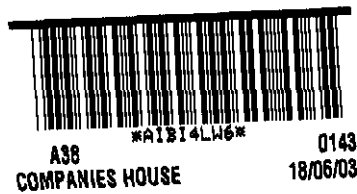


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HANOVER INTERNATIONAL PLC

ANNUAL REPORT AND ACCOUNTS

for the year ended 31 December 2002



ABOUT HANOVER

Hanover International is involved in the acquisition, management and development of hotels of a four star quality. The innovative and progressive approach to hotel management since its formation has resulted in the rapid achievement of the Group's objectives.

FINANCIAL HIGHLIGHTS

FINANCIAL COMPARISON OF 2001 V 2002

	2002	2001	Variance (%)
Turnover (£000)	31,206	38,397	(18.7)
Operating profit (£000)	5,126	8,543	(40.0)
Continuing PBT (£000)	2,367	5,272	(55.1)
Basic EPS before exceptionals and joint venture (pence)	5.4	11.7	(53.8)
Gearing	66.9%	70.9%	5.6
Interest cover	2.9x	3.4x	(14.7)

PROFIT ON ORDINARY
ACTIVITIES BEFORE
TAX, EXCEPTIONALS AND
JOINT VENTURE
£m

DIVIDENDS PER SHARE
pence

CONTENTS

1 Financial Highlights	15 Corporate Governance	25 Consolidated Statement of Total Recognised Gains and Losses
2 Our Portfolio	17 Remuneration Report	25 Reconciliation of Movements on Shareholders' Funds
4 Chairman's Statement	20 Statement of Directors' Responsibilities	25 Note of Historical Cost Profits and Losses
8 Financial Review	21 Independent Auditors' Report to the Members of Hanover International PLC	26 Statement of Accounting Policies
12 Directors and Advisers	22 Consolidated Profit and Loss Account	28 Notes to the Accounts
13 Directors' Report	23 Balance Sheets	
	24 Consolidated Cash Flow Statement	

OUR PORTFOLIO

ASHBOURNE

This hotel has 50 bedrooms with conference facilities for a maximum of 200 delegates. The leisure facilities include swimming pool, sauna, steam and fitness rooms.

BASINGSTOKE

Recently refurbished, the hotel has modern conference facilities for up to 240 delegates and 100 bedrooms. Additional leisure facilities include dance and beauty therapy studios.

BROMLEY

This conference and training centre is ideally located in 16 acres of woodland in Kent, yet still only 10 miles from London.

BROMSGROVE

Located centrally for visitors to Birmingham this 114 bedroom hotel has a maximum capacity for 200 delegates. There is a hair and beauty salon, gym, with spa, sauna, steam room and solarium.

DUNSTABLE

Offering Olde English charm, this original hotel is close to the M1 and easily accessible to Luton Airport.

HARPENDEN

An attractive hotel retaining many original period features and within easy reach of the M1 and M25 motorways, Luton and Heathrow airports.

READING

This modern hotel is set in 55 acres of Berkshire countryside incorporating a 33 acre lake. Corporate activity days and themed events are a speciality.

OXFORD

Situated in the quiet serenity of the Eynsham Park Estate, Eynsham Hall is one of the country's premier conference and training centres. The centre incorporates modern, purpose-built conference and accommodation buildings.

OUR PORTFOLIO

BRADFORD

Bradford has 131 en-suite bedrooms, with executive and luxury suites. Maximum conference capacity is 800. There is also an award winning restaurant named Four Seasons.

BRISTOL

A grade II regency style house, in 8 acres of riverside gardens. The venue combines traditional country house atmosphere with purpose-designed facilities. Ideal for day meetings, residential training courses and conferences.

LOCATIONS

Ashbourne
Basingstoke
Bradford
Bristol
Bromley
Bromsgrove
Cardiff
Daventry
Dunstable
Harpenden
Hinckley
Oxford
Reading
Skipton
Warrington

OUR PORTFOLIO

Situated in strategic locations ideal for conference and business events, Hanover International combine the best of traditional care with a comprehensive range of conference and leisure facilities offering excellent value for money.

CARDIFF

An imaginative design with a maritime theme throughout, Cardiff has 156 bedrooms and a conference capacity for 200 delegates. There are two bars as well as a restaurant.

DAVENTRY

A modern hotel, set in its own grounds overlooking Drayton Water in picturesque Northamptonshire. Impressive facilities include 20 purpose-built rooms for conferences and events accommodating up to 600 delegates.

HINCKLEY

An attractive, spacious, modern hotel unique in character and design with some of the largest most flexible conference rooms in the country and an extensive leisure complex.

WARRINGTON

A modern, four star hotel with very high standards of accommodation, service and customer care. Includes extensive purpose-built conference facilities.

SKIPTON

A superb location for business and pleasure. Unique facilities include a purpose-built training centre, with a further 11 conference suites and an extensive health and fitness club.

CHAIRMAN'S STATEMENT

PETER G EYLES
Executive Chairman

In May we informed the market of certain events outside our control that would have an adverse effect on our results for the year ending December 2002. These events were firstly, the difficulty the Company had encountered in commissioning its centralised reservations system and, secondly, the fire at our Basingstoke hotel which resulted in a twelve-month closure. I am pleased to inform you that we have now successfully re-opened our hotel in Basingstoke, which is trading well, and have completed the installation of our reservation system.

I will return in more detail to these events later in my statement, but would first like to comment on our performance last year.

Hanover International's prime market is the conference and training market. Although the events of 11 September 2001 and the resultant damage to business confidence had an immediate effect on the business and leisure hotel market, its prejudicial effect on the conference and training market did not start to show until early March 2002. This damage to our

core market, which in 2001 accounted for some 40% of our turnover, coming at the same time as the problems mentioned above, led to an unprecedented decline in the Group's performance.

During 2002, turnover for the period on a like-for-like basis, excluding Basingstoke which was closed from February 2002 owing to the fire, and Huddersfield and Scunthorpe (which were both sold during 2001), was reduced from £33.8 million to £30.6 million, a decrease of 9.5%. This decrease was principally the result of the fall in our core conferencing and training revenues of 3.7%. Comparative rooms yield was £31.97 (2001: £35.96) a decrease of 11.1%. The constituent parts of rooms yield were, occupancy for the year of 55.8% (2001: 60.1%), a decrease of 7.2% and average achieved room rates of £57.26 (2001: £59.84), a decrease of 4.3%. Earnings per share were 4.0p (2001: 10.5p), a decrease of 61.9%, and net assets per share were 202p (2001: 205p). Gearing fell to 66.9%, a decrease of 5.6%.

In 2002, we spent £3.0 million on capital expenditure, the greater part of which was concentrated on the installation of our reservations and information system. With this task now largely completed, our capital expenditure during the current year will be more targeted towards guest comfort related expenditure, comprising bedrooms, conference rooms and public areas. This year we plan to upgrade and enhance our residential training centres at Bristol and Oxford, and our hotels at Hinckley and Cardiff.

DIVIDEND

Your Board has decided to propose a final dividend of 2.0p per share payable on 26 June 2003 to all shareholders on the register as at 11 April 2003, bringing the total dividend for the year to 3.4p per share. Shareholders will be given the opportunity to take this dividend in cash or in ordinary shares.

BOARD CHANGES

In October last year we announced the resignation of Peter Taylor as Managing Director. We have no current plans to replace him. My fellow-Directors and I would like to thank Peter for his contribution during his employment with the Group.

BASINGSTOKE HOTEL

On Monday 11 February we re-opened our hotel in Basingstoke, just over one year after fire closed it on 7 February 2002. Your Board took the decision to refurbish the entire hotel during the closure at a cost of £2.25 million.

Following its official launch on 28 February 2003 to past and prospective clients, the newly refurbished hotel has received a positive response from the local market.

One of the reasons our profits, and those of the hotel industry as a whole have been reduced has been the propensity of the industry to cut prices in the chase for market share of a reduced level of business. In the long run, however, this helps no-one. One obvious example of this practice has been in Basingstoke where many of our local competitors have chosen rate cutting as their defence against the higher quality of our refurbished hotel. It is your Board's belief that to react to these short-sighted measures would undermine the reputation for superior quality of the Hanover Hotel Basingstoke and damage our ability to grow future profits. Therefore, we do not intend to emulate their discounting strategies.

REVIEW OF OPERATIONS

The departure of our Managing Director in October 2002 and the absorption of his duties by the other Executive Directors, triggered a review of all our operational practices to make certain we were on top of the needs of our market and good hotel keeping. As a result, changes have been made at all operating levels. Previously, I have advised you of our unique approach to operating our hotels where the senior managers of each hotel are empowered and encouraged to operate the hotels as if they were their own businesses. This approach has now been fully implemented across the Group. The Board of Senior Managers at each hotel now meet twice monthly to review the unit's performance and prepare proposals for action, which are agreed at the monthly business review held with the Finance Director and myself. The greater understanding and additional focus that this approach brings is beginning to show results and it is expected that the effectiveness of the Boards of Senior Managers will continue to grow.

Reservations sales office

Two years ago we started to develop and install a Group-wide centralised reservations system to control availability and pricing of all our bedrooms and conference rooms centrally. This department is based in our Hinckley hotel and now handles all reservations for both conferences and bedrooms for all Hanover International hotels.

