

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

The Directors, whose names appear on page 82, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

Application has been made to the UK Listing Authority for the Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the market for listed securities of the London Stock Exchange. It is expected that Admission will become effective and dealings, for normal settlement, will commence on the London Stock Exchange on 26 July 2000. This document comprises a prospectus relating to, and a circular of, Hanover International PLC which has been prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, and a copy of which has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 149 of that Act.

Hanover International PLC

Proposed Acquisition of Andrew Weir Hotels Limited

Placing and Open Offer of 2,791,127 new Ordinary Shares at 110p per share underwritten by Charterhouse Securities Limited

The Open Offer closes at 3.00 p.m. on 20 July 2000. The procedure for application is set out in Part II of this document. Application Forms for those Qualifying Shareholders wishing to apply to take up their entitlements under the Open Offer should be completed and returned with the appropriate remittance by post to IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU or, by hand only, during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2V 8EY so as to arrive no later than 3.00 p.m. on 20 July 2000.

A notice convening an Extraordinary General Meeting of Hanover to be held at 11.00 a.m. on 17 July 2000 at Kempson House, Camomile Street, London EC3A 7AN is set out at the end of this document. Shareholders will find enclosed a form of proxy for use at the Extraordinary General Meeting.

To be valid, the accompanying form of proxy should be completed, signed and returned in accordance with the instructions printed thereon to IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but, in any event, so as to be received no later than 11.00 a.m. on 15 July 2000.

Rothschild, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting as financial adviser and as sponsor to Hanover and is not acting for anyone else, including any recipient of this document, in connection with the Acquisition, the Placing and the Open Offer and will not be responsible to any person other than Hanover, whether as financial adviser or as sponsor, for providing the protections afforded to customers of Rothschild nor for providing advice in relation to the Acquisition or the Placing or the Open Offer.

Charterhouse, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting exclusively for Hanover and no-one else in connection with the Placing and the Open Offer and will not be responsible to anyone other than Hanover for providing the protections afforded to customers of Charterhouse, nor for providing advice in relation to the Placing and the Open Offer.

The following table shows the issued share capital of the Company as it will be following the implementation of the Proposals:

Share Capital				
Authorised			Issued and fully paid	
Amount (£)	Number		Amount	Number
15,000,000	60,000,000	Ordinary Shares of 25p	£7,481,649	29,926,596



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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Open Offer	Close of business on 21 June 2000
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m., 18 July 2000
Latest time and date for return of forms of proxy	11.00 a.m., 15 July 2000
Extraordinary General Meeting	11.00 a.m., 17 July 2000
Latest time and date for receipt of Application Forms and payment in full	3.00 p.m., 20 July 2000
Admission	26 July 2000
Dealings expected to commence in new Ordinary Shares and CREST accounts credited with new Ordinary Shares	26 July 2000
Definitive certificates in respect of the new Ordinary Shares (where applicable) despatched during week commencing	31 July 2000

DIRECTORS AND ADVISERS

Directors:	Peter Eyles Peter Taylor Anthony Kelly Michael Jourdain Robin Privett Bernard Clow Billy Whitbread
Registered and Head Office:	Hanover House Pingewood Reading Berkshire RG30 3UN
Sponsor and Financial Adviser to the Company:	N M Rothschild & Sons Limited New Court St. Swithin's Lane London EC4P 4DU
Underwriter and Broker to the Company:	Charterhouse Securities Limited 1 Paternoster Row St. Paul's London EC4M 7DH
Joint Brokers to the Company:	Seymour Pierce Limited 29 Cornhill London EC3V 3ND
Solicitors to the Company:	Norton Rose Kempson House Camomile Street London EC3A 7AN
Solicitors to the Issue:	Pinsent Curtis Dashwood House 69 Old Broad Street London EC2M 1NR
Reporting Accountants and Auditors to the Company:	KPMG Audit plc 1 Puddle Dock London EC4V 3PD
Registrars:	IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers to the Company:	The Governor and Company of the Bank of Scotland Uberior House 61 Grassmarket Edinburgh EH1 2JF

PART I

Letter from the Chairman

HANOVER INTERNATIONAL PLC

(Registered in England and Wales with number 3043860)

29 June 2000

Directors:

Peter Eyles (*Executive Chairman*)
Peter Taylor (*Managing Director*)
Anthony Kelly (*Group Finance Director*)
Michael Jourdain (*Projects and Administration Director*)
Robin Privett* (*Senior Non-Executive Director and Joint Deputy Chairman*)
Billy Whitbread*
Bernard Clow* (*Joint Deputy Chairman*)

Registered and Head Office:

Hanover House
Pingewood
Reading
Berkshire
RG30 3UN

*Non-Executive

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

Dear Shareholder,

Introduction

Your Board announced yesterday that Hanover has entered into a conditional agreement to acquire the entire issued share capital of Andrew Weir Hotels Limited from Andrew Weir & Company Limited for a total consideration of £33 million (subject to adjustment in certain circumstances up to a maximum of £33.25 million). Andrew Weir Hotels is the owner and operator of 6 hotels: Pine Lodge Hotel, Bromsgrove; Cardiff Bay Hotel, Cardiff; Basingstoke Country Hotel, near Hook; Glen Eagle Hotel, Harpenden; Wortley House Hotel, Scunthorpe; and Old Palace Lodge Hotel, Dunstable.

The consideration for the Acquisition is payable by Hanover on Completion as explained in further detail below under "Terms of the Acquisition". The consideration and associated transaction costs are to be satisfied as to £20.85 million from Hanover's banking facilities, by the issue of a secured loan note for £2.75 million repayable to the Vendor at up to £3.25 million on 31 December 2003, as to £8 million by the issue to the Vendor of 5,714,285 new Ordinary Shares, hereinafter referred to as the Consideration Shares, at a price of 140p per share (which represents a premium of approximately 15 per cent. to the closing price of an Ordinary Share on 27 June 2000) and as to the balance from the proceeds of the issue of a further 2,791,127 new Ordinary Shares under the Placing and the Open Offer. Under the Placing and the Open Offer new Ordinary Shares are being issued at a price of 110p per share (which represents a discount of approximately 10 per cent. to the closing price of an Ordinary Share on 27 June 2000 (the latest practicable date prior to the announcement of the Acquisition) to raise approximately £3 million before expenses. The Placing and the Open Offer are fully underwritten by Charterhouse.

In view of the size of the Acquisition, it is conditional, amongst other things, upon the approval by Shareholders in general meeting. Notice convening an extraordinary general meeting for this purpose is set out at the end of this document.

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

Background to and reasons for the Acquisition

Hanover's stated strategy is to create, through organic growth and acquisitions, a group of four star quality properties primarily targeted at the commercial, conference and training and individual leisure markets. The Group's strategy is to seek to deliver consistently high standards of facilities and service to achieve a value for money reputation and, as a result, customer loyalty.

In the pursuit of these objectives Hanover continues to focus on the corporate market with a view to enhancing the security and quality of its business. In the financial year ended 31 December 1999, approximately 86 per cent. of the Group's sales were derived from corporate accounts and approximately 66 per cent. represented repeat business.

The Directors consider that the acquisition of Andrew Weir Hotels represents an excellent opportunity to further increase the Group's exposure to its target markets, offering current and future clients a wider choice of locations. In particular, the Directors believe that the Acquisition will provide Hanover with the following benefits:

- an excellent geographic fit with no overlap in hotel locations. Following the Acquisition, the Enlarged Group will have 14 hotels/training and conference centres providing a total of approximately 1,450 bedrooms;
- a strong complementary business mix. Andrew Weir's hotels are predominantly four star quality with approximately 70 per cent. of the bedrooms being in designated four star hotels. All of the Properties have conference facilities, which should appeal to the corporate market, and three have substantial leisure facilities;
- a raising of the profile and strength of the Hanover brand in the UK and increased distribution through the rebranding of Andrew Weir's hotels as "Hanover", which the Directors intend to effect following the Acquisition; and
- opportunities to enhance profitability through:
 - cross referrals from Andrew Weir Hotels and Hanover's existing customers
 - increased choice and appeal to Hanover's corporate customers from an expanded portfolio
 - rolling out Hanover's loyalty programme to an enlarged customer base
 - applying a common reservation system
 - savings to be achieved from the integration of purchasing, administrative, sales and marketing and information technology functions
 - applying Hanover's sales and marketing expertise to Andrew Weir Hotels' business.

The Directors expect the Acquisition to be earnings enhancing in the first full financial year of ownership, being the financial year to 31 December 2001.

Information on Andrew Weir Hotels

Financial information on Andrew Weir Hotels, comprising an accountants' report, is set out in Part III of this document. In the year ended 31 December 1999, Andrew Weir Hotels generated turnover of £15.1 million and, operating profits of £3.4 million (before head office costs of £0.7 million).

Andrew Weir Hotels is a wholly-owned subsidiary of Andrew Weir & Company, a privately owned company engaged in shipping, hotels and wines, commodity trading, forestry and financial services. Andrew Weir Hotels currently owns and operates three 4 star and three 3 star hotels located across the UK, providing a total of 536 bedrooms and leisure, conference and banqueting facilities.

Brief details of the Properties are as follows:

Name	Value (£m)	No. of bedrooms	No. of conference rooms	Capacity of largest conference room (persons)	Leisure facilities
	(extracted from Weatherall's report contained in Part V of this document)				
Cardiff Bay Hotel, Cardiff	9.0	156	9	250	Yes
Basingstoke Country Hotel, Nr. Hook	10.0	100	12	240	Yes
Pine Lodge Hotel, Bromsgrove	8.0	114	12	200	Yes
Glen Eagle Hotel, Harpenden	3.5	60	2	150	No
Wortley House Hotel, Scunthorpe	3.0	38	3	300	No
Old Palace Lodge Hotel, Dunstable	1.1	68	2	40	No
Total	34.6	536	40		

Cardiff Bay Hotel, Cardiff

The Cardiff Bay Hotel is the flagship hotel of the Andrew Weir Hotels portfolio. The hotel is rated a 4 star by the AA, the RAC and the Welsh Tourist Board. Situated close to Cardiff city centre, the hotel has a prime location in the newly developed Cardiff Bay area. In 1997, the hotel underwent a significant extension which increased the bedroom stock from 65 to 156 bedrooms and also included the building of additional conference facilities and a major leisure facility. The Directors expect that the hotel will benefit from Cardiff's continued growth as a regional business centre.

Basingstoke Country Hotel, Nr. Hook, Hampshire

Basingstoke Country Hotel stands in three and a half acres and is surrounded by woodland and fields. The hotel, which is situated on the A30 London road and is close to junctions 5 and 6 of the M3, was significantly extended in the 1980s and 1990s, increasing the number of bedrooms from 27 to 100 and adding a leisure complex. The hotel is rated a 4 star by the RAC, the AA and the English Tourist Board ("ETB"). The hotel is principally a business hotel, drawing a large proportion of trade from the M4 technology corridor. It also benefits from a good local wedding trade.

Pine Lodge Hotel, Bromsgrove, Worcestershire

The Pine Lodge Hotel is situated within easy reach of the M42 and the M5. The hotel is rated a 4 star by the AA, RAC and the ETB. The hotel has 114 bedrooms and all rooms and public areas have recently been refurbished. The hotel is principally a business hotel, benefiting from its proximity to Birmingham and the National Exhibition Centre. The main business trade is supplemented by a weekend leisure break trade.

Glen Eagle Hotel, Harpenden, Hertfordshire

Glen Eagle Hotel, which is situated in Harpenden, 7 miles from Luton airport, was formerly a private house built in the 19th Century. The hotel is rated a 3 star by the AA, the RAC and the ETB. The hotel has recently undergone an extension and refurbishment programme, increasing the number of bedrooms from 50 to 60. The hotel is principally a business hotel, but the recently developed brasserie is also an important source of revenue.

Wortley House Hotel, Scunthorpe, North Lincolnshire

Wortley House Hotel is situated on the edge of Scunthorpe town centre, 17 miles from Humberside airport. The hotel is rated a 3 star by the AA, the RAC and the ETB. The hotel's 38 rooms have all undergone a refurbishment programme, which included the conversion of one of the bars into a conference room. The hotel is principally a business hotel, drawing trade from the nearby Corus (formerly British Steel) plant. It has a strong local wedding and conference trade.

Old Palace Lodge Hotel, Dunstable, Bedfordshire

Old Palace Lodge Hotel is a Grade II listed building, situated in the town centre of Dunstable 6 miles west of Luton. The hotel, previously a Victorian Lodge, has undergone an extension and refurbishment programme, increasing the room stock from 50 to 68. The hotel is principally a business hotel, although weekend and wedding trade and local dining trade make an important contribution to revenue. The hotel has been rated a 3 star by the AA, RAC and the ETB.

Information on the Hanover Group

The Hanover Group is involved in the acquisition, development and management of four star quality properties that are primarily targeted at the commercial, conference and training and individual leisure markets. Following the recent acquisition of the Birchin training and conference centres and the subsequent disposal of the residential training centre at Swinton Castle, Hanover operates 8 hotels and residential training and conference centres with 913 bedrooms located in Oxford, Bristol, Reading, Daventry, Hinckley, Ashbourne, Huddersfield and Skipton. The Group's management approach combines strong central financial control with a policy of encouraging managers and staff to develop and exploit the character and appeal of each particular property. Apart from the acquisition of the Birchin training and conference centres for a consideration of £17 million (subject to downwards adjustment), Hanover has not made any significant investments in other undertakings since the year ended 31 December 1996.

In its audited results for the year ended 31 December 1999 (set out in Part IV of this document), Hanover reported profit on ordinary activities before tax and exceptional items of £3.6 million (1998: £3.2 million) and basic earnings per share before exceptional items of 17.3p (1998: 15.8p) on turnover of £19.9 million (1998: £21.4 million). At that date, consolidated net assets were £43.8 million (1998: £42.0 million).

Current trading

In my statement for the year ended 31 December 1999 I said that Hanover continues to focus on corporate business with a view to enhancing the security and quality of its business. The perceived possible effect of the Year 2000 problem appeared to have made our customers reluctant to commit to advance bookings for the early part of the year. This, combined with the extended New Year holiday, led to a slow start to business in 2000. This situation was predicted by the Company and as a result we took advantage of this quiet period in order to refurbish bedrooms and conference rooms, allowing us to introduce our new conference facilities earlier in the year than might otherwise have been the case. I also stated that the whilst the Group was expecting only a modest increase in rooms yield during 2000, its effective management and comprehensive controls would continue to help the improvement of gross margins. I am pleased to inform you that at this early stage, our expectations appear to be correct. The Directors continue to be cautiously optimistic about the future prospects of the Enlarged Group.

On 25 May 2000, the Company completed the disposal of Swinton Castle, one of the residential trading centres acquired from Birchin International plc in March 2000. The consideration for the disposal was £2.4 million, in cash, compared with the valuation of £1.25 million attributed to Swinton Castle at the time of its acquisition by Hanover. Further details of the disposal of Swinton Castle are set out in paragraph 8.1.2 of Part VII of this document. The training and conference centre business and assets acquired from Birchin International plc which have been retained by Hanover have been successfully integrated into the Group and are trading in line with the Directors' expectations.

Andrew Weir Hotels is operating profitably and broadly in line with management forecasts.

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

Year 2000

The Group completed its Year 2000 programme for all business critical systems in both information technology and building services in 1999. Prior to the year end, contingency plans were completed at

every site and included provisions for both customers and suppliers. Hanover did not experience any material problems or incur any material costs relating to the "Millennium Bug" over the New Year period or since then and the Directors are confident that the Enlarged Group is well prepared for any future problems associated with this issue.

Terms of the Acquisition

The total consideration for the Acquisition is £33.25 million, subject to adjustment, of which up to approximately £32.75 million is payable at Completion. The consideration payable on completion will comprise: the payment of £22 million in cash, of which £4 million will be used to settle indebtedness of Andrew Weir Hotels to Andrew Weir & Company; the issue of the Consideration Shares at a price of 140p per share; and the issue of a secured loan note for up to £2.75 million in principal amount, repayable at up to £3.25 million, to the Vendor on 31 December 2003.

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

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

New Banking Facility

The Company has entered into a new syndicated banking facility with Bank of Scotland providing for an increase in the total amount which may be borrowed by the Group to £56.3 million. Of this facility, which is conditional upon the completion (save in relation to the payment to the Vendor of the cash consideration to be funded from the facility), of the Acquisition Agreement approximately £20.85 million will be used towards funding the Acquisition. Further details of the banking facility are set out in paragraph 8.1.4 of Part VII of this document.

The Placing and the Open Offer

The Company is proposing to issue 2,791,127 new Ordinary Shares under the Placing and the Open Offer to raise approximately £3.0 million (before expenses). Charterhouse has agreed to use its reasonable endeavours to procure subscribers (subject to claw back under the Open Offer) for all of the new Ordinary Shares the subject of the Open Offer, failing which, and to the extent such shares are not taken up under the Open Offer, it will subscribe for such shares itself as principal. Of such £3.0 million, approximately £2.8 million will be used to finance the Acquisition with the balance to cover, in part, the expenses of the Proposals. The expenses of the Proposals, to the extent not funded from the proceeds of the Placing and the Open Offer will be funded from existing sources, including the new Bank of Scotland facility.

In order to provide Qualifying Shareholders with an opportunity to acquire new Ordinary Shares, and subject to the fulfilment of the conditions referred to below, the Directors have engaged Charterhouse, as agent for the Company, to invite applications from Qualifying Shareholders to subscribe for new Ordinary Shares at 110p each (representing a discount of approximately 10 per cent. to the closing price of an Ordinary Share on 27 June 2000 of 122p), payable in full on application on the basis of:

3 new Ordinary Shares for every 23 existing Ordinary Shares

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

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

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

The Placing and the Open Offer are subject to the Placing and Open Offer Agreement (which is summarised in paragraph 8.1.3 of Part VII of this document), which is conditional, *inter alia*, upon:

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

Application has been made to the UK Listing Authority for the new Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the new Ordinary Shares to be admitted to trading on the market for listed securities of the London Stock Exchange and it is expected that Admission will become effective, and dealings in the new Ordinary Shares will commence, on 26 July 2000.

The new Ordinary Shares will be issued fully paid at a price of 110p per new Ordinary Share which represents a premium of 85p over the nominal value of each new Ordinary Share. The new Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares, including for dividends.

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

Qualifying Shareholders who have sold or transferred all or part of their registered holdings prior to 21 June 2000 are advised to consult their stockbroker or other independent professional adviser as soon as possible, since an invitation to subscribe for new Ordinary Shares may represent a benefit which can be claimed from them by purchasers or transferees.

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

Application Forms and remittances in full must be received by post at IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU or, by hand only, during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2V 8EY by no later than 3.00 p.m. on 20 July 2000.

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

Settlement and dealings

Please indicate on your Application Form whether you wish your new Ordinary Shares to be credited to your CREST account or whether you wish to be sent a share certificate for your new Ordinary Shares. CREST accounts will be credited on Admission, and it is expected that share certificates will be despatched during the week commencing 31 July 2000.

Dealings in the new Ordinary Shares are expected to commence on 26 July 2000.

Extraordinary General Meeting

At the Extraordinary General Meeting two resolutions will be proposed, both of which are ordinary resolutions.

Resolution 1

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

In addition, in order to ensure that the Company has sufficient authorised but unissued share capital, the Directors also consider it appropriate to increase the Company's authorised share capital from £10,000,000 to £15,000,000 (being an increase of approximately 50 per cent. of the Company's current authorised share capital) and to seek authority to allot new Ordinary Shares in connection with the Acquisition. The Directors will be authorised, in addition to the authority to allot Ordinary Shares granted at the recent annual general meeting of the Company (which authority will be utilised in connection with the Placing and the Open Offer), to allot up to £1,600,000 in nominal amount of Ordinary Shares. This equates to 6,400,000 Ordinary Shares, representing approximately 30 per cent. of the issued share capital of the Company as at the date of this document. As stated above, your Directors intend to use this share allotment authority, which expires on 16 July 2001, to issue the Consideration Shares.

Resolution 2

The Articles of Association of the Company currently provide that the aggregate amount paid to Directors by way of fees may not exceed £50,000 in any financial year or such greater sum as may be determined by ordinary resolution of the Company. In order to give the Company the flexibility to adequately remunerate the non-executive directors, it is proposed that such sum be increased to £75,000. Accordingly, an appropriate separate resolution will be put at the EGM as Resolution 2. The Acquisition, and the Placing and Open Offer are not conditional on the passing of this Resolution.

