

SEPARATOR SHEET

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HANOVER INTERNATIONAL PLC

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser, authorised under the Financial Services Act 1986, immediately. If you have sold or transferred all your Ordinary Shares in Hanover International PLC, please forward this document together with the enclosed Application Form, having completed Box II thereon, and Form of Proxy to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or transferred only part of your holding of Ordinary Shares in Hanover International PLC, you are referred to the instructions regarding split applications set out in the accompanying Application Form. However, such documents should not be forwarded or transmitted in or into the United States, Canada or Australia.

A copy of this document, which comprises a prospectus relating to Hanover International PLC prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales as required by Section 149 of that Act. Application has been made to the London Stock Exchange for the Existing Ordinary Shares to be re-admitted, and for the New Ordinary Shares to be admitted, to the Official List. It is expected that admission will become effective and that dealings will commence on 28th August, 1996.

In the preparation and distribution of this document, UBS Limited, which is regulated by The Securities and Futures Authority Limited, is acting for Hanover International PLC and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of UBS Limited nor for providing advice to any other person on the contents of this document or a

Hanover International PLC

(Incorporated in England and Wales with registered number 3043860)

Proposed acquisition of United Hotels

Placing and Open Offer by

UBS Limited

of 12,862,510 New Ordinary Shares of 25p each

Placing of up to 1,370,000 New Ordinary Shares of 25p each and Additional Placing of up to 1,612,903 New Ordinary Shares of 25p each in each case at 124p per share

The Open Offer expires at 3.00 p.m. on 21st August, 1996. The procedure for application is set out in Part II of this document. Application Forms for those Qualifying Shareholders wishing to accept should be completed and returned with the appropriate remittance to New Issues Department, Independent Registrars Group Limited, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive no later than 3.00 p.m. on 21st August, 1996.

Notice of an Extraordinary General Meeting to be held at the offices of UBS Limited, 100 Liverpool Street, London, EC2M 2RH at 11.30 a.m. on 23rd August, 1996 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. The Form of Proxy should be returned to the Company's Registrars, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR as soon as possible but, in any event, in order to be valid, so as to arrive not later than 48 hours before the time appointed for holding the Extraordinary General Meeting.

DIRECTORS AND ADVISERS

Directors

Peter George Eyles (*Executive Chairman*)
David John Greene (*Finance Director*)
Neil Philip List (*Non-executive*)
all of 7 Hanover Street, London W1R 9HH

Proposed Directors

Charles Richard Gaunt (*Operations Director*)
Michael Edward Jourdain (*Projects and Administration Director*)
Hugh William Whitbread (*Non-executive*)

Secretary and Registered Office

David John Greene FCA
Kempson House, Camomile Street
London EC3A 7AN

Sponsor and Financial Adviser to Hanover

UBS Limited
100 Liverpool Street
London EC2M 2RH

Reporting Accountants and Auditors to Hanover

KPMG
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

Brokers to Hanover

Charles Stanley and Company Limited
25 Luke Street
London EC2A 4AR

Distributor to Hanover

Greig Middleton & Co. Limited
66 Wilson Street
London EC2A 2BL

Registrars and Receiving Agents

Independent Registrars Group Limited
Bourne House
34 Beckenham Road
Beckenham, Kent BR3 4TU

Solicitors to Hanover and to the Issue

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

Valuers

Christie & Co
50 Victoria Street
London SW1H 0NW

Bankers

Barclays Bank PLC
54 Lombard Street
London EC3P 3AH

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TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Open Offer	24th July, 1996
Latest time and date for splitting Application Forms	3.00 p.m. 19th August, 1996
Latest time and date for receipt of Forms of Proxy for Extraordinary General Meeting	11.30 a.m. 21st August, 1996
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 p.m. 21st August, 1996
Extraordinary General Meeting	11.30 a.m. 23rd August, 1996
Dealings expected to commence in the New Ordinary Shares	28th August, 1996
Expected date of despatch of definitive New Ordinary Share certificates	2nd September, 1996

DEFINITIONS

The following definitions are used throughout this document except where the context requires otherwise:

