	4	—	3	—	—	—	—
Compensation for loss of office	—	—	85	—	—	—	—	—
Benefits	9	9	3	5	3	—	—	—
Total								
– 1998	266	75	113	61	38	13	13	16
– 1997	218	53	140	45	—	13	13	13
– 1996	70	17	50	14	—	4	4	—
Pension contributions								
– 1998	38	6	4	5	4	—	—	—
– 1997	27	5	15	4	—	—	—	—
– 1996	7	2	5	1	—	—	—	—

* The above tables show remuneration for Directors who held office for only part of the year.

The above commission entitlements paid in 1997 relate to 1996. There were no commission entitlements for 1997.

The main benefits available to Executive Directors consist of the provision of a company car, petrol, private medical insurance, permanent health insurance and life assurance.

DJ Greene ceased to be a Director of the Company on 6 April 1998.

A Page was appointed as a Director of the Company on 14 September 1998.

5. Staff numbers and costs

The average number of persons employed by the Group, including Executive Directors, during the year was 716 (1997: 744; 1996: 762). Of the persons employed at 31 December 1998, 387 were full time and 329 were part time.

The total payroll costs comprised the following:

	1998	1997	1996
	£'000	£'000	£'000
Wages and salaries	6,494	6,421	2,719
Social security costs	476	471	201
Other pension costs	75	78	60
	<u>7,045</u>	<u>6,970</u>	<u>2,980</u>

6. Exceptional items

	1998 £'000	1997 £'000	1996 £'000
Exceptional costs included within operating profit			
Costs associated with changes in Senior Management	144	—	—
Legal and professional fees associated with defence against unsolicited approach from competitor	—	105	—
	<u>144</u>	<u>105</u>	<u>—</u>
Exceptional profit not included within operating profit			
Profit on the sale of subsidiary undertaking*	455	—	—
Tax relating to exceptional profit on the sale of subsidiary undertaking(127)	—	—	—
Net profit on the sale of subsidiary undertaking	<u>328</u>	<u>—</u>	<u>—</u>

* Profit on the sale of the subsidiary arose as a result of the Group's disposal of its shareholding in The Imperial Hotel, (Cork) Limited on 9 July 1998. Details of the assets disposed of are set out in note 24.

7. Interest

	1998 £'000	1997 £'000	1996 £'000
Interest payable and similar charges			
On bank loans and overdrafts	(1,929)	(1,972)	(765)
On Convertible Loan Notes	(49)	(154)	(53)
On finance leases	(17)	(10)	(3)
	<u>(1,995)</u>	<u>(2,136)</u>	<u>(821)</u>
Interest receivable and similar income	<u>57</u>	<u>81</u>	<u>41</u>
	<u>(1,938)</u>	<u>(2,055)</u>	<u>(780)</u>

8. Taxation

	1998 £'000	1997 £'000	1996 £'000
UK corporation tax on income at 31 December 1998	123	—	—
Less relief for overseas tax	(123)	—	—
Net UK corporation tax	<u>—</u>	<u>—</u>	<u>—</u>
Overseas tax	127	—	—
Deferred tax	316	152	85
	<u>443</u>	<u>152</u>	<u>85</u>

There is no charge to UK Corporation Tax in the year (1997: £nil; 1996: £nil) as a result of the availability of capital allowances, double tax relief and the tax losses arising in certain of the company's subsidiary undertakings. Unutilised trading tax losses carried forward as at 31 December 1998 were approximately £3.0 million (1997: £4.2 million; 1996: £3.9 million).

9. Dividends

	1998 £'000	1997 £'000	1996 £'000
Interim of 0.6p (1997: 0.5p; 1996: nil) per share—paid	111	85	—
Final of 0.9p (1997: 0.5p; 1996: nil) per share—proposed	167	88	—
Total dividend of 1.5p (1997: 1.0p; 1996: nil) per share	<u>278</u>	<u>173</u>	<u>—</u>

10. Earnings per share

	1998 Basic £'000	1998 Diluted £'000	1997 Basic £'000	1997 Diluted £'000	1996 Basic £'000	1996 Diluted £'000
Profit for the financial year (including exceptional items)	3,030	3,030	1,697	1,697	772	772
Interest accrued on Convertible Loan Notes	—	49	—	138	—	48
Earnings attributable to basic and diluted earnings (including exceptional items)	3,030	3,079	1,697	1,835	772	820
Exceptional profit on sale of subsidiary (net of tax)	(328)	(328)	—	—	—	—
Exceptional costs	144	144	105	105	—	—
Earnings excluding exceptional items	<u>2,846</u>	<u>2,895</u>	<u>1,802</u>	<u>1,940</u>	<u>772</u>	<u>820</u>
Basic earnings per share:						
Including exceptional items	16.8p		9.9p		11.7p	
Excluding exceptional items	15.8p		10.5p		11.7p	
Diluted earnings per share:						
Including exceptional items (restated)		16.5p		9.9p		10.2p
Excluding exceptional items		15.5p		10.4p		10.2p

Set out below is a reconciliation of the weighted average number of shares used in calculating basic earnings per share and that used in calculating diluted earnings per share.

	1998 Number	Restated 1997 Number	Restated 1996 Number
Weighted average number of shares used in calculating basic earnings per share	18,031,775	17,086,705	6,570,834
Incremental shares in respect of:			
Dilutive SAYE and Executive Share Options	39,650	36,271	7,920
Shares issuable on conversion of Convertible Loan Notes	606,736	1,454,545	552,364
Convertible redeemable preference shares	—	—	920,548
Weighted average number of shares used in calculating diluted earnings per share	<u>18,678,161</u>	<u>18,577,521</u>	<u>8,051,661</u>

In accordance with Financial Reporting Standard No. 14, diluted earnings per share have been calculated on the assumption that dilutive outstanding options and conversion rights were exercised from the beginning of the financial year or the date of issue if later.

The comparative figures for diluted earnings per share have been calculated in accordance with Financial Reporting Standard No. 14 and as a result have been restated.

11. Tangible fixed assets

	<i>Land and buildings £'000</i>	<i>Furniture, fixtures & fittings £'000</i>	<i>Computer & other office equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost or valuation					
At 1 January 1997	43,800	2,738	177	191	46,906
Exchange differences	(514)	(61)	—	—	(575)
Additions	1,994	1,078	230	19	3,321
Revaluations	15,392	—	—	—	15,392
Reclassifications	(19)	19	—	—	—
At 31 December 1997	60,653	3,774	407	210	65,044
Exchange differences	(121)	(56)	—	(1)	(178)
Additions	277	301	139	58	775
Disposals	—	—	—	(81)	(81)
Disposal of subsidiary undertaking	(3,214)	(157)	—	—	(3,371)
At 31 December 1998	57,595	3,862	546	186	62,189
Depreciation					
At 1 January 1997	19	216	7	18	260
Exchange differences	—	(19)	—	(1)	(20)
Charge for the year	—	402	41	47	490
Reclassifications	(19)	19	—	—	—
At 31 December 1997	—	618	48	64	730
Exchange differences	—	(49)	—	(1)	(50)
Charge for the year	—	484	72	44	600
Disposals	—	—	—	(51)	(51)
Disposal of subsidiary undertaking	—	(24)	—	—	(24)
At 31 December 1998	—	1,029	120	56	1,205
Net book value					
At 31 December 1998	57,595	2,833	426	130	60,984
At 31 December 1997	60,653	3,156	359	146	64,314
At 31 December 1996	43,781	2,522	170	173	46,646

The amounts above include the following in respect of capitalised finance leases:

	<i>Furniture, fixtures & fittings £'000</i>	<i>Computer & other office equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost at 31 December 1997	46	141	175	362
Accumulated depreciation	7	11	79	97
Depreciation charge for the year	6	9	44	59
Cost at 31 December 1998	46	210	174	430
Accumulated depreciation	11	50	69	130
Depreciation charge for the year	6	34	30	70

Land and buildings include freehold and long leasehold with net book values at 31 December 1998 of £57,594,000 (1997: £57,319,000) and £nil (1997: £3,335,000). The long leasehold property was disposed of in the year as part of the disposal of The Imperial Hotel, Cork Limited.

The Group's six UK freehold properties, held within tangible fixed assets, were re-valued as at 31 December 1997 at an aggregate total of £61.3 million on an existing use value basis as operational entities, having regard to trading potential as at 31 December 1997 by Weatherall Green & Smith, Chartered Surveyors acting as external valuers, in accordance with the current edition of the RICS Appraisal and Valuation Manual. This resulted in a revaluation surplus of £15,392,289 arising in 1997.

If land and buildings had not been revalued the historical net book value at 31 December 1998 would have been £42,202,000 (1997: £45,261,000).

As part of the costs of development, internal professional costs incurred during 1997 on major hotel development and refurbishment works were capitalised. No such costs have been capitalised during 1998.

12. Fixed asset investment in own shares

	1998 £'000	1997 £'000	1996 £'000
Cost and net book value:			
At 1 January	—	—	—
Additions	190	—	—
At 31 December	<u>190</u>	<u>—</u>	<u>—</u>

The above investment relates to shares purchased and held by the Company's employee share ownership trusts (the Hanover International UK Profit Sharing Scheme and the Hanover International Employee Trust) which are independently managed trusts. At 31 December 1998 the trusts owned 175,187 ordinary shares (1997: nil) of 25p each of the Company listed on the London Stock Exchange, the market value of which was £162,048 (1997: £nil). The diminution in value of these shares is not considered to be permanent and therefore, has not been recognised. In the event that shares are allocated to employees by way of profit share, deferred bonus or gift, their cost will be amortised over a three year period from the date of allocation to employees. In the event that the shares become subject to option in accordance with the rules of an employee share option scheme, the excess (if any) of the cost of the shares over the option exercise price will be charged to the profit and loss account over a period of three years from the date of grant of the option.

Dividends on the shares held in the Hanover International UK Profit Sharing Scheme trust have not been waived but dividends have been waived on shares held in Hanover International Employee Trust. Finance costs and other administrative charges are dealt within the profit and loss account on an accruals basis.

13. Stocks

These represent stocks held for resale and are stated at the lower of cost and net realisable value. The values attributed do not differ materially from their replacement cost.

14. Debtors

	1998 £'000	1997 £'000	1996 £'000
Amounts falling due within one year:			
Trade debtors	1,361	1,148	1,221
Prepayments and accrued income	875	1,038	583
Other debtors	217	113	229
	<u>2,453</u>	<u>2,299</u>	<u>2,033</u>
Amounts falling due after more than one year	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,453</u>	<u>2,299</u>	<u>2,033</u>

Prepayments include an amount of £285,000 (1997: £472,000) representing part of the external expenditure incurred on creating the Hanover International Brand. During the year £187,000 (1997: £88,000) was expensed to the profit and loss account. The £285,000 balance remaining will be written off over the 39 months to April 2002.

15. Creditors

	1998 £'000	1997 £'000	1996 £'000
Amounts falling due within one year:			
Trade creditors	1,332	1,676	1,230
VAT payable	489	439	-
PAYE and National Insurance	122	164	564
Proposed final dividend	167	88	142
Accruals and deferred income	1,228	1,264	1,762
Other creditors	278	309	375
	<u>3,616</u>	<u>3,940</u>	<u>4,073</u>
Amounts falling due after more than one year:			
Accruals and deferred income	<u>-</u>	<u>17</u>	<u>34</u>

16. Loans and borrowings

	1998 £'000	1997 £'000
Due within one year:		
Bank loans – UK	1,650	2,425
Bank loans – Republic of Ireland	–	153
	<hr/> 1,650	<hr/> 2,578
Bank overdraft – UK	–	986
Obligations under finance leases	110	130
	<hr/> 1,760	<hr/> 3,694
Due after more than one year:		
Bank loans – UK	17,175	18,625
Bank loans – Republic of Ireland	–	917
	<hr/> 17,175	<hr/> 19,542
Obligations under finance leases	81	100
	<hr/> 17,256	<hr/> 19,642
Convertible Loan Notes	–	2,000
Repayable:		
In one year ending on 31 December 1999	1,760	3,694
Between 1 January 2000 & 31 December 2000	2,914	3,077
Between 1 January 2001 & 31 December 2004	14,342	18,260
In later years	–	305
	<hr/> 19,016	<hr/> 25,336

All of the above are repayable in instalments as set out below.

(a) 1998

Type	£'000	Rate	Repayment profile
Term loan (1)	14,875	LIBOR +1½ per cent.	3 monthly instalments over 5 years commencing 28 August 1996 with a final repayment of £9,975,000 due on 28 August 2001
Term loan (1)	950	LIBOR +2½ per cent.	Repayable between 1 January and 28 August 1999
Revolving credit facility (1)	3,000	LIBOR +1½ per cent.	Repayable on 28 August 2001
Finance leases	191		Repayable in equal monthly instalments
Total bank loans and finance lease obligations	<hr/> 19,016		

- (1) Secured by way of a fixed and floating charge over the assets and undertakings of Hanover Hotels Limited, Hanover Hotel Management (Daventry) Limited and Hanover Hotel Management (Reading) Limited.

(b) 1997

Type	£'000	Rate	Repayment profile
Barclays term loan (1)	21,050	LIBOR +1½% – 2½% per cent.	3 monthly instalments over 5 years commencing 28 August 1996 with a final repayment of £12 million due on 28 August 2001
Bank of Ireland term loan (2)	1,070	DIBOR +1.75 per cent.	3 monthly instalments over 8.5 years commencing 1 August 1996
Finance leases instalments	230		Repayable in equal monthly
Overdrafts—UK only	986		Repayable on demand
Total bank loans, overdrafts and finance lease obligations	23,336		
Convertible loan note (3)	2,000		Normal redemption date of 28 August 2001, with early redemption option available to the Company. Redemption at a premium of 17.5 per cent. of the par value on normal redemption date

- (1) Secured by way of a fixed and floating charge over the assets and undertakings of Hanover Hotels Limited, Hanover Hotel Management (Daventry) Limited and Hanover Hotel Management (Reading) Limited.
- (2) Secured by way of a first charge on The Imperial Hotel in Republic of Ireland.
- (3) Holder has the option to convert into ordinary shares on six monthly conversion dates commencing 28 August 1998. The principal sum plus any interest due but unpaid will be converted into ordinary shares at the average mid-market price over the ten days prior to conversion, subject to a minimum price of 124p. At the Company's discretion, earlier conversion may be permitted and on 9 February 1998, £500,000 of Convertible Loan Notes were converted as set out in note 19.

17. Financial instruments

Disclosures on financial risk management, treasury policy and use of financial instruments are also made in the Financial Review. Comparatives are not disclosed.

Short term debtors and creditors that meet the definition of a financial asset or liability under Financial Reporting Standard No. 13 have been excluded from all numerical disclosures.

Interest rate profile of financial assets

The Group has no financial assets, other than short-term debtors and cash at bank. The sterling cash deposits at bank are placed with AA+ rated UK Banks, on money markets at call, 7 day or monthly rates.