The initial problems with the centralised reservation system seriously damaged Hanover International's performance. However, we have now achieved a compromise agreement

with our prime supplier which includes appropriate compensation for the installation difficulties. Installation was achieved in December 2002 and contract completion is expected during the first half of 2003. We are now beginning to see the benefits from the advanced functionality of this system.

This development should place us at the forefront of the market, and is, we believe, one of the first of its type to take conference and room bookings centrally with a real time connection to each of our hotels and residential conference centres.

In addition to covering reservations, this new system gives Hanover International a powerful sales tool which ensures instant communication between a new client and the appropriate member of the sales team.

The system also allows the marketing department to include new contacts, where appropriate, in future e-mail promotions automatically. The new system will enable us to take advantage of an approach to pricing, long used successfully by the airlines, in order to maximize our rooms yield.

Now that we have the foundation of a market-leading system in place we fully intend to continue developing its strengths and capabilities further.

Sales

In October 2002 a new Sales Director, Annie Jones, previously with Meridien Hotels, was appointed. Annie's first task has been to carry out a complete review of the sales operation and its resource. She is now implementing the necessary changes in personnel and providing greater focus and direction. To date, the results have been encouraging.

Marketing

The Group's marketing plan is an evolving document, which is updated to reflect progress or further challenges, and operated on a rolling basis. Within this central plan, each hotel has its own calendar of events, which details all the local sales promotions.

As a result of the Group's substantial investment in IT, we now have the capability to co-ordinate centrally all local sales promotions and thereby take advantage of bulk purchasing,

During the first 12 weeks of this year we have seen a stronger relative performance.

ALAN BLEST

General Manager, Hinckley

thus gaining greater value for money for every pound spent. In addition, our major thrust is now focused on targeted e-mailing to current and potential clients.

Our agents' partnership programme continues to grow in strength of support. All bookers within these agencies (numbering approximately 600) receive a fortnightly newsletter giving details of promotions, news, special offers and incentives. In addition we e-mail 4,000 conference organisers on a monthly basis. The objective of these e-mailings is to raise Hanover International's profile amongst our target market and to solicit appointments for our sales managers. Whilst the above e-mail based marketing techniques have become feasible on implementation of our Group-wide central reservation and communication system, of course, we also continue to use all our more traditional targeted marketing tools, such as weekend breaks, special events and promotions, exhibitions, direct mailing, trade and consumer advertising, in maximising the impact of our marketing.

Internal communications

With the advent of our real time central reservation system, the Group has installed a wide area network connecting all departments within the Group via one common e-mail programme. This has greatly improved the speed and distribution of our communications, making Hanover International a substantially paper-free organisation.

REPORTING AND FORECASTING SYSTEMS

Hanover International utilises some of the most advanced reporting programmes in the industry. The Group's strategy is to remove, wherever possible, opportunities for human error and gain as much advance notice of potential problems as possible. The advanced reporting capabilities from which the Group now benefits is partly a result of its investment in IT.

The Group has developed its own model for forecasting the number of rooms that will be sold during the coming 18 months. The model is based on historic performance and is proving increasingly accurate. When incorporated into the Group's newly developed weekly 24-month forecast model, it allows hotel management to review forecast profit and loss for up to 2 years in advance. This approach to business forecasting and controlling costs is, probably, unique to Hanover International. With the exception of unforeseeable events outside our control, these models should enable Hanover International to forecast performance far more accurately, thereby allowing greater time for corrective action.

HUMAN RESOURCES

During 2002 we saw the implementation of our new Group Payroll system effective from 1 April. This established a central point for payment of all wages and salaries throughout the Group, with contracted employees being paid monthly, and casual staff being paid once a fortnight.

PHILIP DUNN

Butler, Hinckley

This now allows for agreed positions and structures to be set up and thereby absolute control over the recruitment and the payment of wages and salaries.

Hanover continues to offer employees benefits in accordance with best practice in order to attract and retain high calibre staff. This includes a stakeholder compliant pension scheme to all employees in the Group and a new Share Incentive Plan, which has been offered to all employees with six months' service. This allows for shares to be purchased on a monthly basis out of existing issued share capital. If the shares are held for a three-year period, then significant tax advantages can accrue to the employee.

Throughout 2002 training has been focused on customer service and management development, in particular appraisals and training skills. We expect to continue this focus throughout 2003 as we endeavour to offer a better overall experience to our customers than that of our competitors.

OUTLOOK

We continue to operate in a difficult and rather unpredictable market. During the first twelve weeks of this year we have seen a stronger relative performance over last year. This, we believe, has resulted from the combined effect of our improved promotional and sales techniques, the growing

effectiveness of our new central reservation system and management control and information systems resulting in a stabilising of our core conference business and an increase in leisure business. Whilst at this stage it is impossible to predict the full effect that the Middle East conflict will have on the UK economy and on our market in particular, we do not think that it will be particularly positive.

Investment in the facilities and staff at our hotels and conference centres and improvements in our use of information technology are enhancing our reputation and advancing our business performance for the long term, and we are particularly well placed for the recovery in our markets when it comes.

Finally, my fellow-Directors and I would like to take this opportunity to thank everybody employed by Hanover International for their hard work and commitment to the Group.

PETER G EYLES

Executive Chairman

27 March 2003

ANTHONY B KELLY
Group Finance Director

RESULTS FOR THE PERIOD

Total turnover during the year was £38.8m (2001: £43.8m); this includes turnover arising from Tweed Investments Limited ('Tweed') our joint venture with Bank of Scotland. After excluding joint venture activities turnover on a like for like basis was £30.6m (2001: £33.8m). Total operating profit of £6.8m (2001: £9.7m) includes £1.7m (2001: £1.5m) from the joint venture.

Basic earnings per share ('EPS') for the period was 4.0p (2001 restated: 10.5p). EPS to December 2001 has been restated to allow for the introduction of FRS 19: Deferred Tax. The full effect on the financial statements is described later and also in note 19 to the Accounts. The calculations of EPS are set out in note 10 to the Accounts.

The results for the period reflect the substantial problems that the Group faced during the year. These included the difficulties experienced with the new reservation software system, the fire at the Basingstoke property, which closed the hotel for the remainder of the year and the weakness in the Group's key business sector, conference and training.

In the Group's trading statement, made on 20 May 2002, the Board advised shareholders that it estimated that the cost of the first two items would be approximately £2.4m.

TWEED

The Group continued to operate Tweed during the year. Tweed currently owns two hotels in Bradford and Warrington and a residential conference and training centre in Bromley, Greater London.

During the year the Group received £0.5m (2001: £0.3m) in management fees and £0.4m (2001: £0.3m) in interest receivable. Losses within Tweed arise as a function of the accrual for a redemption premium that is payable on certain elements of the capital structure due at the end of the ten year financing period. The losses within Tweed, shown on the face of the Group's profit and loss account, are stated after allowing for fees and interest payable to the Group.

BASINGSTOKE FIRE AND CLOSURE

The fire at the Basingstoke hotel resulted in a substantial claim against the Group's insurers in respect of both the physical damage done to the buildings, fixtures and fittings and the interruption to the trading of the hotel.

The hotel re-opened on 11 February 2003; during the period of closure the Group took the opportunity to refurbish completely the areas of the property that were not damaged by the fire. This included the majority of the bedrooms and conference and leisure facilities at a total

PROFIT BEFORE TAX
£m

GROUP TURNOVER
£m

cost of £2.25m. The fire damaged areas of the hotel, including the reception, bars, kitchen, restaurant and surrounding public and back office areas were reinstated at a cost of £1.5m which was covered by insurance. Whilst certain payments remain to be received no major outstanding matters concerning this element of the claim remain to be negotiated.

Whilst the loss of profits is covered by business interruption insurance, there remains a material dispute between the Company and the insurers regarding that which has been received to date and that which the Board believes is due. This is approximately £0.6m all of which relates to 2002. Negotiations continue with assessors, adjusters and insurers to reach a satisfactory settlement.

The Group's insurance policy allows for the business interruption insurance to cover up to a 24 month period from the date of the incident occurring. The Group is therefore covered for loss of profits attributable to the fire until February 2004, and will continue to seek satisfactory recompense throughout 2003 for what it considers to be a suitable settlement.

Insurance premiums are renewed annually on 28 August. During 2002 the premiums for the Group rose from £0.5m to £0.7m, an increase of 40%.

CASH FLOW, INTEREST AND GEARING

Net cash flow from operations was £8.8m (2001: £10.1m), a decrease of £1.3m or 12.9%.

During what has been a difficult year, the Group has continued to generate significant operating cash flows. These in the main have been used to repay borrowings and service our finance, further invest in our product and distribute cash to shareholders through increased dividend payments.

Total interest excluding the joint venture during the period was £2.8m (2001: £3.3m), a decrease of 15.1%.

Interest cover based on operating profit before exceptional items, joint venture activities and depreciation was 2.9x (2001: 3.4x), which comfortably meets the covenants imposed by the banks. The Group regularly monitors its banking covenants and reports its compliance to its principal bankers on a quarterly basis.