“Acquisition”	the proposed acquisition of the Hotels and the Management Companies by HIH pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 21st July, 1996 (as amended) relating to the Acquisition, further details of which are set out in Part X of this document
“Additional Placing”	the conditional placing by UBS of up to 1,612,903 Consideration Shares, which UFB Group would otherwise be entitled to have allotted to it under the Acquisition Agreement, the proceeds of which will be payable to UFB Group
“Application Form”	the application form accompanying this document for use in connection with the Open Offer
“Bridgend”	Bridgend Group PLC, a company which currently owns 47.6 per cent. of the Company’s issued ordinary share capital and all of the Preference Shares
“Bridgend Placing”	the conditional placing by UBS of up to 1,370,000 Conversion Shares pursuant to the Second Placing Agreement
“Circular”	this document, which comprises a prospectus relating to Hanover
“City Code”	the City Code on Takeovers and Mergers
“Consideration Shares”	the 1,612,903 New Ordinary Shares to be issued to UFB Group or to subscribers notified by UBS, pursuant to the Acquisition Agreement or the Additional Placing
“Consideration Securities”	the Consideration Shares and the Convertible Loan Notes
“Convertible Loan Notes”	the 2,000,000 convertible cumulative secured loan notes of £1 par value to be issued to UFB Group pursuant to the Acquisition Agreement
“Conversion Shares”	the new Ordinary Shares to arise on conversion of the Preference Shares conditionally upon the admission of the New Ordinary Shares to the Official List
“Directors”	the existing directors of the Company
“Enlarged Group”	Hanover as enlarged by the Acquisition
“Existing Ordinary Shares”	the Ordinary Shares in issue at the date of this document
“Extraordinary General Meeting”	the Extraordinary General Meeting of the Company convened for 23rd August, 1996 by the notice set out at the end of this document, or any adjournment of such meeting
“Form of Proxy”	the form of proxy accompanying this document for use at the Extraordinary General Meeting

“Hanover” or “Company”	Hanover International PLC and/or, if the context requires, its subsidiary companies
“HIH”	Hanover International Hotels Limited, a wholly-owned subsidiary of the Company
“Hotels” or “United Hotels”	the six hotels and freehold and leasehold properties which are being sold by UFB Group pursuant to the Acquisition Agreement, further details of which are set out in Parts V and VI of this document
“Imperial Hotel”	the Imperial Hotel in Cork, Ireland or as the context requires, The Imperial Hotel (Cork) Limited
“Loan Facility”	means the conditional secured loan facility with Barclays Bank PLC, details of which are set out in Part XI of this document
“London Stock Exchange”	London Stock Exchange Limited
“Management Companies”	KF Management Limited and HID Management Limited
“New Ordinary Shares”	the Consideration Shares, the Offer Shares, the Conversion Shares and the Ordinary Shares to be issued to Myers Larkey plc pursuant to the agreement referred to in Part XI of this document
“Offer Price”	124p per Offer Share
“Offer Shares”	the 12,862,510 New Ordinary Shares the subject of the Placing and Open Offer
“Official List”	the Official List of the London Stock Exchange
“Open Offer”	the invitation being made to Qualifying Shareholders to subscribe for the Offer Shares on the terms and conditions set out in Part II of this document and in the Application Form
“Ordinary Shares”	ordinary shares of 25p each in the Company
“Panel”	the Panel on Takeover and Mergers
“Placing”	the conditional placing by UBS of the Offer Shares, subject to the rights of Qualifying Shareholders, pursuant to the Placing Agreement
“Placings”	the Placing, the Additional Placing and the Bridgend Placing
“Placing Agreement”	the conditional agreement dated 31st July, 1996 between the Company, certain of the Directors and UBS relating to the Placing and Open Offer and the Additional Placing, details of which are set in Part XI of this document
“Placing and Open Offer”	the Placing and the Open Offer
“Proposed Directors”	the proposed directors of the Company whose names are set out on page 2 of this document
“Preference Shares”	the 1,400,000 existing unlisted convertible redeemable cumulative preference shares of 25p each in the Company