Interest rate profile of financial liabilities

The interest rate profile of the Financial Liabilities of the Group as at 31 December 1998 was:

Currency Sterling	Total £'000	Floating rate £'000	Fixed rate £'000	Cap & collar rate £'000
Bank borrowings	18,825	5,787 ⁽¹⁾	6,519 ⁽²⁾	6,519 ⁽³⁾
Finance leases	191	—	191	—
	19,016	5,787	6,710	6,519

The weighted average interest rate for all bank borrowings is 8.96 per cent., the benchmark for the floating rate is LIBOR at 6.88 per cent.

- (1) The floating rate financial liabilities comprise bank borrowings that bear interest rates based on 3 month LIBOR.
- (2) Of the bank borrowings 34.6 per cent. relates to a stepped fixed rate which has a ceiling of 8.20 per cent.
- (3) Of the bank borrowings 34.6 per cent. relates to borrowings which, on the basis of 3 month LIBOR rates, are effectively fixed under a cap and collar arrangement. The maximum rate of interest the Group will pay is 8.00 per cent. with the minimum set at 6.95 per cent.

Fixed rate/cap and collar borrowings

	<i>Weighted average interest rate %</i>	<i>Weighted average period, until maturity Years</i>
<i>Currency Sterling</i>		
Bank borrowings	9.18	2.2
Finance leases	13.00	3.0

There are no financial liabilities on which no interest is paid.

The figures shown on the tables above take into account the interest rate swaps and the interest rate cap and collar arrangement used to manage the interest rate risk profile of the financial liabilities.

Currency exposures

During the year all significant transactions entered into by the UK hotels were denominated in sterling and prior to its disposal all significant transactions entered into by The Imperial Hotel in Cork were denominated in Irish Punts, its functional currency. Therefore the Group has no material foreign currency exposures.

Maturity of financial liabilities and borrowing facilities

	<i>Drawn £'000</i>	<i>Facilities £'000</i>	<i>Undrawn committed borrowing facilities* £'000</i>
Expiring in 1 year or less	1,760	2,060	300
Expiring in more than 1 year, but not more than 2 years	2,914	2,914	—
Expiring in more than 2 years but not more than 5 years	14,342	14,342	—
	<u>19,016</u>	<u>19,316</u>	<u>300</u>
Cash	(1,361)	—	—
Net debt	<u>17,655</u>	<u>—</u>	<u>300</u>

* The facilities available at 31 December 1998 in respect of which all conditions precedent had been met.

Fair value of financial assets and liabilities

For all debt, short term assets and liabilities, the book values and fair values as at 31 December 1998 are not materially different.

As at 31 December 1998, 34.6 per cent. of bank debt was subject to an arrangement whereby it bears a fixed rate of interest and an equivalent amount was subject to a cap and collar arrangement. The book value of these financial instruments at the year end was £nil.

If the Group wished to exit the fix arrangement the cost would be £365,000 and if the Group wished to exit the cap and collar arrangement the cost would be £210,000, which represents their fair values respectively.

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised losses on the interest swaps and cap and collar arrangements used for hedging, and the movements therein, are as follows.

	<i>Losses</i> <i>£'000</i>
Unrecognised loss on hedges as at 1 January 1998	231
Loss arising in previous years that were recognised in 1998	—
Losses arising in the year that were not recognised in the year to 31 December 1998	344
Unrecognised loss on hedges as at 31 December 1998	<u>575</u>
Losses expected to be recognised in 1999	<u>575</u>

18. Provision for liabilities and charges

	<i>Deferred</i> <i>Tax</i> <i>1998</i> <i>£'000</i>	<i>Deferred</i> <i>Tax</i> <i>1997</i> <i>£'000</i>
At 1 January	271	112
Charges in the year	316	159
At 31 December	<u>587</u>	<u>271</u>
Advance corporation tax on dividends paid and payable recoverable after more than one year	(71)	(43)
	<u>516</u>	<u>228</u>

Deferred Tax

	<i>1998</i> <i>Amounts</i> <i>provided</i> <i>£'000</i>	<i>1998</i> <i>Full</i> <i>potential</i> <i>liability</i> <i>£'000</i>	<i>1997</i> <i>Amounts</i> <i>provided</i> <i>£'000</i>	<i>1997</i> <i>Full</i> <i>potential</i> <i>liability</i> <i>£'000</i>
Group	0	0	0	0
Excess tax allowance	516	2,463	228	2,925

Provision for tax payable on capital gains on the disposal of revalued properties is made only when it is decided in principle 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 £4,597,000 (1997: £4,750,000).

19. Called up share capital

	<i>1998</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>Number</i>	<i>1997</i> <i>Number</i>
Authorised				
Ordinary shares of 25p each	<u>6,250</u>	<u>6,250</u>	<u>25,000,000</u>	<u>25,000,000</u>
Allotted, called up and fully paid				
Ordinary shares of 25p each	<u>4,641</u>	<u>4,272</u>	<u>18,562,611</u>	<u>17,086,705</u>

On 9 February 1998 the Company permitted the conversion of £500,000 of the Convertible Loan Note in accordance with the agreed terms for conversion. The mid-market price of the shares was 125.65p and, consequently, 397,930 ordinary shares were allotted, issued and admitted to listing on the London Stock Exchange. These shares rank for receipt of the proposed final dividend.

20. Share options

Under the Company's Executive Share Option Scheme and its SAYE Share Option Scheme, there are outstanding options at 31 December 1998 to subscribe for a total of 1,020,567 (1997: 892,294) ordinary shares of the Company as follows:

	<i>Executive Share Option Scheme Number</i>	<i>SAYE Share Option Scheme Number</i>
At 1 January 1997	480,000	—
Granted during the year	240,000	172,294
At 31 December 1997	720,000	172,294
Granted during the year	395,000	—
Lapsed during the year	(192,000)	(74,727)
At 31 December 1998	923,000	97,567

The above figures include options granted to Directors and eligible employees under both schemes. The Directors' interests are set out below. On 23 November 1998, under the Executive Share Option Scheme, in addition to options granted to Directors, options over 125,000 (1997: 90,000) ordinary shares were granted to eligible senior employees at 79.5p (1997: 141.5p) per share. Options granted under the Executive Share Option Scheme are normally only exercisable if growth in earnings per share of the Group over any three-year period exceeds the growth in earnings per share of at least 60 per cent. of the companies listed daily in the 'Leisure and Hotels' sector in the Financial Times. Unexercised options lapse seven years after the date of grant.

Executive Share Option Scheme

	<i>At 1 January 1998</i>	<i>Exercise Price during 1998</i>	<i>Issued during 1998</i>	<i>Exercise Price during 1998</i>	<i>Lapsed during 1998</i>	<i>At 31 December 1998</i>
PG Eyles	288,000	125.5p	35,000	79.5p	—	323,000
CR Gaunt	80,000	148.5p	20,000	79.5p	—	100,000
DJ Greene	192,000	125.5p	—	79.5p	192,000	—
ME Jourdain	70,000	148.5p	20,000	79.5p	—	90,000
A Page	—	—	195,000	79.5p	—	195,000
Other Employees	90,000	141.5p	125,000	79.5p	—	215,000
	<u>720,000</u>	<u>—</u>	<u>395,000</u>	<u>—</u>	<u>192,000</u>	<u>923,000</u>

On 6 April 1998 options held by D J Greene, a former Director, lapsed.

	<i>At 1 January 1997</i>	<i>Exercise Price during 1997</i>	<i>Issued during 1997</i>	<i>Exercise Price</i>	<i>At 31 December 1997</i>
PG Eyles	288,000	125.5p	—	—	288,000
CR Gaunt	—	—	80,000	148.5p	80,000
DJ Greene	192,000	125.5p	—	—	192,000
ME Jourdain	—	—	70,000	148.5p	70,000
	<u>480,000</u>	<u>—</u>	<u>150,000</u>	<u>—</u>	<u>923,000</u>

Executive Share Option Scheme (continued)

1996

	<i>Issued during 1996</i>	<i>Exercise Price</i>	<i>At 31 December 1996</i>
PG Eyles	288,000	125.5p	288,000
DJ Greene	192,000	125.5p	192,000
	<u>480,000</u>	<u>—</u>	<u>480,000</u>

SAYE Share Option Scheme

	<i>Number of options 31 December 1998</i>	<i>31 December 1997</i>	<i>Exercise price (pence)</i>
PG Eyles	11,607	11,607	84
CR Gaunt	4,642	4,642	84
DJ Greene	—	11,607	84
ME Jourdain	4,642	4,642	84

On 6 April 1998 options held by DJ Greene, a former director, lapsed.

All options issued under the SAYE share option scheme are exercisable at the end of the Savings Contract at an option price of 84p reflecting a 20 per cent. discount to the market price of ordinary shares of the Company at the time of the invitation to join the SAYE scheme.

The market price of ordinary shares at 31 December 1998 was 92.5p and the range during 1998 was 77.5p to 150p.

Directors' interests in shares

The directors' beneficial, including family, interests in the ordinary shares of the company at 31 December of each year were as follows:

	<i>Ordinary shares beneficially owned</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>
PG Eyles	136,848	115,099	59,599
CR Gaunt	3,019	3,000	—
DJ Greene	60,379	60,379	36,128
ME Jourdain	3,026	3,000	—
A Page	4,000	—	—
N List	—	—	—
RJC Privett	21,889	5,000	—
HW Whitbread	44,000	44,000	30,000

21. Reserves

	<i>Share premium</i> £'000	<i>Revaluation reserve</i> £'000	<i>Merger reserve</i> £'000	<i>Capital reserve</i> £'000	<i>Profit and loss account</i> £'000	<i>Total</i> £'000
Balance at 1 January 1997	14,844	—	690	358	755	16,647
Revaluation surplus arising during year	—	15,392	—	—	—	15,392
Exchange difference	—	—	—	—	(354)	(354)
Retained profit for the year	—	—	—	—	1,524	1,524
Balance at 31 December 1997	14,844	15,392	690	358	1,925	33,209
Revaluation surplus arising during year	—	—	—	—	—	—
Exchange difference	—	—	—	—	(86)	(86)
Write back of negative goodwill on sale of subsidiary undertaking	—	—	—	(358)	—	(358)
Conversion of Loan Notes and scrip dividend—net of expenses	1,871	—	—	—	—	1,871
Retained profit for the year	—	—	—	—	2,752	2,752
Balance at 31 December 1998	16,715	15,392	690	—	4,591	37,388

The cumulative amount of negative goodwill credited to reserves as at 31 December 1997 was £358,000 (1996: £358,000).

22. Analysis of headings within the cash flow statement

	1998 £'000	1997 £'000	1996 £'000
Returns on investment and servicing of finance			
Interest received	57	81	41
Interest paid	(1,982)	(1,974)	(591)
Interest element of finance lease payment	(17)	(10)	(3)
	<u>(1,942)</u>	<u>(1,903)</u>	<u>(553)</u>
Taxation			
Tax on sale of subsidiary	(127)	—	—
Net refund of overseas tax paid	—	7	—
Advance Corporation Tax paid	(43)	—	—
	<u>(170)</u>	<u>7</u>	<u>—</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(649)	(3,156)	(40,214)
Sale of tangible fixed assets	28	—	69
Investment in own shares	(190)	—	—
	<u>(811)</u>	<u>(3,156)</u>	<u>(40,145)</u>
Acquisitions and disposals			
Purchase of subsidiary undertaking	—	—	(514)
Sale of subsidiary undertaking	2,934	—	—
Pre sale dividend	293	—	—
Costs of disposal paid	(641)	—	—
Cash at bank and in hand acquired	—	—	78
Cash balances disposed of on sale of subsidiary undertaking	(44)	—	—
	<u>2,542</u>	<u>—</u>	<u>(436)</u>
Financing			
Issue of share capital net of expenses	—	—	15,253
Proceeds from issue of convertible loan note	—	—	2,000
Capital element of finance lease rental payments	(164)	(101)	(53)
Decrease/(increase) in loans	(2,299)	(1,753)	22,559
	<u>(2,463)</u>	<u>(1,854)</u>	<u>39,759</u>

23. Acquisitions

During 1996, the company acquired a portfolio of six hotel assets. The acquisition may be summarised as follows:

	£'000
Assets acquired	
Hotels assets	40,000
Acquisition costs	1,500
	<u>41,500</u>
Addition to tangible fixed assets	
Consideration	
Hotel assets satisfied by	
612,903 consideration shares	2,000
Issue of convertible loan note	2,000
Cash-financed by	
– Barclays term loan	23,000
– Net proceeds from issue and placing of 12,862,510 shares	13,000
	<u>40,000</u>
Acquisition costs satisfied by	
Cash	1,300
Issue of 161,290 consideration shares*	200
Total consideration	<u>41,500</u>

* 25p ordinary shares with an issue price of 124p.

In addition to the hotel assets, the Group acquired two management companies. The consideration was determined by net assets attributable to the companies at the date of completion and no significant adjustments were considered necessary. Accordingly, no fair value adjustments have been made on acquisition.

The net assets acquired were as follows:	£'000
Trade debtors	1,107
Cash at bank	78
Trade creditors	(663)
	<u>522</u>
Satisfied by cash	<u>522</u>

During the year, a net cash receipt of £8,000 was received principally in relation to warranties obtained under the acquisition agreement for The Imperial Hotel in Cork. This amount has been credited to the cost of investment and the capital reserve has been adjusted accordingly.

24. Sale of subsidiary undertaking

	£'000
Net assets on disposal	
Fixed assets	3,347
Stock	21
Debtors	277
Cash at bank and in hand	44
Creditors	(672)
Bank loans and overdrafts	(957)
	<hr/> 2,060
Negative goodwill previously credited to reserves	(358)
	<hr/> 1,702
Net proceeds on disposal	(2,157)
	<hr/> (455)

The subsidiary undertaking disposed of during the year attributed £17,000 to the Group's net operating cash flows, paid £114,000 in respect of net returns on investment and servicing of finance and paid £nil in respect of taxation and capital expenditure.

25. Analysis of movement in net debt

(a) 1998

	<i>At 1 January</i> <i>1998</i> <i>£'000</i>	<i>Cash flow</i> <i>movements</i> <i>£'000</i>	<i>Disposals</i> <i>net debt</i> <i>(excl. cash</i> <i>and</i> <i>overdrafts)</i> <i>£'000</i>	<i>Non-cash*</i> <i>movement</i> <i>£'000</i>	<i>Exchange</i> <i>adjustments</i> <i>£'000</i>	<i>At 31</i> <i>December</i> <i>1998</i> <i>£'000</i>
Cash at bank and in hand	168	1,198	—	—	(5)	1,361
Overdraft	(986)	986	—	—	—	—
	<hr/> (818)	<hr/> 2,184	<hr/> —	<hr/> —	<hr/> (5)	<hr/> 1,361
Convertible Loan Notes	(2,000)	—	—	2,000	—	—
Debt due after more than one year	(19,542)	—	810	1,524	33	(17,175)
Debt due within one year	(2,578)	2,299	147	(1,524)	6	(1,650)
Finance leases	(230)	164	—	(125)	—	(191)
	<hr/> (25,168)	<hr/> 4,647	<hr/> 957	<hr/> 1,875	<hr/> 34	<hr/> (17,655)

* Non-cash movements comprise transfers between categories of debt and new finance leases and reduction in debt from the conversion of Convertible Loan Notes into new ordinary shares of the Company.