The Group continued to operate Tweed during the year, which currently owns two hotels in Bradford and Warrington and a residential conference and training centre in Bromley, Greater London.

OPERATING CASH FLOW
£m

GEARING
%

Gearing, after excluding the effect of FRS 19, at the balance sheet date was 66.9% (restated 2001: 70.9%), a decrease of 5.6%. This improvement resulted principally from repayments of debt during the year.

FINANCE AND FUNDING

The Group's funding arrangements consist of a seven-year term loan of £16.6m, a seven-year revolving credit facility of £30.0m and a working capital facility of £2.0m. The Group currently has drawn down £46.6m of its total available banking facilities. On 3 March 2003 the Group increased its revolving credit facility to £32.25m. The purpose was to reinstate the sums spent on the Basingstoke property within the un-drawn banking facilities.

The term loan and revolving credit facility carry interest based on a ratchet mechanism whereby interest payable is directly linked to the Group's achieved interest cover. The margin applicable for the year 2003 will be 1.4% above LIBOR for any drawn amounts and 0.25% for any un-drawn amounts.

Interest rates are currently at a 40-year low; for this reason during 2001 the Group decided to fix a large portion of its debt in order to protect itself from any future interest rate fluctuations. The Group has in place a five year amortising swap on its term loan of 5.28% and a swap of 5.33% on £15.0m of its revolving credit facility. The Board believes that the certainty that these transactions provide in terms of cost of financing will enable the Group to accurately forecast future financing costs. The Group currently has 71.4% of its drawn banking facilities hedged.

The Group's financial instruments comprise borrowings, cash and various items such as trade debtors, trade creditors, accruals and prepayments that arise from its operations. The Group finances its operations by a mixture of equity capital, retained profit, loan notes and bank borrowings. The principal risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

The Group's treasury activities are governed by policies and procedures approved by the Board. It is not the policy of the Group to enter into speculative transactions. The utilisation and availability of funding is monitored on a regular basis in order to meet the short and medium term requirements of the Group.

TONY MURPHY

Sous Chef, Hinckley

NET ASSETS

Net assets at the balance sheet date were £61.4m (2001 restated: £61.7m). During the year the Group adopted FRS 19, and accordingly now shows a deferred tax liability of £9.0m (2001 restated: £8.2m). The net asset value per share at the balance sheet date is 202p (2001 restated: 205p) a decrease of 1.4%. Excluding the deferred tax liability net assets per share were 232p (2001: 232p).

In accordance with the policy of revaluing our portfolio at least every five years, ATIS REAL Weatheralls were retained to revalue the properties at Daventry, Ashbourne and Skipton. This has resulted in the Daventry property being written down by £0.7m; this has been taken to the revaluation reserve. The remaining two properties have been valued at their current book value. The Board has also conducted a review of the book values of the remainder of the portfolio and do not consider that there has been any impairment in the carrying value of the other property investments.

TAXATION AND NEW ACCOUNTING STANDARD

The Group adopted FRS 19: Deferred Tax in these Accounts. This standard requires full provision for deferred tax on most types of timing differences.

Within these Accounts, the Group has therefore taken a prior year adjustment of £5.7m to reserves, and shows an effective corporation tax charge of 32.7%.

It is important to note that the Group has paid no tax during the current period and is not forecast to do so for the forthcoming year. There remain significant capital allowances and tax losses available to the Group in order to shelter future profits.

ANTHONY B KELLY FCMA

Group Finance Director

DIRECTORS AND ADVISERS

From left to right

Standing:

Mike Jourdain

Tony Kelly

Seated:

Billy Whitbread

Robin Privett

Peter Eyles

Bernard Clow

PETER G EYLES

Executive Chairman

Aged 56, has been Executive Chairman of the Group since he formed it 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.

MICHAEL E JOURDAIN

Projects and Administration Director

Aged 38, previously Senior Commercial Development Manager for United Hotels Group and United Care Group.

ANTHONY B KELLY

Group Finance Director and Company Secretary

Aged 36, a Chartered Management Accountant and before joining the Group held various senior positions within the private hotel and leisure sector.

ROBIN JC PRIVETT

Senior Non-Executive Director and Joint Deputy Chairman

Aged 62, Solicitor, formerly a partner of Herbert Smith. Chairman Lec Refrigeration PLC. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

BERNARD J CLOW

Non-Executive Director and Joint Deputy Chairman

Aged 61, Chartered Accountant, formerly a partner of KPMG, he is a member of the Remuneration Committee and the Audit Committee.

H WILLIAM WHITBREAD

Non-Executive Director

Aged 61, 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. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

REGISTERED OFFICE AND HEAD OFFICE

Hanover House
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Sidlow
Reigate
Surrey RH2 8QG

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London EC4Y 8BB

REGISTRARS

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Beckenham
Kent BR3 4TU

SOLICITORS

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Kempson House
Camomile Street
London EC3A 7AN

FINANCIAL ADVISERS

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New Court
St Swithin's Lane
London EC4P 4DU

JOINT STOCKBROKERS

Investec Henderson
Crosthwaite
2 Gresham Street
London EC2V 7QP

Seymour Pierce
28/30 Cornhill
London EC3V 3NF

REPORT OF THE DIRECTORS

The Directors present their report and audited Accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

The principal activity of the Group is the acquisition, management and development of hotels and training and conference centres of a four star quality. Details of the Group's activities during the year and an operating and financial review of the Group's business are set out in the Chairman's Statement and the Financial Review.

The subsidiary and joint venture undertakings principally affecting the profits and net assets of the Group during the year are listed in note 12 to the Accounts.

BUSINESS REVIEW

The Group continues to target conference and training business as its core business due to its contracted nature and the visibility it gives in terms of advance reservations. The Group is committed to expanding its product offering and continues to seek out opportunities, which meet its stringent acquisition criteria.

The Directors believe that the Group will continue to trade profitably.

DIVIDENDS

A final dividend of 2.0p per share (2001: 1.8p per share) is proposed, which if approved, will be paid to shareholders on the register as at 11 April 2003. This will bring the total dividend for the year to 3.4p per share (2001: 3.0p per share) an overall increase of 13.3%. Shareholders will be given the opportunity to take this dividend in Ordinary Shares.

DIRECTORS

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

Executive Directors	Non-Executive Directors
PG Eyles	BJ Clow
ME Jourdain	RJC Privett
AB Kelly	HW Whitbread
PJ Taylor (resigned 28 October 2002)	

In accordance with the Company's Articles of Association BJ Clow and AB Kelly will be offering themselves for re-election as Directors at the Annual General Meeting of the Company. Details of the service contracts of the Directors are contained in the Remuneration Report.

SHARE CAPITAL

The authorised share capital of the Company, together with the number of shares allotted, called up and fully paid are as set out in note 20 to the Accounts.

SUBSTANTIAL INTERESTS IN THE SHARES OF THE COMPANY

As of 17 March 2003 the latest practicable date prior to the printing of this report, the Company has been notified of the following substantial interests (representing 3% or more) in the Ordinary Shares of the Company:

Nominee	Number of Issued Ordinary Shares	Percentage of Ordinary Share Capital
Trefick Limited	8,989,893	29.60%
Andrew Weir & Company Limited	5,899,285	19.42%
Hibernian Life	593,936	1.96%
Strongbow Capital Limited	458,525	1.51%
Kappa Alpha Limited	334,361	1.10%
Aviva Group of Companies	1,386,822	4.57%
ISIS Asset Management PLC	1,323,349	4.36%
Fidelity International Limited	1,250,000	4.12%
Montanaro Investment Management	1,012,000	3.33%

DIRECTORS' INTERESTS

Details of Directors' interests and options over Ordinary Shares are set out in the Remuneration Report.

EMPLOYMENT INCENTIVES

To encourage the Group's staff and enable them to benefit from the Group's profitability and status as a public company, the Group operates a SAYE Share Option Scheme ('SAYE Scheme') and a Profit Share Sharing Scheme ('PSS Scheme'). During the year the Group also set up a Share Incentive Plan ('SIP').

The SAYE Scheme enables employees to enter into a three-year savings contract at a 20% discount to the market price of the shares at the time of the invitation to join the scheme. Since its adoption the Company has made three offerings to employees under the SAYE Scheme. The Company made no offerings during the year under review.

The PSS Scheme currently holds 280,187 Ordinary Shares as a fixed asset investment. In accordance with the rules of this scheme invitations were issued to eligible employees, during the year, to accept as a gift 107,039 Ordinary Shares of the Company. Under the rules of the PSS Scheme the participants may not sell or transfer these shares for a period of two years. Between two and three years the shares may be sold but may be subject to income tax. After three years the shares may be sold free of any income tax liability.

There are also Approved and Unapproved Discretionary Executive Share Option Schemes. Details of options granted under these schemes are again set out in the Remuneration Report.

Finally the Group also offers employees an opportunity to participate in the SIP, which has been set up during 2002. This plan has been introduced to replace Profit Share

Sharing Schemes where the government have disallowed the favourable tax advantages that were a part of these schemes. The new SIP allows for employees to acquire currently issued shares on a monthly basis from gross salary.