Set out at the end of this document is a notice convening an Extraordinary General Meeting to be held at 11.00 a.m. on 17 July 2000 at Kempson House, Camomile Street, London, EC3A 7AN, at which ordinary resolutions will be proposed to, *inter alia*, approve the Acquisition and to authorise the Directors to take all other steps necessary or desirable to complete the Acquisition.

Action to be taken

You will find enclosed with this document a form of proxy to be used in connection with the EGM. Whether or not you intend to attend the EGM, please complete the form of proxy and return it in accordance with the instructions printed on it to IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive as soon as possible and, in any event, no later than **11.00 a.m. on 15 July 2000. A reply-paid envelope is enclosed for your convenience.**

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

Further information

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

Recommendation

Your Directors, who have received financial advice from Rothschild, consider that the Acquisition is in the best interests of the Company and its Shareholders as a whole. In providing this advice Rothschild has placed reliance on the commercial assessment of the Directors.

Accordingly, your Directors unanimously recommend Shareholders to vote in favour of the Resolutions to be proposed at the EGM, as they intend to do in respect of their entire beneficial holdings of 338,807 Ordinary Shares, in aggregate, representing approximately 1.6 per cent. of the existing ordinary share capital of the Company.

Yours sincerely,

Peter G. Eyles
Executive Chairman

PART II

LETTER FROM CHARTERHOUSE SECURITIES LIMITED

*Regulated by The Securities and Futures Authority Limited and Member of the London Stock Exchange
Incorporated in England with limited liability*

(Registered in England No. 2822303)

Registered Office:
1 Paternoster Row
St Paul's
London
EC4M 7DH

29 June 2000

To Qualifying Shareholders

Dear Shareholder,

**Placing and Open Offer to Qualifying Shareholders of
2,791,127 new Ordinary Shares at the issue price of 110p per share on the basis of
3 new Ordinary Shares for every 23 existing Ordinary Shares**

1. Introduction

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

2 The Open Offer

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

3 new Ordinary Shares for every 23 existing Ordinary Shares

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

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

The Application Form represents a right to apply for new Ordinary Shares at the Placing Price. It is not a document of title and cannot be traded. Any new Ordinary Shares for which application is not made by Qualifying Shareholders under the Open Offer will be allotted pursuant to the Placing and Open Offer Agreement to places procured by Charterhouse or, failing which, to Charterhouse itself, and the proceeds retained for the benefit of the Company. There will be no sale in the market of any entitlement to apply for new Ordinary Shares not taken up by Qualifying Shareholders under the Open Offer.

The Placing and the Open Offer are subject, *inter alia*, to the satisfaction of the following conditions on or before 3.30 p.m. on 26 July 2000 (or such later date as Charterhouse may agree, being not later than 5.00 p.m. on 9 August 2000):

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

3. Procedure for application

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

If you wish to apply for all or any of the new Ordinary Shares represented by your maximum entitlement under the Open Offer, you must complete the Application Form in accordance with the instructions printed on it. Completed Application Forms should be returned by post in the reply-paid envelope provided to IRG plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or, by hand only, during normal business hours, to IRG plc, 23 Ironmonger Lane, London EC2V 8EY with a cheque or banker's draft drawn in sterling on an account at a bank or building society in the United Kingdom which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies or those committees. Such cheques or banker's drafts must bear the appropriate sorting code in the top right hand corner, and must be for the full amount payable on application. **Application Forms and payment in full must be received no later than 3.00 p.m. on 20 July 2000, after which time Application Forms will not be valid.** Once submitted, applications are irrevocable. Cheques should be made payable to "IRG – A/C Hanover International PLC" and crossed "A/C Payee Only". It is a condition of application that cheques will be honoured on first presentation and the Company may elect not to treat as valid those applications in respect of which cheques are not so honoured. A pre-paid addressed envelope is enclosed for your use.

Any application for in excess of a Qualifying Shareholder's maximum entitlement will be deemed to be an application in respect of that Shareholder's maximum entitlement. It is expected that any monies paid in excess of the amount due in respect of a Qualifying Shareholder's application will be returned by post to the applicant (at their own risk), without interest, as soon as practicable following Admission.

Cheques and banker's drafts are liable to be presented for payment upon receipt. The application monies will be held in a separate bank account and any interest earned on such monies will be retained for the benefit of the Company. If the conditions to the Placing and the Open Offer are not fulfilled on or before 3.30 p.m. on 26 July 2000, (or such later date, being not later than 9 August 2000, as Charterhouse may agree) the Open Offer will lapse and application monies will be returned, without interest, by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s) as soon as is practicable.

It is a term of the Open Offer that the Company, or IRG, as receiving agent on its behalf, may in its absolute discretion require verification of identity from persons lodging Application Forms for registration and payment by way of cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant, to ensure compliance with the Money Laundering Regulations 1993. For United Kingdom applicants, this may involve verification of the names and addresses of such applicants through a reputable agency. For non-United Kingdom applicants, verification of identity may be sought from your bankers or from another reputable institution or professional adviser in the applicant's country of residence. If by 3.00 p.m. on 20 July 2000 the Company, or IRG, as receiving agent, has not received evidence as aforesaid satisfactory to it, the Company may, in its absolute discretion, reject the application, in which event, application monies will be returned to the applicant without interest (at the applicant's own risk).

By completing and delivering an Application Form, Qualifying Shareholders:

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

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

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

4. Overseas Shareholders

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

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

In particular, overseas Shareholders should note the following:

United States and Canada

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

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

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

The Republic of Ireland and Australia

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

The new Ordinary Shares have not been and will not be available for subscription or purchase by any resident of the Republic of Ireland or Australia (including corporations and other entities organised under the laws of Australia, but not including a permanent establishment of any such corporation or entity located outside Australia). Applications will not therefore be accepted from anyone who does not make the declaration of non-Irish or non-Australian beneficial ownership contained in the Application Form.

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

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

5. United Kingdom taxation

The following statements, intended only as a general guide, are based on current UK tax legislation and Inland Revenue practice (which may change) and the Finance Bill currently before Parliament (the "Finance Bill") which it is assumed will be enacted in its current form. The paragraphs below summarise the position of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their shares beneficially as an investment otherwise than under a personal equity plan. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

5.1 Taxation of chargeable gains

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

New Ordinary Shares issued to a Qualifying Shareholder should be treated for CGT purposes as the same asset as his or its holding of existing Ordinary Shares as if they had been acquired at the same time as his or its holding of existing Ordinary Shares. The subscription monies for the new Ordinary Shares which a Qualifying Shareholder takes up will be added to the acquisition cost of his or its holding of existing Ordinary Shares.

An individual Qualifying Shareholder who acquired his existing holding of Ordinary Shares prior to 31 March 1998 will be entitled to an indexation allowance for periods up to April 1998. The indexation allowance will be calculated by reference to the consideration paid for the holding of existing Ordinary Shares and not the price paid for the Offer Shares. For periods after 5 April 1998 the indexation allowance has been replaced by taper relief. The amount of taper relief available to a Qualifying Shareholder depends on the number of complete years after 5 April 1998 that the Qualifying Shareholder has held the existing Ordinary Shares and whether or not the shares constitute business assets or non-business assets for taper relief purposes.

The Finance Bill alters the definition of "business asset" for the purposes of taper relief for assets held on or after 6 April 2000. The new Ordinary Shares of the Company will constitute a business asset where the shareholder is an officer or employee of the Company or owns 5 per cent. or more of the voting rights of the Company or, in the case of trustees, where an eligible beneficiary is an officer or employee of the Company or the trustee owns 5 per cent. or more of the voting rights of the Company.

In other situations the new Ordinary Shares will constitute a non-business asset. Any gain on disposal will have to be apportioned between the business asset and non-business asset periods of ownership. If a Qualifying Shareholder acquired his holding of existing Ordinary Shares before 16 March 1998 and those shares constitute non-business assets for taper relief purposes he will be entitled to an additional year's worth of taper relief. For taper relief purposes the Offer Shares taken up under the Open Offer will be treated as having been acquired at the same time as the Qualifying Shareholder's holding of existing Ordinary Shares.

A United Kingdom resident corporate Qualifying Shareholder will continue to be entitled to indexation relief for periods after April 1998. For the purposes of calculating the indexation allowance, the expenditure incurred in subscribing for the new Ordinary Shares acquired pursuant to the Open Offer will be treated as having been incurred when the Qualifying Shareholder makes or becomes liable to make payment of the subscription monies.

A subsequent disposal of the new Ordinary Shares acquired pursuant to the Open Offer may, depending upon individual circumstances, give rise to a liability to United Kingdom taxation of capital gains.

5.2 *Taxation of dividends*

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

- (i) no taxation will be withheld from dividends paid by the Company;
- (ii) for an individual shareholder, a tax credit of one-ninth of the amount of the dividend, equivalent to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend") attaches to the dividend. The tax credit on dividends will discharge in full the liability of a United Kingdom resident individual shareholder whose income is within the lower and basic rate bands to income tax in respect of such a dividend. Higher rate taxpayers will be able to offset the tax credit against their liability to tax on the gross dividend but will have a reduced tax liability of 32.5 per cent. on the gross dividend. Accordingly, there will be a further tax liability of 22.5 per cent. of the gross dividend for such taxpayers equivalent to 25 per cent. of the net dividend. Notwithstanding that a United Kingdom resident shareholder's total tax credit on such dividends exceeds his overall United Kingdom tax liability, any excess will in general not be repaid;
- (iii) for a corporate shareholder, any dividends received will be non-taxable income for United Kingdom corporation tax purposes. However, the gross dividend, including the notional tax credit, will be taken into account when computing profits for marginal relief purposes;
- (iv) for trustees liable to income tax at the rate applicable to trusts (currently 34 per cent.), the gross dividend will be taxed at the Schedule F trust rate of 25 per cent. against which they can set the tax credit. To the extent that the tax credit exceeds the trustees' liability to account for income tax the trustees will have no right to claim repayment of the tax credit. Trustees of discretionary trusts should note the changes to the tax treatment of dividends may impact adversely on beneficiaries who receive income from the trust. Trustees who are in any doubt as to their position should consult their own professional advisers immediately; and
- (v) for United Kingdom pension funds and charities, dividends received will generally be exempt from tax but they will not be entitled to claim a repayment of the tax credit. Charities will receive some compensation for the loss of the tax credit.

5.3 *Stamp duty and stamp duty reserve tax*

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

A conveyance or transfer on sale of new Ordinary Shares will generally be subject to *ad valorem* stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration with the resulting figure rounded up to the nearest £5. A charge to SDRT at the rate of 0.5 per cent. of the consideration will arise in relation to an unconditional agreement to transfer new Ordinary Shares. However, where within six years of the date the agreement was entered into (or became unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that

instrument, any liability to SDRT will be cancelled or repaid. A transfer of new Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the consideration, which will be collected in CREST.

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

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

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

6. Settlement and dealings

Application has been made to the UK Listing Authority for the new Ordinary Shares to be issued pursuant to the Placing and the Open Offer to be admitted to the Official List and to the London Stock Exchange for the admission of such shares to trading on the market for listed securities of the London Stock Exchange. It is expected that Admission will take place and that dealings in the new Ordinary Shares will commence on 26 July 2000, subject to the conditions of the Placing and the Open Offer having been satisfied by that date.

CREST accounts will be credited with new Ordinary Shares issued pursuant to the Placing and the Open Offer with effect from Admission, which is expected to become effective on 26 July 2000. Definitive certificates for new Ordinary Shares issued pursuant to the Placing and the Open Offer are expected to be despatched during the week commencing 31 July 2000. In the case of joint holders, despatch will be to the address of that joint holder whose name stands first in the register of members in respect of the joint holding concerned. Temporary documents of title will not be issued and, pending the despatch of definitive certificates, transfers will be certified against the register of members. All documents or remittances sent by or to any applicant, or as they may direct, will be sent through the post at their own risk.

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

7. Timetable

The dates set out in the timetable of events on page 2 and mentioned throughout this document and the Application Form may be adjusted by agreement between the Company and Charterhouse, in which event details of the new dates will be notified to the UK Listing Authority and, where appropriate, to Qualifying Shareholders. However the latest time for acceptance and payment in full under the Open Offer will not be later than 3.00 p.m. on 9 August 2000.

8. Further information

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

Yours faithfully
for and on behalf of Charterhouse Securities Limited
Paul Newman
Director

PART III

FINANCIAL INFORMATION RELATING TO ANDREW WEIR HOTELS LIMITED



KPMG Audit Plc

PO Box 486

1 Puddle Dock

London EC4V 3PD

United Kingdom

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

The Directors
N M Rothschild & Sons Limited
New Court
St. Swithin's Lane
London
EC4P 4DU

29 June 2000

Dear Sirs

Andrew Weir Hotels Limited

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus of Hanover International PLC dated 29 June 2000 (the 'Prospectus').

Basis of preparation

The financial information set out in paragraphs 1 to 4 is based on the audited financial statements of Andrew Weir Hotels Limited, (for the purposes of this report, the 'Company'), for the three years ended 31 December 1999, and has been prepared on the basis set out in note 4.1 on pages 22 and 23 after making such adjustments we considered necessary.

BDO Stoy Hayward, Chartered Accountants and Registered Auditors, were auditors of Andrew Weir Hotels Limited for each of the two years ended 31 December 1999. Their audit reports in respect of these periods were unqualified.

Coopers and Lybrand, Chartered Accountants and Registered Auditors, were auditors of Andrew Weir Hotels Limited for the year ended 31 December 1997. Their audit report in respect of this period was unqualified.

Responsibility

The financial statements of Andrew Weir Hotels Limited are the responsibility of the directors of that company.

The Directors of Hanover International PLC are responsible for the contents of the Prospectus.

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

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Andrew Weir Hotels Limited as at the dates stated and of its profits and cash flows for the years then ended.

1 Profit and loss accounts for the three years ended 31 December 1999

		1997	1998	1999
	Notes	£000	£000	£000
Turnover	4.1	11,446	14,014	15,131
Cost of sales		(1,787)	(1,995)	(2,084)
Gross profit		9,659	12,019	13,047
Administrative expenses				
– Impairment loss on property values	4.25	–	–	(6,548)
– Other		(7,549)	(9,504)	(10,335)
Operating profit before impairment loss on property values		2,110	2,515	2,712
Impairment loss on property values		–	–	(6,548)
Operating profit/(loss)	4.4	2,110	2,515	(3,836)
Interest payable and similar charges	4.5	(815)	(1,037)	(905)
Profit/(loss) on ordinary activities before taxation		1,295	1,478	(4,741)
Taxation	4.6	50	63	(96)
Profit/(loss) on ordinary activities after taxation		1,345	1,541	(4,837)
Final dividend on ordinary shares	4.7	(450)	(700)	(700)
Retained profit/(loss) for the year		895	841	(5,537)
Retained profit brought forward		2,058	2,953	3,794
Retained profit/(loss) carried forward		2,953	3,794	(1,743)

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

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

2 Balance sheet as at 31 December 1997, 1998 and 1999

	<i>Notes</i>	<i>1997 £000</i>	<i>1998 £000</i>	<i>1999 £000</i>
Fixed assets				
Tangible assets	4.8	37,434	38,565	33,171
		<u>37,434</u>	<u>38,565</u>	<u>33,171</u>
Current assets				
Stocks	4.10	124	127	120
Debtors due within one year	4.11	857	1,070	899
Cash at bank and in hand		11	266	171
		<u>992</u>	<u>1,463</u>	<u>1,190</u>
Creditors: amounts falling due within one year	4.12	(2,573)	(3,184)	(3,103)
Net current liabilities		<u>(1,581)</u>	<u>(1,721)</u>	<u>(1,913)</u>
Total assets less current liabilities		35,853	36,844	31,258
Creditors: amounts falling due after more than one year	4.13	(12,900)	(12,050)	(11,871)
Provisions for liabilities and charges				
Deferred taxation	4.14	—	—	(130)
Net assets		<u>22,953</u>	<u>24,794</u>	<u>19,257</u>
Capital and reserves				
Called up share capital	4.15	19,200	20,200	20,200
Share premium account	4.16	800	800	800
Profit and loss account		<u>2,953</u>	<u>3,794</u>	<u>(1,743)</u>
Equity shareholders' funds	4.21	<u>22,953</u>	<u>24,794</u>	<u>19,257</u>

3 Cash flow statement for the three years ending 31 December 1999

		1997		1998		1999	
	Note	£000	£000	£000	£000	£000	£000
Net cash inflow from operating activities	4.22		2,948		3,723		3,312
Returns on investments and servicing of finance							
Interest payable		(815)		(1,037)		(904)	
			(815)		(1,037)		(904)
Taxation recovered			—		—		147
Dividends paid			(450)		(700)		(700)
Capital expenditure and financial investment							
Purchase of tangible assets		(8,628)		(1,966)		(2,122)	
Sale of tangible assets		7		22		4	
			(8,621)		(1,944)		(2,118)
Cash (outflow)/inflow before financing			(6,938)		42		(263)
Financing							
Bank loan drawn down		5,000		1,000		2,965	
Bank loans repaid		(200)		(700)		(2,797)	
Inter-company loan drawn down		1,300		—		—	
Share capital converted to debt		(1,300)		(1,000)		—	
Share capital issued		1,300		1,000		—	
Net cash inflow from financing			6,100		300		168
(Decrease)/increase in cash			(838)		342		(95)

Reconciliation of net cash flow to movement in net debt

	Notes	1997	1998	1999
		£000	£000	£000
(Decrease)/increase in cash in the period		(838)	342	(95)
Movement in net debt in the period		(4,800)	700	(168)
Net debt at beginning of year		(8,038)	(13,676)	(12,634)
Net debt at end of year	4.23	(13,676)	(12,634)	(12,897)

4 Notes to the financial information

4.1 Accounting policies

4.1.1 The financial information has been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below:

(a) *Basis of accounting*

The financial information has been prepared in accordance with the historical cost convention.

(b) *Turnover*

Turnover represents amounts receivable for goods and services supplied during the year, excluding value added tax and trade discounts.

(c) *Tangible fixed assets*

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided at the following annual rates in order to write off each asset over its expected useful life:

Plant and equipment – 5%, 10% and 20% per annum on a straight-line basis

Motor vehicles – 25% per annum on a straight-line basis

Freehold hotel buildings are maintained to a high standard by regular expenditure charged against operating profit. It is considered that residual values are such that depreciation is not significant and consequently these buildings are not depreciated.

Start up costs and development expenses, including interest charges, incurred in the period from acquisition, construction and refurbishment of a property up to the commencement of trade operations are capitalised and included in the cost of the property. As part of the freehold hotels costs, these start up costs are not amortised.

Expenditure on initially furnishing and equipping new units and on material extensions or upgrading of existing facilities is capitalised. Replacement of furniture and equipment is charged to revenue in the year in which the cost is incurred.

(d) *Investments*

Investments in subsidiary undertakings are stated at cost, less any provision required for permanent diminution in value.

(e) *Stocks*

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

(f) *Deferred taxation*

Full provision for deferred taxation, using the liability method, is made in the accounts in respect of all material timing differences to the extent that is probable that a liability or asset will crystallize, except where, in the opinion of the directors, such differences are not expected to reverse in the foreseeable future.

(g) *Operating leases*

Costs in respect of operating leases are charged on a straight line basis over the lease term in arriving at the operating result for the year.

4.1 Accounting policies (continued)

(h) *Pension costs*

The Company operates a defined contribution pension scheme for the benefit of its employees and pension costs are charged to the Profit and Loss Account as incurred. In addition, the management participate in a defined benefit scheme operated by the parent undertaking, Andrew Weir & Company Limited, and pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

(i) *Finance costs*

The finance costs of loans are recognised over the life of the loans by charging the finance costs to the Profit and Loss Account over the term of the loan. However, when these finance costs are part of the total cost of an asset acquired or under construction, they are deducted from the gross finance costs and capitalised as fixed assets.

4.2 Segmental information

The turnover and profit before taxation is wholly attributable to the principal activity of the Company in the United Kingdom.

4.3 Staff costs

	1997 £000	1998 £000	1999 £000
Wages and salaries	3,623	4,165	4,548
Social security costs	240	287	312
Pension costs	53	64	74
	<u>3,916</u>	<u>4,516</u>	<u>4,934</u>

The average monthly number of persons (including executive directors) employed by the company during the year was as follows:

	1997 Number	1998 Number	1999 Number
Management	8	10	10
Staff	509	549	553
	<u>517</u>	<u>559</u>	<u>563</u>

Two directors have accrued benefits under a defined benefit pension scheme during the three years.

Certain of the directors are remunerated by other group companies for their services to the Andrew Weir & Company Limited group as a whole. No emoluments have been included in this financial information as a charge against the Company's results in respect of these directors.