25. Analysis of movement in net debt (continued)

(b) 1997

	<i>At 1 January 1997 £'000</i>	<i>Cash flow movements £'000</i>	<i>Non-cash* movement £'000</i>	<i>Exchange adjustments £'000</i>	<i>At 31 December 1997 £'000</i>
Cash at bank and in hand	2,513	(2,296)	—	(49)	168
Overdraft	(22)	(966)	—	2	(986)
	<u>2,491</u>	<u>(3,262)</u>	<u>—</u>	<u>(47)</u>	<u>(818)</u>
Debt due after more than one year	(24,285)	—	2,578	165	(21,542)
Debt due within one year	(1,777)	1,753	(2,578)	24	(2,578)
Finance leases	(167)	101	(164)	—	(230)
	<u>(23,738)</u>	<u>(1,408)</u>	<u>(164)</u>	<u>142</u>	<u>(25,168)</u>

* Non-cash movements comprise transfers between categories of debt and new finance leases.

(c) 1996

	<i>At 1 January 1996 £'000</i>	<i>Cash flow movements £'000</i>	<i>Non-cash* movement £'000</i>	<i>Exchange adjustment £'000</i>	<i>At 31 December 1996 £'000</i>
Cash at bank and in hand	271	2,246	—	(4)	2,513
Overdraft	—	(22)	—	—	(22)
	<u>271</u>	<u>2,224</u>	<u>—</u>	<u>(4)</u>	<u>2,491</u>
Debt due after more than one year	(1,452)	(22,873)	—	40	(24,285)
Debt due within one year	(91)	(1,686)	—	—	(1,777)
Finance leases	—	53	(220)	—	(167)
	<u>(1,272)</u>	<u>(22,282)</u>	<u>(220)</u>	<u>36</u>	<u>(23,738)</u>

* Non-cash movements comprise transfers between categories of debt and new finance leases.

26. Capital commitments

Capital expenditure authorised and contracted for at the balance sheet date but for which no provision has been made in the Accounts amounted to £70,000 (1997: £273,000).

The commitments of the Group (1997: £nil) in respect of expenditure in the year ahead arising from operating leases is set out below:

	<i>1998 Land and buildings £'000</i>	<i>1998 Other £'000</i>	<i>1997 Land and buildings £'000</i>	<i>1997 Other £'000</i>
Committed expenditure arising from operating leases				
Within one year	—	9	6	68
Between two and five years	—	125	57	71
	<u>—</u>	<u>134</u>	<u>63</u>	<u>139</u>

27. Pensions

The company operates defined contribution 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 £87,000 (1997: £78,000; 1996: £60,000).

There were no outstanding or prepaid contributions as at 31 December 1998 (1997: £nil; 1996: £nil) in respect of the schemes.

28. Related party transactions

Mr Neil List, a Non-Executive Director of the Company, was formerly the Chairman of Bridgend Group PLC ('Bridgend'). At 31 December 1997 Bridgend's interest in the ordinary shares of the Company was 530,000 Ordinary Shares representing 3.1 per cent. of the issued Ordinary Share capital. On 16 February 1998, Bridgend disposed of its entire holding in Ordinary Shares of the Company on normal commercial terms.

There were no other related party transactions.

29. Subsequent events

Since the year end the Group has secured agreement with the Bank of Scotland to provide facilities to the Group on more favourable terms than for its existing bank facilities. Draw down of these new facilities is subject to *meeting certain, standard, conditions precedent*. The new arrangements comprise a Term Loan of £13.0 million repayable over a seven year period, a seven year Revolving Credit facility of £8.0 million and an overdraft facility of £1.25 million.

PART V

Valuation Report on the Properties

Weatherall

Green & Smith

Norfolk House
31 St James's Square
London SW1Y 4JR

28 February 2000

The Directors
Hanover International PLC
Hanover House
Pingewood
Reading
Berkshire RG30 3UN

The Directors
Sutherlands Limited
Dashwood House
69 Old Broad Street
London EC2M 1NX

Dear Sirs

Acquisition of the business and assets of the Birchin Group

In accordance with instructions received from Sutherlands, we have valued the portfolio of three properties held by Birchin (two freehold and one leasehold) in order to advise you as to our opinion of their existing use values, fully equipped as operational residential training centres. Our valuations have been prepared in connection with the proposed acquisition of the business and assets of Birchin International plc by Hanover. Our valuations were carried out and are effective as at 9 February 2000.

The properties were inspected on 6, 7 and 10 January 2000 for the purposes of our valuations and the properties are briefly described below.

Background

All three properties currently operate as specialist conference and training centres, as opposed to full hotels, although Swinton Castle has planning consent for development and change of use to a 67 bedroom hotel. The businesses at Eynsham Hall and Chewton Place are well established, with a sound corporate base of customers. The business at Swinton Castle is immature, in that although it has been run for many years as a residential centre, the property is in need of refurbishment if it is to meet the standards set by Birchin's other properties.

Eynsham Hall, North Leigh, Witney, Oxfordshire OX8 6PW

The property comprises a Grade II listed former Edwardian country house and a number of additional modern buildings which together form a conference/training centre, all set in some 17 hectares (42 acres) of parkland. In total some 144 delegate bedrooms are provided, of which 122 bedrooms are single rooms.

The main house, Eynsham Hall, built between 1905 and 1908, is a three storey stone building, set beneath slate covered roofs. The southern elevation overlooks a stone flagged terrace, with steps leading to formal gardens. The main entrance in the centre of the northern elevation is approached by a long tree lined drive.

The main house provides 43 bedrooms (22 doubles and 21 singles), each with en suite bathroom, together with three conference suites, two dining rooms and a bar. To the north-east of the main house is Eynsham Court, an L-shaped 1980s building, constructed on two storeys of brick beneath pitched tiled roofs. This building provides 36 single delegate bedrooms, together with four conference rooms, a bar and restaurant.

Between the main house and Eynsham Court is The Lindsay Building, which was redeveloped in the mid 1970s, based around an older building. This provides a variety of training and syndicate rooms and links to a leisure facility, providing indoor swimming pool, gymnasium and male and female changing facilities. It is built on two storeys of brick beneath a pitched, slate and tile covered roof. To the south of The Lindsay Building is a further complex, known as the Cottage and Assessment Centre. The cottage, a former house built in the early part of the twentieth century, has rendered elevations beneath a hipped and pitched slated roof and provides 11 bedrooms. To its eastern flank is a single storey building, of similar construction, which provides a dedicated assessment and interview centre.

To the south of the cottage and west of Eynsham Hall, is Eynsham Lodge, which is a part two, part three storey building, having rendered elevations with dressed stone window surrounds, beneath pitched and hipped tiled roofs, the upper floors being incorporated within the roofs and lit by dormer windows. Finally, to the west of the main house is a two storey detached staff house, dating from the early twentieth century.

The buildings are set within landscaped grounds linked by brick paved paths and there is car parking provision for some 150 cars. The property is situated in an area of great landscape value.

The property is located to the west of Oxford and lies to the south of the A4095, between the villages of North Leigh (to the west) and Long Hamborough (to the east). The A40 lies a short distance to the south of the property, from which there is relatively easy access to Junction 15 of the M4 motorway to the south and Junction 10 of the M40 to the north-east.

Leasehold

The property is held under the terms of a lease for a term of 40 years (less 1 day) from 24 June 1987, there being some 27.5 years unexpired. The tenant has an option to extend the term for a further 10 years from the expiry date. The lease is held on effective full repairing and insuring terms, although certain specified repair works are excluded.

The current rent is £110,000 per annum, which is next subject to review to the open market rental value on 24 June 2002 and five yearly thereafter. There is a tenant-only break clause in 2007.

Chewton Place, Chewton Road, Keynsham, Bristol BS31 2SX

The property comprises a residential training and conference centre, providing a total of 31 bedrooms, each with an en suite bathroom, of which 4 are formed within the main house, 6 within buildings connected to the old house and 21 in a purpose built detached bedroom wing. The property provides a main conference room, training room and a range of 7 syndicate rooms. In addition, the property has a number of public rooms, including a restaurant, bar, lounge, drawing room (The Library), some of which can be used for certain meetings or private dining. The property is set within grounds extending to some 3.2 hectares (8 acres), adjoining a weir on the River Chew. There is parking for about 54 cars.

The property, which is Grade II listed, comprises an eighteenth century, Regency style house, which has been added to over the years, including a modern extension providing the main conference hall. The original house is built on ground and first floors of brick, beneath two pitched, natural slate covered roofs, with a central flat asphalt covered roof. The elevations are in painted stucco, with decorative details in stone, including a ground floor colonnade. The modern extension has been built to the north of the old building and is formed on a single storey partly beneath a flat roof and partly beneath a hipped slate covered roof. The property also incorporates a number of single and two storey outbuildings. To the east of the main building is a two storey detached bedroom wing which was probably constructed in the 1970s of rendered brick or block construction beneath a pitched, tile covered roof. Linked to this building is an older two storey building, also with rendered elevations, set beneath a pitched slate covered roof.

The property is situated to the south of the town of Keynsham, about 6 miles to the south-east of Bristol and 6 miles to the west of Bath. The surrounding area is predominantly residential in nature. The property can be accessed from Junction 18 of the M4, which is about 9 miles to the north east, alternatively from the A4 Bristol to Bath road.

Freehold

Swinton Castle, Masham, North Yorkshire HG4 4JH

The property comprises an eighteenth and nineteenth century former residential property, with associated out buildings, all of which have been adapted to use as a residential conference and training centre, set in grounds extending to about 4.5 hectares (11 acres). Car parking is provided for approximately 40 vehicles, together with additional parking adjoining the house. The property currently provides residential accommodation for up to 150 people, although not all with en suite facilities. There are approximately 50 bedrooms in the main house, of which 40 are currently used. In addition a further 89 beds in dormitory rooms are available in the adjoining coach house. Training and corporate hospitality facilities for up to 200 delegates are provided in 6 main rooms and 12 syndicate rooms, with additional public areas including a bar, lounge, snooker room and dining room.

The main house, which is listed Grade II*, comprises a mansion house rebuilt upon the site of an earlier building, of which elements remain, the east front being early eighteenth century in origin. The mansion is formed predominantly on ground and two upper floors with a porticoed entrance surmounted by a four storey round tower. The property is built of plain dressed stone set beneath a pitched and hipped slate covered roof set behind a castellated parapet wall, with a number of small round decorative towers. Adjoining it to the north is a mid eighteenth century coach house with square clock tower, which is formed on two storeys, built in the same style as the main building but partly with undressed stone. Also to the north of the main house is a separate staff house, built on three storeys of rough stone beneath a pitched slate covered roof, which is habitable but in need of restoration.

The property is situated to the eastern side of the North Yorkshire Dales, about 1 mile to the west of the A6108 in Swinton, approximately a mile and a half from Masham and some 11 miles from the A1.

Swinton Castle has planning consent granted in 1999 for development and change of use to a hotel providing about 67 bedrooms.

Freehold

BASIS OF VALUATION

This report and valuations have been prepared in accordance with the current edition of the RICS Appraisal and Valuation Manual (the Red Book) issued by the Royal Institution of Chartered Surveyors and Chapter 18 of The Listing Rules issued by the London Stock Exchange (the Yellow Book). The valuers responsible for this instruction are qualified asset valuers as defined in the Red Book, acting as external valuers.

The properties have been valued on an existing use value basis as fully equipped and operational residential training centres in accordance with Practice Statement 4.3 of the Red Book. Existing use value is an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest;

- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion;
- (f) the property can be used for the foreseeable future only for the existing use; and
- (g) that vacant possession is provided on completion of the sale of all parts of the property occupied by the business.

Your attention is drawn to the attached Appendix entitled "Valuation Procedure & Assumptions" which describes work which we have and have not undertaken for the purposes of this instruction. This document forms part of the basis of valuation.

The properties fall into the category of property which normally changes hands in the open market as a fully operational business unit. Our valuations, therefore, include all plant, machinery, fixtures, fittings, paintings, prints, objets d'art, furniture and moveable items ("FF&E") as these are usually included in a sale. We have, however, excluded those items at Eynsham Hall which we have been notified as remaining within the ownership of the landlord (although the tenant retains the use and pays the insurance). Furthermore, we have assumed that the plant, machinery and services are in good working order, that the FF&E is free from hire purchase, leasing, rent charges, loan or service agreements and that no allowance has been made for individual items that might command an additional value because they have an antique or rarity value. Our valuations also assume that purchasers would take over existing staff, but not necessarily the senior management, and the benefit of current and further bookings. Our valuations exclude wet and dry stock, which we assume a purchaser will acquire separately at valuation, usually on the day of completion.

The properties have been valued as individual trading entities and not as part of a group or portfolio and each of the properties is assumed to be free and clear of all mortgages, loans, debentures or other forms of secured lending or charges which are secured on the properties.

We have been provided with copies of the recent trading accounts by Mr Mark Vickers, the Finance Director of Birchin. We assume this information to be accurate. We have also made enquiries of Mr Vickers and the directors of Hanover regarding the future anticipated levels of trading. Our valuations have regard to the future trading potential that is likely to be expected by new management taking over the existing businesses at the valuation date. In the event of a future change in the trading potential or actual level of trade from that indicated by such information and assumptions the existing use values could also vary.

The businesses being conducted at the properties are subject to licence and our valuations have been prepared on the assumption that these licence certificates will be renewed and can be transferred. We have also assumed that there are no outstanding works required by the statutory authorities, to include the requirements of the Fire Precautions Act 1971 (as amended) and the Food Safety Act 1990.

VALUATION

We are of the opinion that the aggregate of the individual existing use values of the above described two freehold and one leasehold properties, on the basis set out above and in the attached Appendix, are as follows:

£17,000,000

(Seventeen million pounds)

The valuation above can be apportioned as follows:

Eynsham Hall, North Leigh, Witney, Oxfordshire	£14,000,000
Chewton Place, Chewton Road, Keynsham, Bristol	£1,750,000
Swinton Castle, Masham, North Yorkshire	£1,250,000

Our valuation reflects the condition of the properties at the valuation date.

The values can be apportioned between freehold and leasehold properties as follows:

<i>Tenure</i>	<i>Aggregate existing use value</i>
Freehold	£3,000,000
Leasehold	<u>£14,000,000</u>
Total	£17,000,000

Neither the whole nor any part of this report or any reference thereto may be included in any document, circular or statement without our prior approval of the form and context in which it will appear.

This valuation is provided for the stated purposes and is for the use only of the parties to whom the report is addressed and the Shareholders of Hanover International PLC. No responsibility is accepted to any other party.