“Qualifying Shareholders”	holders of Ordinary Shares and holders of Preference Shares on the register of members of the Company at the close of business on the Record Date other than those shareholders with a registered address in the United States, Canada or Australia who have not, as at the Record Date, given the Company an address for service in the United Kingdom
“Record Date”	the record date for the Open Offer, being the close of business on 24th July, 1996
“Resolution”	the special resolution to be proposed at the Extraordinary General Meeting
“Second Placing Agreement”	the conditional agreement dated 31st July, 1996 between UBS and Bridgend relating to the Bridgend Placing, details of which are set out in Part XI of this document
“Share Option Scheme”	the Hanover International Group PLC Employee Share Option Scheme
“UBS”	UBS Limited of 100 Liverpool Street, London EC2M 2RH, regulated by The Securities and Futures Authority Limited and member of the London Stock Exchange
“UFB Group”	UFB Group PLC and/or its subsidiary companies, as the context requires
“Valuer”	Christie & Co

PART I

LETTER FROM THE CHAIRMAN

Hanover International PLC

Registered in England and Wales, No. 3043860

Directors

Peter G Eyles (Executive Chairman)
David J Greene (Group Finance Director)
Neil P List (Non-executive)

Registered Office

Kempson House
Camomile Street
London EC3A 7AN

31st July, 1996

To holders of Ordinary Shares and Preference Shares

Dear Shareholder,

Proposed acquisition

**Placing and the Open Offer of New Ordinary Shares
Placing of up to 1,370,000 New Ordinary Shares and
Additional Placing of up to 1,612,903 Consideration Shares
in each case at 124p per share**

Your Company announced on 22nd July, 1996 that terms had been conditionally agreed for the Company to acquire six hotels, through its wholly-owned subsidiary, HIIH, from the UFB Group for a consideration of £40 million (subject to adjustment). In conjunction with the Acquisition, the Company proposes to raise approximately £13.7 million (net of expenses) through the Placing and Open Offer. The Placing and Open Offer has been conditionally underwritten by UBS and the proceeds will be used to fund part of the consideration for the Acquisition, the balance being satisfied by the issue of the Consideration Securities and the utilisation of funds to be drawn down under the Loan Facility.

In addition, UBS has conditionally agreed to use its reasonable endeavours to procure placees for up to 1,370,000 Conversion Shares pursuant to the Bridgend Placing and thereafter for up to 1,612,903 Consideration Shares pursuant to the Additional Placing provided that none of the Consideration Shares shall be subscribed in the Additional Placing unless and until 1,370,000 of the Conversion Shares in the Bridgend Placing have been so placed.

In view of the relative size of the Acquisition, dealings in the Existing Ordinary Shares were suspended at the Company's request on 22nd July, 1996. The issue of the New Ordinary Shares, the Acquisition, the Placings and the Open Offer are conditional, *inter alia*, on the approval of the holders of the Existing Ordinary Shares.

The purpose of this document is to explain the reasons for the Acquisition, to give you details of the Hotels which are to be acquired and of the Placings and the Open Offer and to convene an Extraordinary General Meeting to be held on 23rd August, 1996, at which a special resolution will be proposed, *inter alia*, to approve the Acquisition, the Placing and the Open Offer, to increase the authorised share capital of Hanover, to authorise the Directors to allot the New Ordinary Shares and to disapply pre-emption rights in connection, *inter alia*, with the issue of the New Ordinary Shares. Application has been made for the Existing Ordinary Shares to be re-admitted, and the New Ordinary Shares to be admitted, to the Official List and it is expected that admission will become effective and dealings in the Existing Ordinary Shares and the New Ordinary Shares will commence on 28th August, 1996.

Background

At the time of the flotation of Hanover in August 1995, the Directors stated that it was their intention to create a group of hotels with the facilities and services associated with four star quality. As part of this process, Hanover acquired the Imperial Hotel from Brigdend for £2.1 million at the time of its flotation. The Imperial Hotel is a 19th Century, 98 bedroom hotel positioned in the centre of Cork. Since the date of acquisition, a number of changes have been made to the day to day management of the hotel and progress has been made in increasing the profitability of the operation. The financial information on Hanover in Part III shows that in the period from its acquisition to 31st December, 1995, the Imperial Hotel made an operating profit of £117,000.

The Acquisition

The hotels which Hanover proposes to acquire are Hinckley Island Hotel ("Hinckley"), Kirtons Hotel ("Kirtons"), Daventry Hotel ("Daventry"), Randells Hotel ("Randells"), Springfield Park Hotel ("Springfield") and Ashbourne Lodge Hotel ("Ashbourne").