At 31 December 2002, 353,750 shares were held within the Hanover International Employee Trust which, can be used to satisfy options granted to Directors and eligible senior employees.

EMPLOYEES

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

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

PROPERTIES

Note 11 to the Accounts details the cost and valuations of the Group's operating properties as at the balance sheet date.

ENVIRONMENTAL POLICY

Recognising that the protection of the environment is one of the greatest challenges of our generation, Hanover believes that it has an important role to play in protecting and enhancing the environment for future generations. Hanover is committed to conserving natural resources and energy within its hotels, whilst safeguarding safety standards and ensuring guest satisfaction. The Group will minimise and manage waste production in order to reduce its negative impact on the environment, develop awareness of environmental issues, both internally and externally, through a variety of education and training initiatives and take environmentally beneficial criteria into consideration when selecting products and materials.

CHARITABLE DONATIONS

During the period, the Group made charitable donations totalling £2,966 (2001: £3,061). There were no political contributions made by the Group in the year (2001: £Nil).

SUPPLIER PAYMENTS POLICY

It is Group policy to develop long-term relationships with its suppliers including agreeing payment practices with each of them. The Group does not follow a universal code or standard on payment practices but payments to suppliers are expected to be made on terms of trade

consistent with the above policy, provided each supplier complies with all relevant terms and conditions. The number of days credit provided by suppliers to the Group at the year end was 57 days (2001: 50 days). The Company had trade creditors totalling £3,716 (2001: £6,159) on 31 December.

AUDITORS

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

ANNUAL GENERAL MEETING

The Notice of the Company's Annual General Meeting is set out in the document distributed with these Accounts.

Set out below is an explanation of resolutions to be proposed at the Annual General Meeting:

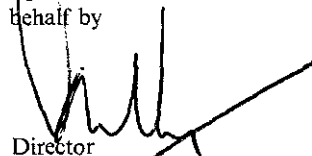
Resolution 6 is a new resolution to adopt the Remuneration Report, which has been compiled in accordance with the Directors Remuneration Report Regulations 2002.

Resolution 7 is the usual resolution to give Directors authority to allot shares. It covers a nominal amount of £3,069,995, which represents about 40.4% of the present issued share capital. Some 7.4% of this covers shares reserved for the exercise of options, and the remaining 33.0% is a general authority. This authority will last until the next Annual General Meeting or for a maximum of 15 months. This practice is consistent with investor protection guidelines and gives the Company useful flexibility. The Directors have no present intention of making any material issue of shares without first seeking shareholder approval.

Resolution 8 is likewise in accordance with usual practice. It will disapply the statutory pre-emption rights over shares to be issued for cash in relation to (a) rights issues of open offers made on normal terms (b) the Company's share option schemes and (c) limited cash placings of shares up to about 5% of the present issued share capital. This authority will also last until the next Annual General Meeting, or up to 15 months.

Resolution 9 will allow the Company to repurchase up to 4,552,479 Ordinary Shares in the market (about 14.99% of the present issued Ordinary Share capital). The conditions applicable to any purchase are substantially the same as in previous years and are in accordance with market practice.

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



Director

27 March 2003

THE COMBINED CODE

The Company is committed to the principles of good governance. This statement explains how the Board has applied and adopted the principles set out in the Combined Code which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

RESPONSIBILITIES OF THE BOARD AND CORPORATE GOVERNANCE

It is the responsibility of the Board of Directors to exercise the powers conferred upon them in the best interests of the Company. The interests of the Company include not only the interests of present and future shareholders, but also take account of the interests of customers and suppliers and the interests of the community generally. The Board believes in the importance of effective governance and in the need to focus on good disciplines, performance measurement and accountability. The belief in the importance of effective corporate governance is, however, balanced by an appreciation of the practicalities of managing and growing a relatively small business within the constraints of finite resources, particularly manpower and funds.

BOARD COMPOSITION

The Hanover Board comprises an Executive Chairman, two Independent Non-Executive Deputy Chairmen, one of whom is the Senior Non-Executive Director, Group Finance Director, Projects and Administration Director and a third Independent Non-Executive Director. A brief biography of each member of the Board is set out on page 12. The Board reviews, on a regular basis, its composition in the context of the size of activities and strategy of the Group. Such reviews consider the diversity of experience of skills across the Board members, and aim to ensure that an appropriate balance is maintained in terms of experience and also the mix of Executive and Independent Non-Executive Directors. New appointments to the Board are not subject to a formal nominations committee review but are considered by the whole Board.

Having regard to the current size of the Group's activities, the Board considers that it is in the best interests of the Group that PG Eyles should maintain the position of Executive Chairman, which combines the roles of Chairman and Chief Executive.

At each Annual General Meeting of the Company one-third of the Directors retire from office.

All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring the Board procedures are followed and that applicable rules and regulations are complied with. There are also procedures in place for the Directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and assessed with reference to the overall responsibility of the Board to the Company. The Board therefore believes that the independence of Non-Executive Directors is of prime importance. The Board considers all of the Non-Executive Directors to be independent.

BOARD MEETINGS

The Board meets at least six times per annum on a bi-monthly basis, setting and ensuring the implementation of business strategy and all major matters of policy, reviewing the actual results to date together with the current year forecasts and discussing the ongoing strategy of the Group. To enable the Board to do this, all Directors have full and timely access to all relevant information.

All major decisions affecting the Group are made by the Board, which at this stage of the Group's development, does not wish to limit the matters it considers.

The Tweed joint venture Board consists of two Executive Directors of the Company and two Directors appointed by Bank of Scotland. A Non-Executive Director of the Company attends by rotation at least two of the four quarterly Board meetings held each year. The Hanover Board is informed and approves all matters arising that may materially affect the Group.

THE COMMITTEES

The Remuneration Committee

Details of this Committee are set out in the Remuneration Report.

Audit Committee

The Audit Committee is chaired by RJC Privett. The Committee consists wholly of Non-Executive Directors.

The Board has agreed terms of reference for the Audit Committee and, additionally, the Committee decides upon a list of matters it wishes to consider. The Committee is free at all times to consult directly with the Group's internal and external advisers, including the external statutory auditors, concerning any matter within its remit.

The Committee meets at least twice yearly, reporting to the Board at each following Board meeting. At its meetings, the Audit Committee reviews the Group's internal controls, accounting policies and financial reporting and discusses with the auditors the results of their annual audit and interim review of the Group accounts.

COMPLIANCE WITH CODE PROVISIONS

It is the Board's view that the current arrangement whereby Hanover has an Executive Chairman is in the best interests of the Group. It is intended that the Board will keep this arrangement under regular review.

INTERNAL CONTROLS

The Combined Code specifies that the Directors are responsible for reviewing the effectiveness of the Group's system of internal controls. This requirement extends the Directors' review to cover all controls including operational compliance and risk management as well as financial.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and its joint venture, which has been in place for the year under review and up to the approval of the Annual Report and Accounts and is regularly reviewed by the Board.

The Directors are responsible for the Group's system of internal controls and, as in previous years, the Board and the Audit Committee have reviewed the effectiveness of such controls during the year. In reviewing the internal controls, they also take into account the need to avoid unreasonable administrative burdens, which would constrain the Group's ability to make profits. Accordingly, the Group's system of internal control is designed to provide reasonable (although not absolute) assurance against material misstatement or loss. It should also be appreciated that internal controls are vulnerable to being circumvented.

The Directors and the Audit Committee keep the nature and quality of internal controls under review. During the year under review the Group has operated an internal audit department. The Directors and the Audit Committee consider that the growth and development of the Group warrants the continuation of this policy. The Internal Auditor is responsible to the Chairman of the Audit Committee and has free and unfettered access to the external auditors if required.

A rolling programme of internal reviews, including financial, business and operational risks is in place to cover all aspects of the environment in which the Group operates.

Set out below are key internal control procedures adopted by the Company:

Analytical study and review procedures

Detailed 12-month budgets are set twice per year. Actual performance is measured and evaluated against budget as well as against performance of the previous year. In addition, comparisons of performance criteria are made with published statistics for the industry. The Board keeps actual performance and full-year forecasts under regular review.

Proper division of duties and responsibilities

The Board has put in place a clearly defined organisational structure specifying reporting lines and the separation of duties and responsibilities in a manner designed to promote internal verification of the work of one person by that of another.

Formal procedures

The daily operations of the Group and its personnel are designed to ensure that commitments are made only within formally defined limits of authority and that all transactions are recorded accurately, on a timely basis, and submitted to proper review and approval procedures. As a principal tool, a detailed management manual was first introduced in 1996; since that time this manual has been regularly updated and developed.

Communications

Communication with shareholders is given a high priority. In addition to the full annual accounts and half year report there is regular dialogue with institutional shareholders as well as general presentations after the full and half year results. There is also an opportunity for shareholders to question the Executive Chairman and the Chairmen of the Audit and Remuneration Committees at the Annual General Meeting.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis when preparing the Accounts.

This report complies with the Directors' Remuneration Report Regulations 2002, which applies to the Company for the first time this year. It has been approved by the Board and will be put to the shareholders for approval at the Annual General Meeting.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three Independent Non-Executive Directors, BJ Clow, RJC Privett and HW Whitbread who acts as Chairman.