Yours faithfully

APPENDIX

Valuation Procedure & Assumptions

Surveys and enquiries upon which all of our valuations are based are carried out by general practice surveyors making appropriate investigations having regard to the purpose of the valuation. Our reports and valuations are prepared in accordance with the current edition of the RICS Appraisal and Valuation Manual (the Red Book). The valuers responsible for the work are qualified asset valuers as defined in the Red Book. Our work is on the basis set out below, unless specifically varied by our report:

1 Condition and pollution hazards

Unless specifically instructed to carry out a structural survey, test of service installations, site investigation or environmental survey, our valuations assume:

- (i) That no materials have been used in the construction of the buildings which are deleterious, hazardous or likely to give rise to structural defects.
- (ii) That all relevant statutory requirements have been complied with.
- (iii) That the site is physically capable of development or redevelopment, when appropriate, and that no special or unusual costs will be incurred in providing foundations and infrastructure.
- (iv) That the property is not adversely affected by any form of pollution.
- (v) That there are no archaeological remains on or under the land which could adversely impact on value.
- (vi) That any building services which incorporate electronic devices necessary for their proper functioning, and the software which operates such devices, are Millennium compliant, or can be rendered so compliant at no significant cost.

We do however reflect the general condition of the premises evident from our inspection and any defects of which we are made aware as summarised in our report.

2 Tenure and tenancies

We rely upon information supplied as to the property, tenure, tenancies, permitted uses and related matters. We assume such information to be accurate, up-to-date and complete. We assume that your solicitors are able to confirm the accuracy of these details as set out in our report, and that the interest being valued is in all respects good and marketable.

We do not examine the title documents and, therefore, assume that apart from any matters mentioned in our report, the interest is not subject to any onerous restrictions, to the payment of any unusual outgoings or to any charges, easements or rights of way. We assume that any outstanding requirements of repairing covenants will be met.

We have read the final drafts of the certificates of title prepared by Hanover's solicitors in respect of each of the Properties and confirm that they contain no matters which materially adversely affect our valuations of the Properties.

3 Planning and highway enquiries

We make only oral enquiries of the local planning and highway authorities and the information obtained is assumed to be correct. No formal searches are instigated. Except where stated to the contrary, we are informed that there are no local authority planning or highway proposals that might involve the use of compulsory purchase powers or otherwise directly affect the property.

4 Floor areas

Where measurements are given they have been derived from the publicity material issued by the business and have not been independently verified.

5 Tenant status

Although we reflect our general understanding of a tenant's status in our valuation, we make no enquiries about the financial status of tenants, and rely upon you to advise us if tenants are in default of rental payments, or where there appear grounds for concern. We assume that appropriate enquiries were made when leases were originally exchanged, or when consent was granted to tenants to assign or underlet.

6 Plant and machinery

We include in our valuations those items of plant and machinery normally considered to be part of the building service installations and which would pass with the property on a sale or letting. We exclude all items of process plant and machinery and equipment, together with their special foundations and supports, furniture and furnishings, vehicles, stock and loose tools and tenants' fixtures and fittings.

7 Development properties

For properties in course of development, we reflect the stage reached in construction and the costs already incurred and those remaining to be spent at the date of valuation. We have regard to the contractual liabilities of the parties involved in the development and any cost estimates which have been prepared by the professional advisers to the project.

For recently completed developments we take no account of any retentions, nor do we make allowance for any outstanding development costs, fees or other expenditure for which there may be a liability.

8 Valuation date

Property values may change substantially over a relatively short period. If you wish to dispose of this property or part thereof, or to accept a charge over it as security for a loan after the valuation date, we strongly advise a further consultation with us.

9 Costs of realisation

No allowance is made in our valuations for the costs of realisation, any liability for tax which might arise in the event of disposal or for any mortgage or similar financial encumbrance over the property. Our valuations exclude VAT.

PART VI

Pro forma statement of combined net assets of the Enlarged Group

The pro forma financial information set out below has been prepared to illustrate the effect on the net assets of the Hanover Group of the Acquisition as if the Acquisition had occurred at 30 June 1999. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group.

The pro forma statement of combined net assets of the Enlarged Group set out below is based on the unaudited net assets of the Group as at 30 June 1999, extracted without material adjustment from Hanover's interim report and accounts reproduced in Part IV of this document, and the audited net assets of the Eynsham Hall and Chewton Place Training Centres and Swinton Castle Limited as at 30 September 1999, extracted without material adjustment from the accountants' reports set out in Part III of this document.

Pro forma statement of net assets of the Enlarged Group

	<i>Hanover International PLC £'000 Note 1</i>	<i>Eynsham Hall and Chewton Place Training Centres £'000 Note 2</i>	<i>Swinton Castle Limited £'000 Note 3</i>	<i>Elimina- tion of balances £'000 Note 4</i>	<i>Impact of acquisition £'000 Note 5</i>	<i>Impact of fixed asset revaluation £'000 Note 6</i>	<i>Pro forma £'000</i>
Fixed assets							
Intangible fixed assets	—	—	—	—	8,957	(8,957)	—
Tangible assets	61,169	6,293	1,858	(108)	—	8,957	78,169
Investment in own shares	190	—	—	—	—	—	190
	<u>61,359</u>	<u>6,293</u>	<u>1,858</u>	<u>(108)</u>	<u>8,957</u>	<u>—</u>	<u>78,359</u>
Current assets							
Stocks	152	47	12	—	—	—	211
Debtors	2,418	3,601	68	(3,418)	—	—	2,669
Cash at bank and in hand	853	37	7	(44)	(573)	—	280
	<u>3,423</u>	<u>3,685</u>	<u>87</u>	<u>(3,462)</u>	<u>(573)</u>	<u>—</u>	<u>3,160</u>
Creditors: Amounts falling due within one year							
Creditors	(2,975)	(817)	(1,999)	2,816	—	—	(2,975)
Loans and borrowing	(1,841)	(21)	(4)	—	—	—	(1,866)
	<u>(4,816)</u>	<u>(838)</u>	<u>(2,003)</u>	<u>2,816</u>	<u>—</u>	<u>—</u>	<u>(4,841)</u>
Net current assets/(liabilities)	<u>(1,393)</u>	<u>2,847</u>	<u>(1,916)</u>	<u>(646)</u>	<u>(573)</u>	<u>—</u>	<u>(1,681)</u>
	<u>59,966</u>	<u>9,140</u>	<u>(58)</u>	<u>(754)</u>	<u>8,384</u>	<u>—</u>	<u>76,678</u>
Creditors: Amounts falling due after more than one year							
Creditors	—	—	—	—	(14,000)	—	(14,000)
Loans and borrowings	(15,975)	(49)	(12)	—	—	—	(16,036)
	<u>(15,975)</u>	<u>(49)</u>	<u>(12)</u>	<u>—</u>	<u>(14,000)</u>	<u>—</u>	<u>(30,036)</u>
Provisions for liabilities and charges	(721)	(51)	—	—	—	—	(772)
Net assets	<u>43,270</u>	<u>9,040</u>	<u>(70)</u>	<u>(754)</u>	<u>(5,616)</u>	<u>—</u>	<u>45,870</u>

Notes

- 1 Hanover unaudited interim balance sheet as at 30 June 1999.
- 2 Eynsham Hall and Chewton Place Training Centres balance sheet as at 30 September 1999 as extracted from the accountants' report on the Eynsham Hall and Chewton Place Training Centres set out on pages 16 to 28 of this document.
- 3 Swinton Castle Limited balance sheet as at 30 September 1999 as extracted without material adjustment from the accountants' report set out on pages 29 to 37 of this document.

- 4 Elimination of intercompany balances remaining with the Birchin International Plc group as at 30 September 1999 together with cash at bank and in hand not transferred on acquisition, and liabilities not acquired.
- 5 The consideration for the acquisition of £17.0 million and the estimated acquisition costs of £0.8 million financed by debt of £14.4 million (before estimated costs of £0.4 million), equity of £3 million (before estimated issue costs of £0.4 million), and £0.4 million paid from cash balances.

The goodwill arising on acquisition, prior to the impact of the property revaluation set out in note 6 below, is £8,957,000 which is calculated as follows:

	£000
Cost of acquisition of properties	17,000
Book value of properties acquired	(8,043)
	<hr/>
Goodwill	8,957
	<hr/>

The additional net assets acquired of £173,000 will be funded from Hanover's cash balances, which taken with the £400,000 funding referred to above, will result in a decrease in cash of £573,000.

The costs of acquisition of £800,000 will be taken as follows; £400,000 as a reduction in share premium and £400,000 as a reduction to the debt raised to finance the acquisition.

- 6 Property valuation of the sites being acquired is £17,000,000.

Set out below is a letter from KPMG Audit Plc concerning the pro forma statement of combined net assets contained in this Part VI.

The Directors
Hanover International PLC
Hanover House
Pingewood, Reading
Berkshire
RG30 3UN



KPMG Audit Plc
PO Box 486
1 Puddle Dock
London EC4V 3PD
United Kingdom

The Directors
Sutherlands Limited
Dashwood House
69 Old Broad Street
London
EC2M 1NX

28 February 2000

Dear Sirs

Hanover International PLC

We report on the pro forma financial information set out in Part VI of the Prospectus dated 28 February 2000 which has been prepared, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of Hanover International PLC to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the London Stock Exchange, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of Hanover International PLC.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of Hanover International PLC; and
- the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange.

Yours faithfully

KPMG Audit Plc

PART VII

Additional information

1 Incorporation of Hanover

- 1.1 The Company was incorporated and registered in England and Wales with limited liability as a public limited company on 4 April, 1995 under the Act with registered number 3043860. The Company operates under the Act and the regulations made under the Act.
- 1.2 The Company was issued with a certificate under section 117 of the Act entitling it to do business and incur borrowings, by the Registrar of Companies on 11 April 1995.
- 1.3 The Company's shares have been listed on the London Stock Exchange since 1995.

2 Share Capital of Hanover

- 2.1 The following table shows the authorised and issued share capital of the Company as at 25 February 2000 (the last practicable date prior to the publication of this document) and as it will be immediately following the issue of the new Ordinary Shares:

Position as at 25 February 2000

	Ordinary Shares	
	£	Number
Authorised share capital	7,000,000	28,000,000
Issued share capital	4,647,530	18,590,121
Authorised but unissued share capital	2,352,469	9,409,879

Position following the issue of the new Ordinary Shares

	Ordinary Shares	
	£	Number
Authorised share capital	7,000,000	28,000,000
Issued share capital	5,344,659	21,378,369

The authorised but unissued ordinary share capital of the Company will represent 23.65 per cent. of the issued ordinary share capital of the Company following the Placing and the Open Offer on the above assumptions, which include 1,043,732 Ordinary Shares reserved for the exercise of options granted under the Hanover Share Schemes.

- 2.2 The alterations in the issued share capital of the Company in the three years preceding 25 February 2000 (the last practicable date prior to the publication of this document) are set out below:
 - 2.2.1 on 9 February, 29 April and 8 June 1998 Hanover issued 397,930, 372,856 and 700,525 Ordinary Shares respectively pursuant to the conversion of convertible loan notes at prices of 125.65p, 134.10p and 142.75p respectively; and

2.2.2 the following Ordinary Shares have been issued pursuant to the Hanover scrip dividend scheme:

<i>Date</i>	<i>Number of Ordinary Shares</i>	<i>Price of Issue</i>
25 June 1998	1,405	139.5p
18 December 1998	3,190	91.6p
25 June 1999	15,999	114.5p
17 December 1999	11,511	119p

- 2.3 By an ordinary resolution passed on 13 May 1999 the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £1,802,026 which authority expires at the close of the next annual general meeting of the Company (or, if earlier on 13 August 2000) (provided that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry).
- 2.4 By a special resolution passed on 13 May 1999, the Directors were empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority described in paragraph 2.3 above as if sub-section (1) of Section 89 of the Act did not apply to any such allotment, such power to be limited to: (a) the allotment of equity securities in connection with a rights issue, open offer, or other issue in favour of Shareholders where the equity securities respectively attributable to the interests of Shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange, in any territory or any other matter whatsoever; (b) the allotment of equity securities pursuant to the Hanover Share Schemes; and (c) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal value of £232,032 million; such power to expire at the close of the next annual general meeting of the Company (or, if earlier on 13 August 2000) provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.
- 2.5 The new Ordinary Shares to be allotted and issued pursuant to the Placing and the Open Offer will be allotted and issued out of the Company's existing authorised but unissued Ordinary Share capital pursuant to the authorities described in paragraphs 2.3 and 2.4 above.
- 2.6 The following options granted under deed under the Hanover Share Schemes were outstanding over a total of 1,143,732 Ordinary Shares at 25 February 2000 (the latest practicable date prior to the publication of this document):

<i>Scheme</i>	<i>Grant Dates</i>	<i>Number of Ordinary Shares</i>	<i>Exercise price between (p)</i>	<i>Exercise dates</i>
Savings-related	26/08/97 – 4/05/98	165,732	84 – 98	1/10/00 – 31/12/01
Executive Approved	5/10/99	154,982	135.5	5/10/02 – 5/10/09
Executive Unapproved	10/9/96 – 5/10/99	823,018	79.5 – 148.5	10/9/99 – 5/10/09

Options granted under the Hanover Share Schemes may be satisfied with Ordinary Shares held by the Hanover International Employee Trust or by the issue of Ordinary Shares by the Company.

- 2.7 Save as disclosed in this paragraph 2:

2.7.1 during the three years immediately preceding the date of this document, there have been no changes in the amount of the issued share capital of the Company and no material change in the amount of the issued share or loan capital of any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries); and

- 2.7.2 no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- 2.8 The Company is subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash. The provisions of Section 89 of the Act (which, to the extent not disappplied, confer on Hanover Shareholders' pre-emption rights in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company, except to the extent such provisions have been disappplied as referred to in paragraph 2.4 above.

3 Memorandum and Articles of Association

The memorandum of association of the Company provides that its principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the memorandum of association which is available for inspection at the address specified in paragraph 18 below.

The articles of association of the Company (the "Articles") which are also available for inspection at such address contain, *inter alia*, provisions to the following effect:

3.1 Share Rights

Subject to the provisions of the Act and the provisions of the Articles and to any special rights for the time being attached to any existing shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine.

3.2 Voting Rights

Subject to the provisions of the Act and the provisions of the Articles and to any special terms as to voting on which any shares may have been issued or may from time to time be held, at any general meeting of the Company every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of any share held by him unless all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any), have been paid to the Company or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to Section 212 of the Act (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

3.3 Dividends and Other Distributions

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Act and the Articles, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution. Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied

wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways. The Board may, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to any holders of ordinary shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution. All dividends unclaimed for a period of 12 years after having become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

If the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division should be carried out as between the members or different classes of members or vest the whole or any part of the whole of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

3.4 Variation of Rights

Rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such general meeting (except an adjourned meeting) the quorum shall be two or more persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the relevant class.

3.5 Transfer of Shares

Each member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder of such share until the transferee's name is entered in the Register of Members in respect of it.

The Board may, in its absolute discretion and without giving any reason, refuse to register any share transfer unless:

- it is in respect of a share which is fully paid up;
- it is in respect of a share on which the Company has no lien;
- it is in respect of only one class of shares;
- it is in favour of a single transferee or not more than four joint transferees;
- it is duly stamped (if so required); and
- it is lodged with the Company accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require.

The Board may refuse to register any transfer of any partly paid shares which are listed unless to do so would prevent dealings in the shares taking place on an open and proper basis.

If the Board refuses to register a transfer of shares, it shall, within 2 months of the date on which the transfer is lodged with the Company send notice of the refusal to the transferee.