The Hotels have been valued on an open market basis by the Valuer at an aggregate value of £40.1 million. The majority of the Hotels are, in the opinion of the Directors and the Proposed Directors, of a four star quality or potentially so. The Hotels currently have 660 bedrooms open, and up to 66 conference rooms. In addition there is the potential to open up a further 83 bedrooms at Hinckley. With the exception of the smallest hotel, Springfield, all of the Hotels have a range of leisure facilities open to external members.

Brief details of the Hotels are as follows:

Name	No. of bedrooms open	No. of meeting rooms	Capacity of largest meeting room	Car parking	Leisure facility	Approximate no. of leisure club members
Hinckley	270	16	400	500	yes	823
Kirtons	81	10	110	220	yes	1,597
Daventry	138	20	600	350	yes	788
Springfield	46	5	150	120	no	0
Randells	75	11	420	120	yes	635
Ashbourne	50	4	200	130	yes	182

Further information about each of the Hotels is set out in Part VI of this document.

Terms of the Acquisition

Under the Acquisition Agreement, Hanover will pay £40 million (subject to any reductions which may be made to reflect any material defects identified by the Purchaser) for the Hotels, all associated land and buildings, plant, fixtures and fittings and contents and the Management Companies. Upon the Acquisition Agreement becoming unconditional, Hanover will acquire the freeholds of Hinckley, Kirtons, Randells, Ashbourne and Springfield, whilst Daventry will be acquired on a long lease which has an unexpired term of 119 years. The acquisition of Hinckley requires the transfer of various interests in the property by the liquidator of the Hinckley Island Hotel Limited, the former owner. The completion of this transaction is also a condition of the Acquisition Agreement. Hanover will acquire the Management Companies which, the Directors understand, have tax losses of up to £3.8 million which should be available to relieve their profits in future periods. The Hotels and associated land and buildings, plant, fixtures and fittings and contents (other than stock) have been valued on an open market basis by the Valuer at an aggregate value of £40.1 million and the text of its report is set out in Part VII of this document.

The consideration payable under the Acquisition Agreement will be satisfied by the payment of £36 million in cash with the balance being satisfied by the issue of the Convertible Loan Notes to UFB Group and by the allotment and issue of the Consideration Shares credited as fully paid to UFB Group or to placees pursuant to the Additional Placing (in respect of which UFB Group will receive an amount equal to the aggregate value of the Consideration Shares issued pursuant to such placing). The Consideration Shares will rank *pari passu* in all respects with the other New Ordinary Shares and the Existing Ordinary Shares including the right to receive dividends and other distributions hereafter declared or made.

The Acquisition Agreement is conditional, *inter alia*, on the approval of the holders of Existing Ordinary Shares and the London Stock Exchange agreeing to re-admit the Existing Ordinary Shares and admit the New Ordinary Shares to the Official List.

Reasons for the Acquisition

The Directors and the Proposed Directors believe that the hotel industry in the United Kingdom has moved out of recession and, in general, occupancies and room rates have improved in the last year against the preceding year. Accordingly, they believe that the conditions are appropriate for the acquisition of further hotels which should enable the Company to achieve its stated objectives of creating a group of hotels which are capable of delivering the facilities and services associated with four star quality hotels. Most of the Hotels, in the view of the Directors and the Proposed Directors, achieve the Company's acquisition criteria as stated above. The Directors and the Proposed Directors consider that the Hotels offer good potential for growth as a result of their intention to market the Hotels more efficiently within the ownership structure of a focused hotels group.

Benefits of the Acquisition

The Directors and the Proposed Directors believe that the Hotels, which are located close to major provincial centres and motorway networks, offer the necessary facilities to be able to attract the Company's target markets. These are principally the residential and non-residential corporate conference market and the individual business and leisure traveller. There is also an opportunity to take advantage of potential cross-referral of business between the Hotels.

The Directors and the Proposed Directors have considerable experience in running hotel and leisure companies and the additional size that this Acquisition will give Hanover should enable them to make much fuller use of these skills. It is the Company's policy to keep central management as streamlined as possible and to achieve a flat management structure so as to keep lines of communication as short as possible. The Directors and the Proposed Directors consider that the Enlarged Group will be in a position to take advantage of the economies of scale presented by the increased size of the Company's operation. In addition, it is intended that following the Acquisition, the Company will establish a central marketing, sales and reservations operation.