REMUNERATION POLICY

The Remuneration Committee is responsible, on behalf of the Board, for reviewing Executive Directors' remuneration, the granting of options to the Directors under the Company's share option schemes and for the setting of performance targets. The remuneration policy for Executive Directors is to reward competitively, relative to other similar companies, so as to attract and retain executives of the appropriate calibre and experience who are expected to perform at the highest levels. To assist in this process the Remuneration Committee subscribes to market data on Executive Directors' pay.

COMPONENTS OF REMUNERATION

The remuneration arrangements for Executive Directors comprise a basic salary, an annual commission or bonus scheme, occasional share option grants, pension arrangements and certain benefits in kind such as company cars.

PG Eyles' contract with the Company governs his appointment as Executive Chairman; he is entitled to an annual commission, which is based upon the growth in the Company's earnings per share over the year and is pensionable.

ME Jourdain and AB Kelly are entitled to an annual bonus payment at the discretion of the Remuneration Committee. There have been no bonuses or commissions paid to Executive Directors for the past two years.

The Company operates Executive Approved and Unapproved share option schemes for the benefit of its Directors and senior employees. Options form the only long-term incentive plan to retain and reward Directors and senior executives of sufficient calibre and experience.

Options are only exercisable if the growth in basic earnings per share over a three year period is in the top 60% of those companies that comprise the Leisure, Entertainment & Hotels sector in the current listing of the Financial Times. The Remuneration Committee considers the performance criteria to be demanding given the prospects for the Company and the economic environment in which it operates. There are no other long-term incentive plans in place.

The Company has established defined contribution pension schemes for the Executive Directors. Contributions based upon salary and commission payments are payable for PG Eyles. Contributions based upon salary are payable for ME Jourdain and AB Kelly.

SERVICE CONTRACTS

The notice period for all Executive Directors is one year or less. Service contracts do not provide for predetermined amounts of compensation. In the event of early termination of service contracts compensation payable would be based on the contractual entitlement to salary and benefits at the time.

The Non-Executive Directors do not have a contract of service. Following initial appointment to the Board, they stand for re-election at the Annual General Meeting of the Company in accordance with the terms set out within the Corporate Governance Report.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The fees of the Non-Executive Directors are determined by the Board having regard to the commitment of time required from each Non-Executive Director and the level of fees in other similar companies. Non-Executive Directors are not eligible for incentive schemes or other benefits.

REMUNERATION REPORT continued

The auditors are required to report on the following sections, with the exception of Directors' interests in shares and total shareholder return.

REMUNERATION AND BENEFITS

Aggregate emoluments, as defined by the Companies Act, of the Directors who held office during the year were £686,000 (2001: £696,000).

Details of Directors emoluments are set out below and include all salaries and fees, bonuses paid or receivable, taxable expense allowances, compensation for loss of office and pension payments.

DIRECTORS' REMUNERATION

£000	Executive Directors				Non-Executive Directors			Total
	PG Eyles	PJ Taylor	ME Jourdain	AB Kelly	HW Whitbread	RJC Privett	BJ Clow	
2002								
Salaries and fees	240	133	85	115	20	20	20	633
Compensation for loss of office	—	90	—	—	—	—	—	90
Benefits	20	15	9	9	—	—	—	53
Total remuneration	260	238	94	124	20	20	20	776
Pension contributions	36	13	9	12	—	—	—	70
2001								
Total remuneration	255	170	91	120	20	20	20	696
Pension contributions	35	16	8	11	—	—	—	70

Details of Directors options are set out below:

EXECUTIVE SHARE OPTION SCHEMES

	Date granted	Exercise price	At 1 January 2002	At 31 December 2002
PG Eyles	10/09/96	125.5	288,000	288,000
	23/11/98	79.5	35,000	35,000
	05/10/99	135.5	50,000	50,000
	05/10/00	101.5	130,000	130,000
ME Jourdain	04/04/97	148.5	70,000	70,000
	23/11/98	79.5	20,000	20,000
	05/10/99	135.5	45,000	45,000
	05/10/00	101.5	50,000	50,000
AB Kelly	30/09/97	141.5	20,000	20,000
	23/11/98	79.5	15,000	15,000
	05/10/99	135.5	50,000	50,000
	05/10/00	101.5	120,000	120,000
PJ Taylor	05/10/00	101.5	230,000	230,000
			1,123,000	1,123,000

The market price of Ordinary Shares at 31 December 2002 was 108.5p and the range during the year was 85.0p to 127.5p.

No options were granted, exercised or lapsed during the year. All the above executive share options are exercisable between four and ten years from the date of grant.

REMUNERATION REPORT continued

SAYE SHARE OPTION SCHEME

	At 1 January 2002	Lapsed during 2002	At 31 December 2002
PG Eyles	12,746	–	12,746
PI Taylor	12,746	(12,746)	–
ME Jourdain	11,029	–	11,029
AB Kelly	12,746	–	12,746
	49,267	(12,746)	36,521

TOTAL SHAREHOLDER RETURN

In assessing the total shareholder return over the last five year period the Company's total shareholder return has been compared to that of the Leisure, Entertainment and Hotel index. The Remuneration Committee considers this to be the most appropriate comparisons currently available.

HANOVER – TOTAL SHAREHOLDER RETURN INDEX

DIRECTORS' INTERESTS

Details of Directors' beneficial, including family, interests in the Ordinary Share Capital of the Company are set out below:

	31 December 2002	1 January 2002
PG Eyles	323,707	298,143
ME Jourdain	23,026	21,586
AB Kelly	18,359	16,398
RJC Privett	25,705	25,502
HW Whitbread	62,007	62,007
BJ Clow	31,451	30,538

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HANOVER INTERNATIONAL PLC

We have audited the financial statements on pages 22 to 40. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 20, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
27 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 December 2002 £000	Restated year ended 31 December 2001 £000
Turnover			
Continuing operations: group and share of joint venture		38,763	43,816
Less: share of joint venture's turnover		(7,557)	(5,419)
Group turnover		31,206	38,397
Cost of sales		(12,712)	(14,406)
Gross profit		18,494	23,991
Administrative expenses			
– Before exceptional items		(14,274)	(15,448)
– Exceptional costs	5	–	(340)
		(14,274)	(15,788)
Other net operating income	4	906	–
Operating profit			
– Continuing operations		5,126	8,543
– Exceptional items	5	–	(340)
– Group operating profit		5,126	8,203
– Share of operating profit in joint venture		1,690	1,454
		6,816	9,657
Profit on the sale of fixed assets	5	–	89
Profit on ordinary activities before interest & taxation		6,816	9,746
Net interest payable and similar charges			
– Group	6	(2,759)	(3,271)
– Joint venture	6	(2,179)	(1,614)
		(4,938)	(4,885)
Profit on ordinary activities before taxation			
– Before exceptional items and joint venture		2,367	5,272
– Share of loss on joint venture		(489)	(160)
– Exceptional items		–	(251)
		1,878	4,861
Taxation on profit on ordinary activities			
– Group	7	(773)	(1,822)
– Joint venture	7	76	34
		(697)	(1,788)
Profit on ordinary activities after taxation		1,181	3,073
Equity dividends paid and proposed	8	(1,019)	(894)
Retained profit		162	2,179
Basic earnings per share			
Including exceptional items	10	4.0p	10.5p
Excluding exceptional items	10	4.0p	11.3p
Diluted earnings per share			
Including exceptional items	10	4.0p	10.4p
Excluding exceptional items	10	4.0p	11.3p
Dividends per share	8	3.4p	3.0p

BALANCE SHEETS

		Group		Company	
	Notes	31 December 2002 £000	Restated 31 December 2001 £000	31 December 2002 £000	Restated 31 December 2001 £000
Fixed assets					
Tangible assets	11	113,164	113,943	41	64
Investments	12	-	-	36,364	36,364
Interest in joint venture					
Share of gross assets	12	28,824	29,237	-	-
Share of gross liabilities	12	(28,637)	(28,637)	-	-
		187	600	-	-
Loan to joint venture	12	4,650	4,650	4,650	4,650
Investment in own shares	13	468	567	468	567
		118,469	119,760	41,523	41,645
Current assets					
Stocks	14	404	478	-	-
Debtors	15	4,628	4,338	46,235	47,361
Cash at bank and in hand		2,281	795	4	22
		7,313	5,611	46,239	47,383
Creditors: amounts falling due within one year					
Creditors	16	(6,066)	(5,220)	(1,043)	(2,036)
Loans and borrowings	17	(6,077)	(2,750)	(6,050)	(2,750)
		(12,143)	(7,970)	(7,093)	(4,786)
Net current (liabilities)/assets		(4,830)	(2,359)	39,146	42,597
Total assets less current liabilities		113,639	117,401	80,669	84,242
Creditors: amounts falling due after more than one year					
Loans and borrowings	17	(43,287)	(47,550)	(43,250)	(47,550)
Deferred taxation	19	(8,970)	(8,185)	6	(7)
Net assets		61,382	61,666	37,425	36,685
Equity – capital and reserves					
Share capital	20	7,593	7,532	7,593	7,532
Share premium account	22	20,987	20,823	20,987	20,823
Revaluation reserve	22	18,403	19,074	-	-
Other reserves	22	7,261	7,261	7,261	7,261
Profit and loss account	22	7,138	6,976	1,584	1,069
Shareholders' funds		61,382	61,666	37,425	36,685