4.4 Operating Profit

	1997	1998	1999
	£000	£000	£000
Operating profit is stated after charging:			
Auditors' remuneration – audit	13	13	13
Profit on sale of fixed assets	–	(9)	(2)
Other operating lease rentals	13	36	36
Depreciation on tangible fixed assets	534	822	964
Impairment loss on property values	–	–	6,548
Directors' emoluments	116	113	123
	<u> </u>	<u> </u>	<u> </u>

4.5 Interest payable and similar charges

	1997	1998	1999
	£000	£000	£000
Bank loans and overdrafts	(454)	(708)	(641)
Capitalised interest on bank loan	30	–	–
Loan from parent undertaking	(391)	(329)	(264)
	<u> </u>	<u> </u>	<u> </u>
	(815)	(1,037)	(905)

4.6 Taxation

The tax charge comprises:

	1997	1998	1999
	£000	£000	£000
Corporation tax charge at 30.25% (1998: 31.5%; 1997: 31.5%):			
Amount receivable from a fellow subsidiary in respect of group relief	50	113	–
Prior year adjustments	–	(50)	34
Deferred taxation	–	–	(130)
	<u> </u>	<u> </u>	<u> </u>
	50	63	(96)

No charge for corporation tax arose during the three years because of the availability of capital allowances and the use of trading losses, from the previous periods. The Company has losses to carry forward of £1.9 million (1998: £2.7 million; 1997: £2.3 million).

4.7 Dividends

	1997	1998	1999
	£000	£000	£000
Dividends paid on ordinary shares	<u> </u>	<u> </u>	<u> </u>
	450	700	700

4.8 Tangible fixed assets

	<i>Work in Progress £000</i>	<i>Freehold Land and Buildings £000</i>	<i>Plant and Equipment £000</i>	<i>Motor Vehicles £000</i>	<i>Total £000</i>
Cost or valuation					
At 1 January 1997	3,717	23,800	4,613	195	32,325
Additions	7,616	478	497	37	8,628
Disposals	—	—	—	(22)	(22)
Transfers	(11,333)	6,866	4,467	—	—
At 31 December 1997	—	31,144	9,577	210	40,931
Additions	42	332	1,496	96	1,966
Disposals	—	—	(1,767)	(66)	(1,833)
At 31 December 1998	42	31,476	9,306	240	41,064
Additions	—	787	1,323	12	2,122
Disposals	—	—	(260)	(32)	(292)
Transfers	(42)	13	29	—	—
At 31 December 1999	—	32,276	10,398	220	42,894
Depreciation					
At 1 January 1997	—	—	2,894	84	2,978
Charge for the year	—	—	480	54	534
Disposals	—	—	—	(15)	(15)
At 31 December 1997	—	—	3,374	123	3,497
Charge for the year	—	—	773	49	822
Disposals	—	—	(1,767)	(53)	(1,820)
At 31 December 1998	—	—	2,380	119	2,499
Charge for the year	—	—	916	48	964
Impairment loss	—	6,548	—	—	6,548
Disposals	—	—	(260)	(28)	(288)
As at 31 December 1999	—	6,548	3,036	139	9,723
Net book value					
As at 31 December 1999	—	25,728	7,362	81	33,171
As at 31 December 1998	42	31,476	6,926	121	38,565
As at 31 December 1997	—	31,144	6,203	87	37,434

Included in freehold land and buildings is capitalised interest amounting to £101,283 (1998: £101,283; 1997: £101,283). This interest accrued on capital borrowed to purchase and refurbish an hotel.

4.9 Investments

At 31 December 1997, 1998 and 1999 the Company owned the whole of the issued ordinary share capital of the following companies, which are all incorporated in Great Britain and registered in England and Wales. None of the companies traded in the years under review. The costs of investments in these companies have been fully written off:

Basingstoke Country Hotel Limited
Basingstoke Country Club Limited
Cardiff Bay Hotel Limited
Hartford Entertainments Limited

4.10 Stocks

	1997	1998	1999
	£000	£000	£000
Goods for resale	124	127	120

4.11 Debtors

	1997	1998	1999
	£000	£000	£000
Amounts falling due within one year:			
Trade debtors	598	643	538
Amounts owed by parent undertaking	—	—	24
Corporation tax recoverable	50	113	—
Other debtors	5	6	11
Prepayments and accrued income	204	308	326
	857	1,070	899

4.12 Creditors: amounts falling due within one year

	1997	1998	1999
	£000	£000	£000
Trade creditors	599	889	602
Amounts owed to related parties	77	83	82
Taxation and social security	215	502	561
Other creditors and accruals	900	860	662
Bank loans	700	850	1,197
Bank overdrafts	87	—	—
	2,578	3,184	3,104
Income tax (recoverable)	(5)	—	(1)
	2,573	3,184	3,103

4.13 Creditors amounts falling due after more than one year

	1997 £000	1998 £000	1999 £000
Bank loans	7,900	8,050	7,871
Amounts owed to parent undertaking: loan	5,000	4,000	4,000
	<u>12,900</u>	<u>12,050</u>	<u>11,871</u>

The bank loans are repayable as follows:

	1997 £000	1998 £000	1999 £000
In one year or less, or on demand	700	850	1,196
Between one and two years	850	1,400	1,197
Between two and five years	3,450	3,900	4,040
In five years or more	3,600	2,750	2,635
	<u>8,600</u>	<u>8,900</u>	<u>9,068</u>

Included in the above figures are bank loans repayable by instalments wholly or partly in more than five years.

	1997 £000	1998 £000	1999 £000
Secured loan repayable by annual instalments of £450,000 – interest charged at 8.125%	3,650	3,150	2,700
Secured loan repayable by annual instalments of £196,500 – interest charged at bank base rates from time to time plus 1%	–	–	1,818
Secured loan repayable by annual instalments of £150,000 rising to £450,000 in 2003 – interest charged at bank base rate from time to time plus 1%	3,000	2,850	2,700
Secured loan repayable by annual instalments of £300,000 – interest charged at bank rate from time to time plus 1%	–	1,000	–
	<u>6,650</u>	<u>7,000</u>	<u>7,218</u>

During the year to 31 December 1999 two bank loans totalling £1,900,000 have been repaid. They were payable over 5 years at a fixed rate of 8 per cent. and replaced with a new loan of £1,965,000 repayable over 10 years with interest payable at bank rate from time to time plus 1 per cent.

During the year to 31 December 1999 the final drawdown of £500,000 from the bank loan of £1,500,000 was made. During the year to 31 December 1998 bank loans of £1,000,000 from a loan of £1,500,000 were drawn down from National Westminster Bank Plc. The bank loan is secured by a legal charge on the Pine Lodge Hotel, the Cardiff Bay Hotel and Basingstoke Country Hotel. The £1,500,000 is payable over 5 years at an interest rate of 1 per cent. above base rate.

Also during the year to 31 December 1999 a bank loan of £500,000 was drawn down from National Westminster Bank Plc. The £500,000 is payable over 5 years at an interest rate of 1 per cent. above base rate.

During the year to 31 December 1997 bank loans of £5,000,000 were drawn down from National Westminster Bank Plc. Of this amount £2,000,000 is repayable over 5 years at an interest rate of 8 per cent. The remaining £3,000,000 is payable over 10 years at an interest rate of 1 per cent. above base rate. The bank loan is secured by a legal charge on the Pine Lodge Hotel, the Cardiff Bay Hotel and Basingstoke Country Hotel.

A mortgage debenture was created on 26 July 1995 as an equitable charge over all property, excluding legally mortgaged property, and/or sales proceeds thereon, all fixed and floating charges over the undertaking and all property and assets present and future, in favour of National Westminster Bank Plc.

4.13 Creditors amounts falling due after more than one year (continued)

During the year to 31 December 1998 £1,000,000 of the loan from the parent undertaking was converted into 1,000,000 fully paid up £1 ordinary share capital.

During the year to 31 December 1997 £1,300,000 of loans due to the parent company were converted into 1,300,000 fully paid up £1 ordinary share capital.

There are no fixed repayment terms for the loan from the parent company. The balance outstanding at 31 December 1999 is interest bearing at a rate of 1.5 per cent. (1998: 1 per cent.; 1997: 1 per cent.) over banker's base rate.

4.14 Provisions for liabilities and charges

Deferred taxation is made up as follows:

	£000
Balance at 1 January 1997, 31 December 1997 and 31 December 1998	—
Provision made for deferred tax	130
Balance as at 31 December 1999	<u>130</u>

	<i>Amount provided</i>			<i>Amount unprovided</i>		
	1997	1998	1999	1997	1998	1999
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	70	460	700	—	—	—
Losses	(70)	(460)	(570)	(578)	(375)	—
	<u>—</u>	<u>—</u>	<u>130</u>	<u>(578)</u>	<u>(375)</u>	<u>—</u>

It is not Company policy to depreciate property, giving rise to a difference between the tax written down value and the net book value at 31 December 1999. The directors therefore do not consider that the timing difference on industrial building allowances of £1,395,000 (1998: £1,216,000; 1997: £938,743) will reverse in the foreseeable future.

4.15 Called up share capital

	1997	1998	1999
Authorised :			
Ordinary shares of £1 each	<u>20,000</u>	<u>25,000</u>	<u>25,000</u>
	£'000	£'000	£'000
Allotted, issued and fully paid:			
At 1 January 1997, 1998 and 1999	17,900	19,200	20,200
Issued in the year	<u>1,300</u>	<u>1,000</u>	<u>—</u>
As at 31 December 1997, 1998 and 1999	<u>19,200</u>	<u>20,200</u>	<u>20,200</u>

During the years to 31 December 1998 and 31 December 1997 the Company improved its working capital by issuing 1,000,000 ordinary shares of £1 each (1997: 1,300,000 ordinary shares of £1 each) to the parent company at par. The consideration for these issues was satisfied by conversion into equity of part of the Company's long term loan with its parent undertaking. In order to increase the share capital, in the year to 31 December 1998 the Company also increased its authorised share capital by £5,000,000 to £25,000,000.

4.16 Share premium account

	1997	1998	1999
	£000	£000	£000
As at 31 December 1997, 1998 and 1999	800	800	800

4.17 Related party transactions

The ultimate holding company, Andrew Weir & Company Limited, together with fellow subsidiary undertakings are related parties of the Company. During the three years to 31 December 1999, the material related party transactions were as follows.

Edward Sheldon Limited

	1997	1998	1999
	£000	£000	£000
Purchases of wine during the year	225	248	270
Balance due at the year end date	77	83	82

Andrew Weir & Co Ltd

	1997	1998	1999
	£000	£000	£000
Group management charge	75	155	155

There was no balance due to Andrew Weir & Company Limited in respect of the group management charge at the year end dates.

4.18 Capital commitments

	1997	1998	1999
	£000	£000	£000
Capital expenditure	235	62	383

4.19 Pension commitments

Save as indicated below, the Company operates a voluntary defined contribution pension scheme for its employees.

The scheme is operated by a United Kingdom insurance company and is independent of the Company's finances.

The pension charge disclosed in Note 4.3 represents contributions paid by the Company. At the year end £11,071 (1998: £6,483; 1997: £6,307) was owed to the pension scheme.

The managers of the hotels and senior staff of the company are members of a group compulsory defined benefit pension scheme operated by Andrew Weir & Company Limited details of which are set out in the accounts of Andrew Weir & Company Limited.

4.20 Operating leases

	1997	1998	1999
	£000	£000	£000
At 31 December 1997, 1998 and 1999 the Company was committed to make annual payments under non-cancellable lease agreements for land and buildings expiring after five years, as follows	13	36	36

4.21 Reconciliation of movements in shareholders' funds

	1997	1998	1999
	£000	£000	£000
Opening shareholders' funds	20,758	22,953	24,794
Profit/(loss) for the financial year	895	841	(5,537)
New share capital issued	1,300	1,000	—
Closing shareholders' funds	22,953	24,794	19,257

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

	1997	1998	1999
	£000	£000	£000
Operating profit/(loss)	2,110	2,515	(3,836)
Depreciation	534	822	964
Impairment loss on property values	—	—	6,548
(Increase)/decrease in debtors	(10)	(149)	59
(Increase)/decrease in stock	(9)	(3)	6
Increase(decrease) in creditors	323	547	(427)
Profit on sale of fixed assets	—	(9)	(2)
Net cash inflow from operating activities	2,948	3,723	3,312

4.23 Analysis of net debt

	<i>At beginning of the year £000</i>	<i>Cash flow £000</i>	<i>Non Cash flow £000</i>	<i>At end of the year £000</i>
1999				
Cash at bank and in hand	266	(95)	–	171
Bank loan under 1 year	(850)	653	(1,000)	(1,197)
Bank loan over 1 year	(8,050)	(821)	1,000	(7,871)
Intercompany loan	(4,000)	–	–	(4,000)
Total debt	<u>(12,900)</u>	<u>(168)</u>	<u>–</u>	<u>(13,068)</u>
Net debt	<u>(12,634)</u>	<u>(263)</u>	<u>–</u>	<u>(12,897)</u>
1998				
Cash at bank and in hand	11	255	–	266
Overdraft	(87)	87	–	–
	<u>(76)</u>	<u>342</u>	<u>–</u>	<u>266</u>
Bank loan under 1 year	(700)	700	(850)	(850)
Bank loan over 1 year	(7,900)	(1,000)	850	(8,050)
Intercompany loan	(5,000)	–	1,000	(4,000)
Total debt	<u>(13,600)</u>	<u>(300)</u>	<u>1,000</u>	<u>(12,900)</u>
Net debt	<u>(13,676)</u>	<u>42</u>	<u>1,000</u>	<u>(12,634)</u>
1997				
Cash in bank and in hand	761	(750)	–	11
Overdraft	–	(87)	–	(87)
	<u>761</u>	<u>(837)</u>	<u>–</u>	<u>(76)</u>
Bank loan under 1 year	(200)	–	(500)	(700)
Bank loan over 1 year	(3,600)	(4,800)	500	(7,900)
Intercompany loan	(5,000)	(1,300)	1,300	(5,000)
Total debt	<u>(8,800)</u>	<u>(6,100)</u>	<u>1,300</u>	<u>(13,600)</u>
Net debt	<u>(8,039)</u>	<u>(6,937)</u>	<u>1,300</u>	<u>(13,676)</u>

In the years ended 31 December 1997 and 31 December 1998 inter-company loans of £1.3 million and £1.0 million respectively were converted into share capital. In 1997, however, the £1.3 million conversion allowed a further drawdown of inter-company funding to maintain the balance at its previous levels.

4.24 Parent company

The parent company and ultimate controlling party is Andrew Weir & Company Limited which is incorporated in Great Britain and registered in England and Wales.

Copies of the parent's consolidated financial statements may be obtained from the Secretary at Dexter House, 2 Royal Mint Court, London EC3N 4XX.

4.25 Post balance sheet event

The Andrew Weir Hotels properties were formally valued on 29 June 2000 by Weatherall Green & Smith, a firm of Chartered Surveyors. The valuation was on an existing use basis. The total valuation of the properties was £34,600,000 and identified impairments totalling £6,548,000 in the carrying value of five of the six hotels. The valuation as at 29 June 2000 is deemed to provide the best indication of the recoverable amounts of the properties as at 31 December 1999 and the financial statements have therefore been adjusted to reduce the carrying values of the properties to the lower of depreciated historic cost and recoverable amount.

Yours faithfully

KPMG Audit Plc

PART IV

FINANCIAL INFORMATION RELATING TO HANOVER

FINANCIAL INFORMATION ON THE HANOVER GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 1999

1. Nature of the financial information

The financial information contained in Part IV of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 but has been extracted without material adjustment from the consolidated statutory accounts of Hanover and its subsidiaries for the three financial years ended 31 December 1999.

Changes in presentation have been made in order to present the financial information for the financial year ended 31 December 1997 on the same basis as that adopted by Hanover and its subsidiaries in its audited consolidated financial statements for the financial years ended 31 December 1998 and 31 December 1999. Accordingly, the earnings per share figures and associated notes for the financial year 31 December 1997 have been adjusted to comply with Financial Reporting Standard No. 14 ('Earnings per Share').

Hanover has voluntarily adopted the disclosure requirements of Financial Reporting Standard No. 13 ('Derivatives and other Financial Instruments: Disclosures') for the financial years ended 31 December 1998 and 31 December 1999. No similar disclosure was available for the years ended 31 December 1997.

An unqualified report within the meaning of section 235 of the Companies Act 1985 has been given in respect of the accounts for each of the three financial years ended 31 December 1997, 31 December 1998 and 31 December 1999. Such reports did not contain a statement under section 237(2) and (3) of the Companies Act 1985. Copies of the accounts for the financial years ended 31 December 1997, 31 December 1998 and 31 December 1999 have been delivered to the Registrar of Companies in England and Wales.

KPMG Audit Plc, Registered Auditors of 1 Puddle Dock, London EC4V 3PD, were the auditors of Hanover in respect of the financial years ended 31 December 1997, 31 December 1998 and 31 December 1999 and are currently the auditors of Hanover.

Consolidated profit & loss accounts	Notes	Year Ended	Year Ended	Year Ended
		31	31	31
		December	December	December
		1999	1998	1997
		£000	£000	£000
TURNOVER – Continuing Operations		19,880	21,416	19,868
Cost of sales		(7,289)	(8,440)	(8,727)
GROSS PROFIT		12,591	12,976	11,141
Administrative expenses				
– Before exceptional costs		(7,643)	(7,876)	(7,132)
– Exceptional costs	6	(459)	(144)	(105)
		(8,102)	(8,020)	(7,237)
Operating Profit – Continuing Operations				
Before exceptional costs		4,948	5,100	4,009
Exceptional costs	6	(459)	(144)	(105)
		4,489	4,956	3,904
Exceptional profit on the sale of subsidiary undertaking	6	92	455	–
Profit on Ordinary Activities before interest and tax		4,581	5,411	3,904
Net interest payable and similar charges				
Before exceptional interest costs	7	(1,389)	(1,938)	(2,055)
Exceptional interest costs		(681)	–	–
		(2,070)	(1,938)	(2,055)
Profit on Ordinary Activities before tax				
– Before exceptional items		3,559	3,162	1,954
– Exceptional items		(1,048)	311	(105)
		2,511	3,473	1,849
Tax	8	(377)	(443)	(152)
Profit on Ordinary Activities after tax For The Year		2,134	3,030	1,697
Dividends paid and proposed	9	(370)	(278)	(173)
Retained Profit for the year	21	1,764	2,752	1,524
Basic earnings per share				
Including exceptional items	10	11.6p	16.8p	9.9p
Excluding exceptional items	10	17.3p	15.8p	10.5p
Diluted earnings per share				
Including exceptional items	10	11.6p	16.5p	9.9p
Excluding exceptional items	10	17.2p	15.5p	10.4p
Dividends per share	9	2.0p	1.5p	1.0p

There is no material difference to the profit for the current or preceding years on a historical cost basis from that shown above.