The registration of the transfer of shares or of any class of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine.

Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a

notice under Section 212 of the Act (requiring disclosure of interest in shares), has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent. of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a takeover offer, in consequence of a sale on a recognised stock exchange or a sale to an unconnected party.

3.6 Alteration of Share Capital

The Company may by ordinary resolution increase, consolidate, divide or sub-divide its share capital. The Company may also by ordinary resolution cancel shares which have not been taken or agreed to be taken by any person. The Company may by special resolution reduce its share capital or any capital redemption reserve or share premium account.

3.7 Purchase of Own Shares

The Company may also, subject to the requirements of the Act and the rights of the holders of any of the shares, purchase its own shares.

3.8 General Meetings

Subject to the provisions of the Act, annual general meetings shall be held at such time and place as the Board may determine. The Board may convene an extraordinary general meeting whenever it thinks fit.

3.9 Directors

Unless otherwise determined by the Company by ordinary resolution the number of Directors (other than any alternate Directors) shall not be more than 8 nor less than two.

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors (such fees being distinct from any salary or other remuneration of employment) such sum as the Board may from time to time determine provided that the aggregate amount paid to Directors by way of fees shall not exceed £50,000 in any financial year, or such greater sum as may be determined from time to time by ordinary resolution of the Company. The Directors shall also be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors, including expenses incurred in attending meetings. If, by arrangement with the Board, any Director shall perform or render any special duties or services outside his ordinary duties as a Director, he may be paid such reasonable additional remuneration as the Board may determine.

At each annual general meeting of the Company, one third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third shall retire from office. If there are fewer than three Directors who are subject to retirement by rotation, one Director shall retire from office. Retiring Directors will be eligible for re-appointment. Directors are required to retire at the next annual general meeting after attaining the age of 70 in accordance with Section 293 of the Act but may offer themselves for re-election.

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he is, to his knowledge, alone or together with any person connected with him, materially interested unless the resolution concerns any of the following matters:

- the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

- the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under guarantee or indemnity or by the giving of security;
- the subscription or purchase by him of any shares, debentures or other securities of the Company or any of its subsidiaries pursuant to any offer or invitation or the underwriting or sub-underwriting by him of any such shares, debentures or other securities;
- any contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning any other company (including any subsidiary of the Company) in which he is interested, directly or indirectly (and whether as an officer or shareholder, creditor or otherwise), provided that he is not directly or indirectly the holder of or beneficially interested in one per cent. or more of either a relevant company or an intermediate company (such terms being defined in the Articles);
- any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of a pension fund, retirement, death or disability benefits scheme or personal pension plan under which he may benefit and which either (i) has been approved by or is subject to and conditional on approval by the Board of Inland Revenue for taxation purposes or (ii) relates to both employees and Directors of the Company (or directors of any of its subsidiaries) and does not accord to any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; and
- any contract, arrangement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy pursuant to the Articles.

3.10 Borrowing powers

Subject as provided in the Articles, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the provisions of the Act, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in relation to subsidiary undertakings (if any) so as to secure (so far as it is able) that the aggregate principal amount from time to time outstanding of borrowings by the Company or any of its subsidiary undertakings (exclusive of moneys owing by one member of the Group to another and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount to equal 3 times the Adjusted Capital and Reserves (as defined in the Articles).

3.11 Untraced Shareholders

The Company may sell any shares in the Company after advertising its intention, waiting three months and notifying the London Stock Exchange of its intention to sell if the shares have been in issue for at least 12 years and during that period at least three cash dividends (whether interim or final) have become payable on them and have not been claimed or satisfied and, the Company has not received any communication in respect of such share from the member or any person entitled to the shares by transmission. Upon any such sale, the Company will become indebted to the former holder of the shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale.

4 Hanover Share Schemes

Hanover currently operates five employee share schemes as follows:

4.1 Hanover International PLC 1999 Approved Discretionary Share Option Scheme

4.1.1 The Hanover International PLC 1999 Approved Discretionary Share Option Scheme (the "Approved Scheme") was adopted by Shareholders at the 1999 annual general meeting in May 1999 and has been approved by the Inland Revenue. The Approved Scheme is administered by the Directors and the Remuneration Committee of the Directors. The following is a summary of its Rules ("Rules").

4.1.2 Eligible Employees

Options over Ordinary Shares ("Shares") may be granted by the Company to selected employees and full-time Directors of the Group.

4.1.3 Grant of Options

Options may be granted within the 42 days following the Company's announcement of its full year or interim results, or at other times, in exceptional circumstances. No option may be granted after the tenth anniversary of the adoption of the Approved Scheme.

4.1.4 Option Exercise Price

The price at which Shares may be acquired on the exercise of an option shall be determined on grant but shall not be less than the middle market quotation of a Share derived from the Official List on the dealing day immediately before the date on which an option is granted (or, if higher, the nominal value of a Share if the option may be satisfied by the issue of new Shares).

4.1.5 Individual limit

An option may not be granted to an individual under the Approved Scheme if it would cause the total exercise price of that individual's outstanding options under the Approved Scheme to exceed £30,000.

In addition, the total exercise price of options granted in any ten year period to any optionholder under the Approved Scheme or any other executive share option scheme adopted by the Company may not exceed four times the optionholder's remuneration. However, options may be granted to replace those which have exercised. In granting such replacement options, the Directors will be expected to satisfy themselves that the grant of such options is justified by the Group's performance in the previous two years.

4.1.6 Overall limits

- (a) In any 10 year period, the number of Shares issued or remaining issuable under options granted under the Approved Scheme or any other employee share option scheme (other than a savings related share option scheme) established by the Company or any of its subsidiaries may not exceed 5 per cent. of the Company's issued share capital.
- (b) In any 10 year period, the number of Shares issued or remaining issuable under options granted under the Approved Scheme or rights granted under any other employee share incentive scheme established by the Company or any of its subsidiaries may not exceed 10 per cent. of the Company's issued share capital.

4.1.7 Exercise of options

- (a) Subject as follows, an option will normally only be exercisable by an individual who remains in employment with the Group and may only be exercised between the third and tenth anniversaries of the date on which the option was granted. Exercise will also normally be dependent on the Company having achieved a performance target or targets.

- (b) Early exercise of an option will be permitted if an individual's employment terminates by reason of death, injury, disability, redundancy, retirement, or in other circumstances in which the Directors consider it reasonable that exercise be permitted, or if the company which employs the individual ceases to be a member of the Group, or on a takeover of the Company or a resolution for the Company's winding-up. In the case of a takeover or winding-up, options may be exchanged for options over the acquiring company's shares but only with the consent of the optionholder, the acquiring company and the Inland Revenue.

4.1.8 Variation of share capital

The exercise price of an option and the number of Shares subject to an option may be adjusted to reflect capitalisation or rights issues, reductions, sub-divisions or consolidations of the share capital of the Company, in such manner as the Directors shall determine and the auditors of the Company shall confirm in writing as being fair and reasonable, and subject to the approval of the Inland Revenue.

4.1.9 Voting, dividend, transfer and other rights

- (a) Until options are exercised, optionholders have no voting or dividend rights in respect of the Shares under option.
- (b) Shares issued and allotted under the Approved Scheme following the exercise of an option will rank *pari passu* in all respects with the then existing shares of the same class of the Company with the exception of rights attaching by reference to a record date on or before the date of allotment. The Company will make application to the London Stock Exchange for such shares to be listed.
- (c) Options are non-transferable (other than on death).
- (d) Options are not pensionable.

4.1.10 Amendments

The Approved Scheme may not be amended without the prior approval of the Inland Revenue and (broadly) to the advantage of participants without the approval of the Company in general meeting, except for minor amendments to benefit the administration of the Approved Scheme. No alteration may be made to the rights of an individual in respect of an option which has already been granted other than with that individual's consent.

4.2 Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme

4.2.1 Constitution

The Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme (the "Unapproved Scheme") was adopted by the Company in July 1995 and was amended following the 1997 and 1999 annual general meetings. The Unapproved Scheme has not been submitted to the Inland Revenue for approval. The Unapproved Scheme is administered by the Directors and Remuneration Committee of the Directors. The Unapproved Scheme rules are similar to the rules of the Approved Scheme summarised above, save as follows:

4.2.2 Individual limit

The £30,000 limit contained in the Approved Scheme does not apply to the Unapproved Scheme;

4.2.3 Exercise of options

An option may only be exercised between the third and seventh anniversaries of the date on which the option was granted (third and tenth anniversaries in the case of options granted after

13 May 1999). Exercise will also normally be dependent on the Company having achieved a performance target or targets. Early exercise will be permitted in the same circumstances as under the Approved Scheme; and

4.2.4 Amendments

The approval of the Inland Revenue is not required in relation to the operation or amendment of the Unapproved Scheme.

4.3 Hanover International 1997 UK Savings Related Share Option Scheme

4.3.1 Constitution

The Hanover International 1997 UK Savings Related Scheme (the "Savings Related Scheme") was established in 1997 and is approved by the Inland Revenue and is operated by the Directors. It is governed by rules ("Rules"). The following is a summary of the Rules.

4.3.2 Eligible Employees

All United Kingdom resident and ordinarily resident employees and full-time (25 hours per week) directors of the Company and its participating subsidiaries (the "Group") who have completed at least one year's continuous service will be eligible to participate. Participation may also be offered at the Directors' discretion to other Group employees and directors not meeting these requirements.

4.3.3 Grant of Options

- (a) Where the Directors decide to issue an invitations to participate in the Savings Related Scheme they shall only do so to all eligible employees during the six week period following the announcement of the Company's final and interim results to the London Stock Exchange for any financial period and at other times following changes to the approved SAYE contract or applicable tax legislation or under exceptional circumstances.
- (b) An employee who applies to participate will normally be granted an option over the number of Shares whose aggregate option exercise price equals as closely as possible the proceeds (including relevant bonus) on completion of the related SAYE contract entered into at that time by the employee, but the maximum aggregate number of Shares to which options relate may be limited by the Directors and applications scaled down accordingly.
- (c) Options will not be transferable and any awards under the Savings Related Scheme will be non-pensionable.
- (d) No options may be granted after the tenth anniversary of the shareholders' approval of the Savings Related Scheme.

4.3.4 Limits

- (a) The number of unissued Shares over which options may be granted under the Savings Related Scheme on any date shall be limited so that the number of Shares issued under any employee share scheme not involving the grant of options, when aggregated with the number of Shares made issuable pursuant to options granted (excluding lapsed options) under the Savings Related Scheme and any other employee share option scheme shall not in any ten year period exceed ten per cent. of the Company's issued ordinary share capital for the time being.
- (b) The maximum amount that a participant may save under his approved SAYE contract is currently £250 per month.

4.3.5 Option Exercise Price

The price at which a participant may acquire Ordinary Shares ("Shares") on the exercise of an option shall be determined by the Directors but shall be not less than 80 per cent. of the middle market quotation of a Share as derived from the London Stock Exchange Daily Official List on the dealing day immediately before eligible employees are invited to apply for options (or, if higher, the nominal value of a Share if the option may be satisfied by the issue of new Shares).

4.3.6 Exercise of Options

- (a) Options may be exercised only out of funds not exceeding the proceeds of the related SAYE contract (inclusive of the relevant bonus), contributions under which must be currently between £5 and £250 per month for either three or five years (as determined by the Directors).
- (b) An option will normally only be exercisable following the completion of savings over three or five years under the SAYE contract. However, earlier exercise is permitted if the participant first reaches age 60; or if he leaves the employment of the Group through death, redundancy, retirement (in some circumstances), injury, disability or the company or undertaking by which he is employed being transferred outside the Group; or in the event of a voluntary winding up, takeover or reconstruction of the Company. In the case of a takeover or reconstruction, options may alternatively be exchanged for options over the acquiring company's shares but only with the consent of the optionholder, the acquiring company and the Inland Revenue. Whenever an option is exercised before completion of the SAYE contract the exercise of such option is limited to the total of refunded contributions together with any interest received under the SAYE contract at that time.

4.3.7 Variation of Share Capital

In the event of a capitalisation or rights issue or the sub-division, consolidation or reduction of the Company's ordinary share capital the option exercise prices of Shares under option and the number and nominal value and class of such Shares may be adjusted with the confirmation in writing of the Company's auditors (except in the case of a capitalisation issue) that such adjustment is fair and reasonable, subject to the approval of the Inland Revenue.

4.3.8 Rights attaching to shares

Shares allotted following the exercise of an option will rank *pari passu* with the then issued Shares of the same class of the Company (except that they will not rank for any dividend or other right having a record date prior to the allottee's entry on the Company's register of members). The Company will apply to the London Stock Exchange for such Shares to be admitted to the Official List.

4.3.9 Amendments

- (a) The Savings Related Scheme may be amended by the Directors provided that no amendment which, broadly, would be to the advantage of participants may be made without the prior consent of the Company in general meeting except for minor amendments to benefit the administration of the Savings Related Scheme.
- (b) Any amendment also requires the approval of the Inland Revenue and no amendment can be made to the Savings Related Scheme or the terms of any option to the disadvantage of a participant without his prior consent.

4.4 Hanover International 1997 UK Profit Sharing Scheme

4.4.1 Constitution

The Hanover International 1997 UK Profit Sharing Scheme (the "Profit Sharing Scheme") was established in 1997, is approved by the Inland Revenue and is governed by a Trust Deed and rules ("Rules"). The Trustee of the scheme is Noble Lowndes Settlement Trustees Limited (a trustee company independent of the Company) (the "Trustee"). Although Ordinary Shares ("Shares") have been acquired by the Trustee, they have not yet been appropriated to participants. The following is a summary of the Rules.

4.4.2 Funding

On each occasion when the Directors decide that the Profit Sharing Scheme is to operate, they will pay an amount to the Trustee. The Trustee will use the money provided to acquire Shares to be held on behalf of participants.

4.4.3 Eligible Employees

All United Kingdom resident and ordinarily resident employees and full-time (25 hours per week) directors of the Company and its participating subsidiaries (the "Group") who have completed at least one year's continuous service, will be eligible to participate. Participation may also be offered at the Directors' discretion to other Group employees and directors not meeting these requirements, subject to Inland Revenue limitations.

4.4.4 Entitlement of Eligible Employees

The entitlement of each eligible employee will be determined by the Directors at their discretion on each occasion on which an appropriation of Shares is made, but must always be calculated on similar terms, i.e. it is possible to vary entitlements as between employees, but only by reference to such factors as salary or length of service. Any benefits received under the Profit Sharing Scheme will be non-pensionable.

4.4.5 Acquisition Price

Shares may be acquired by purchase or by subscription. Shares acquired by subscription will be acquired by the Trustee at a price equal to the middle market quotation of a Share as derived from the London Stock Exchange Daily Official List for the first dealing day on which Shares are first quoted ex-dividend following the announcement of the final results for a financial year, or, if the date of which Shares are to be appropriated to employees falls more than thirty days after that day, the middle market quotation on the first dealing day falling within the period of thirty days preceding the date of appropriation. The Trustee may not, however, subscribe for new Shares at a price which is less than their nominal value.