Approved by the Board on 27 March 2003 and signed on its behalf by:

PETER G EYLES

ANTHONY B KELLY FCMA

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Net cash inflow from operating activities		8,781	10,121
Returns on investment and servicing of finance	23	(2,639)	(3,103)
Taxation		12	-
Capital expenditure and financial investment	23	(3,004)	(8,775)
Acquisitions and disposals	23	-	1,777
Equity dividends paid		(719)	(614)
Net cash inflow/(outflow) before financing		2,431	(594)
Financing	23	(945)	(808)
Net increase/(decrease) in cash		1,486	(1,402)
Reconciliation of group operating profit to net operating cash flows			
Group operating profit		5,126	8,203
Depreciation of tangible fixed assets	2	2,970	2,714
Amortisation of profit share shares	13	99	80
Decrease/(increase) in stock		74	(58)
(Increase)/decrease in debtors		(147)	74
Increase/(decrease) in creditors		659	(892)
Net cash inflow from operating activities		8,781	10,121
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		1,486	(1,402)
Cash outflow from movement in debt and lease financing		936	772
Decrease/(increase) in net debt in the year		2,422	(630)
Net debt as at 1 January	24	(49,505)	(48,875)
Net debt as at 31 December	24	(47,083)	(49,505)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31 December 2002 £000	Restated year ended 31 December 2001 £000
Profit for the financial year		1,181	3,073
Unrealised (deficit)/surplus on revaluation of properties	22	(671)	3,682
Total recognised gains and losses relating to the year		510	6,755
Prior year adjustments		(5,705)	-
Total recognised gains and losses since the last annual report		(5,195)	6,755

RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Notes	Year ended 31 December 2002 £000	Restated year ended 31 December 2001 £000
Profit for the financial year		1,181	3,073
Dividends	8	(1,019)	(894)
Retained profit for the financial year		162	2,179
Other recognised gains and losses relating to the year	22	(671)	3,682
New share capital subscribed – net of costs		225	77
Net (decrease)/increase in shareholders' funds		(284)	5,938
Opening shareholders' funds*		61,666	55,728
Closing shareholders' funds		61,382	61,666
Net assets per share		202p	205p

* Opening shareholders' funds were originally £67,371,000 before deducting a prior year adjustment of £5,705,000.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Year ended 31 December 2002 £000	Restated year ended 31 December 2001 £000
Profit on ordinary activities before taxation	1,878	4,861
Difference between historical cost depreciation charge and the actual depreciation charge on the revalued amount	102	93
Historical cost profit on ordinary activities before taxation	1,980	4,954
Historical cost profit for the year retained after taxation and dividends	264	2,272

STATEMENT OF ACCOUNTING POLICIES

A summary of the Group's accounting policies, which have been applied consistently, in dealing with items which are considered to be material in relation to these financial statements is set out below together with an explanation of where changes have been made to previous accounting policies on the adoption of new accounting standards in the year.

BASIS OF PREPARATION

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

CHANGES IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENT

During the year the Group adopted FRS 19: Deferred Tax. This requires full provision to be made for deferred tax on most types of timing differences. The previous accounting standard required provision only to the extent that it was probable that the liability would crystallise in the future. FRS 19 has been dealt with by way of a prior year adjustment which has given rise to a reduction in shareholders' funds of £5.7 million at 31 December 2001. As a result, the tax charge for the year ended 31 December 2001 has increased by £1.0 million. Similarly, the tax charge for the year ended 31 December 2002 has increased by £0.8 million.

BASIS OF CONSOLIDATION

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

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

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

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

TURNOVER

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

FIXED ASSETS AND DEPRECIATION

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

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

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

Buildings core	80 years
Buildings surfaces	25 years
Leasehold land and buildings	Life of the lease
Furniture, fixtures and fittings	5 to 8 years
Computer and other office equipment	5 years
Motor vehicles	4 years
Freehold land is not depreciated	

TAXATION

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

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

STOCKS

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

STATEMENT OF ACCOUNTING POLICIES

LEASES

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

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

PENSIONS

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

FIXED ASSET WORK IN PROGRESS

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

NOTES TO THE ACCOUNTS

1 SEGMENTAL INFORMATION

Turnover and profit before taxation are derived from the provision of accommodation and related services for hotel, training and conferencing in the UK. Overhead costs relating to headquarters are included within administrative expenses. All assets are held in the UK.

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2002 £000	2001 £000
Depreciation	2,970	2,714
Rentals payable under operating leases		
Land and buildings	225	134
Plant and machinery	376	392

The remuneration of the Group's auditors for the year ended 31 December 2002 for statutory audit work was £100,000 (2001: £89,000) including £5,000 (2001: £5,000) for the Company. In addition £52,000 (2001: £49,000) was paid to the auditors and its associates for taxation services.

3 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group, including Executive Directors, during the year was 921 (2001: 1,139). Of the persons employed, 538 (2001: 614) were full time and 383 (2001: 525) were part time. All employees were involved with the provision of hotel and training and conference services.

The total payroll costs comprised the following:

	2002 £000	2001 £000
Wages and salaries	10,143	11,537
Social Security costs	741	780
Other pension costs	156	162
	11,040	12,479

Details of the emoluments and gains on share options of the Directors are set out in the Remuneration Report.

4 OTHER NET OPERATING INCOME

	2002 £000	2001 £000
Net business interruption insurance proceeds on Basingstoke	906	—

5 EXCEPTIONAL ITEMS

	2002 £000	2001 £000
Exceptional costs included within operating profit		
Costs associated with a failed planning application	—	340
	—	340
Exceptional items not included within operating profit		
Profit on sale of fixed assets	—	89
	—	89

NOTES TO THE ACCOUNTS

6 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £000	2001 £000
Interest payable and similar charges:		
On bank loans and overdrafts	(3,018)	(3,444)
On loan note	(146)	(146)
On finance leases	(4)	-
Group interest payable	(3,168)	(3,590)
Bank interest receivable and similar income	33	60
Interest receivable on loan to joint venture	376	259
Net Group interest payable	(2,759)	(3,271)
Share of joint venture's interest payable	(2,179)	(1,614)
	(4,938)	(4,885)

7 TAXATION

	2002 £000	Restated 2001 £000
Deferred tax	(785)	(1,822)
Corporation tax – adjustment in respect of prior year	12	-
Total Group tax charge	(773)	(1,822)
Share of joint venture's deferred tax	76	34
	(697)	(1,788)

There is no current UK corporation tax charge in the year as a result of the availability of capital allowances and the tax losses arising in certain of the Company's subsidiary undertakings. Unutilised trading tax losses carried forward as at 31 December 2002 were approximately £1.4m (2001: £1.5m).

The current tax charge for the year is lower than the standard rate of UK Corporation tax of 30% (2001: 30%). The differences are explained below:

	2002 £000	Restated 2001 £000
Profit on ordinary activities before tax	1,878	4,861
Tax on ordinary activities at the standard rate of Corporation tax of 30% (2001: 30%)	563	1,458
Expenses not deductible for tax purposes	251	266
Utilisation of losses	-	(702)
Accelerated capital allowances and other timing differences	(826)	(1,022)
Total current tax charge for the year	(12)	-

8 DIVIDENDS

	2002 £000	2001 £000
Interim dividend of 1.4p (2001: 1.2p) per share – paid	411	352
Final dividend of 2.0p (2001: 1.8p) per share – proposed	608	542
	1,019	894

NOTES TO THE ACCOUNTS continued

9 COMPANY PROFIT AND LOSS ACCOUNT

In accordance with the exemption granted under Section 230(4) of the Companies Act 1985, a separate profit and loss account for the Company has not been presented. The Company's profit for the year before dividends was £1,534,000 (2001 restated: £826,000).

10 EARNINGS PER SHARE

	2002 Basic & diluted £000	Restated 2001 Basic & diluted £000
Earnings attributable to basic and diluted earnings (including exceptional items)	1,181	3,073
Less exceptional profit on sale of fixed assets (net of tax)	–	(75)
Add exceptional costs (net of tax)	–	286
Earnings excluding exceptional items	1,181	3,284
Add share of loss in joint venture	413	126
Earnings excluding exceptional items and share of joint venture	1,594	3,410
Basic earnings per share:		
Including exceptional items	4.0p	10.5p
Excluding exceptional items	4.0p	11.3p
Excluding exceptional items and share of joint venture	5.4p	11.7p
Diluted earnings per share:		
Including exceptional items	4.0p	10.4p
Excluding exceptional items	4.0p	11.3p
Excluding exceptional items and share of joint venture	5.4p	11.7p

The earnings per share have been disclosed for pre and post exceptional items (net of tax) and before joint venture activities to allow a clearer presentation of the Group's ongoing performance in the year.

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.