Consolidated Balance sheets

As at 31 December

		1999	Group 1998	1997
	Notes	£000	£000	£000
Fixed Assets				
Tangible assets	11	61,829	60,984	64,314
Investment in own shares	12	220	190	–
		<u>62,049</u>	<u>61,174</u>	<u>64,314</u>
Current Assets				
Stock	13	171	189	221
Debtors	14	2,091	2,453	2,299
Cash at bank and in hand		<u>1,302</u>	<u>1,361</u>	<u>168</u>
		3,564	4,003	2,688
Creditors: Amounts Falling Due Within One Year				
Creditors	15	(2,750)	(3,616)	(3,940)
Loans and borrowings	16	(892)	(1,760)	(3,694)
		<u>(3,642)</u>	<u>(5,376)</u>	<u>(7,634)</u>
Net Current (Liabilities)/Assets		<u>(78)</u>	<u>(1,373)</u>	<u>(4,946)</u>
Total assets less current liabilities		<u>61,971</u>	<u>59,801</u>	<u>59,368</u>
Creditors: amounts falling due after more than one year				
Creditors	15	–	–	(17)
Loans and borrowings	16	(17,285)	(17,256)	(19,642)
Convertible loan notes	16	–	–	(2,000)
		<u>(17,285)</u>	<u>(17,256)</u>	<u>(21,659)</u>
Provisions for liabilities and charges	18	<u>(886)</u>	<u>(516)</u>	<u>(228)</u>
Net Assets		<u>43,800</u>	<u>42,029</u>	<u>37,481</u>
Equity – Capital and reserves				
Called up share capital				
ordinary shares	19	4,648	4,641	4,272
Share premium account	21	16,715	16,715	14,844
Revaluation reserve	21	15,392	15,392	15,392
Other reserves	21	690	690	1,048
Profit and loss account	21	<u>6,355</u>	<u>4,591</u>	<u>1,925</u>
Shareholders' funds		<u>43,800</u>	<u>42,029</u>	<u>37,481</u>

Consolidated cash flow statements

		<i>Year Ended</i> 31 <i>December</i> 1999 £000	<i>Year Ended</i> 31 <i>December</i> 1998 £000	<i>Year Ended</i> 31 <i>December</i> 1997 £000
	<i>Notes</i>			
Reconciliation of operating profit to net operating cash flows				
Operating profit		4,581	4,956	3,904
Depreciation of tangible fixed assets	3	649	600	490
Amortisation of government grants	3	—	(6)	(12)
(Profit)/loss on sale of fixed assets		(2)	1	—
Decrease in stock		18	8	(32)
Decrease/(increase) in debtors		364	(472)	(285)
(Decrease)/increase in creditors		(1,066)	138	(336)
Net cash inflow from operating activities		<u>4,544</u>	<u>5,225</u>	<u>3,729</u>
Cash Flow Statement				
Net cash inflow from operating activities		4,544	5,225	3,729
Returns on investments and servicing of finance	22	(1,958)	(1,942)	(1,903)
Taxation paid	22	(34)	(170)	7
Capital expenditure and financial investment	22	(1,459)	(811)	(3,156)
Net proceeds from disposal of subsidiary undertaking	22	—	2,542	—
Equity dividends paid		(292)	(197)	(85)
Net Cash Inflow/(Outflow) Before Financing		<u>801</u>	<u>4,647</u>	<u>(1,408)</u>
Financing	22	<u>(860)</u>	<u>(2,463)</u>	<u>(1,854)</u>
Net (decrease)/increase in cash		<u>(59)</u>	<u>2,184</u>	<u>(3,262)</u>
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash for the period		(59)	2,184	(3,262)
Cash outflow from decrease in debt and lease financing	22	<u>860</u>	<u>2,463</u>	<u>1,854</u>
Change in net debt resulting from cashflows		801	4,647	(1,408)
Loans and finance leases disposed of in subsidiary undertaking		—	957	—
New finance leases		(21)	(125)	(164)
Conversion of convertible loan notes into new ordinary shares		—	2,000	—
Foreign exchange difference		—	34	142
Decrease in net debt		<u>780</u>	<u>7,513</u>	<u>(1,430)</u>
Net debt at 1 January		<u>(17,655)</u>	<u>(25,168)</u>	<u>(23,738)</u>
Net debt at 31 December	24	<u>(16,875)</u>	<u>(17,655)</u>	<u>(25,168)</u>

Statement of total recognised gains and losses
for the years ended 31 December

	Notes	1999 £000	1998 £000	1997 £000
Profit for the financial year		2,134	3,030	1,697
Foreign exchange differences		—	(86)	(354)
Unrealised surplus on revaluation of properties		—	—	15,392
Total recognised gains and losses for the period		<u>2,134</u>	<u>2,944</u>	<u>16,735</u>

Reconciliation of movement in shareholders' funds
for the years ended 31 December

	Notes	1999 £000	1998 £000	1997 £000
Total recognised gains and losses for the period		2,134	2,944	16,735
Dividends	9	(370)	(278)	(173)
		<u>1,764</u>	<u>2,666</u>	<u>16,562</u>
New share capital issued on conversion of loan notes net of expenses		—	2,238	—
New share capital issued in respect of scrip dividend		7	2	—
Capital reserve realised on sale of subsidiary undertaking		—	(358)	—
Net increase in Shareholders' funds		<u>1,771</u>	<u>4,548</u>	<u>16,562</u>
Opening Shareholders' funds		<u>42,029</u>	<u>37,481</u>	<u>20,919</u>
Closing Shareholders' funds		<u>43,800</u>	<u>42,029</u>	<u>37,481</u>
Net assets per share *		<u>236p</u>	<u>226p</u>	<u>219p</u>

* Being Shareholders' funds at 31 December 1999 of £43.8 million (1998: £42.0 million, 1997: £37.5 million) divided by the number of Ordinary Shares in issue at 31 December 1999 being 18,590,121 (1998: 18,562,611, 1997: 17,086,705)

1. Accounting policies

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

Basis of preparation

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

Changes in accounting presentation

The Hanover Group has adopted all new Financial Reporting Standards in issue at 31 December 1999 to the extent applicable. Comparative figures for diluted earnings per share have been restated in accordance with Financial Reporting Standard No. 14: Earnings per Share (FRS 14).

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

Basis of consolidation

The financial information reflects the consolidated accounts of Hanover International PLC and its subsidiary undertakings, all of which are made up to 31 December 1999. 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. From 1 January 1998, goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the aggregate of the fair value of the identifiable assets and liabilities acquired) is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful life. Any excess of the aggregate of the fair value of the identifiable assets and liabilities acquired over the fair value of the consideration given (negative goodwill) is credited directly to reserves. In prior years positive goodwill was written off against reserves on acquisition or capitalised and amortised through the profit and loss account over the Directors' estimate of its useful life and any negative goodwill was credited directly to reserves.

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

Turnover

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

Foreign currencies

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

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

Fixed assets and depreciation

It is Group policy to maintain hotel land and buildings at all times in sound condition and to a high standard. The Directors review the estimates of useful lives and residual values regularly, based on prices prevailing at the time of acquisition or subsequent valuation, and based on their estimates, are of the opinion that the

useful life and residual values are such that any provision for depreciation or impairment would not be material. Therefore, no depreciation is provided on the Group's hotel land and buildings, in common with normal practice within the hotel industry. Any impairment in the value of such properties is charged to the profit and loss account as appropriate.

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

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

Internal professional costs

As part of the costs of development, internal professional costs incurred on major hotel development and refurbishment works are capitalised.

Taxation

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

Government grants

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

Stocks

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

Brand costs

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

Leases

Leases which entail the Group retaining all, or substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Assets obtained under finance leases are included in tangible fixed assets at cost and are depreciated over their useful economic lives. 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 United Kingdom. The costs of these schemes are charged to the profit and loss account in the year to which they relate.

2. Segmental information

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

3. Profit on ordinary activities before taxation

This is stated after charging:

	1999 £000	1998 £000	1997 £000
Depreciation	649	600	490
Amortisation of Government grant	—	(6)	(12)
	<u>649</u>	<u>594</u>	<u>478</u>
Rentals payable under operating leases			
Land and buildings	—	—	52
Plant and machinery	<u>99</u>	<u>107</u>	<u>89</u>

The remuneration of the Group's auditors for the year ended 31 December 1999 for statutory audit work was £65,000 (1998: £70,000, 1997: £73,400) including £5,000 (1998: £35,000, 1997: £35,000) for the Company. In addition £165,225 (1998: £210,000, 1997: £171,000) was paid to the auditors and its associates for non-audit work, primarily in respect of taxation activities and corporate work of which £91,100 related to work in connection with the aborted acquisition as detailed in note 6.

4. Remuneration of directors

Total emoluments, as defined by the Companies Act 1985, of the Directors for the year were £532,000 (1998: £595,000, 1997: £495,000). The emoluments of the highest paid Director, excluding pension contributions, were £217,000 (1998: £266,000, 1997: £218,190).

Pension contributions of £55,000 (1998: £57,000, 1997: £51,000) were provided in the Accounts in respect of the Directors, including £30,000 in respect of the highest paid Director (1998: £38,000, 1997: £27,000).

Further information concerning Directors' shareholdings are contained in Part VII of this document. Details of Directors' share options are included in note 20 on page 50. Directors' emoluments during the year are set out below.

Remuneration benefits

1999	Executive Directors					Non Executive Directors			
	PG Eyles	CR Gaunt	ME Jourdain	*AB Kelly	*A Page	*NP List	HW Whitbread	RJC Privett	*B Clow
£000s									
Salaries and Fees	201	77	67	20	80	5	14	14	9
Compensation payments	—	—	—	—	—	—	—	—	—
Commission/Bonus entitlements	—	—	—	—	—	—	—	—	—
Benefits	16	11	9	2	7	—	—	—	—
	<u>217</u>	<u>88</u>	<u>76</u>	<u>22</u>	<u>87</u>	<u>5</u>	<u>14</u>	<u>14</u>	<u>9</u>
Pension Entitlement	30	8	7	2	8	—	—	—	—

1998	Executive Directors					Non Executive Directors		
	PG Eyles	CR Gaunt	*DJ Greene	ME Jourdain	*A Page	*NP List	HW Whitbread	RJC Privett
£000s								
Salaries and fees	180	62	25	53	35	13	13	16
Compensation payments	—	—	85	—	—	—	—	—
Commission/Bonus entitlements	77	4	—	3	—	—	—	—
Benefits	9	9	3	5	3	—	—	—
	<u>266</u>	<u>75</u>	<u>113</u>	<u>61</u>	<u>38</u>	<u>13</u>	<u>13</u>	<u>16</u>
Pension Entitlement	38	6	4	5	4	—	—	—
1997								
£000s								
Salaries and fees	170	49	97	42	n/a	13	13	13
Compensation payments	30	—	30	—	n/a	—	—	—
Commission/Bonus entitlements	10	—	7	—	n/a	—	—	—
Benefits	8	4	6	3	n/a	—	—	—
	<u>218</u>	<u>53</u>	<u>140</u>	<u>45</u>	<u>n/a</u>	<u>13</u>	<u>13</u>	<u>13</u>
Pension Entitlement	27	5	15	4	n/a	—	—	—

*The previous tables show the remuneration for the period during which the Directors held office in the period.

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

D J Greene ceased to be a director of the Company on 6 April 1998. A Page was appointed as a director of the Company on 14 September 1998.

On 2 September 1999 Mr A Kelly was appointed and Mr A Page resigned as a Director of the Company. On 13 May 1999, Mr B Clow was appointed and Mr N List resigned as a Non Executive Director of the Company.

5. Staff numbers and costs

The average number of persons employed by the Group, including Executive Directors, during the year was 586 (1998: 716, 1997: 744). Of the persons employed at 31 December 1999, 316 were full time and 270 were part time.

The total payroll costs comprised the following:

	1999	1998	1997
	£000	£000	£000
Wages and salaries	5,944	6,494	6,421
Social security costs	413	476	471
Other pension costs	70	75	78
	<u>6,427</u>	<u>7,045</u>	<u>6,970</u>

6. Exceptional items

	1999 £000	1998 £000	1997 £000
Exceptional costs included within operating profit			
Costs associated with changes in senior management	–	144	–
Costs associated with an aborted acquisition	309	–	–
Costs relating to resolving the Year 2000 issue	150	–	–
Legal and professional fees	–	–	105
	<u>459</u>	<u>144</u>	<u>105</u>
Exceptional items not included within operating profit			
Interest costs associated with the re-financing	681	–	–
Profit on the sale of subsidiary undertaking	(92)	(455)	–
Tax relating to exceptional profit on the sale of subsidiary undertaking	–	127	–
	<u>589</u>	<u>(328)</u>	<u>–</u>

7. Interest

	1999 £000	1998 £000	1997 £000
Interest payable and similar charges:			
On bank loans and overdrafts	(1,422)	(1,929)	(1,972)
On convertible loan note	–	(49)	(154)
On finance leases	(21)	(17)	(10)
	<u>(1,443)</u>	<u>(1,995)</u>	<u>(2,136)</u>
Interest receivable and similar income	<u>54</u>	<u>57</u>	<u>81</u>
	<u>(1,389)</u>	<u>(1,938)</u>	<u>(2,055)</u>
Exceptional interest costs associated with the re-financing	<u>(681)</u>	<u>–</u>	<u>–</u>

8. Taxation

	1999 £000	1998 £000	1997 £000
UK Corporation Tax to 31 December 1999 at 30.25% (1998: 31%)	70	123	–
Less relief for overseas tax	–	(123)	–
Net UK Corporation Tax	<u>70</u>	<u>–</u>	<u>–</u>
Overseas Tax	–	127	–
Deferred Tax	307	316	152
	<u>377</u>	<u>443</u>	<u>152</u>

There is no significant charge to UK corporation tax in the year (1998: £Nil, 1997: £Nil) as a result of the availability of capital allowances, double tax relief and the tax losses arising in certain of the Company's subsidiary undertakings. The charge in the year to 31 December 1999 of £70,000 relates to the Group's decision to utilise surplus ACT of £63,000 resulting in a tax payment of £7,000 on profits arising in the Company during 1998. This has left the Group with only £8,000 worth of surplus ACT to relieve in the future. Unutilised trading tax losses carried forward as at 31 December 1999 were approximately £2.4 million (1998: £3.0 million, 1997: £4.2 million).

9. Dividends

	1999 £000	1998 £000	1997 £000
Interim of 0.8p (1998: 0.6p, 1997: 0.5p) per share – paid	147	111	85
Final of 1.2p (1998: 0.9p, 1997: 0.5p) per share – proposed/paid	223	167	88
	<u>370</u>	<u>278</u>	<u>173</u>

10. Earnings per share

	1999 Basic £000	1999 Diluted £000	1998 Basic £000	1998 Diluted £000	1997 Basic £000	1997 Diluted £000
Profit for the financial year (including exceptional items)	2,134	2,134	3,030	3,030	1,697	1,697
Add interest accrued on convertible loan note	–	–	–	49	–	138
Earnings attributable to basic and diluted earnings (including exceptional items)	<u>2,134</u>	<u>2,134</u>	<u>3,030</u>	<u>3,079</u>	<u>1,697</u>	<u>1,835</u>
Less exceptional profit on sale of subsidiary (net of tax)	(92)	(92)	(328)	(328)	–	–
Add exceptional costs	<u>1,140</u>	<u>1,140</u>	<u>144</u>	<u>144</u>	<u>105</u>	<u>105</u>
Earnings excluding exceptional items	<u>3,182</u>	<u>3,182</u>	<u>2,846</u>	<u>2,895</u>	<u>1,802</u>	<u>1,940</u>
Basic earnings per share:						
Including exceptional items	11.6p	–	16.8p	–	9.9p	–
Excluding exceptional items	17.3p	–	15.8p	–	10.5p	–
Diluted earnings per share:						
Including exceptional items	–	11.6p	–	16.5p	–	9.9p
Excluding exceptional items	<u>–</u>	<u>17.2p</u>	<u>–</u>	<u>15.5p</u>	<u>–</u>	<u>10.4p</u>

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.

	1999 Number	1998 Number	1997 Restated Number
Weighted average number of shares used in calculating basic earnings per share	18,395,290	18,031,775	17,086,705
Incremental shares in respect of:			
Dilutive SAYE and Share Options	90,437	39,650	36,271
Shares issuable on conversion of convertible loan note	<u>–</u>	<u>606,736</u>	<u>1,454,545</u>
Weighted average number of shares used in calculating diluted earnings per share	<u>18,485,727</u>	<u>18,678,161</u>	<u>18,577,521</u>

In accordance with Financial Reporting Standard No. 14, diluted earnings per share have been calculated on the assumption that dilutive outstanding options and conversion rights were exercised from the beginning of the financial year or the date of issue if later. Prior to the adoption of FRS14 the diluted earnings per share, including exceptional items, was stated as 9.7p for the year ended 31 December 1997.

11. Tangible fixed assets

	<i>Freehold land & buildings</i>	<i>Furniture, fixtures & fittings</i>	<i>Computer & other office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
GROUP					
Cost or valuation	£000	£000	£000	£000	£000
At 1 January 1998	60,653	3,774	407	210	65,044
Exchange differences	(121)	(56)	—	(1)	(178)
Additions	277	301	139	58	775
Disposals	—	—	—	(81)	(81)
Disposal of subsidiary undertaking	(3,214)	(157)	—	—	(3,371)
At 1 January 1999	57,595	3,862	546	186	62,189
Additions	102	1,104	239	65	1,510
Disposals	—	—	—	(44)	(44)
At 31 December 1999	57,697	4,966	785	207	63,655
GROUP					
Depreciation					
At 1 January 1998	—	618	48	64	730
Exchange differences	—	(49)	—	(1)	(50)
Charge for the year	—	484	72	44	600
Disposals	—	—	—	(51)	(51)
Disposal of subsidiary undertaking	—	(24)	—	—	(24)
At 1 January 1999	—	1,029	120	56	1,205
Charge for the year	—	486	109	54	649
Disposals	—	—	—	(28)	(28)
At 31 December 1999	—	1,515	229	82	1,826
Net book value at 31 December 1999	57,697	3,451	556	125	61,829
Net book value at 31 December 1998	57,595	2,833	426	130	60,984
Net book value at 31 December 1997	60,653	3,156	359	146	64,314

The amounts above include the following in respect of capitalised financed leases

	<i>Furniture, fixtures & fittings</i>	<i>Computer & other office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£000	£000	£000	£000
Cost at 31 December 1998	46	210	174	430
Accumulated depreciation	(11)	(50)	(69)	(130)
Depreciation charge for year	(6)	(34)	(30)	(70)
Cost at 31 December 1999	11	185	85	281
Accumulated depreciation	(2)	(73)	(20)	(95)
Depreciation charge for the year	(1)	(37)	(19)	(57)

Land and buildings include freehold and long leasehold with net book values at 31 December 1999 of £57,697,000 (1998: £57,594,000; 1997: £57,319,000) and £nil (1998: £nil; 1997: £3,335,000). The long leasehold property was disposed of in the year to 31 December 1998 as part of the disposal of The Imperial Hotel, Cork Limited.

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

If land and buildings had not been revalued the historical net book value at 31 December 1999 would have been £42,305,000 (1998: £42,203,000, 1997: £45,261,000).

12. Fixed asset investment in own shares

Investment in own shares

	1999 £000	1998 £000	1997 £000
Cost			
At 1 January	190	—	—
Acquisitions	30	190	—
At 31 December	<u>220</u>	<u>190</u>	<u>—</u>

The above investment relates to shares purchased and held by the Company's employee share ownership trust (the Hanover International UK Profit Sharing Scheme and the Hanover International Employee Trust) which are independently managed trusts. At 31 December 1999 the Trusts owned 200,187 ordinary shares (1998: 175,187, 1997: nil) of 25p each of the Company listed on the Official List of the UK Listing Authority the market value of which was £250,234 (1998: £162,048, 1997: £nil).

Dividends on the shares held in the Hanover International Profit Sharing Scheme trust 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 within the profit and loss account on an accruals basis.

13. Stocks

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

14. Debtors

	1999 £000	1998 £000	1997 £000
Amounts falling due within one year			
Trade debtors	1,034	1,361	1,148
VAT recoverable	—	—	—
Prepayments and accrued income	786	875	1,038
Amounts due from subsidiary undertaking	—	—	—
Other debtors	271	217	113
	<u>2,091</u>	<u>2,453</u>	<u>2,299</u>
Amounts falling due after more than one year			
Advance corporation tax on dividends paid and payable during the year	—	—	—
	<u>2,091</u>	<u>2,453</u>	<u>2,299</u>

Prepayments include an amount of £209,000 (1998: £285,000, 1997: £472,000) representing part of the external expenditure incurred on creating the Hanover brand. During the year £76,000 (1998: £187,000, 1997: £88,000) was expensed to the profit and loss account. The £209,000 balance remaining will be written off over the 27 months to April 2002.

15. Creditors

	1999 £000	1998 £000	1997 £000
Amounts falling due within one year			
Trade creditors	1,261	1,332	1,676
Other tax and social security:			
VAT payable	267	489	439
PAYE and National insurance	114	122	164
Proposed final dividend	223	167	88
Other creditors	244	278	309
Accruals and deferred income	641	1,228	1,264
	<u>2,750</u>	<u>3,616</u>	<u>3,940</u>
Amounts falling due after more than one year			
Accruals and deferred income	<u>—</u>	<u>—</u>	<u>17</u>

16. Loans and borrowings

	1999 £000	1998 £000	1997 £000
Due within one year			
Bank loans	813	1,650	3,564
Obligations under finance leases	79	110	130
	<u>892</u>	<u>1,760</u>	<u>3,694</u>
Due after more than one year			
Bank loans	17,250	17,175	19,542
Obligations under finance leases	35	81	100
	<u>17,285</u>	<u>17,256</u>	<u>19,642</u>
Convertible loan notes	<u>—</u>	<u>—</u>	<u>2,000</u>
Repayable			
In one year ending on 31 December 2000	892	1,760	3,694
Between 1 January 2001 & 31 December 2001	1,158	2,914	3,077
Between 1 January 2002 & 31 December 2005	8,627	14,342	18,260
In later years	7,500	—	305
	<u>18,177</u>	<u>19,016</u>	<u>25,336</u>

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

(a) 1999

	<u>£000</u>	<u>Rate</u>	<u>Repayment profile</u>
Bank of Scotland	12,813	(1) LIBOR + 1½%	3 monthly instalments over 7 years commencing 25 July 1999.
Bank of Scotland	5,250	(1) LIBOR + 1½%	Repayable on 25 July 2006
Finance leases	<u>114</u>		Equal monthly instalments
Total bank loans and finance lease obligations	<u>18,177</u>		

- (1) Secured by way of a first and only 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 The Bank of Scotland on account of each Group company.