By expanding the asset base of the Company and at the same time increasing its current and potential earnings, the Directors and the Proposed Directors consider that the stability and future prospects for the Company should be enhanced by the Acquisition because the Company will cease to be solely reliant upon the Imperial Hotel. The Directors and the Proposed Directors believe that there is the opportunity to improve the operating performance of the Hotels because, unlike UFB Group, the Company's core activity is the operation of hotels. In addition, they intend to rename each of the Hotels "Hanover International" and this should result in a greater exposure of the Company's name and assist in the establishment of a quality brand name in the hotel market.

Financial information on the Enlarged Group

Financial information on Hanover is set out in Parts III and IV of this document. For the financial period ended 31st December, 1995, Hanover reported turnover of £1,098,000 and made a pre-tax profit of £53,000. No dividend was declared in respect of the financial year ending 31st December, 1995. Hanover's net assets as at 31st December, 1995 were £2,756,000.

Financial information on each of the Hotels is set out in Part V of this document. In the five month period ended 31st May, 1996 the Hotels reported turnover of £6,593,000 and made operating profits of £1,459,000. This result was achieved without the benefit of all the hotel bedrooms being available as a result of refurbishment. In addition it is intended that 83 further bedrooms will be opened during 1997. The net liabilities attributable to the United Hotels as at 31st May, 1996 were £12,733,000.

A pro forma statement of combined net assets of the Enlarged Group is set out in Part IX of this document.

Directors and Proposed Directors

Following the Acquisition, the board of the Company will comprise the following six directors, of whom two will be non-executive.

Directors

Peter Eyles, aged 50 (Executive Chairman) joined the board of the Company in April 1995. He is a senior executive with wide ranging experience in management in many industries and has been responsible for the development of both public and private companies. He was chief executive of Norfolk Capital Plc, the hotel group, from 1981 to 1990. After he left Norfolk Capital Plc he was involved in the attempted, but unsuccessful, rescue of Pavilion Leisure Plc. Subsequently he became involved, in his own right and as a consultant, in a number of projects relating to the proposed financing and acquisition of hotel interests.

David Greene, FCA, aged 42 (Finance Director) joined the board of the Company in April, 1995. He is a chartered accountant who trained and qualified in 1976 with Longcrofts & Co., in London. He then spent the next seven years with Ernst & Young in Brussels before joining the Belgian Racing Division of Ladbroke Group PLC as finance director in 1984. In early 1993, he returned to England to join The Franklin Mint Corporation as Vice-President, Europe Finance. He subsequently worked in conjunction with Peter Eyles as a consultant on a number of projects relating to the proposed financing and acquisition of hotel interests.

Neil List, aged 50 (Non-executive Director). He was appointed Chairman of Bridgend in 1983 and became a director of the Company in August 1995. He became a member of the London Stock Exchange in 1972 and has been a partner in two member firms. Between 1978 and 1981, he was an executive director of R&W Hawthorne, Leslie & Co Limited, a public company with interests in electrical wholesaling and engineering.

Proposed Directors

Charles Gaunt, aged 46. He joined British Transport Hotels Limited as a trainee manager in 1967 and between 1981 and 1986 he held various management positions in the hotel industry. In 1986 he joined Resort Hotels PLC (which subsequently managed Kirtons and Daventry under management agreements with UFB) and became Group Operations Manager with UFB Group with responsibility of the United Hotels in 1994. He will become Operations Director upon the Acquisition becoming unconditional.

Michael Jourdain, aged 32. He joined Grindlays Industrial Finance as a management trainee in 1986. In 1988 he joined Humberclyde Finance Group, a subsidiary of UFB Group, where he worked in general management and marketing until he became responsible for the administration and project management of the United Hotels in 1990. He will become Projects and Administration Director upon the Acquisition becoming unconditional.

Both Messrs. Jourdain and Gaunt have held management positions in the UFB Group with responsibility for the Hotels and are therefore able to provide continuity in relation to these operations.

Hugh William Whitbread, aged 54. Mr Whitbread who is currently a consultant to Abtrust Fund Managers Limited, the manager of Taverners Trust PLC, was formerly investment manager and a director of Whitbread Investment Company PLC. Whitbread Investment Company PLC was acquired by Whitbread PLC in 1993. Prior to joining Whitbread Investment Company PLC in 1989, he was for seven years the specialist director responsible for Whitbread PLC's inter-brewery trade and before that he was for four years the managing director of Thomas Wethered & Sons Limited, the Marlow-based brewing subsidiary of Whitbread PLC. He will become a Non-executive Director upon the Acquisition becoming unconditional.