	2002 Number	2001 Number
Weighted average number of shares used in calculating basic earnings per share	29,541,386	29,405,703
Incremental shares in respect of dilutive SAYE and Executive Share Option schemes	94,556	60,856
Weighted average number of shares used in calculating diluted earnings per share	29,635,942	29,466,559

11 TANGIBLE FIXED ASSETS

Group	Freehold land & buildings £000	Short leasehold land & buildings £000	Furniture, fixtures & fittings £000	Computer & other office equipment £000	Motor vehicles £000	Work in progress £000	Total £000
Cost or valuation							
At 1 January 2002	93,996	12,114	14,487	2,834	355	–	123,786
Revaluations	(951)	–	–	–	–	–	(951)
Additions	544	29	343	342	23	2,755	4,036
Disposals	(1,022)	–	(1,808)	(17)	(123)	–	(2,970)
At 31 December 2002	92,567	12,143	13,022	3,159	255	2,755	123,901
Depreciation							
At 1 January 2002	1,127	459	7,247	806	204	–	9,843
Revaluations	(280)	–	–	–	–	–	(280)
Charge for the year	479	331	1,574	524	62	–	2,970
Disposals	(9)	–	(1,668)	(7)	(112)	–	(1,796)
At 31 December 2002	1,317	790	7,153	1,323	154	–	10,737
Net book value at							
31 December 2002	91,250	11,353	5,869	1,836	101	2,755	113,164
Net book value at							
31 December 2001	92,869	11,655	7,240	2,028	151	–	113,943
Company							
Cost							
At 1 January 2002 and							
31 December 2002	–	–	9	–	86	–	95
Depreciation							
At 1 January 2002	–	–	7	–	24	–	31
Charge for the year	–	–	2	–	21	–	23
At 31 December 2002	–	–	9	–	45	–	54
Net book value at							
31 December 2002	–	–	–	–	41	–	41
Net book value at							
31 December 2001	–	–	2	–	62	–	64

Certain of the Group's properties held within tangible fixed assets are included at valuation. These properties have been valued on an existing-use value basis as operational entities, having regard to trading potential, by ATIS REAL Weatheralls, Chartered Surveyors acting as external valuers, in accordance with the current edition of the RICS Appraisal and Valuation Manual.

On 31 December 2002, the Group's properties at Daventry, Skipton and Ashbourne were revalued to £18.0m giving rise to a deficit on revaluation of £0.7m. Their historical cost was £17.4m. The remaining properties in the original Hanover portfolio are included in the accounts at their revalued amount of £45.3m as at 31 December 2001 (historical cost £23.5m). The Directors are not aware of any material change in value of these properties and therefore the valuations have not been updated. All other properties are included in the accounts at their cost to the Group of £50.4m.

Included in the total net book value of computer and office equipment are assets held under finance lease with a net book value of £66,000 (2001: £Nil). Depreciation for the year on these assets was £9,000 (2001: £Nil).

NOTES TO THE ACCOUNTS continued

12 FIXED ASSET INVESTMENTS

	Company investment in joint venture		Company shares in subsidiary undertakings	
	2002 £000	2001 £000	2002 £000	2001 £000
Cost				
At 1 January	5,375	–	35,639	35,639
Addition	–	725	–	–
Loan to joint venture	–	4,650	–	–
At 31 December	5,375	5,375	35,639	35,639

The subsidiary undertakings, all of which are wholly owned by the Company, at 31 December 2002 were as follows:

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

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

The Company owns 50% of the issued Ordinary Share capital of Tweed Investments Limited. Tweed Investments Limited owns hotels and residential training and conference centres which are operated and managed by Hanover International Hotels Limited.

	2002 £000	Restated 2001 £000
Share of turnover	7,557	5,419
Share of loss before taxation	(489)	(160)
Share of taxation	76	34
Share of loss after taxation	(413)	(126)
Share of fixed assets	27,562	28,107
Share of current assets	1,262	1,130
Share of liabilities due within one year*	1,580	1,269
Share of liabilities due after more than one year*	27,057	27,368
Share of capital commitments on operating leases in the year ahead	80	118

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

13 FIXED ASSET INVESTMENT IN OWN SHARES

	Investment in own shares			
	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Cost				
At 1 January	567	351	567	351
Acquisitions	—	296	—	296
Amortisation of allotted shares	(99)	(80)	(99)	(80)
At 31 December	468	567	468	567

The above investment relates to shares purchased and held by the Company's employee share ownership trusts (the Hanover International UK Profit Sharing Scheme (PSS) and the Hanover International Employee Trust) which are independently managed. At 31 December 2002 the trusts owned 633,937 Ordinary Shares (2001: 633,937) of 25p each of the Company listed on the London Stock Exchange the market value of which was £687,822 (2001: £538,846).

The cost of the PSS shares granted to employees during the year, as detailed in the Directors' Report, is being amortised over a period of two years, being the period before which the participants may not sell or transfer the shares.

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

14 STOCKS

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

15 DEBTORS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Trade debtors	2,100	2,693	—	—
Amounts due from subsidiary undertakings	—	—	45,899	46,983
Other debtors	1,418	802	336	378
Prepayments and accrued income	1,110	843	—	—
	4,628	4,338	46,235	47,361

16 CREDITORS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Trade creditors	2,582	2,133	4	6
Amounts due to subsidiary undertakings	—	—	—	1,277
Other tax and social security	646	963	35	8
Other creditors	530	447	1	12
Accruals and deferred income	1,700	1,135	395	191
Proposed final dividend	608	542	608	542
	6,066	5,220	1,043	2,036

NOTES TO THE ACCOUNTS continued

17 LOANS AND BORROWINGS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Due within one year:				
Bank loans	3,300	2,750	3,300	2,750
Loan note	2,750	–	2,750	–
Obligations under finance leases	27	–	–	–
	6,077	2,750	6,050	2,750
Due after more than one year:				
Bank loans	43,250	44,800	43,250	44,800
Loan note	–	2,750	–	2,750
Obligations under finance leases	37	–	–	–
	43,287	47,550	43,250	47,550
Repayable:				
In one year	6,077	2,750	6,050	2,750
Between two and five years	3,825	6,050	3,800	6,050
After more than five years	39,462	41,500	39,450	41,500
	49,364	50,300	49,300	50,300

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

	£000	Rate ⁽³⁾	Repayment profile
Bank of Scotland	16,550 ⁽¹⁾	LIBOR +1.41%	Three monthly instalments over seven years commencing December 2000
Bank of Scotland	30,000 ⁽¹⁾	LIBOR +1.41%	Repayable on 23 March 2007
Loan note	2,750 ⁽²⁾	5.32%	Repayable on 31 December 2003
Finance leases	64	11.97%	Monthly instalments
Total	49,364		

(1) Secured by way of a first legal charge over each freehold and leasehold property owned by each Group company. A first and only debenture from each Group company and a composite guarantee by each Group company in favour of Bank of Scotland on account of each Group company.

(2) Secured by way of a second legal charge over certain freehold properties owned by the Group.

(3) The margin is based upon a ratchet mechanism whereby the margin payable is linked to the Group's interest cover achieved during the year.

18 FINANCIAL INSTRUMENTS

Disclosures on financial risk management, treasury policy and use of financial instruments are also made in the Financial Review.

Short-term debtors and creditors that meet the definition of a financial asset or liability under FRS 13 have been excluded from all numerical disclosures.

Interest rate profile of financial assets

The Group has provided a loan to its joint venture on which the Group receives interest at LIBOR plus 4%. There are no other financial assets, apart from 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. These are all floating rate balances which bear interest based on LIBOR.

18 FINANCIAL INSTRUMENTS continued

Interest rate profile of financial liabilities

The interest rate profile of the financial liabilities of the Group, which are all in sterling, after taking account of interest rate swaps was:

	2002 Total £000	2001 Total £000	2002 Floating rate £000	2001 Floating rate £000	2002 Fixed rate £000	2001 Fixed rate £000
Currency sterling						
Bank loans	46,550	47,550	13,250	11,500	33,300	36,050
Loan note	2,750	2,750	–	–	2,750	2,750
Finance leases	64	–	–	–	64	–
	49,364	50,300	13,250	11,500	36,114	38,800

Floating rate

The weighted average interest rate for all floating rate borrowings was 5.46% (2001: 7.07%).

The floating rate financial liabilities comprise bank borrowings that bear a rate of interest based on three month LIBOR.

Fixed rate

	Weighted average interest rate % 2002	Weighted average interest rate % 2001	Weighted average period until maturity for which rates are fixed – Years 2002	Weighted average period until maturity for which rates are fixed – Years 2001
Currency sterling				
Bank loans	6.71	6.70	3.5	4.5
Loan note	5.32	5.32	1.0	2.0
Finance leases	11.97	–	3.0	–

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

Currency exposures

As at 31 December 2002 all significant transactions entered into by the Group were denominated in sterling and therefore the Group has no foreign currency exposure (2001: £Nil).

Maturity of financial liabilities and borrowing facilities

	2002 Drawn £000	2001 Drawn £000	2002 Facilities £000	2001 Facilities £000	2002 Undrawn committed borrowing facilities* £000	2001 Undrawn committed borrowing facilities* £000
Expiring in one year or less	6,077	2,750	6,077	2,750	–	–
Expiring in more than one year, but not more than two years	3,825	6,050	3,825	6,050	–	–
Expiring in more than two years, but not more than five years	39,462	41,500	41,462	45,250	2,000	3,750
	49,364	50,300	51,364	54,050	2,000	3,750

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

NOTES TO THE ACCOUNTS continued

18 FINANCIAL INSTRUMENTS continued

Fair value of debt

For all debt, short-term assets and liabilities, the book values and fair values as at 31 December 2002 and 31 December 2001 are not materially different.