(b) 1998

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

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

(c) 1997

<i>Type</i>	<i>£000</i>	<i>Rate</i>	<i>Repayment profile</i>
Barclays term loan (1)	21,050	LIBOR + 1 $\frac{5}{8}$ –2 $\frac{5}{8}$ %	3 monthly instalments over 5 years commencing 28 August 1996 with a final repayment of £12 million due on 28 August 2001
Bank of Ireland term loan (2)	1,070	DIBOR + 1.75%	3 monthly instalments over 8.5 years commencing 1 August 1996
Finance leases	230		Repayable in equal monthly instalments
Overdrafts–UK only	986		Repayable on demand
Total bank loans, overdrafts and finance lease obligations	23,336		
Convertible loan note (3)	2,000	LIBOR + 1% payable half-yearly in arrears commencing on 2nd anniversary	Normal redemption date of 28 August 2001, with early redemption option available to the Company. Redemption at a premium of 17.5% of the par value on normal redemption date

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

17. Financial Instruments

No comparatives for the year ended 31 December 1997 are disclosed.

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

Interest rate profile of financial assets

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

Interest rate profile of financial liabilities

The interest rate profile of the Financial Liabilities of the Group as at 31 December 1999 was:

	1999	1998	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000	£000	£000
	Total	Total	Floating rate	Floating rate	Fixed rate	Fixed rate	Cap & collar rate	Cap & collar rate
Currency sterling								
Bank of Scotland	18,063	18,825	18,063	5,787	–	6,519	–	6,519
Finance leases	114	191	–	–	114	191	–	–
	<u>18,177</u>	<u>19,016</u>	<u>18,063</u>	<u>5,787</u>	<u>114</u>	<u>6,710</u>	<u>–</u>	<u>6,519</u>

Floating rate

The weighted average interest rate for all bank borrowings is 7.66 per cent. (1998: 8.96 per cent.), the current benchmark for the floating rate is LIBOR at 6.00 per cent. (1998: 6.88 per cent.).

- (1) The floating rate financial liabilities comprise bank borrowings that bear a rate of interest based on three month LIBOR.
- (2) Of the 1998 bank borrowings 34.6 per cent. related to a stepped fixed rate which had a ceiling of 8.20 per cent.
- (3) Of the 1998 bank borrowings 34.6 per cent. related to borrowings which, on the basis of 3 month LIBOR rates, were effectively fixed under a cap and collar arrangement. The maximum rate of interest the Group could have paid was 8.00 per cent. and the minimum was set at 6.95 per cent.

Fixed rate

	Weighted average interest rate %	Weighted average interest rate %	Weighted average period until maturity for which rates are fixed – Years	Weighted average period until maturity for which rates are fixed – Years
	1999	1998	1999	1998
Currency Sterling				
Bank Borrowings	–	8.18	–	2.2
Finance Leases	<u>14.00</u>	<u>13.00</u>	<u>1.5</u>	<u>3.0</u>

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

Currency exposures

As at 31 December 1999 all significant transactions entered into by the Group were denominated in sterling and therefore the Group has no foreign currency exposure. Prior to its disposal all significant transactions entered into by The Imperial Hotel, Cork were denominated in Irish Punts, its functional currency.

Maturity of financial liabilities and borrowing facilities

	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000
	Drawn	Drawn	Facilities	Facilities	Undrawn committed borrowing facilities*	Undrawn committed borrowing facilities*
Expiring in 1 year or less	892	1,760	2,142	2,060	1,250	300
Expiring in more than 1 year, but not more than 2 years	1,158	2,914	1,158	2,914	–	–
Expiring in more than 2 years, but not more than 5 years	8,627	14,342	8,627	14,342	–	–
Expiring in more than 5 years	7,500	–	10,250	–	2,750	–
	<u>18,177</u>	<u>19,016</u>	<u>22,177</u>	<u>19,316</u>	<u>4,000</u>	<u>300</u>

*The Facilities available at 31 December 1999 in respect of which all conditions precedent had been met.

Fair value of debt

For all debt, short-term assets and liabilities, the book values and fair values as at 31 December 1999 are the same.

18. Provisions for liabilities and charges

			<i>Deferred Taxation</i>		
			<i>Group</i>	<i>Group</i>	<i>Group</i>
			<i>1999</i>	<i>1998</i>	<i>1997</i>
			<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January			587	271	112
Charges in the year			307	316	159
At 31 December			894	587	271
Advance corporation tax on dividends paid and payable recoverable after more than one year			(8)	(71)	(43)
			886	516	228
	<i>1999</i>	<i>1999</i>	<i>1998</i>	<i>1998</i>	<i>1997</i>
		<i>Full</i>		<i>Full</i>	
	<i>Amounts</i>	<i>potential</i>	<i>Amounts</i>	<i>potential</i>	<i>Amounts</i>
	<i>provided</i>	<i>liability</i>	<i>provided</i>	<i>liability</i>	<i>provided</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Group					
Excess tax allowance over depreciation	886	2,680	516	2,463	228
					2,925

Provision for tax payable on capital gains on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset. The tax effect if all properties had been sold at their book values, assuming no reinvestment in similar properties and therefore without the benefit of roll over relief being available, is estimated to be £4.6 million (1998: £4.6 million, 1997: £4.75 million).

19. Called up share capital

	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Authorised						
Ordinary shares of 25p each	7,000	6,250	6,250	28,000,000	25,000,000	25,000,000
Allotted, called up and fully paid						
Ordinary shares of 25p each	4,648	4,641	4,272	18,590,121	18,562,611	17,086,705

During the year to 31 December 1999 27,510 ordinary shares of 25p with an aggregate nominal value of £6,878 were allotted through the scrip dividend alternative.

20. Share options

Under the Company's executive share option scheme and its SAYE share option scheme, there are outstanding options at 31 December 1999 to subscribe to a total of 1,143,732 ordinary shares of the Company as follows:

	<i>At 1 January 1998</i>	<i>Granted</i>	<i>Lapsed</i>	<i>At 1 January 1999</i>	<i>Granted during year</i>	<i>Lapsed during year</i>	<i>At 31 December 1999</i>
Executive share option scheme	720,000	395,000	(192,000)	923,000	290,000	(235,000)	978,000
SAYE share option scheme	172,294	—	(74,727)	97,567	130,526	(62,361)	165,732
	<u>892,294</u>	<u>395,000</u>	<u>266,727</u>	<u>1,020,567</u>	<u>420,526</u>	<u>(297,361)</u>	<u>1,143,732</u>

On 5 October 1999, under the Executive Share Option Scheme, in addition to options granted to Directors, options over 100,000 (1998: 125,000; 1997: 90,000) ordinary shares were granted to eligible senior employees at 135.5p per share (1998: 79.5p; 1997: 141.5p). Options granted under the Executive Share Option Scheme are normally only exercisable if growth in earnings per share of the Group over any three-year period exceeds the growth in earnings per share of at least 60 per cent. of the companies listed daily in the 'Leisure and Hotels' sector in the Financial Times. Unexercised options lapse up to 10 years after the date of grant.

Details of Directors' interests are set out below:

Executive share option scheme

	<i>At 1 January 1999</i>	<i>Exercise price</i>	<i>Issued during 1999</i>	<i>Exercise price</i>	<i>Lapsed during 1999</i>	<i>At 31 December 1999</i>
P G Eyles	288,000	125.5			—	288,000
	35,000	79.5			—	35,000
			50,000	135.5	—	50,000
C R Gaunt	80,000	148.5			—	80,000
	20,000	79.5			—	20,000
			45,000	135.5		45,000
M E Jourdain	70,000	148.5			—	70,000
	20,000	79.5				20,000
			45,000	135.5		45,000
A Page	195,000	79.5			(195,000)	—
A Kelly	20,000	141.5				20,000
	15,000	79.5				15,000
			50,000	135.5		50,000
Other Employees	70,000	141.5			(20,000)	50,000
	110,000	79.5			(20,000)	90,000
			100,000	135.5		100,000
	<u>923,000</u>		<u>290,000</u>		<u>(235,000)</u>	<u>978,000</u>

On 2 September 1999 options held by A Page lapsed on his ceasing to be a Director.

Executive share option scheme

1998

	<i>At 1 January 1998</i>	<i>Exercise price</i>	<i>Issued during 1998</i>	<i>Exercise price</i>	<i>Lapsed during 1998</i>	<i>At 31 December 1998</i>
P G Eyles	288,000	125.5p	35,000	79.5p	–	323,000
C R Gaunt	80,000	148.5p	20,000	79.5p	–	100,000
D J Greene	192,000	125.5p	–	79.5p	192,000	–
M E Jourdain	70,000	148.5p	20,000	79.5p	–	90,000
A Page	–	–	195,000	79.5p	–	195,000
Other Employees	90,000	141.5p	125,000	79.5p	–	215,000
	<u>720,000</u>	<u>–</u>	<u>395,000</u>	<u>–</u>	<u>192,000</u>	<u>923,000</u>

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

1997

	<i>At 1 January 1997</i>	<i>Exercise price</i>	<i>Issued during 1997</i>	<i>Exercise price</i>	<i>At 31 December 1997</i>
P G Eyles	288,000	125.5p	–	–	288,000
C R Gaunt	–	–	80,000	148.5p	80,000
D J Greene	192,000	125.5p	–	–	192,000
M E Jourdain	–	–	70,000	148.5p	70,000
Other employees	–	–	90,000	141.5p	90,000
	<u>480,000</u>	<u>–</u>	<u>150,000</u>	<u>–</u>	<u>720,000</u>

SAYE share option scheme

	<i>At 1 January 1998</i>	<i>During 1998</i>	<i>At 1 January 1999</i>	<i>During 1999</i>	<i>At 31 December 1999</i>
	<i>Issued</i>	<i>Lapsed</i>	<i>Issued</i>	<i>Lapsed</i>	
P G Eyles	11,607	–	11,607	–	11,607
C R Gaunt	4,642	–	4,642	–	4,642
M E Jourdain	4,642	–	4,642	5,931	10,573
A Page*	–	–	–	4,744	–
A Kelly**	3,482	–	3,482	–	3,482
D J Greene	11,607	–	–	–	–
Other Employees	136,314	–	73,194	119,851	135,428
	<u>172,294</u>	<u>–</u>	<u>97,567</u>	<u>(57,617)</u>	<u>165,732</u>

*Ceased to be director on 2 September 1999.

**Appointed a director on 2 September 1999.

Options issued in 1997 under the SAYE share option scheme are exercisable at the end of the Savings Contract at an option price of 84p. On 1 July 1999 a further share option scheme was implemented and these options are also exercisable at the end of the Savings Contract at an option price of 98p. Both option prices reflect a 20 per cent. 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 1999 was 125.0p and the range during 1999 was 92.5p to 135.0p.

Directors' interests in shares

The Directors' beneficial, including family, interests in the ordinary shares of the company at 31 December of each year or at date of resignation if earlier were as follows:

	<i>Ordinary shares beneficially owned</i>		
	<i>1999</i>	<i>1998</i>	<i>1997</i>
B J Clow	22,651	—	—
P G Eyles	211,746	136,848	115,099
C R Gaunt	9,042	3,019	3,000
D J Greene*	—	60,379	60,379
A B Kelly	7,500	—	—
M E Jourdain	8,405	3,026	3,000
A Page**	4,000	4,000	—
R J C Privett	21,962	21,889	5,000
H W Whitbread	55,915	44,000	44,000

* ceased to be a director on 6 April 1998

** ceased to be a director on 2 September 1999.

21. Reserves

	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Merger reserve</i>	<i>Capital reserve</i>	<i>Profit & loss account</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at 1 January 1998	14,844	15,392	690	358	1,925	33,209
Exchange difference	—	—	—	—	(86)	(86)
Write back of negative goodwill on sale of subsidiary undertaking	—	—	—	(358)	—	(358)
Conversion of Loan Notes and scrip dividend – net of expenses	1,871	—	—	—	—	1,871
Retained profit for the year	—	—	—	—	2,752	2,752
Balance at 1 January 1999	16,715	15,392	690	—	4,591	37,388
Retained profit for the year	—	—	—	—	1,764	1,764
Balance at 31 December 1999	16,715	15,392	690	—	6,355	39,152

22. Analysis of headings within the cash flow statement

	1999 £000	1998 £000	1997 £000
Returns on investment and servicing of finance			
Interest received	53	57	81
Interest paid	(1,309)	(1,982)	(1,974)
Exceptional interest costs	(681)	—	—
Interest element of finance lease payments	(21)	(17)	(10)
	<u>(1,958)</u>	<u>(1,942)</u>	<u>(1,903)</u>
Taxation			
Tax on sale of subsidiary	—	(127)	—
Corporation tax paid	(7)	—	7
Advance corporation tax paid	(27)	(43)	—
	<u>(34)</u>	<u>(170)</u>	<u>7</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,447)	(649)	(3,156)
Sale of tangible fixed assets	18	28	—
Investment in own shares	(30)	(190)	—
	<u>(1,459)</u>	<u>(811)</u>	<u>(3,156)</u>
Net proceeds from disposal of subsidiary undertaking			
Sale of subsidiary undertaking	—	2,934	—
Pre sale dividend	—	293	—
Costs of disposal paid	—	(641)	—
Cash balances disposed of on sale of subsidiary undertaking	—	(44)	—
	<u>—</u>	<u>2,542</u>	<u>—</u>
Financing			
Capital element of finance lease rental payments	(98)	(164)	(101)
Loans repaid due in one year	(762)	(2,299)	(1,753)
	<u>(860)</u>	<u>(2,463)</u>	<u>(1,854)</u>

23. Sale of subsidiary undertaking

	1998 £000
Net assets on disposal	
Fixed assets	3,347
Stock	21
Debtors	277
Cash at bank and in hand	44
Creditors	(672)
Bank loans and overdrafts	(957)
	<u>2,060</u>
Negative goodwill previously credited to reserves	(358)
	<u>1,702</u>
Net proceeds on disposal	(2,157)
Profit on disposal	<u>(455)</u>

The subsidiary undertaking disposed of during the year to 31 December 1998 attributed £17,000 to the Group's net operating cash flows, paid £114,000 in respect of net returns on investment and servicing of finance and paid £nil in respect of taxation and capital expenditure.

24. Analysis of movement in net debt

(a) 1999

	At 1 January 1999 £000	Cash Flow Movements £000	Non-cash* Movement £000	At 31 December 1999 £000
Cash at bank and in hand	1,361	(59)	—	1,302
Overdraft	—	—	—	—
	<u>1,361</u>	<u>(59)</u>	<u>—</u>	<u>1,302</u>
Debt due after more than one year	(17,175)	—	(75)	(17,250)
Debt due within one year	(1,650)	762	75	(813)
Finance leases	(191)	98	(21)	(114)
	<u>(17,655)</u>	<u>801</u>	<u>(21)</u>	<u>(16,875)</u>

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

(b) 1998

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

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

(c) 1997

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

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

25. Capital commitments

Capital expenditure authorised and contracted at the balance sheet date but for which no provision has been made in the Accounts amount to £Nil (1998:£70,000, 1997: £273,000).

The commitments of the Group (Company: £Nil, 1998: £Nil, 1997: £Nil) in respect of expenditure in the year ahead arising from operating leases are set out below:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>1999</i>	<i>1999</i>	<i>1998</i>	<i>1998</i>	<i>1997</i>	<i>1997</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Committed expenditure in 2000 arising from operating leases						
Within one year	–	16	–	9	6	68
Between two and five years	–	117	–	125	57	71
More than five years	–	4	–	–	–	–
	<u>–</u>	<u>137</u>	<u>–</u>	<u>134</u>	<u>63</u>	<u>139</u>

26. Subsequent events

On 23 March 2000 the Group completed the acquisition of the residential training centre business and assets of Birchin International Plc.

The consideration, subject to adjustment and dependent upon trading performance, is £17.0 million and was satisfied from amended banking facilities and the issue of 2,788,518 new ordinary shares under a placing and open offer.

27. 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 £69,737 (1998: £87,036, 1997: £78,000).

There were no outstanding or prepaid contributions as at 31 December 1999 (1998: £Nil, 1997: £Nil) in respect of the schemes.

28. Related party transactions

Mr Neil List, who ceased to be a Non-Executive Director of the Company on 13 May 1999, was formerly the Chairman of Bridgend Group PLC ('Bridgend'). At 31 December 1997 Bridgend's interest in the ordinary shares of the Company was 530,000 Ordinary Shares representing 3.1 per cent. of the issued Ordinary Share capital. On 16 February 1998, Bridgend disposed of its entire holding of Ordinary Shares of the Company on normal commercial terms.

There were no other related party transactions.

PART V

VALUATION REPORT ON THE PROPERTIES

Weatherall

Green & Smith

Norfolk House

31 St James's Square

London SW1Y 4JR

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

The Directors
N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

29 June 2000

Dear Sirs

Acquisition of the business and assets of Andrew Weir Hotels Limited ("Andrew Weir")

In accordance with instructions received from Rothschild, we have valued the portfolio of six freehold properties held by Andrew Weir, in order to advise you as to our opinion of their existing use values, fully equipped as operational hotels. Our valuations have been prepared in connection with the proposed acquisition of the business and assets of Andrew Weir by Hanover International PLC ("Hanover"). Our valuations were carried out and are effective as at 29 June 2000.

The properties were inspected between 11 and 23 May 2000 for the purposes of our valuations and the properties are briefly described below. This valuation is the responsibility of Stephen W Richardson MA FRICS and Jonathan C Hubbard MA ARICS, both partners in our firm.

Background

The properties comprise a portfolio of 6 provincial hotels, of 3 and 4 star standard, providing a total of 536 bedrooms. Three hotels are of 4 star standard, which together account for some 370 bedrooms, the remaining hotels being of 3 star standard, with some 166 bedrooms. The portfolio was assembled by Andrew Weir Hotels over a period of 9 years from 1986 to 1995, during which time and subsequently they have invested significant capital to extend and refurbish the hotels.

The properties are geographically spread, from Basingstoke in the south, Cardiff in the west to Scunthorpe in the north-east. There are two properties to the north of the M25, in Harpenden and Dunstable, with a further property strategically located to the south-west of Birmingham in Bromsgrove.

Properties

Cardiff Bay Hotel, Schooner Way, Atlantic Wharf, Cardiff, South Glamorgan CF10 4RT

The property comprises a 4 star hotel, providing a total of 156 bedrooms, each with an en suite bathroom, of which 65 are formed within a late nineteenth century warehouse which was converted to a hotel around 1988 and 91 are within a modern extension constructed in 1997. The public areas include a conservatory lounge, restaurant (Halyards), hotel bar (Anchorage), basement bar (Breezers), residents' lounge areas and a total of 9 conference/ banqueting rooms. In addition, the property has a modern health and fitness club, with private membership. The hotel site extends to a total of 0.9 hectares (2.3 acres) of which 0.4 hectares (0.9 acres) is on an adjoining site used for car parking. There is parking for some 80 cars at the main hotel site with an additional 120 spaces on the adjoining site.

The hotel is constructed in two distinct parts. The original hotel is within a former warehouse built in the late nineteenth century, on basement, ground and three upper storeys of brick, beneath a slate covered pitched roof. This was converted to a hotel around 1988. At right angles to the original hotel is a modern extension, formed on ground and five upper storeys, which is of steel framed construction, with "stone effect" concrete block cladding and metal panelling, set beneath a barrel vaulted profiled steel covered roof. Linking the two buildings is a four storey section which is part granite clad and part glazed, forming a full height atrium.

The property is situated fronting Tyndall Street and Schooner Way, half a mile to the south of Cardiff city centre, to the northern edge of the Cardiff Bay area. The surrounding area is in mixed use, predominantly residential and office in nature, with the Waterfront 2000 business park immediately alongside. The property can be accessed from junctions 29 to 33 of the M4, which are approximately 7 miles to the north. It is located approximately 14 miles to the south west of Newport and 130 miles to the west of London.

Freehold

Basingstoke Country Hotel, Scures Hill, Nately Scures, Hook, Hampshire RG27 9JS

The property comprises a 4 star hotel providing a total of 100 bedrooms, each with an en suite bathroom. The public areas comprise a restaurant, 2 bars, extensive conference/banqueting rooms and a leisure club. The hotel is set within grounds extending to about 1.4 hectares (3.5 acres), with parking for some 180 cars. In addition, the property includes a detached staff house on a separate site to the rear of the hotel of 0.2 hectares (0.5 acres).