Corporate governance

In line with The Code of Best Practice published by the Committee on Financial Aspects of Corporate Governance it is the intention of the Directors and the Proposed Directors that the Company should comply, so far as is possible, with the recommendations of this code. A remuneration committee consisting of the Non-executive Directors and the Chairman will be established to determine the remuneration of the Directors and the Proposed Directors and the terms of the service contracts of the Executive Directors from time to time. Members of the remuneration committee will take no part in the consideration and determination of their own remuneration. An Audit Committee consisting of the Chairman and the Non-executive Directors will review reports from management and from the auditors relating to the interim and

annual accounts and the accounting and internal control systems of Hanover. Following completion of the Acquisition and the Placing and Open Offer there will be two Non-executive Directors of the Company. It is, however, the Directors', and the Proposed Directors', intention to increase the number of independent Non-executive Directors to three.

The Placing and Open Offer

UBS has conditionally undertaken to use its reasonable efforts to procure placees for all the Offer Shares and to the extent that it fails to procure subscribers for all the Offer Shares itself to subscribe for the shortfall. It has also conditionally agreed to make the Bridgend Placing and the Additional Placing.

In order to provide Qualifying Shareholders with an opportunity to acquire the Offer Shares, UBS is making, on the Company's behalf, the Open Offer which entitles Qualifying Shareholders to subscribe for all the Offer Shares at the Offer Price on the following basis:

21 Offer Shares for every 4 Existing Ordinary Shares

held at the Record Date and so in proportion for any other number of Existing Ordinary Shares then held.

Bridgend has served notice on the Company of the conversion of all of their Preference Shares and 1,370,000 of the resultant Conversion Shares are to be offered under the Bridgend Placing. The Articles of Association of the Company provide that the resultant holding of Ordinary Shares of the converting holder (and any person acting in concert with him) may not exceed 29.9 per cent. of the Ordinary Shares in issue following conversion, and accordingly the conversion is conditional upon the implementation of the Placing and Open Offer.

Under the Articles of Association of the Company the holders of the Preference Shares are entitled to participate in any offer to holders of the Ordinary Shares by way of rights as if they had exercised their conversion rights and, accordingly, the Open Offer is being extended to such holders. Bridgend has confirmed that it will not be subscribing for any New Ordinary Shares under the Open Offer.

Current trading and prospects

Since the acquisition of the Imperial Hotel, considerable changes have been made to its market position and pricing. In addition, a number of changes have been made to the composition and structure of the hotel's management and in May 1996, a full time sales office was opened.

The Directors and the Proposed Directors expect that the Acquisition will bring the substantial benefits to the Company which have been identified earlier in this letter. The Hotels are expected to benefit from a market which is currently buoyant and they believe that an additional sales effort, combined with the bringing together of the Hotels and the Imperial Hotel under the umbrella of a collective brand name, with a defined marketing strategy, should enhance the performance of the Enlarged Group.

Extraordinary General Meeting

You will find at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at 11.30 a.m. on 23rd August, 1996 at the offices of UBS, 100 Liverpool Street, London, EC2M 2RH. At this meeting a special resolution will be proposed which will, if passed:

- (a) approve the Acquisition;
- (b) approve the Placing and Open Offer;

- (c) increase the authorised ordinary share capital of the Company by the creation of 18,600,000 Ordinary Shares;
- (d) authorise the Directors to allot New Ordinary Shares in connection (*inter alia*) with the Acquisition, the Placing and Open Offer and the conversion of the Convertible Loan Notes;
- (e) disapply statutory pre-emption rights in respect of the allotment of the New Ordinary Shares in connection with the Acquisition, the Placing and the Open Offer, the issue of the Convertible Loan Notes, the conversion of the Convertible Loan Notes, the issue of New Ordinary Shares to Myers Larkey plc pursuant to the agreement set out in paragraph 9 of Part XI of this document and for offers providing for pre-emptive rights for existing holders and for limited cash issues up to five per cent. of the issued ordinary share capital following the Placing and the Open Offer; and
- (f) to amend the borrowing powers in the Articles of Association of the Company by increasing the limit on borrowings of the Company to the higher of three times the Adjusted Capital and Reserves (as defined in the Articles) and £30 million.