4.4.6 Restrictions on Shares and Tax Consequences

- (a) A participant will not normally be able to instruct the Trustee to deal in the Shares held on his behalf until the expiry of the "period of retention" laid down by UK tax legislation. This period currently ends on the second anniversary of the date when the particular Shares were appropriated to him or, if earlier, in the event of a participant's death, redundancy, attainment of age 60 or leaving employment by reason of injury or disability.
- (b) A participant can request the Trustee to sell his Shares or transfer them into his name at any time between the end of the "period of retention" and the "release date" laid down by UK tax legislation (currently the third anniversary of the date on which the Shares were appropriated to him). However, if he does so, he will normally be liable to income tax on the value of his Shares at the time when they were appropriated to him (or, if less, their market value at the time or the proceeds of their sale). After the release date, the employee may request a sale or transfer of his Shares without being liable to pay income tax.

4.4.7 Limits

- (a) The number of Shares which may be issued under the Profit Sharing Scheme plus the number of Shares issued under any other employee share scheme not involving the grant of options when aggregated with the number of Shares issued or capable of being issued pursuant to options granted (excluding lapsed options) under any employee share option scheme shall not in any ten year period exceed ten per cent. of the Company's issued ordinary share capital for the time being.
- (b) The maximum value of the Shares appropriated to any participant in any tax year shall be such maximum amount as legislation may from time to time allow. The present maximum is £3,000 or if greater ten per cent. of the participants' "salary", subject to an overall maximum of £8,000.

4.4.8 Dividends, Voting Rights and Notices to Shareholders

Whilst a participant's shares are held by the Trustee he will receive all dividends paid in respect thereof and will be entitled to instruct the Trustee how to vote at any meeting of shareholders. In the absence of such instructions the Trustee will not exercise the votes in respect of the relevant Shares. In addition each participant will be sent a copy of any notice or circular sent to Shareholders.

4.4.9 Variation of Share Capital

- (a) Any Shares acquired by the Trustee on a capitalisation issue in respect of Shares held on behalf of participants will be treated as forming a part of the same appropriation from which those Shares arose.
- (b) The participant may, via the Trustee, participate in a rights issue. Any new Shares acquired will be considered to form part of the appropriation from which those Shares derive.

4.4.10 Takeover or Reconstruction

Should an offer be made for the share capital of the Company, a participant may instruct the Trustee on how to act on his behalf. In the event of any other transaction, arrangement or scheme being proposed which affects any Shares held by the Trustee on behalf of a participant, he can direct the Trustee how to act on his behalf.

4.4.11 Listing

The Directors will apply to the London Stock Exchange for any new Shares subscribed for by the Trustee to be admitted to the Official List.

4.4.12 Amendments

- (a) The Profit Sharing Scheme may be amended by the Directors provided that, broadly, no amendment which would be to the advantage of participants may be made without prior consent of the Company in general meeting except for minor amendments to benefit the administration of the Profit Sharing Scheme.
- (b) Any amendment also requires the approval of the Inland Revenue and no amendment can be made to the Profit Sharing Scheme to the disadvantage of a participant in respect of Shares already appropriated to him without his prior consent.

4.4.13 Termination

The Directors may terminate the Profit Sharing Scheme at any time when the Trustee holds no Shares on behalf of participants. The Profit Sharing Scheme will otherwise terminate on the expiry of seventy-nine years from the date of commencement. On termination, any Shares held by the Trustee will be dealt with in accordance with the rules of the Profit Sharing Scheme.

4.5 Hanover International Employee Trust

4.5.1 Constitution

The object of the Hanover International Employee Trust (the "Employee Trust") is to help facilitate or enable the holding of Ordinary Shares ("Shares") by or for employees and former employees of the Company and its subsidiaries (the "Group"). The following is a summary of the terms of the Employee Trust deed.

4.5.2 Eligible Employees

Any employees or former employees of the Group (employees in this context include certain directors) and their immediate relatives may benefit under the Employee Trust. The trustees of the Employee Trust ("the Trustees") will use their discretion following recommendations from the directors of the Company to decide which employees shall benefit. Benefits available under the Employee Trust are expressed to include the ability to grant options over Shares to beneficiaries. The Employee Trust is intended to be used in conjunction with the Company's employee share schemes.

4.5.3 Trustees

The Company has the power to appoint the Trustees. Except where a corporate trustee is sole trustee, there shall always be at least three Trustees. Hill Samuel (Channel Islands) Trust Company Limited, an independent corporate trustee resident outside the United Kingdom, is the current Trustee.

4.5.4 Powers and Funding

The Trustees will have power to buy Shares on the London Stock Exchange and to subscribe for Shares. The trust deed also contains the usual trustee powers to enable the Trustees to carry out their duties. The Trustees may be funded by cash gifts or loans from Group companies in relation to the operation of the Employee Trust. Dividends are usually waived by the Trustee in respect of Shares held in trust generally for employees.

4.5.5 Limits

- (a) The number of Shares for which the Trustees may subscribe on any date shall be limited so that the number of Shares issued under any employee share scheme not involving the grant of options, when aggregated with the number of Shares made issuable pursuant to options granted (excluding lapsed options) under any employee share scheme adopted by the Company shall not in any ten year period exceed ten per cent of the Company's issued ordinary share capital for the time being.
- (b) The number of Shares for which the Trustees may subscribe on any date which are intended to be used to satisfy option granted under any employee share option scheme (other than a savings-related scheme) shall be limited so that the number of Shares issued under any discretionary employee share scheme not involving the grant of options, when aggregated with the number of Shares made issuable pursuant to options granted (excluding lapsed options) under any employee share option scheme (other than a savings-related scheme) adopted by the Company or issued to the Trustees in connection with such a scheme (unless and until such Shares are used to satisfy options granted under, or used in connection with, a non-discretionary employee share scheme) shall not in any ten year period exceed five per cent of the Company's ordinary share capital for the time being.
- (c) Within the limits in (a) and (b) above, the Trustees may not hold unallocated at any time more than five per cent of the Company's issued ordinary share capital for the time being.
- (d) The Trustees may not subscribe for Shares at less than their current market or, if higher, their nominal value.

4.5.6 Issue of Shares

Shares allotted to the Trustees will rank *pari passu* with the then issued shares of the same class of the Company. The Company will apply to the London Stock Exchange for such Shares to be admitted to the Official List.

4.5.7 Amendment

No amendment may be made to the Employee Trust which would be to the advantage of beneficiaries of the Employee Trust without the prior consent of the Company in general meeting except for minor amendments to benefit the administration of the Employee Trust and amendments to obtain or maintain favourable tax treatment for beneficiaries of the Employee Trust or the Group.

4.5.8 Governing Law

The Employee Trust shall be subject to and construed according to the laws of England and Wales.

5 Directors

5.1 The Directors of Hanover, and their functions, are as follows:

Peter George Eyles	Executive Chairman
Robin Jarrard Campbell Privett	Non-executive and Joint Deputy Chairman
Michael Edward Jourdain	Projects and Administration Director
Anthony Brian Kelly	Group Finance Director
Charles Richard Gaunt	Operations Director
Bernard Clow	Non-executive and Joint Deputy Chairman
Hugh William Whitbread	Non-executive

all of whose business address is Hanover House, Pingewood, Reading, Berkshire, RG30 3UN.

The brief biographical details of the Directors of Hanover are as follows:

Peter Eyles, aged 53, has been Executive Chairman of the Group since its establishment in 1995. Prior to that he was Chairman of Pavilion Leisure PLC, Chief Executive of Norfolk Capital PLC and Chairman and Chief Executive of several private companies involved in property and marketing activities.

Anthony Kelly, ACMA, aged 33, was appointed Group Finance Director in September 1999 having been with the Group since August 1996 as Group Financial Controller. He is a Chartered Management Accountant and before joining the Group held various positions within the private hotel and leisure sector.

Mike Jourdain, aged 35, joined the Company in 1996 and is the Projects and Administration Director. He was previously Senior Commercial Development Manager for United Hotels Group and United Care Group.

Charles Gaunt, aged 49, joined the Company in 1996 and is the Operations Director. He was previously Group Operations Manager for United Hotels Group and Operations Director for Resort Hotels PLC.

Bernard Clow, aged 57, joined the Board in May 1999 and was appointed joint deputy Chairman in September 1999. He was formerly a partner at KPMG accountants and is a member of the Remuneration Committee and the Audit Committee.

Robin Privett, aged 59, was formerly a partner in Herbert Smith, the law firm, and is Chairman of LEC Refrigeration plc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Billy Whitbread, aged 58, is the consultant to Taverners Trust PLC, an investment trust managed by Aberdeen Asset Managers Limited. Previous positions include director and investment manager of The Whitbread Investment Company PLC and managing director of Thomas Wethered and Sons Limited, a subsidiary of Whitbread PLC. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

- 5.2 The companies and partnerships of which the Directors of Hanover are currently or have been at any time in the five years preceding the date of this document directors or partners (excluding Hanover and its subsidiaries and also excluding subsidiaries of the companies listed below) are as follows:

<i>Director</i>	<i>Current Directorships/Partnerships</i>	<i>Past Directorships/Partnerships</i>
Peter Eyles	Hatchbox Limited	West Park Group plc
Anthony Kelly	None	None
Michael Jourdain	None	None
Charles Gaunt	None	None
Bernard Clow	None	Directorships: KPMG Audit Plc Partnerships: KPMG
Robin Privett	Woodard Schools (Southern Division) Limited LEC Refrigeration plc PSB Holding Limited Strathcarron Sports Cars plc	None
Billy Whitbread	The Aldenham School Company Limited Aldenham School Enterprises Limited Smiles Holdings plc Smiles Trustees Limited The Taverners Trust PLC (alternate director)	None

- 5.3 Peter Eyles was a director of Pavilion Leisure PLC from 21 September 1990 until 8 March 1991. This company was placed into receivership on 7 March 1991. The Directors do not know the actual amount of the deficiency to creditors of this company. As at 31 May 1991, the date of the statement as to the affairs of this company, such deficiency was estimated to be £4.46 million.

- 5.4 Save as disclosed in this paragraph 5, none of the Directors:

- 5.4.1 has any unspent convictions in relation to indictable offences;
- 5.4.2 has been the subject of a bankruptcy or individual voluntary arrangement;
- 5.4.3 has been a director of any company within the 12 months preceding a receivership, compulsory liquidation, creditors' voluntary arrangement, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors in each cash of such company;
- 5.4.4 has been a partner of any partnership within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- 5.4.5 has owned any asset which has been the subject of any receivership or been a partner of a partnership at the time of or within the 12 months preceding the receivership of any asset of such partnership; or
- 5.4.6 has been the subject of any public criticism of any statutory or regulatory authority (including any recognised professional body) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6 Directors' and Other Interests in Ordinary Shares

- 6.1 As at 25 February 2000 (the last practicable date prior to the publication of this document) and immediately after the issue of the new Ordinary Shares, the interests (all of which are beneficial other than as indicated below) of the Directors of Hanover in respect of the securities of Hanover which have been notified to Hanover pursuant to Sections 324 or 328 of the Act, or which are required to be entered in the register maintained under Section 325 of the Act or are interests of a person connected with any Director of Hanover (within the meaning of Section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed as set out above and the existence of which is known or could with reasonable diligence be ascertained by the relevant Director, are set out below:

<i>Director of Hanover</i>	<i>Current number of Ordinary Shares</i>	<i>Percentage of current issued share capital</i>	<i>Number of shares following the issue of new Ordinary Shares</i>	<i>Percentage of enlarged Issued Share Capital*</i>
P. Eyles	211,746†	1.14	211,746	0.99
A. Kelly	7,500	0.04	7,500	0.04
M. Jourdain	8,405	0.05	8,405	0.04
C. Gaunt	9,042	0.05	9,042	0.04
B. Clow	22,651	0.12	22,651	0.11
R. Privett	21,962	0.12	21,962	0.10
B. Whitbread	55,915	0.30	55,915	0.26

*Assumes no change in the number of Ordinary Shares held prior to Admission.

†Peter Eyles has a beneficial interest in 181,746 Ordinary Shares and a non-beneficial interest in 30,000 Ordinary Shares held by a trust, the beneficiaries of which are the son and daughter of Peter Eyles.

The executive Directors are also interested in the Ordinary Shares, which have not been appropriated to participants, which are held by the trustees of the Hanover International 1997 UK Profit Sharing Scheme and the Hanover International Employee Trust.

6.1.1 Share options of the Directors of Hanover

The options held by the Directors in respect of Ordinary Shares, are as follows. Save as disclosed, no Director of Hanover has any other options to subscribe for Ordinary Shares.

Hanover Executive Share Option Schemes

<i>Director</i>	<i>Date of grant</i>	<i>Number of Shares under option</i>	<i>Percentage of current issued share capital</i>	<i>Percentage of enlarged issued share capital</i>	<i>Exercise Price (p)</i>	<i>Earliest Exercise Date</i>	<i>Latest Exercise Date</i>
P. Eyles	10/9/96	288,000	1.55	1.35	125.5	10/9/99	10/9/03
	23/11/98	35,000	0.19	0.16	79.5	23/11/01	23/11/05
	5/10/99	50,000	0.27	0.23	135.5	5/10/02	5/10/09
A. Kelly	30/9/97	20,000	0.11	0.09	141.5	30/9/99	10/9/04
	23/11/98	15,000	0.08	0.07	79.5	23/11/01	23/11/05
	5/10/99	50,000	0.27	0.23	135.5	5/10/02	5/10/09
C. Gaunt	4/4/97	80,000	0.43	0.37	148.5	4/4/00	4/4/04
	23/11/98	20,000	0.11	0.09	79.5	23/11/01	23/11/05
	5/10/99	45,000	0.24	0.21	135.5	5/10/02	5/10/09
M. Jourdain	4/4/97	70,000	0.37	0.33	148.5	4/4/00	4/4/04
	23/11/98	20,000	0.11	0.09	79.5	23/11/01	23/11/05
	5/10/99	45,000	0.24	0.21	135.5	5/10/02	5/10/09

Hanover Savings Related Plan

		<i>Number of Ordinary Shares under option</i>	<i>Percentage of current issued share capital</i>	<i>Percentage of Enlarged issued share capital</i>	<i>Exercise Price (p)</i>	<i>Earliest Exercise Date</i>	<i>Latest Exercise Date</i>
<i>Director</i>	<i>Date of grant</i>						
P. Eyles	26/8/97	11,607	0.06	0.05	84	1/10/00	31/03/01
A. Kelly	26/8/97	3,482	0.02	0.02	84	1/10/00	31/03/01
M. Jourdain	26/8/97	4,642	0.03	0.02	84	1/10/00	31/03/01
	4/5/98	5,931	0.03	0.03	98	1/07/01	31/12/01
C. Gaunt	26/8/97	4,642	0.03	0.02	84	1/10/00	31/03/01

- 6.2 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Hanover Group and which was effected by a member of the Hanover Group during the current or immediately preceding financial year or was effected by a member of the Hanover Group during an earlier financial year and remains in any respect outstanding or unperformed.
- 6.3 There are no outstanding loans or guarantees provided by any member of the Hanover Group for the benefit of any Director.
- 6.4 The Directors are aware of the following interests (within the meaning of Part VI of the Act) which, directly or indirectly, represent, or which will represent, 3 per cent. or more of the issued share capital of the Company on 25 February 2000 (the last practicable date prior to publication of this document) and immediately after the issue of the new Ordinary Shares:

<i>Shareholder</i>	<i>Number of Ordinary Shares held</i>	<i>Percentage of current issued share capital</i>	<i>Percentage of enlarged issued share capital*</i>
Albert E Sharp Smaller Companies UT	1,206,562	6.49	5.64
CTCL Perpetual UK Smaller Companies Fund	855,823	4.60	4.00
CTCL Perpetual Intl. Emerging Companies Fund	699,222	3.76	3.27
Fidelity International Ltd	483,900	2.60	2.26
Fidelity Recover Trust Ltd	959,757	5.16	4.49
Friends Provident Life	1,229,225	6.61	5.75
Guardian Insurance	789,057	4.24	3.69
Montanaro UK Smaller Companies IT	650,000	3.50	3.04
Montanaro UK Special Situations Fund	1,315,094	7.07	6.15
Morgan Grenfell UK Smaller Companies	789,057	4.24	3.69
Scottish Mutual UK Smaller Companies Fund	789,057	4.24	3.69
Thornton UK and General Fund	1,046,558	5.63	4.90
Venaglass Limited	636,268	3.42	2.98

*Assumes no change in the number of Ordinary Shares held prior to Admission.