The property is built around an original house dating from 1834, which has been engulfed by a series of extensions built in the 1980s and 1990s. The hotel is formed predominantly on two storeys, with a small section at second floor level within the attic space with dormer windows. It is of brick and block construction, set beneath a pitched, concrete tile covered roof, the elevations being pebble dash rendered and painted white. There are small areas which have a flat felt covered roof, whilst the old house has a pitched, slate covered roof. The leisure club is formed within a large conservatory, which is linked to the main hotel by a glazed corridor.

The property is situated on the north-west side of the A30 Hook to Basingstoke road, about 4 miles to the north-east of Basingstoke, 1 mile to the south-west of Hook and 1 mile from junction 5 of the M3. There is easy access to both Heathrow and Gatwick Airports via the M3 and M25.

Freehold

Pine Lodge Hotel, Kidderminster Road, Bromsgrove, Worcestershire B61 9AB

The property comprises a 4 star hotel, providing a total of 114 bedrooms, including two suites, each with en suite bathroom. The public areas include a bar, restaurant (The Parador), snack bar (The Terrace), snooker room, syndicate rooms and conference/banqueting facilities. In addition, there is a leisure club, comprising a heated indoor swimming pool, steam room, sauna, treatment rooms and gymnasium, together with male and female changing facilities. There is car parking for some 200 cars.

The property has been developed in a "Spanish" style, built on a sloping site, so that it is part two, part three storeys, constructed of brick and concrete block with rendered elevations, all beneath hipped and ridged pantiled roofs. The windows are predominantly timber framed, although some have been replaced with

uPVC sealed units. The development has some architectural features such as towers, which give the look of a hacienda. The property was built around 1989/90 and stands on a site extending to some 1.6 hectares (4 acres).

The property is situated to the west of Bromsgrove, a dormitory town to the city of Birmingham, overlooking the M5 motorway, fronting the A448 (Redditch to Kidderminster road). From the motorway network, access to the hotel from the M5 is either from Junction 5 (to the south) or from Junction 4A (to the north), or from Junction 1 of the M42 (also to the north). Whilst access to the property is through the town of Bromsgrove, the property is convenient to the motorway network, with easy access to Birmingham, Birmingham Airport and the NEC. Bromsgrove rail station is about 10 minutes drive to the south.

Freehold

Glen Eagle Hotel, 1 Luton Road, Harpenden, Hertfordshire AL5 2PX

The property comprises a 3 star hotel, providing a total of 60 bedrooms, each with an en suite bathroom. The property has a number of public rooms, including a restaurant, bar and lounge, the restaurant being accessible both from within the hotel and from an independent external access. The property also provides a main conference room and a further banqueting room which can be subdivided into 3 rooms. The function room opens out onto a terrace which leads to well landscaped gardens. There is parking for about 82 cars and the site extends to about 0.5 hectares (1.3 acres).

The property dates from the early nineteenth century and comprises a three storey red brick building set beneath a slate covered pitched and hipped roof, which incorporates dormer window frames to the second floor. The property has been added to over the years, including a modern extension to the north built in 1997, also of brick construction, which provided a further 10 rooms to the original 50 bedrooms and a conservatory restaurant to the east. The function rooms to the rear of the property have been extended and are set beneath an asphalt covered flat roof with two skylights providing extra light to the room.

The property is situated on the edge of Harpenden town centre on the west side of Luton Road. It is 7 miles from Luton airport, 5 miles from junctions 9/10 of the M1, 8 miles from junction 21A of the M25 and half a mile from Harpenden railway station. The surrounding area is predominantly residential in nature, with the retail core of Harpenden a short distance to the south.

Freehold

Old Palace Lodge Hotel, Church Street, Dunstable, Bedfordshire LU5 4RT

The property comprises a 3 star hotel, providing a total of 68 bedrooms, including 2 suites, each with an en suite bathroom. The public areas include a restaurant, bar/lounge and 2 conference/banqueting rooms. The restaurant can be used for private functions with a capacity of approximately 80 people. There is parking for about 58 cars and the site extends to about 0.3 hectares (0.8 acres).

The property, which is Grade II listed, comprises a former Victorian Lodge which was extended to the rear in 1997, adding 18 bedrooms to the original 50. The original Lodge, which is built on ground and first floors, is of brick set beneath a pitched natural slate covered roof. The modern extension is built of brick on three storeys, beneath a slate covered mansard roof incorporating the second floor. To the east of the building there are a number of out buildings comprising the linen room, staff room and kitchen which interconnects with the hotel.

The property is situated on the eastern edge of Dunstable town centre on the A505, 6 miles west of Luton, 2 miles from junction 11 of the M1 and 4 miles from Luton railway station. The immediate surrounding area is predominantly residential in nature.

Freehold

Wortley House Hotel, Rowland Road, Scunthorpe, Humberside DN16 1SU

The property comprises a 3 star hotel providing a total of 38 bedrooms, each with an en suite bathroom. The public areas comprise a lounge bar, restaurant, 2 large function rooms, a separate function bar/lounge and a recently converted conference room. In addition, the property includes a detached former garage workshop

premises, currently used as a carpet retail outlet. There is parking on site for about 70 to 80 cars and the site extends to about 0.5 hectares (1.3 acres).

The hotel has been constructed around a Victorian residential property, which is now largely obscured by later extensions. It is built predominantly on two storeys, over a small basement, of brick and block construction, beneath a pitched slate covered roof. The front and flank elevations have been rendered and painted. The windows to the front and side elevations have mostly been replaced with modern uPVC casements, whilst those to the rear are traditional double hung timber framed sashes. The property was extensively refurbished in 1999, including the full refurbishment of all 38 bedrooms and bathrooms.

The property is situated on a corner site in a predominantly residential area, a short distance to the south of Scunthorpe town centre. The property backs onto a council maintained public park, which can be accessed directly from the hotel grounds. The hotel is situated about 2 miles from junction 3 of the M180 (via the M181) and a similar distance from junction 4 of the M180, which links to the M18 and thence to the A1 and M1. Grimsby is about 30 miles to the east, Hull about 26 miles to the north (via the Humber Bridge) and Doncaster about 22 miles to the west.

Freehold

Basis of Valuation

This report and valuations have been prepared in accordance with the current edition of the RICS Appraisal and Valuation Manual (the Red Book) issued by the Royal Institution of Chartered Surveyors and Chapter 18 of The Listing Rules issued by the UK Listing Authority (May 2000 Edition). The valuers responsible for this instruction are qualified asset valuers as defined in the Red Book, acting as external valuers.

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

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest;
- (e) that both parties to the transaction had acted knowledgeably, prudently, and without compulsion;
- (f) the property can be used for the foreseeable future only for the existing use; and
- (g) that vacant possession is provided on completion of the sale of all parts of the property occupied by the business.

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

The properties fall into the category of property which normally changes hands in the open market as a fully operational business unit. Our valuations, therefore, include all plant, machinery, fixtures, fittings, paintings, prints, objets d'art, furniture and moveable items ("FF&E") as these are usually included in a sale. Furthermore, we have assumed that the plant, machinery and services are in good working order, that the FF&E is free from hire purchase, leasing, rent charges, loan or service agreements and that no allowance has been made for individual items that might command an additional value because they have an antique or rarity value. Our valuations also assume that purchasers would take over existing staff, but not necessarily

the senior management, and the benefit of current and further bookings. Our valuations exclude wet and dry stock, which we assume a purchaser will acquire separately at valuation, usually on the day of completion.

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

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

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

Valuation

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

<i>Tenure</i>	<i>Aggregate Existing Use Value</i>
Freehold Properties	£34,600,000 (thirty four million, six hundred thousand pounds)

The valuation above can be apportioned as follows:

Cardiff Bay Hotel	£9,000,000
Basingstoke Country Hotel	£10,000,000
Pine Lodge Hotel	£8,000,000
Glen Eagle Hotel	£3,500,000
Old Palace Lodge Hotel	£3,000,000
Wortley House Hotel	£1,100,000

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

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

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

Yours faithfully

VALUATION PROCEDURE AND ASSUMPTIONS – PROPERTY

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

1. Condition and pollution hazards

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

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

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

2. Tenure and tenancies

We rely upon information supplied as to the property, tenure, tenancies, permitted uses and related matters. We assume such information to be accurate, up-to-date and complete.

We do not examine the title documents. We assume that any outstanding requirements of repairing covenants will be met.

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

3. Planning and highway enquiries

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

4. Floor areas

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

5. Tenant status

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

6. Plant and machinery

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

7. Valuation date

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

8. Costs of realisation

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

PART VI

PRO FORMA STATEMENT OF COMBINED NET ASSETS OF THE ENLARGED GROUP

The pro forma financial information set out below has been prepared to illustrate the effect on the net assets of the Hanover Group of the Proposals as if the Proposals had occurred at 31 December 1999 as adjusted for the pro forma impact of the acquisition of the training and conference centre business and assets of Birchin International plc and its subsidiaries ('the Birchin acquisition'). The pro forma impact of the Birchin acquisition was published in the Company's prospectus dated 28 February 2000 ('28 February 2000 prospectus'). The pro forma impact of the Birchin acquisition has been included in the pro forma statement as the acquisition had a material impact on the tangible fixed assets and debt position of Hanover International PLC and, notwithstanding the illustrative nature of the pro forma statement, its exclusion would have resulted in the presentation of a misleading financial position. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group.

The pro forma statement of combined net assets of the Enlarged Group set out below is based on the audited net assets of the Group as at 31 December 1999, extracted without material adjustment from the financial information contained in Part IV of this document, the audited net assets of the Birchin Training Centres and Swinton Castle Limited as at 30 September 1999 extracted without material adjustment from Part VI of the 28 February 2000 prospectus and the audited net assets of Andrew Weir Hotels as at 31 December 1999 extracted without material adjustment from the accountants' report set out in Part III of this document.

Pro forma statement of net assets of the Enlarged Group

	<i>Hanover International PLC £000 Note 1</i>	<i>Impact of Birchin acquisition £000 Note 2</i>	<i>Impact of the Proposals £000 Note 3</i>	<i>Pro forma £000</i>
Fixed assets				
Tangible assets	61,829	17,000	34,000	112,829
Investment in own shares	220	—	—	220
	<u>62,049</u>	<u>17,000</u>	<u>34,000</u>	<u>113,049</u>
Current assets				
Stocks	171	59	—	230
Debtors	2,091	251	—	2,342
Cash at bank and in hand	1,302	(573)	—	729
	<u>3,564</u>	<u>(263)</u>	<u>—</u>	<u>3,301</u>
Creditors: Amounts falling due within one year				
Creditors	(2,750)	—	—	(2,750)
Loans and borrowings	(892)	(25)	—	(917)
	<u>(3,642)</u>	<u>(25)</u>	<u>—</u>	<u>(3,667)</u>
Net current assets/(liabilities)	<u>(78)</u>	<u>(288)</u>	<u>—</u>	<u>(366)</u>
Total assets less current liabilities	<u>61,971</u>	<u>16,712</u>	<u>34,000</u>	<u>112,683</u>
Creditors: Amounts falling due after more than one year				
Creditors	—	—	(2,700)	(2,700)
Loans and borrowings	(17,285)	(14,061)	(20,700)	(52,046)
	<u>(17,285)</u>	<u>(14,061)</u>	<u>(23,400)</u>	<u>(54,746)</u>
Provisions for liabilities and charges	(886)	(51)	—	(937)
Net assets	<u>43,800</u>	<u>2,600</u>	<u>10,600</u>	<u>57,000</u>

Notes:

1. Hanover International PLC audited balance sheet as at 31 December 1999.
2. Total pro forma impact of the Birchin acquisition. The analysis of the pro forma impact of this acquisition was disclosed in the 28 February 2000 prospectus and is reproduced below:

	<i>Birchin Training Centres £000 Note 2a</i>	<i>Swinton Castle Limited £000 Note 2b</i>	<i>Elimination of balances £000 Note 2c</i>	<i>Impact of acquisition £000 Note 2d</i>	<i>Impact of fixed asset revaluations £000 Note 2e</i>	<i>Impact of the Birchin acquisition £000</i>
Fixed assets						
Intangible fixed assets	-	-	-	8,957	(8,957)	-
Tangible assets	6,293	1,858	(108)	-	8,957	17,000
	<u>6,293</u>	<u>1,858</u>	<u>(108)</u>	<u>8,957</u>	<u>-</u>	<u>17,000</u>
Current assets						
Stocks	47	12	-	-	-	59
Debtors	3,601	68	(3,418)	-	-	251
Cash at bank and in hand	37	7	(44)	(573)	-	(573)
	<u>3,685</u>	<u>87</u>	<u>(3,462)</u>	<u>(573)</u>	<u>-</u>	<u>(263)</u>
Creditors: Amounts falling due within one year						
Creditors	(817)	(1,999)	2,816	-	-	-
Loans and borrowings	(21)	(4)	-	-	-	(25)
	<u>(838)</u>	<u>(2,003)</u>	<u>2,816</u>	<u>-</u>	<u>-</u>	<u>(25)</u>
Net current assets/(liabilities)	<u>2,847</u>	<u>(1,916)</u>	<u>(646)</u>	<u>(573)</u>	<u>-</u>	<u>(288)</u>
Total assets less current liabilities	9,140	(58)	(754)	8,384	-	16,712
Creditors: Amounts falling due after more than one year						
Loans and borrowings	(49)	(12)	-	(14,000)	-	(14,061)
	<u>(49)</u>	<u>(12)</u>	<u>-</u>	<u>(14,000)</u>	<u>-</u>	<u>(14,061)</u>
Provisions for liabilities and charges	(51)	-	-	-	-	(51)
Net assets	<u>9,040</u>	<u>(70)</u>	<u>(754)</u>	<u>(5,616)</u>	<u>-</u>	<u>2,600</u>

Notes:

- 2a Birchin Training Centres balance sheet as at 30 September 1999 as extracted from the accountants' report set out in Part III of the 28 February 2000 prospectus.
- 2b Swinton Castle Limited balance sheet as at 30 September 1999 as extracted from the accountants' report set out in Part III of the 28 February 2000 prospectus.
- 2c Elimination of intercompany balances owed within the Birchin International plc group as at 30 September 1999 together with cash at bank and in hand not transferred on acquisition and liabilities not acquired.
- 2d The consideration for the acquisition of £17 million and the estimated acquisition costs of £0.8 million financed by debt of £14.4 million (before estimated costs of £0.4 million), equity of £3 million (before estimated issue costs of £0.4 million) and £0.4 million paid from cash balances.

The goodwill arising on acquisition, prior to the impact of the property revaluation set out in note 2e below is £8,957,000 which is calculated as follows:

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

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

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

- 2e Property valuation of the sites being acquired is £17,000,000

3. The pro forma impact of the Proposals is as follows:

	Note	Andrew Weir Hotels £000 Note 3a	Adjustments £000 Notes 3b to 3f	Impact of the Proposals £000
Fixed assets				
Tangible assets	3b	33,171	829	34,000
		<u>33,171</u>	<u>829</u>	<u>34,000</u>
Current assets				
Stocks	3c	120	(120)	—
Debtors	3c	899	(899)	—
Cash at bank and in hand	3d	171	(171)	—
		<u>1,190</u>	<u>(1,190)</u>	<u>—</u>
Creditors: Amounts falling due within one year				
Creditors	3c	(1,906)	1,906	—
Loans and borrowings	3d	(1,197)	1,197	—
		<u>(3,103)</u>	<u>3,103</u>	<u>—</u>
	—	<u>—</u>	<u>—</u>	<u>—</u>
Net current assets/(liabilities)		<u>(1,913)</u>	<u>1,913</u>	<u>—</u>
Total assets less current liabilities		<u>31,258</u>	<u>2,742</u>	<u>34,000</u>
Creditors: Amounts falling due after more than one year				
Creditors	3b	—	(2,700)	(2,700)
Loans and borrowings raised	3b	—	(20,700)	(20,700)
Loans and borrowings not acquired	3d	(11,871)	11,871	—
		<u>(11,871)</u>	<u>(11,529)</u>	<u>(23,400)</u>
Provisions for liabilities and charges	3e	(130)	130	—
Net assets	3b	<u>19,257</u>	<u>(8,657)</u>	<u>10,600</u>

3a Andrew Weir Hotels audited balance sheet as at 31 December 1999 extracted from the accountant's report set out on pages 17 to 31

3b The Andrew Weir Hotels acquisition can be summarised as follows:

	£000	£000
Fair value of fixed assets acquired (note 3f)		<u>34,000</u>
Satisfied by:		
Issue of equity of £11 million (net of costs of £0.4 million)		10,600
Loan note issued to Vendor		2,700
Bank borrowings of £20.85 million (net of arrangement fees of £0.15 million)		<u>20,700</u>
		<u>34,000</u>

3c The Vendor will provide such funds as are required to settle its estimate of the net current liabilities of Andrew Weir Hotels at Completion and therefore such balances will not form part of the net assets acquired.

3d The acquisition of Andrew Weir Hotels Limited is to be carried out on a debt and cash free basis and therefore such balances will not be transferred to Hanover International PLC on acquisition.

3e A fair value adjustment has been made to value provisions for liabilities and charges at nil.

3f The Directors of Hanover have determined the fair value of the properties acquired on the basis of the Weatherall's valuation of £34.6 million (as set out in Part V of this document) as adjusted to the amount of the total costs of acquisition of £34 million being the consideration payable on Completion to the Vendor of £32.7 million and professional fees in respect of the Acquisition of £1.3 million (being £1.85 million professional fees less £0.4 million deducted from equity and £0.15 million deducted from debt).

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



KPMG Audit Plc

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

Private & confidential

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

The Directors
N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London
EC4P 4DJ

29 June 2000

Dear Sirs

Hanover International PLC ('the Company')

We report on the pro forma financial information set out in Part VI of the Prospectus dated 29 June 2000, which has been prepared, for illustrative purposes only, to provide information about how the Proposals might have affected the financial information presented.

Responsibilities

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

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

Basis of opinion

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

Opinion

In our opinion:

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

Yours faithfully

KPMG Audit Plc

PART VII

ADDITIONAL INFORMATION

1 Incorporation of Hanover

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

2 Share Capital of Hanover

- 2.1 The following table shows the authorised and issued share capital of the Company as at 28 June 2000 (the last practicable date prior to the publication of this document) and as it will be immediately following the issue of the new Ordinary Shares:

Position as at 28 June 2000

	<i>Ordinary Shares</i>	
	<i>£</i>	<i>Number</i>
Authorised share capital	10,000,000	40,000,000
Issued share capital	5,355,296	21,421,184
Authorised but unissued share capital	<u>4,644,704</u>	<u>18,578,816</u>

Position following the issue of the new Ordinary Shares

	<i>Ordinary Shares</i>	
	<i>£</i>	<i>Number</i>
Authorised share capital	15,000,000	60,000,000
Issued share capital	7,481,649	29,926,596
Authorised but unissued	<u>7,518,351</u>	<u>30,073,402</u>

The authorised but unissued ordinary share capital of the Company will represent 50.1 per cent. of the issued ordinary share capital of the Company following the Placing and the Open Offer which include 1,020,091 Ordinary Shares reserved for the exercise of options granted under the Hanover Share Schemes.

- 2.2 The alterations in the issued share capital of the Company in the three years preceding 28 June 2000 (the last practicable date prior to the publication of this document) are set out below:
 - 2.2.1 on 9 February, 29 April and 8 June 1998 Hanover issued 397,930, 372,856 and 700,525 Ordinary Shares respectively pursuant to the conversion of convertible loan notes at prices of 125.65p, 134.10p and 142.75p respectively;
 - 2.2.2 the following Ordinary Shares have been issued pursuant to the Hanover scrip dividend scheme:

<i>Date</i>	<i>Number of Ordinary Shares</i>	<i>Price of Issue</i>
25 June 1998	1,405	139.5p
18 December 1998	3,190	91.6p
25 June 1999	15,999	114.5p
17 December 1999	11,511	119p
23 June 2000	22,545	108.7p

2.2.3 on 23 March 2000, Hanover issued 2,788,518 Ordinary Shares at 108p each pursuant to a placing and open offer in connection with the acquisition of the training centre business and assets of Birch International plc.