Unrecognised gains and losses relating to hedges of future exposures

	2002 £000	2001 £000
Unrecognised gains and losses on hedges at 1 January	190	—
Losses arising recognised in the year	(419)	(69)
Unrecognised gains and losses arising in the year	(656)	259
Unrecognised gains and losses on hedges at 31 December	(885)	190
Of which:		
Gains and losses expected to be recognised within one year	(419)	(419)
Gains and losses expected to be recognised in more than one year	(466)	609
	(885)	190

The unrecognised gains and losses disclosed above are based on a comparison of the market value of the Group's outstanding derivative instruments at 31 December 2002 and 2001 as compared to their future contracted commitment. These are point in time calculations and as market values are subject to change, in future accounting periods, they may not reflect the actual gains and losses that will be realised.

19 DEFERRED TAXATION

	Deferred taxation Group 2002 £000	Company 2002 £000
At 1 January as previously stated	2,446	—
Prior year adjustment	5,739	7
At 1 January restated	8,185	7
Charges in the year	785	(13)
At 31 December	8,970	(6)

The elements of deferred tax are as follows:

	2002 £000	Restated 2001 £000
Accelerated capital allowances	9,092	8,215
Short-term timing differences	(5)	(12)
Losses carried forward	(117)	(18)
Deferred tax liability	8,970	8,185

Provision for tax payable on capital gains on the disposal of revalued properties is made only when there is a binding agreement to dispose of the asset. The tax effect if all properties had been sold at their book values, assuming no reinvestment in similar properties and therefore without the benefit of roll over relief being available, is estimated to be £2.7m (2001: £3.8m).

NOTES TO THE ACCOUNTS continued

20 CALLED UP SHARE CAPITAL

	2002 £000	2001 £000	2002 Number	2001 Number
Authorised				
Ordinary Shares of 25p each	15,000	15,000	60,000,000	60,000,000
Allotted, called up and fully paid				
Ordinary Shares of 25p each	7,593	7,532	30,370,112	30,129,610

During the year the following Ordinary Shares of 25p each were issued:

Type of issue	Number of shares	Aggregate value (£)	Consideration received (£000)
Scrip dividend alternative	217,003	54,251	–
SAYE share option scheme	8,499	2,125	8
Executive share option scheme	15,000	3,750	13

21 SHARE OPTIONS

Under the Company's Executive Share Option Schemes and its SAYE Share Option Schemes, there are outstanding options at 31 December 2002 to subscribe to a total of 2,156,610 Ordinary Shares of the Company as follows:

	At 1 January 2002	Granted during year	Exercised during year	Lapsed during year	At 31 December 2002
Executive Share Option Schemes	1,538,000	625,000	(15,000)	(85,000)	2,063,000
SAYE Share Option Schemes	178,132	–	(8,499)	(76,023)	93,610
	1,716,132	625,000	(23,499)	(161,023)	2,156,610

On 30 May 2002, under the Executive Share Option Schemes, options of 625,000 Ordinary Shares were granted to eligible senior employees at 118.5p per share. Options granted under the Executive Share Option Schemes 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% of the companies listed daily in the 'Leisure and Hotels' sector in the Financial Times. Unexercised options lapse up to ten years after the date of grant.

Details of the Directors' interests in Executive share options and SAYE share options are detailed in the Remuneration Report. Details of other employees interests in Executive share options and SAYE share options are detailed below:

Executive Share Option Schemes

	Date Granted	At 1 January 2002	Exercise Price	Granted during 2002	Exercised during 2002	Lapsed during 2002	At 31 December 2002
Other Employees	30/09/97	50,000	141.5	–	–	(20,000)	30,000
	04/04/97	80,000	148.5	–	–	–	80,000
	23/11/98	50,000	79.5	–	(15,000)	–	35,000
	05/10/99	120,000	135.5	–	–	(25,000)	95,000
	05/10/00	105,000	101.5	–	–	–	105,000
	04/05/01	10,000	106.5	–	–	–	10,000
	30/05/02	–	118.5	625,000	–	(40,000)	585,000
		415,000		625,000	(15,000)	(85,000)	940,000

All the above executive share options are exercisable between four and ten years from the date they are granted.

NOTES TO THE ACCOUNTS continued

21 SHARE OPTIONS continued

SAYE Share Option Schemes

	At 1 January 2002	Exercised during 2002	Lapsed during 2002	At 31 December 2002
Other Employees	128,865	(8,499)	(63,277)	57,089

Options issued in 1999 under the SAYE Share Option Scheme are exercisable at the end of the savings contract at an option price of 98.0p. Options issued in 2000 under the SAYE Share Option Scheme are also exercisable at the end of the savings contract at an option price of 76.0p. Both option prices reflect a 20% discount to the market price of the 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 2002 was 108.5p and the range during the year was 85.0p to 127.5p. The average market price of the Ordinary Shares over the period of exercise of the share options was 123.4p.

22 SHARE PREMIUM AND RESERVES

	Share premium £000	Revaluation reserve £000	Merger reserve £000	Profit & loss account £000	Total £000
Group					
As at 1 January 2002 as previously stated	20,823	19,074	7,261	12,681	59,839
Prior year adjustment	–	–	–	(5,705)	(5,705)
As at 1 January 2002 restated	20,823	19,074	7,261	6,976	54,134
Premium on shares issued – net of costs	164	–	–	–	164
Revaluation of fixed assets	–	(671)	–	–	(671)
Retained profit for the year	–	–	–	162	162
Balance at 31 December 2002	20,987	18,403	7,261	7,138	53,789
Company					
As at 1 January 2002 as previously stated	20,823	–	7,261	1,076	29,160
Prior year adjustment	–	–	–	(7)	(7)
As at 1 January 2002 restated	20,823	–	7,261	1,069	29,153
Premium on shares issued – net of costs	164	–	–	–	164
Retained profit for the year	–	–	–	515	515
Balance at 31 December 2002	20,987	–	7,261	1,584	29,832

NOTES TO THE ACCOUNTS continued

23 ANALYSIS OF CASH FLOWS

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	376	319
Interest paid	(3,011)	(3,422)
Interest element of finance lease payments	(4)	-
	(2,639)	(3,103)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,238)	(3,898)
Sale of tangible fixed assets	234	69
Loan to joint venture	-	(4,650)
Investment in own shares	-	(296)
	(3,004)	(8,775)
Acquisitions and disposals		
Investment in joint venture	-	(725)
Sale of businesses	-	2,750
Costs associated with acquisitions and disposals	-	(248)
	-	1,777
Financing		
Issue of Ordinary Share capital	(9)	(36)
Capital element of finance lease rental payments	64	(22)
Debt due within one year		
Increase in short-term borrowings	3,300	2,750
Repayments	(2,750)	(2,250)
Debt due after more than one year		
Decrease/(increase) in long-term borrowings	(1,550)	1,250
Repayments	-	(2,500)
	(945)	(808)

24 ANALYSIS OF NET DEBT

	At 1 January 2002 £000	Cash flow movements £000	Non-cash movement* £000	At 31 December 2002 £000
Cash at bank and in hand	795	1,486	-	2,281
Debt due after more than one year	(47,550)	(1,750)	6,050	(43,250)
Debt due within one year	(2,750)	2,750	(6,050)	(6,050)
Finance leases	-	(64)	-	(64)
	(49,505)	2,422	-	(47,083)

* Non-cash movements comprise the reclassification of short and long-term debt.

NOTES TO THE ACCOUNTS continued

25 CAPITAL COMMITMENTS

Capital expenditure authorised and contracted at the balance sheet date but for which no provision has been made in the Accounts amounts to £400,000 (2001: £Nil).

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

	Land and buildings 2002 £000	Other 2002 £000	Land and buildings 2001 £000	Other 2001 £000
Committed expenditure in 2003 arising from operating leases:				
Within one year	-	165	-	91
Between two and five years	-	102	-	278
More than five years	227	-	250	-
	227	267	250	369

26 PENSIONS

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

The total pension charge for the year was £156,000 (2001: £162,000).

There were no outstanding or prepaid contributions as at 31 December 2002 (2001: £Nil) in respect of the schemes.

27 RELATED PARTY TRANSACTIONS

The Group owns 50% of Tweed Investments Limited. The Group operates and manages the properties owned by the joint venture. The transactions in the year between Tweed Investments Limited and the Group amounted to £2,001,000 (2001: £1,490,000) and were all at arm's length. The nature of these transactions comprises an apportionment of the costs related to the joint venture incurred by the Group, management fees, charges for the use of central services and interest receivable on the loan to the joint venture. The balances as at 31 December are as follows:

	2002 £000	2001 £000
Loan to Tweed Investments Limited	4,650	4,650
Amounts due from Tweed Investments Limited	195	299
	4,845	4,949

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