Save as disclosed above, the Company is not aware of any person who is or will following the issue of the new Ordinary Shares, directly or indirectly, be interested in 3 per cent. or more of the issued share capital of the Company. The Company is not aware of any other person who can, or, following the issue of the new Ordinary Shares, will or could, directly or indirectly, jointly or severally, exercise control over the Company.

7 Directors' Service Agreements and Emoluments

The following Directors have entered into the service agreements described below:

- 7.1 A service agreement dated 28 August 1996 between (1) Hanover and (2) Peter Eyles under which he is employed as Executive Chairman terminable by either party on 12 months' notice, at a salary of £205,000 per annum (1999) and a commission based upon the growth in earnings per share of the Company, which was £77,000 in 1998. He is also entitled to other benefits including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received total taxable benefits of £9,000 in the year ended 31 December 1999.
- 7.2 A service agreement dated 2 September 1999 between (1) Hanover and (2) Anthony Kelly under which he is employed as Group Finance Director terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months), at a salary of £60,000 per annum and other benefits including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received total taxable benefits of £7,000 in the year ended 31 December 1999.
- 7.3 A service agreement dated 23 July 1996 between (1) Hanover and (2) Michael Jourdain under which he is employed as the Projects and Administration Director. The service agreement is terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months), at a salary of £63,000 per annum (1999) and other benefits including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received additional bonuses of £3,000 and total taxable benefits of £5,000 in the year ended 31 December 1998.
- 7.4 A service agreement dated 23 April 1996 between (1) Hanover and (2) Charles Gaunt under which he is employed as Operations Director terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months), at a salary of £71,000 per annum (1999) and other benefits including private health and permanent sickness assurance, life assurance, a company car and an annual pension contribution. He received additional bonuses of £4,000 and total taxable benefits of £9,000 in the year ended 31 December 1998.
- 7.5 The fees of the non-executive Directors are in part fixed and in part determined by the Directors by reference to the commitment of time required from the relevant non-executive Director. For the year ended 31 December 1999, fees were paid to the non-executive Directors as follows: B. Clow, £9,000; R. Privett, £14,000; and H.W. Whitbread, £14,000. The non-executive Directors have entered into letter agreements with the Company which are each terminable upon 12 months' notice.

Save as set out above, there are no service agreements existing between any of the Directors and Hanover or any of its subsidiaries.

- 7.6 The aggregate of the remuneration paid and benefits in kind granted to the Directors of Hanover by any member of the Hanover Group during the year ended 31 December 1998 was approximately £595,000 (including pension contributions).

It is estimated that the total amounts payable to the Directors by Hanover Group for the financial year ended 31 December 1999 from the arrangements currently in force were approximately £542,000. The total emoluments receivable by the Directors will not be automatically varied as a result of the Acquisition. When the total emoluments receivable by the Executive Directors are reviewed by the Remuneration Committee of the Board the impact of the Acquisition on the Hanover Group may be taken into account. The remuneration of the non-Executive Directors of Hanover will continue to be determined in accordance with best practice.

8 Material Contracts

8.1 Hanover Group

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Hanover Group since 28 February 1998 (that is, the date falling two years prior to the date of this document) and are or may be material.

8.1.1 On 23 February, 2000 an agreement was entered into between (1) the Company, (2) Hanover International Hotels Limited, (3) Birchlin, (4) Chewton Place Limited, (5) Eynsham Hall Limited and (6) Swinton Castle Limited for the acquisition by the Company of the Properties and the business of the Birchlin Group from the Vendors. The principal terms of this agreement are summarised below:

- (a) the consideration for the Acquisition comprises an initial payment of £17 million in cash by the Company to the Vendors in the proportions set out in the Acquisition Agreement at Completion;
- (b) at Completion, £2 million of such £17 million (the "escrow amount") will be placed by the Vendors in an escrow account pending calculation in accordance with the terms of the Acquisition Agreement of the operating profits attributable to the business and assets the subject of the Acquisition for the year ended 30 September 2000. If such operating profits are less than £2 million, the Company may claw back the whole or part of the escrow amount on the basis of £8.50 for each £1 shortfall in such operating profits;
- (c) the Acquisition Agreement is conditional upon, *inter alia*, (i) the passing of the Resolution at the EGM, (ii) Admission, (iii) Bank of Scotland permitting drawdown of the loan facility referred to in paragraph 8.1.5 below and (iv) the Placing and Offer Agreement becoming unconditional (save in relation to any condition requiring that the Acquisition Agreement shall have become unconditional); and
- (d) the Vendors gave certain warranties on the business and assets the subject of the Acquisition to the Company. The foregoing warranties will be repeated at Completion and are subject to certain limitations including a limitation on the financial value of claims made by the Company of £17.0 million. In addition, claims (other than in respect of taxation) must be made within 18 months of Completion. Claims in respect of taxation matters must be made within 6 years of Completion.

8.1.2 On 23 February 2000 the Placing and Open Offer Agreement was entered into between the Company (1) and Sutherlands (2) under which Sutherlands has agreed to use its reasonable endeavours to procure subscribers for the new Ordinary Shares in the Placing and to make the Open Offer of the new Ordinary Shares, as agent for the Company, in each case at the Placing Price. To the extent that Sutherlands fails to procure subscribers in the Placing or applications to subscribe for new Ordinary Shares are not received in the Open Offer, it shall subscribe for the new Ordinary Shares itself at the Placing Price.

Sutherlands is entitled to a corporate finance advisory fee of £87,500. The payment of such fee is conditional upon Admission, save where the Placing and Open Offer Agreement is terminated by Sutherlands in the event of a material breach of warranty by Hanover.

The Placing and Open Offer Agreement also provides that the Company shall pay the following commissions to Sutherlands in respect of the first 30 days of Sutherlands' commitment under the Placing and Open Offer Agreement:

- (a) a commitment commission of 1.5 per cent. of the value of the new Ordinary Shares at the Placing Price placed with or by Ellis & Partners which Sutherlands shall pay on to Ellis & Partners;

- (b) a commitment commission of 0.5 per cent. of the value of the new Ordinary Shares referred to in paragraph (a) above at the Placing Price; and
- (c) a commitment commission of 1.25 per cent. of the value of the new Ordinary Shares (other than those referred to in paragraph (a) above) at the Placing Price (of which 0.5 per cent. shall be paid on to placees).

A further commission will be payable of 0.125 per cent. of the value of the new Ordinary Shares at the Placing price for each period of seven days or part thereof (if any) from the end of the first 30 days of Sutherlands' commitment up to and including the earlier of the date of Admission and the date on which Sutherlands' obligations under the Placing and Open Offer Agreement shall cease.

In addition, the following commissions will be payable if the Placing and Open Offer Agreement becomes unconditional:

- (aa) a commission of 1.75 per cent. of the value of the new Ordinary Shares at the Placing Price placed with or by Ellis & Partners; and
- (bb) a commission of 0.75 per cent. of the value of the new Ordinary Shares (other than those referred to in paragraph (aa) above) at the Placing Price.

The Placing and Open Offer Agreement may be terminated in certain instances prior to Admission, including in the event of a material breach of warranty by Hanover.

The Placing and Open Offer Agreement contains certain warranties and indemnities given by Hanover in favour of Sutherlands.

- 8.1.3 The Group has entered into a consultancy contract dated 23 February 2000, conditional upon Completion with Birchin providing for the training and design services of Elzbieta Davies (a director of Birchin) and of Colyn Gardner (also a director of Birchin). This contract is for a fixed period of two years (save that it may be terminated summarily in the event of *inter alia* a serious breach of the contract) and provides for the payment of an annual consultancy fee of £100,000.
- 8.1.4 The Company has an existing term loan and revolving credit facility dated 30 March 1999 of up to £21,000,000 with the Bank of Scotland. The facility is secured over the assets and undertakings of the Group and is repayable over 7 years in 28 instalments.
- 8.1.5 The Company has entered into a facility with the Bank of Scotland dated 23 February 2000 which is supplemental to the facility referred to at paragraph 8.1.4 above providing for the increase in said facility to £34,300,000. The supplemental facility is conditional *inter alia* upon the completion of the Placing and Open Offer Agreement and no event of default or potential event of default occurring by such time. Such events of default include the failure to pay any repayment amount on the relevant due date or the insolvency of the Company. The supplemental facility will be secured over the assets and undertakings of the Enlarged Group and will be repayable over 7 years in 28 instalments.
- 8.1.6 The Company entered into a letter agreement with Scottish Highland Hotels plc ("Scottish Highland") dated 1 July 1999 relating to the proposed offer by the Company for the issued share capital of Scottish Highland. Under the terms of this agreement Scottish Highland agreed to pay a fee of £150,000 to the Company in the event that the directors of Scottish Highland failed to provide a recommendation of the said offer by the Company. The Company was paid such fee when Scottish Highland recommended an offer by a third party bidder.
- 8.1.7 On 9 July 1998 a share sale agreement was entered into between Hanover (1) and Canewell Company Limited (2) for the disposal by Hanover of the entire issued share capital of The Imperial Hotel (Cork) Limited. The consideration received by Hanover under the agreement was IR£5,010,000 less bank debt. The agreement contains certain warranties and indemnities

given by Hanover. Claims under the warranties (other than in respect of taxation) must be made by 9 July 2000 and claims in respect of taxation (under the warranties and the tax indemnity) must be made by 9 July 2004.

There are no other contracts entered into by any member of the Group which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document.

8.2 Birchin Group

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Birchin Group since 28 February 1998 (that is, the date falling two years prior to the date of this document) and are or may be material.

- 8.2.1 Members of the Birchin Group are party to the Acquisition Agreement summarised in paragraph 8.1.1 above.
- 8.2.2 An agreement (the "Birchin Placing Agreement") dated 17 November 1999 between Birchin (1) and Seymour Pierce Limited ("Seymour Pierce") (2) whereby Seymour Pierce agreed to underwrite the issue of 286,000,000 shares in the capital of Birchin ("Birchin Shares") and agreed to use its reasonable endeavours to procure subscribers on behalf of Birchin for up to 283,073,000 Birchin Shares on the terms and subject to the conditions of the Birchin Placing Agreement. Seymour Pierce received fees of £50,000 and placing commissions of 3 per cent. and commissions of 1 per cent. on the shares subscribed for under the associated Birchin Open Offer.
- 8.2.3 An agreement dated 3 May 1999, pursuant to which Birchin appointed Seymour Pierce as its nominated adviser and nominated broker with effect from 3 May 1999 for a fee of £12,000 per annum. The agreement contains certain undertakings and indemnities given by Birchin in respect of, *inter alia*, their compliance with all applicable laws and regulations. The agreement is terminable on 3 months' written notice.
- 8.2.4 An agreement dated 8 July 1998 between (1) Birchin and (2) Birchin Training & Consulting Plc ("BTC") under which BTC agreed to purchase the business of running training courses and conferences and publishing training materials carried on by Birchin for a purchase price of £650,000 with effect from 30 June 1998.
- 8.2.5 An agreement dated 25 March 1998 between (1) Lindley Educational Trust Limited as vendor ("Lindley"), (2) Swinton Castle Limited as purchaser ("Swinton") and (3) Birchin under which Swinton agreed to purchase the freehold property known as Swinton Castle in North Yorkshire from Lindley for a purchase price of £1,300,000. The sale and purchase completed on 29 April 1998.
- 8.2.6 An underwriting agreement dated 26 March 1998 between Ellis & Partners Limited ("Ellis") (1) Birchin (2) and Grant Thornton (3) under which Ellis underwrote the open offer of Birchin detailed in a prospectus dated 26 March 1998. Ellis was paid a fee of £25,000 and an underwriting commission of £52,570.
- 8.2.7 Letters dated 18 March 1998 and 24 March 1998 from AIB Group (UK) plc to Birchin both accepted by Birchin on 25 March 1998 under which a loan facility of £780,000 to part finance the acquisition of Swinton Castle detailed in paragraph 8.2.5 above was made available to Birchin secured by a mortgage debenture. The loan is repayable on demand by the bank and is subject to annual review. Repayments are scheduled to be made over ten years by quarterly reductions of £24,375 commencing on 30 April 2000. Birchin may terminate the facilities on two day's prior notice with payment of all monies due. Interest will be charged quarterly at the bank's base rate plus two per cent. per annum. An arrangement fee of £5,000 was paid to the bank by Birchin.
- 8.2.8 Letter dated 12 November 1999 from National Westminster Bank Plc to Birchin under which a loan facility of £6,300,000 to refinance the existing borrowing from AIB Group (UK) Plc referred to in paragraph 8.2.7 above and to assist with the two proposed new property purchases

was made available to Birchin to be secured by mortgage debentures and first legal mortgages over various Birchin properties. Repayments are scheduled to be made over 10 years by 36 equal quarterly reductions commencing on the first anniversary of the making of the loan. An arrangement fee of £50,000 is payable to the bank by Birchin.

There are no other contracts entered into by any member of the Birchin Group which contain any provision under which any member of the Birchin Group has any obligations or entitlement which is material in the Birchin Group at the date of this document.

9 Subsidiary Undertakings and Other Interests

The Company has the following wholly owned principal subsidiary undertakings:

<i>Subsidiary undertaking</i>	<i>Principal activities</i>
Hanover Hotels Management (Reading) Limited	Management Company
Hanover Hotels Management (Daventry) Limited	Management Company
Hanover International Hotels Limited	Owner of Hotels
Hanover International Clubs Limited	Not trading

The registered offices of all of the subsidiaries are at Hanover House, Pingewood, Reading, Berkshire, RG30 3UN.