- 2.3 By an ordinary resolution passed on 25 May 2000 the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount of £2,042,307 which authority expires at the close of the next annual general meeting of the Company (or, if earlier, on 25 August 2001) (provided that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry).
- 2.4 By a special resolution passed on 25 May 2000, the Directors were empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority described in paragraph 2.3 above as if sub-section (1) of section 89 of the Act did not apply to any such allotment, such power to be limited to: (a) the allotment of equity securities in connection with a rights issue, open offer, or other issue in favour of Shareholders where the equity securities respectively attributable to the interests of Shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange, in any territory or any other matter whatsoever; (b) the allotment of equity securities pursuant to the Hanover Share Schemes; and (c) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal value of £267,233; such power to expire at the close of the next annual general meeting of the Company (or, if earlier, on 25 August 2001) provided that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.
- 2.5 The new Ordinary Shares to be allotted and issued pursuant to the Acquisition and the Placing and the Open Offer will be allotted and issued out of the Company's existing authorised but unissued Ordinary Share capital pursuant to the authorities described in paragraphs 2.3 and 2.4 above and the authority to allot Ordinary Shares proposed to be granted at the EGM.
- 2.6 The following options granted under deed for nil consideration under the Hanover Share Schemes were outstanding over a total of 1,120,091 Ordinary Shares at 28 June 2000 (the latest practicable date prior to the publication of this document):

<i>Scheme</i>	<i>Grant Dates</i>	<i>Number of Ordinary Shares</i>	<i>Exercise price between (p)</i>	<i>Exercise dates</i>
Savings-related	26/08/97 – 4/05/98	162,091	84 – 98	1/10/00 – 31/12/01
Executive Approved	5/10/99	154,982	135.5	5/10/02 – 5/10/09
Executive Unapproved	10/9/96 – 5/10/99	803,018	79.5 – 148.5	10/9/99 – 5/10/09

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

- 2.7 Save as disclosed in this paragraph 2:
- 2.7.1 during the three years immediately preceding the date of this document, there have been no changes in the amount of the issued share capital of the Company and no material change in the amount of the issued share or loan capital of any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries); and
- 2.7.2 no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

- 2.8 The Company is subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash. The provisions of section 89 of the Act (which, to the extent not disapplied, confer on Hanover Shareholders pre-emption rights in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued share capital of the Company, except to the extent such provisions have been disapplied as referred to in paragraph 2.4 above.

3 Memorandum and Articles of Association

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

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

3.1 Share Rights

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

3.2 Voting Rights

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

3.3 Dividends and Other Distributions

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Act and the Articles, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution. Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways. The Board may, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to any holders of ordinary shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary

resolution. All dividends unclaimed for a period of 12 years after having become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

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

3.4 Variation of Rights

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

3.5 Transfer of Shares

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

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

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

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

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

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

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

3.6 *Alteration of Share Capital*

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

3.7 *Purchase of Own Shares*

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

3.8 *General Meetings*

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

3.9 *Directors*

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

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

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

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

- the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under guarantee or indemnity or by the giving of security;
- the subscription or purchase by him of any shares, debentures or other securities of the Company or any of its subsidiaries pursuant to any offer or invitation or the underwriting or sub-underwriting by him of any such shares, debentures or other securities;
- any contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning any other company (including any subsidiary of the Company) in which he is interested, directly or indirectly (and whether as an officer or shareholder, creditor or otherwise), provided that he is not directly or indirectly the holder of or beneficially interested in one per

cent. or more of either a relevant company or an intermediate company (such terms being defined in the Articles);

any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of a pension fund, retirement, death or disability benefits scheme or personal pension plan under which he may benefit and which either (i) has been approved by or is subject to and conditional on approval by the Board of Inland Revenue for taxation purposes or (ii) relates to both employees and Directors of the Company (or directors of any of its subsidiaries) and does not accord to any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; and

any contract, arrangement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy pursuant to the Articles.

3.10 Borrowing powers

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

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

3.11 Untraced Shareholders

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

4 Hanover Share Schemes

Hanover currently operates five employee share schemes as follows:

4.1 Hanover International PLC 1999 Approved Discretionary Share Option Scheme

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

4.1.2 Eligible Employees

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

4.1.3 Grant of Options

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

4.1.4 Option Exercise Price

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

4.1.5 Individual limit

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

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

4.1.6 Overall limits

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

4.1.7 Exercise of options

- (a) Subject as follows, an option will normally only be exercisable by an individual who remains in employment with the Group and may only be exercised between the third and tenth anniversaries of the date on which the option was granted. Exercise will also normally be dependent on the Company having achieved a performance target or targets.
- (b) Early exercise of an option will be permitted if an individual's employment terminates by reason of death, injury, disability, redundancy, retirement, or in other circumstances in which the Directors consider it reasonable that exercise be permitted, or if the company which employs the individual ceases to be a member of the Group, or on a takeover of the Company or a resolution for the Company's winding-up. In the case of a takeover or winding-up, options may be exchanged for options over the acquiring company's shares but only with the consent of the optionholder, the acquiring company and the Inland Revenue.

4.1.8 Variation of share capital

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

4.1.9 Voting, dividend, transfer and other rights

- (a) Until options are exercised, optionholders have no voting or dividend rights in respect of the Shares under option.
- (b) Shares issued and allotted under the Approved Scheme following the exercise of an option will rank *pari passu* in all respects with the then existing shares of the same class of the

Company with the exception of rights attaching by reference to a record date on or before the date of allotment. The Company will make application to the UK Listing Authority for such shares to be admitted to the Official List.

(c) Options are non-transferable (other than on death).

(d) Options are not pensionable.

4.1.10 Amendments

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

4.2 *Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme*

4.2.1 Constitution

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

4.2.2 Individual limit

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

4.2.3 Exercise of options

An option may only be exercised between the third and seventh anniversaries of the date on which the option was granted (third and tenth anniversaries in the case of options granted after 13 May 1999). Exercise will also normally be dependent on the Company having achieved a performance target or targets. Early exercise will be permitted in the same circumstances as under the Approved Scheme; and

4.2.4 Amendments

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

4.3 *Hanover International 1997 UK Savings Related Share Option Scheme*

4.3.1 Constitution

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

4.3.2 Eligible Employees

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

4.3.3 Grant of Options

(a) Where the Directors decide to issue an invitations to participate in the Savings Related Scheme they shall only do so to all eligible employees during the six week period following the announcement of the Company's final and interim results to the UK Listing

Authority for any financial period and at other times following changes to the approved SAYE contract or applicable tax legislation or under exceptional circumstances.

- (b) An employee who applies to participate will normally be granted an option over the number of Shares whose aggregate option exercise price equals as closely as possible the proceeds (including relevant bonus) on completion of the related SAYE contract entered into at that time by the employee, but the maximum aggregate number of Shares to which options relate may be limited by the Directors and applications scaled down accordingly.
- (c) Options will not be transferable and any awards under the Savings Related Scheme will be non-pensionable.
- (d) No options may be granted after the tenth anniversary of the shareholders' approval of the Savings Related Scheme.

4.3.4 Limits

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

4.3.5 Option Exercise Price

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

4.3.6 Exercise of Options

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

4.3.7 Variation of Share Capital

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

4.3.8 Rights attaching to shares

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

4.3.9 Amendments

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

4.4 Hanover International 1997 UK Profit Sharing Scheme

4.4.1 Constitution

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

4.4.2 Funding

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

4.4.3 Eligible Employees

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

4.4.4 Entitlement of Eligible Employees

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

4.4.5 Acquisition Price

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

4.4.6 Restrictions on Shares and Tax Consequences

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

4.4.7 Limits

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

4.4.8 Dividends, Voting Rights and Notices to Shareholders

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

4.4.9 Variation of Share Capital

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

4.4.10 Takeover or Reconstruction

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

4.4.11 Listing

The Directors will apply to the UK Listing Authority for any new Shares subscribed for by the Trustee to be admitted to the Official List.

4.4.12 Amendments

- (a) The Profit Sharing Scheme may be amended by the Directors provided that, broadly, no amendment which would be to the advantage of participants may be made without prior consent of the Company in general meeting except for minor amendments to benefit the administration of the Profit Sharing Scheme.

- (b) Any amendment also requires the approval of the Inland Revenue and no amendment can be made to the Profit Sharing Scheme to the disadvantage of a participant in respect of Shares already appropriated to him without his prior consent.

4.4.13 Termination

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

4.5 *Hanover International Employee Trust*

4.5.1 Constitution

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

4.5.2 Eligible Employees

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

4.5.3 Trustees

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

4.5.4 Powers and Funding

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

4.5.5 Limits

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

a non-discretionary employee share scheme) shall not in any ten year period exceed five per cent. of the Company's ordinary share capital for the time being.

- (c) Within the limits in (a) and (b) above, the Trustees may not hold unallocated at any time more than five per cent. of the Company's issued ordinary share capital for the time being.
- (d) The Trustees may not subscribe for Shares at less than their current market or, if higher, their nominal value.

4.5.6 Issue of Shares

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

4.5.7 Amendment

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

4.5.8 Governing Law

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

5 Directors

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

Peter George Eyles	Executive Chairman
Robin Jarrard Campbell Privett	Senior non-executive and Joint Deputy Chairman
Bernard Clow	Non-executive and Joint Deputy Chairman
Peter James Taylor	Managing Director
Michael Edward Jourdain	Projects and Administration Director
Anthony Brian Kelly	Group Finance Director
Hugh William Whitbread	Non-executive

- all of whose business address is Hanover House, Pingewood, Reading, Berkshire, RG30 3UN.
- The brief biographical details of the Directors of Hanover are as follows:

Peter Eyles, aged 54, has been Executive Chairman of the Group since its establishment in 1995. Prior to that he was Chairman of Pavilion Leisure PLC, Chief Executive of Norfolk Capital PLC and Chairman and Chief Executive of several private companies involved in property and marketing activities.

Peter Taylor, aged 54, joined the Company in June 2000 and is the Managing Director. Prior to that he was with the Copthorne Group, becoming their joint Chief Executive in 1987 and serving as Chief Executive from 1993 to 1995. Subsequently UK Regional Director for Millennium & Copthorne Hotels PLC.

Anthony Kelly, ACMA, aged 34, was appointed Group Finance Director in September 1999 having been with the Group since August 1996 as Group Financial Controller. He is a Chartered Management Accountant and before joining the Group held various positions within the private hotel and leisure sector.

Mike Jourdain, aged 36, joined the Board in 1996 and is the Projects and Administration Director. He was previously Senior Commercial Development Manager for United Hotels Group and United Care Group.

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

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

Billy Whitbread, aged 58, joined the Board in August 1996. He is the consultant to Taverners Trust PLC, an investment trust managed by Aberdeen Asset Managers Limited. Previous positions include director and investment manager of The Whitbread Investment Company PLC and managing director of Thomas Wethered and Sons Limited, a subsidiary of Whitbread PLC. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

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

<i>Director</i>	<i>Current Directorships/ Partnerships</i>	<i>Past Directorships/ Partnerships</i>
1. Peter Eyles	Hatchbox Limited	West Park Group plc
2. Peter Taylor		Millennium & Copthorne Hotels plc Holiday Care
3. Anthony Kelly	None	None
4. Michael Jourdain	Sports Fever Limited	None
5. Bernard Clow	None	Directorships: KPMG Audit Plc Partnerships: KPMG
6. Robin Privett	Lec Refrigeration plc PSB Holding Limited Strathcarron Sports Cars plc Woodard Schools (Southern Division) Limited	None
7. Billy Whitbread	The Aldenham School Company Limited Smiles Holdings plc Smiles Trustees Limited The Taverners Trust PLC	None

- 5.3 Peter Eyles was a director of Pavilion Leisure PLC from 21 September 1990 until 8 March 1991. This company was placed into receivership on 7 March 1991. As at 31 May 1991, the date of the statement as to the affairs of this company, the deficiency to creditors was estimated to be £4.46 million.

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

5.4.1 has any unspent convictions in relation to indictable offences;

5.4.2 has been the subject of a bankruptcy or individual voluntary arrangement;

5.4.3 has been a director of any company within the 12 months preceding a receivership, compulsory liquidation, creditors' voluntary arrangement, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors in each case of such company;

5.4.4 has been a partner of any partnership within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

- 5.4.5 has owned any asset which has been the subject of any receivership or been a partner of a partnership at the time of or within the 12 months preceding the receivership of any asset of such partnership; or
- 5.4.6 has been the subject of any public criticism by any statutory or regulatory authority (including any recognised professional body) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6 Directors' and Other Interests in Ordinary Shares

- 6.1 As at 28 June 2000 (the last practicable date prior to the publication of this document) and immediately after the issue of the new Ordinary Shares, the interests (all of which are beneficial other than as indicated below) of the Directors of Hanover in respect of the securities of Hanover which have been notified to Hanover pursuant to sections 324 or 328 of the Act, or which are required to be entered in the register maintained under section 325 of the Act or are interests of a person connected with any Director of Hanover (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed as set out above and the existence of which is known or could with reasonable diligence be ascertained by the relevant Director, are set out below:

<i>Director</i>	<i>Current number of Ordinary Shares</i>	<i>Percentage of current share capital</i>	<i>Number of shares following the issue of new Ordinary Shares</i>	<i>Percentage of enlarged Issued Share Capital*</i>
P. Eyles	245,810†	1.15	245,810	0.83
P. Taylor	4,680	0.02	4,680	0.02
A. Kelly	8,720	0.04	8,720	0.03
M. Jourdain	9,771	0.05	9,771	0.03
B. Clow	26,335	0.12	26,335	0.09
R. Privett	23,960	0.11	23,960	0.08
B. Whitbread	57,261	0.27	57,261	0.19

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

†Peter Eyles has a beneficial interest in 211,080 Ordinary Shares and a non-beneficial interest in 34,730 Ordinary Shares held by a trust, the beneficiaries of which are the son and daughter of Peter Eyles.

- The executive Directors are also interested in 318,937 Ordinary Shares, which have not been appropriated to participants, which are held by the trustees of the Hanover International 1997 UK Profit Sharing Scheme and the Hanover International Employee Trust.

6.1.1 Share options of the Directors of Hanover

The options held by the Directors in respect of Ordinary Shares (which were granted for nil consideration), are as follows. Save as disclosed, no Director of Hanover has any other options to subscribe for Ordinary Shares.

Hanover Executive Share Option Schemes

<i>Director</i>	<i>Date of grant</i>	<i>Number of Shares under option</i>	<i>Percentage of current issued share capital</i>		<i>Exercise Price (p)</i>	<i>Earliest Exercise Date</i>	<i>Latest Exercise Date</i>
			<i>of current issued share capital</i>	<i>of enlarged share capital</i>			
P. Eyles	10/9/96	288,000	1.34	0.96	125.5	10/9/99	10/9/03
	23/11/98	35,000	0.16	0.12	79.5	23/11/01	23/11/05
	5/10/99	50,000	0.23	0.17	135.5	5/10/02	5/10/09
A. Kelly	30/9/97	20,000	0.09	0.07	141.5	30/9/99	10/9/04
	23/11/98	15,000	0.07	0.05	79.5	23/11/01	23/11/05
	5/10/99	50,000	0.23	0.17	135.5	5/10/02	5/10/09
M. Jourdain	4/4/97	70,000	0.33	0.23	148.5	4/4/00	4/4/04
	23/11/98	20,000	0.09	0.07	79.5	23/11/01	23/11/05
	5/10/99	45,000	0.21	0.15	135.5	5/10/02	15/09/09

Hanover Savings Related Plan

<i>Director</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Percentage of current issued share capital</i>		<i>Exercise Price (p)</i>	<i>Earliest Exercise Date</i>	<i>Latest Exercise Date</i>
			<i>of current issued share capital</i>	<i>of Enlarged share capital</i>			
P. Eyles	26/8/97	11,607	0.05	0.04	84	1/10/00	31/03/01
A. Kelly	26/8/97	3,482	0.02	0.01	84	1/10/00	31/03/01
M. Jourdain	26/8/97	4,642	0.02	0.02	84	1/10/00	31/03/01
	4/5/98	5,931	0.03	0.02	98	1/07/01	31/12/01

- 6.2 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Hanover Group and which was effected by a member of the Hanover Group during the current or immediately preceding financial year or was effected by a member of the Hanover Group during an earlier financial year and remains in any respect outstanding or unperformed.
- 6.3 There are no outstanding loans or guarantees provided by any member of the Hanover Group for the benefit of any Director.

- 6.4 The Directors are aware of the following interests (within the meaning of Part VI of the Act) which, directly or indirectly, represent, or which will represent, 3 per cent. or more of the issued share capital of the Company on 28 June 2000 (the last practicable date prior to publication of this document) and immediately after the issue of the new Ordinary Shares:

<i>Shareholder</i>	<i>Number of Ordinary Shares held</i>	<i>Percentage of current issued share capital</i>	<i>Percentage of enlarged issued share capital*</i>
Andrew Weir & Company Limited	5,714,285	26.67	19.00
Capel Cure Sharp Smaller Companies Fund	1,143,312	5.34	3.80
CTCL Perpetual UK Smaller Companies Fund	855,823	4.00	2.85
CTCL Perpetual Intl. Emerging Companies Fund	682,222	3.18	2.27
Fidelity Recovery Trust Ltd	959,757	4.48	3.19
Friends Provident Life	860,335	4.02	2.86
Guardian Insurance	912,415	4.26	3.03
Montanaro UK Smaller Companies IT	747,500	3.49	2.49
Montanaro UK Special Situations Fund	1,512,358	7.06	5.03
Morgan Grenfell UK Smaller Companies	818,983	3.82	2.72
Scottish Mutual UK Smaller Companies Fund	907,415	4.24	3.02
Thornton UK and General Fund	1,053,541	4.92	3.50
Venaglass Limited	771,424	3.60	2.56

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

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

7 Directors' Service Agreements and Emoluments

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

- 7.1 A service agreement dated 28 August 1996 between (1) Hanover and (2) Peter Eyles under which he is employed as Executive Chairman terminable by either party on 12 months' notice or payment in lieu thereof, at a salary of £205,000 per annum (1999) and a commission based upon the growth in earnings per share of the Company, which was £nil in 1999. He is also entitled to other benefits including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received total taxable benefits of £16,000 in the year ended 31 December 1999.
- 7.2 A service agreement dated 26 May 2000 between (1) Hanover and (2) Peter Taylor under which he is employed as Managing Director terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months) or payment in lieu thereof at a salary of £150,000 per annum and other benefits including a company car, a mobile phone, permanent health and medical expenses insurance, life insurance and an annual pension contribution.
- 7.3 A service agreement dated 2 September 1999 between (1) Hanover and (2) Anthony Kelly under which he is employed as Group Finance Director terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months) or payment in lieu thereof, at a salary of £90,000 per annum and other benefits including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received total taxable benefits of £2,000 during his period of appointment in the year ended 31 December 1999.
- 7.4 A service agreement dated 23 July 1996 between (1) Hanover and (2) Michael Jourdain under which he is employed as the Projects and Administration Director. The service agreement is terminable by either party on 6 months' notice (save in the event of a takeover offer for Hanover when the notice period is 12 months) or payment in lieu thereof, at a salary of £78,000 per annum and other benefits

including private health and permanent sickness insurance, life assurance, a company car and an annual pension contribution. He received total taxable benefits of £9,000 in the year ended 31 December 1999.

- 7.5 The fees of the non-executive Directors are in part fixed and in part determined by the Directors by reference to the commitment of time required from the relevant non-executive Director. For the year ended 31 December 1999, fees were paid to the non-executive Directors as follows: B. Clow, £9,000; R. Privett, £14,000; and H.W. Whitbread, £14,000. The non-executive Directors have entered into letter agreements with the Company which are each terminable upon 12 months' notice.

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

- 7.6 The aggregate of the remuneration paid and benefits in kind granted to the Directors of Hanover by any member of the Hanover Group during the year ended 31 December 1999 was approximately £587,000 (including pension contributions).

The total amounts payable to the Directors by Hanover Group for the financial year ended 31 December 1999 from the arrangements currently in force were £532,000. The total emoluments receivable by the Directors will not be automatically varied as a result of the Acquisition. The remuneration of the non-Executive Directors of Hanover will continue to be determined in accordance with best practice.

Under the arrangements in force at the date of this document the amounts estimated to be payable to the Directors during the year ending 31 December 2000 are £583,500.

- 7.7 On 5 June 2000, Mr Charles Gaunt resigned from the Board. The sum of £35,500 was paid to Mr Gaunt as compensation for loss of office.

8 Material Contracts

8.1 Hanover Group

Save as set out below, there are no contracts other than those disclosed in and available for inspection in connection with the prospectus of the Company issued on 28 February 2000 (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Hanover Group since 29 June 1998 (that is, the date falling two years prior to the date of this document) and are or may be material or any contract which contains any provision under which any member of the Hanover Group has any obligation or entitlement which is material to the Hanover Group at the date of this document.