10 Principal Establishments

The following table summarises certain information with respect to the Hanover Group's principal establishments:

<i>Address</i>	<i>Tenure</i>	<i>Net Internal Area (square metres)</i>	<i>Use</i>
Hanover International Hotel, Hinckley	Freehold	22,804	Hotel
Hanover International Hotel, Daventry	Freehold	10,863	Hotel
Hanover International Hotel, Reading	Freehold	8,482	Hotel

11 United Kingdom Taxation

- 11.1 The comments set out below are based on existing United Kingdom law and what is understood to be current Inland Revenue practice, are intended as a general guide only and apply only to Shareholders resident for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Ordinary Shares as an investment and who are the absolute beneficial owners thereof. **Shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.**

Dividends

- 11.2 Hanover will not be required to withhold tax at source when paying a dividend. Furthermore, since advance corporation tax was abolished from 6 April 1999, Hanover will not be obliged to account to the Inland Revenue for advance corporation tax on dividends paid.
- 11.3 An individual Shareholder who is resident in the United Kingdom (for tax purposes) and who receives a dividend from Hanover will be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the dividend. A United Kingdom resident individual Shareholder who is liable to income tax at the lower or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend but this liability is fully discharged by the tax credit. A United Kingdom resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a United Kingdom resident individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and he will have to account for additional tax equal to 22.5 per cent. of the gross dividend to the extent that such sum when treated as the top slice of his income falls above the threshold for higher rate income tax.

- 11.4 United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by Hanover, although charities will be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004.
- 11.5 Tax credits on dividends paid by Hanover in respect of shares held in personal equity plans (PEPs) or individual savings accounts (ISAs) will continue to be repayable until 5 April 2004.
- 11.6 United Kingdom resident corporate shareholders of Hanover will generally not be subject to corporation tax on dividends paid by Hanover. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.
- 11.7 Non-United Kingdom resident Shareholders will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by Hanover unless they are resident in a jurisdiction which has an appropriate double tax treaty with the United Kingdom. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. **A Shareholder who is not resident in the United Kingdom (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from Hanover.**

Taxation of Capital Gains

It is understood that the Inland Revenue will treat the issue of new Ordinary Shares by the Company to a Qualifying Shareholder up to and including his *pro rata* entitlement as a reorganisation of the Company's share capital for the purposes of the United Kingdom taxation on capital gains. Accordingly a Qualifying Shareholder will not be treated as making a disposal of any part of his existing Ordinary Shares by reason of the Open Offer. New Ordinary Shares issued to a Qualifying Shareholder should be treated for the purposes of taxation on capital gains as the same asset as his or its holding of existing Ordinary Shares as if they had been acquired at the same time as his or its holding of existing Ordinary Shares. The subscription monies for the new Ordinary Shares which an existing shareholder takes up will be added to the acquisition cost of his or its holding of existing Ordinary Shares. Indexation allowance will, however, only be available from the date on which payment for the new Ordinary Shares is made.

- 11.8 United Kingdom resident Shareholders may, depending on their circumstances, be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a future sale or other disposal of Ordinary Shares.

Stamp Duty and Stamp Duty Reserve Tax

- 11.9 No stamp duty or stamp duty reserve tax will generally be payable in respect of the allotment of new Ordinary Shares pursuant to the Placing and the Open Offer.
- 11.10 Transfers on sale of Ordinary Shares will generally be subject to United Kingdom stamp duty at a rate of 50p per £100 (or part thereof) of the consideration given for the transfer. The purchaser normally pays the stamp duty.
- 11.11 An agreement to transfer Ordinary Shares will normally give rise to a charge to stamp duty reserve tax at a rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the condition is satisfied) any stamp duty reserve tax paid is repayable, generally with interest, and otherwise the stamp duty reserve tax charge is cancelled. Stamp duty reserve tax is, in general, payable by the purchaser.
- 11.12 Paperless transfers of Ordinary Shares within the CREST system are generally liable to stamp duty reserve tax, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect stamp duty reserve tax on relevant transactions settled within the CREST system. Deposits of Ordinary Shares into CREST will not generally be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration.

If you are in any doubt as to your taxation position or if you are subject to tax in any jurisdiction other than the United Kingdom, you should consult an appropriate professional adviser immediately.

12 Significant Changes

- 12.1 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Hanover Group since 30 June 1999 (being the date to which the unaudited interim results of Hanover for the 6 months ended 30 June 1999 were drawn up).
- 12.2 Save as disclosed in this document, there has been no significant change in the financial or trading position relating to the business and assets of the Birchlin Group since 31 March 1999 (being the date to which the unaudited interim results of Birchlin for the 6 months ended 31 March 1999 were drawn up).

13 Litigation

- 13.1 Andrew Page (former finance director of Hanover) has issued proceedings in the Employment Tribunal claiming unfair dismissal in September 1999 and also proceedings against the Company in the High Court in respect of wrongful dismissal and is seeking damages. The Company has issued a defence to this claim and has counter-claimed against Andrew Page. The trial of this action is not anticipated to commence until autumn of 2000. The Directors consider that no significant amounts (if any) will be payable in respect of these claims.
- 13.2 Save as disclosed above, no member of the Hanover Group is, or has been, involved in any legal or arbitration proceedings which may have, or have had during the last 12 months, a significant effect on the Hanover Group's financial position nor, so far as the Directors are aware, are any such proceedings pending or threatened.
- 13.3 No member of the Birchlin Group is, or has been, involved in any legal or arbitration proceedings which may have, or have had during the last 12 months, a significant effect on the financial position of the Properties nor, so far as the Company, the Directors or directors of Birchlin are aware, are any such proceedings pending or threatened.

14 Employees

The following table shows the average number of employees of the Hanover Group for the three years ended 31 December 1999, 31 December 1998 and 31 December 1997:

	<i>Year ended 31 December 1999</i>	<i>Year ended 31 December 1998</i>	<i>Year ended 31 December 1997</i>
Number of Employees	586	716	744

15 Mid-Market Quotations

The following table lists the closing middle-market quotations for an Ordinary Share for the first dealing day in each of the six months prior to the date of the publication of this document and the middle-market quotation for an Ordinary Share on 22 February 2000 (being the last practicable dealing day prior to the announcement of the Acquisition) and 25 February 2000 (being the last practicable dealing day prior to the publication of this document) as derived from the Daily Official List of the London Stock Exchange.

<i>Date</i>	<i>Price(p)</i>
1 September 1999	131.5
1 October 1999	131.5
1 November 1999	119.0
1 December 1999	124.0
4 January 2000	133.0
1 February 2000	124.5
22 February 2000	116.5
25 February 2000	115.0

16 Working Capital

The Company is of the opinion that, following implementation of the Proposals and taking into account its existing facilities and new facility from the Bank of Scotland summarised in paragraph 8.1.5 above, the Enlarged Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of publication of this document.

17 General

- 17.1 The costs, charges and expenses of and incidental to the Proposals, including the cost of the application for the new Ordinary Shares to be admitted to the Official List, payable by Hanover are estimated to amount to approximately £0.8 million (exclusive of VAT). The estimated net proceeds of the Placing and the Open Offer are approximately £2.6 million.
- 17.2 The Placing and the Open Offer are fully underwritten by Sutherlands. Sutherlands' London address is Dashwood House, 69 Old Broad Street, London EC2M 1NX and its registered office is Lismore House, 127 George Street, Edinburgh EH2 4JX.
- 17.3 The Company's registrars are IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- 17.4 The financial information contained in this document does not comprise the statutory accounts of any company in the Birchin Group within the meaning of Section 240 of the Act.
- 17.5 Audited statutory accounts of Hanover have been delivered to the Registrar of Companies for each of the three years ended 31 December 1998, 31 December 1997 and 31 December 1996. Unqualified audited reports in accordance with Sections 235-237 of the Act for each of the three years ended on 31 December 1998, 31 December 1997 and 31 December 1996 have been given by KPMG Audit Plc.
- 17.6 Sutherlands has given and not withdrawn its written consent to the inclusion of its name in the form and context in which it is included. Each of Weatherall Green & Smith and KPMG has given and not withdrawn its written consent to the inclusion in this document of its name and letters and the references thereto, in the form and context in which they appear, and has authorised the contents of the relevant parts of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- 17.7 No person has been authorised to give any information or to make any representations other than those contained in this document and, if given, such information or representations must not be relied upon as having been authorised.
- 17.8 No shares have been marketed or are available in whole or in part to the public in conjunction with the application for admission of the new Ordinary Shares to the Official List.
- 17.9 The new Ordinary Shares will be issued at a premium of 83p to their par value.
- 17.10 The financial information in respect of Hanover is taken from Hanover's Annual Report and Accounts for the year ended 31 December 1998 and its unaudited interim results for the 6 months ended 30 June 1999.

18 Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document until after the EGM at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN:

- 18.1 the Memorandum and Articles of Association of Hanover;
- 18.2 the consolidated audited report and accounts of Hanover for the two financial periods ended 31 December 1997 and 31 December 1998 and the unaudited interim report and accounts for the period to 30 June 1999;

- 18.3 the consolidated audited report and accounts of Birchm for the two financial periods ended 30 September 1997 and 30 September 1998 and the unaudited interim report and accounts for the period to 31 March 1999;
- 18.4 the letters from KPMG set out in Part III of this document;
- 18.5 the statements of adjustments prepared by KPMG;
- 18.6 the letter from Weatherall Green & Smith set out in Part V of this document;
- 18.7 the rules of the Hanover Share Schemes summarised in paragraph 4 above;
- 18.8 the Directors' service agreements referred to in paragraph 7 above;
- 18.9 the material contracts referred to in paragraph 8 above;
- 18.10 the letters of consent referred to in paragraph 17 above; and
- 18.11 this document.

Dated 28 February 2000.

PART VIII

Definitions

The following definitions apply throughout this document, unless the context otherwise requires:

"Acquisition"	the proposed acquisition by the Hanover Group of the business and assets of the Birchin Group including the Training Centre Business
"Acquisition Agreement"	the conditional sale and purchase agreement dated 23 February 2000 between <i>inter alia</i> Hanover and the Vendors relating to the Acquisition
"Act"	the Companies Act 1985, as amended
"Admission"	admission of the new Ordinary Shares to the Official List
"Application Form"	the application form relating to the Open Offer sent to Qualifying Shareholders with this document
"Bank of Scotland"	the Governor and Company of the Bank of Scotland
"Birchin"	Birchin International plc, and, where the context so requires, its subsidiaries
"Birchin Group"	Birchin and its subsidiaries
"Chewton Place"	the freehold property known as Chewton Place, Bristol
"Company" or "Hanover"	Hanover International PLC and, where the context so requires, its subsidiaries
"Completion"	completion of the Acquisition
"CREST"	the relevant system (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations)
"CRESTCo"	CRESTCo Limited
"Directors"	the board of directors of Hanover
"Enlarged Group"	the Group as enlarged by the Acquisition
"Enlarged Issued Share Capital"	the share capital of Hanover, as enlarged by the issue of the new Ordinary Shares pursuant to the Placing and the Open Offer
"Eynsham Hall"	the leasehold property known as Eynsham Hall, Oxford
"Eynsham Hall and Chewton Place Training Centres"	that part of the Training Centre Business carried on at Eynsham Hall and Chewton Place
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Hanover convened to approve <i>inter alia</i> the Acquisition
"Group" or "Hanover Group"	Hanover and its subsidiary undertakings
"Hanover Share Schemes"	the employee share schemes of Hanover, as more particularly described in paragraph 4 of Part VII of this document
"Listing Rules"	the listing rules of the London Stock Exchange
"London Stock Exchange"	London Stock Exchange Limited

"new Ordinary Shares"	Ordinary Shares to be issued at the Placing Price pursuant to the Placing and the Open Offer
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional offer by Sutherlands to Qualifying Shareholders of the new Ordinary Shares as set out in the letter from Sutherlands in Part II of this document
"Ordinary Shares"	ordinary shares of 25p each in the capital of the Company
"Placing"	the placing of 2,788,518 new Ordinary Shares at the Placing Price
"Placing and Open Offer Agreement"	the conditional agreement dated 23 February 2000 and made between the Company and Sutherlands, relating to the Placing and the Open Offer
"Placing Price"	108p per new Ordinary Share
"Properties"	Chewton Place, Eynsham Hall and Swinton Castle
"Proposals"	the Acquisition, the Placing and the Open Offer
"Qualifying Shareholders"	Shareholders on the register of members of the Company at the close of business on the Record Date subject to the restrictions with regard to overseas Shareholders referred to in Part II of this document
"Record Date"	16 February 2000, the record date for the Open Offer, being the date upon which Shareholders must be on the Company's register to qualify for the Open Offer
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
"Resolution"	the ordinary resolution to be proposed at the EGM, which, if passed, will approve the Acquisition
"Securities Act"	the US Securities Act of 1933, as amended from time to time
"Shareholder"	a holder of existing Ordinary Shares
"Swinton Castle"	the freehold property known as Swinton Castle, near Swinton, Harrogate, North Yorkshire
"Sutherlands"	Sutherlands Limited
"subsidiary undertaking"	a subsidiary undertaking as that term is defined in Section 258 of the Act
"Training Centre Business"	means the business (together with the assets used therein) including <i>inter alia</i> the provision of residential training and conference centres and ancillary facilities as carried on at the Properties
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"Vendors"	the vendors of the business and assets the subject of the Acquisition, being Birchin and its subsidiaries, Chewton Place Limited, Eynsham Hall Limited and Swinton Castle Limited
"Weatheralls"	Weatherall Green & Smith, Chartered Surveyors

Hanover International PLC

(Registered in England and Wales with number 3043860)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Hanover International PLC (the "Company") will be held at 11.00 a.m. on 16 March 2000 at Kempson House, Camomile Street, London EC3A 7AN to consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:

Ordinary Resolution

THAT:

- (a) the Acquisition (as that term is defined in the document comprising a prospectus and a circular of the Company dated 28 February 2000 ("the Circular")) on the terms and conditions of the Acquisition Agreement (as that term is defined in the Circular) together with all associated agreements and transactions thereto) be and is hereby approved and the directors of the Company be and are hereby authorised to complete the Acquisition Agreement in accordance with its terms, subject to such modifications thereto as they may consider expedient or appropriate (provided that any such modification shall not be a material modification); and
- (b) pursuant to Article 119.2 of the Articles of Association of the Company, the Board shall be empowered to incur borrowings on behalf of the Company such that the maximum aggregate amount of moneys that may be borrowed by the Group (as defined in such article) at any one time shall be £60,000,000 notwithstanding the limits set out in such article.

Registered office:
Hanover House
Pingewood
Reading
RG30 3UN

By order of the Board
Anthony Kelly
Secretary

28 February 2000

Notes:

- 1 A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more persons to attend and, on a poll, to vote instead of him or her.
- 2 A proxy need not be a member of the Company.
- 3 A form of proxy is enclosed. To be valid, the form of proxy, together with the authority (if any) under which it is executed or a notarially certified copy of such authority, must be returned to the Company's Registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 48 hours before the time of the meeting or (as the case may be) the adjourned meeting.
- 4 The completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting.
- 5 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered on the register of members of the Company as at 11.00 a.m. on 14 March 2000 or, if the Extraordinary General Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their name at that relevant time. Changes to entries on the register of members after 11.00 a.m. on 14 March 2000 or, if the Extraordinary General Meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned meeting shall be disregarded in determining the right of any person to attend and vote at the meeting.