- 8.1.1 On 28 June 2000 an agreement was entered into between (1) the Company and (2) Andrew Weir & Company for the acquisition by the Company of the entire issued share capital of Andrew Weir Hotels. The principal terms of this agreement are summarised below:

- (a) the total consideration for the Acquisition comprises a payment of up to £33.25 million, payable at Completion, comprising £22 million in cash, the repayment of approximately £4 million of intra-group loans, the issue of the Consideration Shares at 140p per share and the issue of a secured loan note of the Company with an initial principal amount of up to £2.75 million, redeemable on 31 December 2003 at up to £3.25 million. The consideration will be subject to adjustment upon the publication of a completion account following Completion;
- (b) the Acquisition Agreement is conditional upon, *inter alia*, (i) the passing of Resolution 1 at the EGM and (ii) Admission;
- (c) Andrew Weir & Company has given certain warranties on the business of Andrew Weir Hotels to the Company. The foregoing warranties are subject to certain limitations including a limitation on the financial value of claims made by the Company of £22 million. In addition, claims (other than in respect of taxation) must be made by 30 April 2002. Claims in respect of taxation matters must be made within 6 years of Completion;

- (d) the Vendor has agreed, subject to certain exceptions, to the following restrictions on the disposal of the Consideration Shares:
 - (i) a prohibition on disposal of Consideration Shares, without the consent of Hanover, for a period of 6 months from Completion;
 - (ii) a prohibition on disposal of Consideration Shares, without the consent of Hanover (such consent not to be unreasonably withheld) for a further period of 12 months from the expiry of the period referred to in sub-paragraph (i) above;
 - (iii) for a further 3 months Consideration Shares may be disposed of without the consent of Hanover but only through Hanover's brokers;
- (e) the Vendor has also agreed, subject to certain exceptions, not to acquire any Ordinary Shares for a period of 21 months from Completion, if to do so would result in the Vendor holding more than 20 per cent. of Hanover's issued share capital; and
- (f) the Vendor has agreed that, for a period of 2 years following Completion, it will not solicit any offer for the issued share capital of Hanover and has given certain associated undertakings.

8.1.2. By an Agreement dated 24 May 2000, Hanover International Hotels Limited ("HIHL"), a wholly owned subsidiary of the Company, agreed to grant a lease of Swinton Castle, Swinton and The Stable Block, Swinton, Masham, N. Yorks to Swinton Park Limited for a term of 125 years from 25 May 2000 at a peppercorn rent for an initial consideration of £2,398,500, apportioned as to £110,000 to fixtures and fittings and as to the balance to the lease.

By an Agreement, dated 24 May 2000, HIHL agreed to sell its freehold interest in the above property, subject to the above lease, to Mr Mark William Philip Cunliffe-Lister for £1,500.

The lease was granted and the sale completed on 25 May 2000.

8.1.3 On 28 June 2000 the Placing and Open Offer Agreement was entered into between the Company (1) and Charterhouse (2) under which Charterhouse has agreed to use its reasonable endeavours to procure subscribers for the new Ordinary Shares in the Placing and to make the Open Offer of the new Ordinary Shares, as agent for the Company, in each case at the Placing Price. To the extent that Charterhouse fails to procure subscribers in the Placing or applications to subscribe for new Ordinary Shares are not received in the Open Offer, it shall subscribe for the new Ordinary Shares itself at the Placing Price.

Charterhouse is entitled to a corporate finance advisory fee of £35,000. The payment of such fee is conditional upon Admission, save where the Placing and Open Offer Agreement is terminated by Charterhouse in the event of a material breach of warranty by Hanover.

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

- (a) a commitment commission of 2 per cent. of the value of the new Ordinary Shares at the Placing Price; and
- (b) a further commission will be payable of 0.125 per cent. of the value of the new Ordinary Shares at the Placing price for each period of seven days or part thereof (if any) from the end of the first 30 days of Charterhouse's commitment up to and including the earlier of the date of Admission and the date on which Charterhouse's obligations under the Placing and Open Offer Agreement shall cease.

In addition, if the Placing and Open Offer Agreement becomes unconditional, a commission of 1.75 per cent. of the value of the new Ordinary Shares at the Placing Price will be payable.

Of such commissions, Charterhouse shall pay certain commissions to placees.

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

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

8.1.4 The Company has entered into a £56,300,000 facilities agreement with Bank of Scotland dated 28 June 2000 (the "Facilities Agreement"). Under the Facilities Agreement, Bank of Scotland (as lender) has agreed to make the following facilities available to the Company:

- (a) a £24,300,000 term loan facility for the purpose of enabling the Company to refinance the existing indebtedness of the Group and to discharge the Company's obligations to Andrew Weir & Company Limited under the Share Purchase Agreement (the "Term Loan Facility");
- (b) a £30,000,000 revolving credit facility for the purpose of enabling the Company to refinance the existing indebtedness of the Group, to assist in funding the acquisition of Andrew Weir Hotels and provide for capital expenditure of requirements of the Group (the Revolving Credit Facility);
- (c) a £2,000,000 revolving working capital facility to provide for the working capital requirements of the Group (the "Working Capital Facility"),

(the Term Loan Facility, the Revolving Credit Facility and the Working Capital Facility together being the "Facilities").

The Term Loan Facility is repayable in quarterly instalments on a stepped basis commencing on 30 September 2000 with the final repayment on 31 June 2007. All outstanding advances and utilisations under the Revolving Credit Facility and the Working Capital Facility are to be repaid in full by 30 June 2007 and 30 June 2001 respectively. Interest is payable on drawings under the Facilities at the London Interbank Offered Rate plus the applicable margin and, if applicable, a mandatory liquid asset cost.

The margin on each of the Facilities is 1.65 per cent. per annum. The margin is subject to downwards adjustment if certain financial targets are met.

The Facilities Agreement contains representations, warranties, undertakings, events of default and other provisions which are usual with regard to the Facilities. The Facilities Agreement specifies certain conditions precedent and subsequent which are again usual for facilities of this type. In particular, the availability of the Facilities is conditional upon the completion of the Placing and Open Offer Agreement and no event of default or potential event of default occurring before or at the time of Completion. The Facilities will be secured over the assets and undertakings of the Enlarged Group.

8.2 *Andrew Weir Hotels*

There are no contracts, not being contracts entered into in the ordinary course of business, which have been entered into by Andrew Weir Hotels since 29 June 1998 (that is, the date falling two years prior to the date of this document) and are or may be material or any contract which contains any provision under which Andrew Weir Hotels has any obligation or entitlement which is material to Andrew Weir Hotels at the date of this document.

9 **Subsidiary Undertakings and Other Interests**

The Company has the following wholly owned subsidiary undertakings:

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

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

10 Principal Establishments

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

<i>Address</i>	<i>Net Internal Area</i>		<i>Use</i>
	<i>Tenure</i>	<i>(square metres)</i>	
Hanover International Hotel, Hinckley	Freehold	22,804	Hotel
Hanover International Hotel, Daventry	Freehold	10,863	Hotel
Hanover International Hotel, Reading	Freehold	8,482	Hotel
Hanover International Training and Conference Centre, Oxford	Leasehold	10,819	Residential training and conference centre

11 United Kingdom Taxation

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

Dividends

11.2 Hanover will not be required to withhold tax at source when paying a dividend. Furthermore, since advance corporation tax was abolished from 6 April 1999, Hanover will not be obliged to account to the Inland Revenue for advance corporation tax on dividends paid.

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

11.4 United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by Hanover, although charities will be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004.

11.5 Tax credits on dividends paid by Hanover in respect of shares held in personal equity plans (PEPs) or individual savings accounts (ISAs) will continue to be repayable until 5 April 2004.

11.6 United Kingdom resident corporate shareholders of Hanover will generally not be subject to corporation tax on dividends paid by Hanover. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

11.7 Non-United Kingdom resident Shareholders will not be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by Hanover unless they are resident in a jurisdiction which has an appropriate double tax treaty with the United Kingdom. A Shareholder resident outside the United Kingdom may be subject to foreign taxation on dividend income under local

law. A Shareholder who is not resident in the United Kingdom (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from Hanover.

Taxation of Capital Gains

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

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

Stamp Duty and Stamp Duty Reserve Tax

- 11.9 No stamp duty or stamp duty reserve tax will generally be payable in respect of the allotment of new Ordinary Shares pursuant to the Placing and the Open Offer.

- 11.10 Transfers on sale of Ordinary Shares will generally be subject to United Kingdom stamp duty at a rate of 50p per £100 (or part thereof) of the consideration given for the transfer. The purchaser normally pays the stamp duty.

- 11.11 An agreement to transfer Ordinary Shares will normally give rise to a charge to stamp duty reserve tax at a rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the condition is satisfied) any stamp duty reserve tax paid is repayable, generally with interest, and otherwise the stamp duty reserve tax charge is cancelled. Stamp duty reserve tax is, in general, payable by the purchaser.

- 11.12 Paperless transfers of Ordinary Shares within the CREST system are generally liable to stamp duty reserve tax, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect stamp duty reserve tax on relevant transactions settled within the CREST system. Deposits of Ordinary Shares into CREST will not generally be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration.

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

12 Significant Changes

- 12.1 Save in relation to the acquisition of the training and conference centre business and assets of Birchin International plc and the subsequent disposal of Swinton Castle described in paragraph 8.1.2 of Part VII of this document, there has been no significant change in the financial or trading position of the Hanover Group since 31 December 1999 (being the date to which the last audited financial statements were drawn up).
- 12.2 There has been no significant change in the financial or trading position of Andrew Weir Hotels since 31 December 1999 (being the date to which the last audited results were drawn up).

13 Litigation

- 13.1 Andrew Page (former finance director of Hanover) has issued proceedings in the Employment Tribunal claiming unfair dismissal in September 1999 and also proceedings against the Company in the High Court

in respect of wrongful dismissal and is seeking damages. The Company has issued a defence to this claim and has counter-claimed against Andrew Page. The trial of this action is not anticipated to commence until autumn of 2000. The Directors consider that no significant amounts will be payable in respect of these claims.

13.2 Save as disclosed above, no member of the Hanover Group is, or has been, involved in any legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company is aware, which may have, or have had during the last 12 months, a significant effect on the Hanover Group's financial position.

13.3 Andrew Weir Hotels is not, and has not been, involved in any legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company is aware, which may have, or have had during the last 12 months, a significant effect on the financial position of Andrew Weir Hotels.

14 Employees

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

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

15 Mid-Market Quotations

The following table lists the closing middle-market quotations for an Ordinary Share for the first dealing day in each of the six months prior to the date of the publication of this document and the middle-market quotation for an Ordinary Share on 27 June 2000 (being the last practicable dealing day prior to the publication of this document) as derived from the Daily Official List of the London Stock Exchange.

<i>Date</i>	<i>Price(p)</i>
4 January 2000	133.0
1 February 2000	124.5
1 March 2000	112.0
3 April 2000	111.5
2 May 2000	118.0
1 June 2000	113.5
28 June 2000	122.0

16 Working Capital

The Company is of the opinion that, following implementation of the Proposals and taking into account its existing facilities and new facility from the Bank of Scotland summarised in paragraph 8.1.4 above, the Enlarged Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of publication of this document.

17 General

17.1 The costs, charges and expenses of and incidental to the Proposals, including the cost of the application for the new Ordinary Shares to be admitted to the Official List, payable by Hanover are estimated to amount to approximately £2 million (exclusive of VAT). The estimated net proceeds of the Placing and the Open Offer are approximately £2.8 million.

17.2 The Placing and the Open Offer are fully underwritten by Charterhouse. The registered office of Charterhouse is at 1 Paternoster Row, St Paul's, London, EC4M 7DH.

17.3 The Company's registrars and paying agents are IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

- 17.4 The financial information contained in this document does not comprise the statutory accounts of Andrew Weir Hotels within the meaning of section 240 of the Act.
- 17.5 Audited statutory accounts of Hanover have been delivered to the Registrar of Companies for each of the three years ended 31 December 1999, 31 December 1998 and 31 December 1997. Unqualified audited reports in accordance with sections 235-237 of the Act for each of the three years ended on 31 December 1999, 31 December 1998 and 31 December 1997 have been given by KPMG Audit Plc.
- 17.6 Charterhouse and Rothschild have each given and not withdrawn its written consent to the inclusion of its name in the form and context in which it is included. Each of Weatherall Green & Smith and KPMG has given and not withdrawn its written consent to the inclusion in this document of its name and letters and the references thereto, in the form and context in which they appear, and has authorised the contents of the relevant parts of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- 17.7 No person has been authorised to give any information or to make any representations other than those contained in this document and, if given, such information or representations must not be relied upon as having been authorised.
- 17.8 No shares have been marketed or are available in whole or in part to the public in conjunction with the application for admission of the new Ordinary Shares to the Official List.
- 17.9 The new Ordinary Shares will be issued at a premium of 115p to their par value under the Acquisition. The new Ordinary Shares will be issued at a premium of 85p to their par value under the Placing and the Open Offer.
- 17.10 The financial information in respect of Hanover is taken from Hanover's Annual Report and Accounts for the years ended 31 December 1997, 1998 and 1999. No other information contained in this document has been audited.

18 Documents available for inspection

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

- 18.1 the Memorandum and Articles of Association of Hanover;
- 18.2 the consolidated audited report and accounts of Hanover for the two financial periods ended 31 December 1998 and 31 December 1999;
- 18.3 the consolidated audited report and accounts of Andrew Weir Hotels for the two financial periods ended 31 December 1998 and 31 December 1999;
- 18.4 the letters from KPMG set out in Part III of this document;
- 18.5 the statements of adjustments prepared by KPMG;
- 18.6 the letter from Weatherall Green & Smith set out in Part V of this document;
- 18.7 the rules of the Hanover Share Schemes summarised in paragraph 4 above;
- 18.8 the Directors' service agreements referred to in paragraph 7 above;
- 18.9 the material contracts referred to in paragraph 8 above (including those which were summarised in and available for inspection in connection with the listing particulars issued by the Company on 28 February 2000 relating to the acquisition of the training and conference centre business and assets of Birchin International plc, the placing and open offer undertaken in connection with such acquisition, existing banking facilities with Bank of Scotland and the disposal of the Imperial Hotel, Cork;
- 18.10 the letters of consent referred to in paragraph 17 above; and
- 18.11 this document.

Dated 29 June 2000.

PART VIII

DEFINITIONS

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

"Acquisition"	the proposed acquisition by the Hanover Group of the entire issued share capital of Andrew Weir Hotels
"Acquisition Agreement"	the conditional sale and purchase agreement dated 27 June 2000 between Hanover and Andrew Weir & Company relating to the Acquisition
"Act"	the Companies Act 1985, as amended
"Admission"	admission of the new Ordinary Shares to the Official List and admission of such shares to trading on the market for listed securities of the London Stock Exchange
"Andrew Weir & Company"	Andrew Weir & Company Limited
"Andrew Weir Group"	Andrew Weir & Company Limited and its subsidiary companies
"Andrew Weir Hotels" or "Andrew Weir"	Andrew Weir Hotels Limited, a wholly-owned subsidiary of Andrew Weir & Company
"Application Form"	the application form relating to the Open Offer sent to Qualifying Shareholders with this document
"Bank of Scotland"	the Governor and Company of the Bank of Scotland
"Charterhouse"	Charterhouse Securities Limited
"Company" or "Hanover"	Hanover International PLC and, where the context so requires, its subsidiaries
"Completion"	completion of the Acquisition
"CREST"	the relevant system (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations)
"CRESTCo"	CRESTCo Limited
"Directors" or "Board"	the board of directors of Hanover
"Enlarged Group"	the Group as enlarged by the Acquisition
"Enlarged Issued Share Capital"	the share capital of Hanover, as enlarged by the issue of the new Ordinary Shares pursuant to the Acquisition, the Placing and the Open Offer
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Hanover convened to approve <i>inter alia</i> the Acquisition
"Group" or "Hanover Group"	Hanover and its subsidiary undertakings
"Hanover Share Schemes"	the employee share schemes of Hanover, as more particularly described in paragraph 4 of Part VII of this document
"Listing Rules"	the listing rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange plc

"new Ordinary Shares"	Ordinary Shares to be issued pursuant to the Acquisition, the Placing and the Open Offer
"Official List"	the Official List of the UK Listing Authority
"Open Offer"	the conditional offer by Charterhouse, as agent for the Company, to Qualifying Shareholders of the new Ordinary Shares as set out in the letter from Charterhouse in Part II of this document
"Ordinary Shares"	ordinary shares of 25p each in the capital of the Company
"Placing"	the placing of 2,791,127 new Ordinary Shares at the Placing Price
"Placing and Open Offer Agreement"	the conditional agreement dated 28 June 2000 and made between the Company and Charterhouse, relating to the Placing and the Open Offer
"Placing Price"	110p per new Ordinary Share, being the price at which such shares are to be issued under the Placing and the Open Offer
"Properties"	Pine Lodge Hotel, Wortley House Hotel, Glen Eagle Hotel, Basingstoke Country Hotel, Cardiff Bay Hotel and The Old Palace Lodge Hotel
"Proposals"	the Acquisition, the Placing and the Open Offer
"Qualifying Shareholders"	Shareholders on the register of members of the Company at the close of business on the Record Date subject to the restrictions with regard to overseas Shareholders referred to in Part II of this document
"Record Date"	21 June 2000, the record date for the Open Offer, being the date upon which Shareholders must be on the Company's register to qualify for the Open Offer
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
"Resolutions"	the ordinary resolutions to be proposed at the EGM, which, if passed, will approve the Acquisition, increase the Company's authorised share capital and the Directors' authority to allot Ordinary Shares and relax the limitations on the Company's borrowing powers and the amount of fees that may be paid to Directors in any financial year
"Rothschild"	N M Rothschild & Sons Limited
"Securities Act"	the US Securities Act of 1933, as amended from time to time
"Shareholder"	a holder of existing Ordinary Shares
"subsidiary undertaking"	a subsidiary undertaking as that term is defined in section 258 of the Act
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority in its capacity as the UK listing authority
"Vendor"	Andrew Weir & Company Limited
"Weatherall"	Weatherall Green & Smith, Chartered Surveyors

Hanover International PLC

(Registered in England and Wales with number 3043860)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Hanover International PLC (the "Company") will be held at 11.00 a.m. on 17 July 2000 at Kempson House, Camomile Street, London EC3A 7AN to consider and, if thought fit, pass the following resolutions, which will be proposed as ordinary resolutions:

Ordinary Resolutions

- 1 THAT: (a) the Acquisition (as that term is defined in the document comprising a prospectus and a circular of the Company dated 29 June 2000 ("the Circular")) on the terms and conditions of the Acquisition Agreement (as such term is defined in the Circular) together with all associated agreements and transactions thereto) be and is hereby approved and the directors of the Company be and are hereby authorised to complete the Acquisition Agreement in accordance with its terms, subject to such modifications thereto as they may consider expedient or appropriate (provided that any such modification shall not be a material modification);
(b) pursuant to Article 119.2 of the Articles of Association of the Company, the Board shall be empowered to incur borrowings on behalf of the Company such that the maximum aggregate amount of moneys that may be borrowed by the Group (as defined in such Article) at any one time shall be £75,000,000 notwithstanding the limits set out in such Article;
(c) the authorised share capital of the Company be and it is hereby increased from £10,000,000 to £15,000,000 by the creation of 20,000,000 new ordinary shares of 25p each in the Company; and
(d) in addition to all existing powers to allot relevant securities, the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £1,600,000 in connection with the Acquisition (as such term is defined in the Circular) during the period commencing on the date of the passing of this Resolution and expiring on 16 July 2001 (both dates inclusive), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.
- 2 THAT: pursuant to Article 104.1 of the Articles of Association of the Company, the Board shall be empowered to determine the fees to be paid to Directors for their services as Directors such that the maximum aggregate amount of such fees shall be £75,000 per annum notwithstanding the limit set out in such Article.

By order of the Board
Anthony B. Kelly ACMA
Company Secretary

29 June 2000

Registered Office:

Hanover House
Pingewood
Reading
Berkshire
RG30 3UN

Notes:

- 1 A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more persons to attend and, on a poll, to vote instead of him or her.
- 2 A proxy need not be a member of the Company.
- 3 A form of proxy is enclosed. To be valid, the form of proxy, together with the authority (if any) under which it is executed or a notarially certified copy of such authority, must be returned to the Company's Registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 48 hours before the time of the meeting or (as the case may be) the adjourned meeting.
- 4 The completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting.
- 5 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered on the register of members of the Company as at 11.00 a.m. on 15 July 2000 or, if the Extraordinary General Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their name at that relevant time. Changes to entries on the register of members after 11.00 a.m. on 15 July 2000 or, if the Extraordinary General Meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned meeting shall be disregarded in determining the right of any person to attend and vote at the meeting.