Bridgend has irrevocably undertaken to vote in favour of the Resolution in respect of its holding of 500,000 Ordinary Shares, representing 47.6 per cent. of the existing issued ordinary share capital of the Company.

Overseas shareholders

The attention of shareholders who are citizens or residents of countries other than the United Kingdom or who have registered addresses outside the United Kingdom is drawn to the information set out in the letter from UBS contained in Part II of this document.

Action to be taken

Enclosed with this document is a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting or to apply for Offer Shares under the Open Offer, you are asked to complete and return the Form of Proxy in accordance with the instructions printed thereon to the Company's Registrars, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR as soon as possible but, in any event, so as to arrive not later than 11.30 a.m. on 21st August, 1996. Completion of the Form of Proxy will not preclude you from attending the meeting and voting in person, should you so wish.

Qualifying Shareholders who wish to apply for Offer Shares under the Open Offer should follow the procedure for application set out in the letter from UBS contained in Part II of this document. The attention of Qualifying Shareholders is also drawn to the instructions printed on the Application Form. Qualifying Shareholders who do not wish to apply for Offer Shares under the Open Offer need take no further action.

Further information

Your attention is drawn to the letter from UBS in Part II of this document and to the further information set out in Parts III to XI of this document.

Recommendation

Your Directors, who have received financial advice from UBS, consider that the Acquisition, the Placings and the Open Offer are in the best interests of the Company and its shareholders as a whole. In providing advice to the Directors in relation to the

Acquisition, UBS has placed reliance upon the Directors' and the Proposed Directors' commercial assesment of the Acquisition. Your Directors unanimously recommend Shareholders to vote in favour of the Resolution, as they intend to do in respect of their aggregate beneficial holdings which amount, in aggregate, to 4.3 per cent. of the issued ordinary share capital of the Company.

Yours sincerely,

Peter G Eyles

Chairman

PART II

LETTER FROM UBS LIMITED



UBS Limited

(Registered in England and Wales, No. 1546399)

Registered Office:
100 Liverpool Street
London
EC2M 2RH

31st July, 1996

To holders of Ordinary Shares and Preference Shares

Dear Sir or Madam,

Open Offer of 12,862,510 New Ordinary Shares at 124 pence per share

The letter from your Chairman sets out the reasons for the Placing and the Open Offer of the New Ordinary Shares. UBS, as agent for the Company, is now inviting applications from Qualifying Shareholders to apply for the Offer Shares under the Open Offer.

UBS has conditionally agreed that it will procure placees for, or itself take up, the Offer Shares, subject to the rights of Qualifying Shareholders to subscribe for New Ordinary Shares under the Open Offer which are summarised below. This letter contains the formal terms and conditions of the Open Offer. In addition, UBS has conditionally agreed to use its reasonable endeavours to procure additional placees for the Conversion Shares on the terms of the Second Placing Agreement, details of which are set out in Part IX of this document and also the Consideration Shares on the terms of the Placing Agreement.

1. The Open Offer

UBS, as agent for the Company, hereby invites Qualifying Shareholders to apply to subscribe for the Offer Shares at a price of 124 pence per share payable in full on application. The Open Offer is made on the terms and subject to the conditions set out in this Part II and in the Application Form. Qualifying Shareholders may apply for Offer Shares on the following basis:

21 New Ordinary Shares for every 4 Existing Ordinary Shares or Preference Shares

held at the Record Date and so in proportion for any greater number of Existing Ordinary Shares or Preference Shares then held. Entitlements of Qualifying Shareholders will be rounded down to the nearest whole number of New Ordinary Shares. Fractional entitlements that would otherwise have arisen will not be allotted to Qualifying Shareholders but will be aggregated and

taken up under the Placing for the benefit of the Company. Qualifying Shareholders may apply for any whole number of New Ordinary Shares up to the maximum entitlement detailed in Box B of their Application Form enclosed with this document. No application in excess of the maximum entitlement will be met and any Qualifying Shareholder so applying will be deemed to have applied only for his/her maximum entitlement. Applications, together with payment, must be received by 3.00 p.m. on 21st August, 1996.

The Placings and the Open Offer are conditional on the satisfaction of, *inter alia*, the following conditions on or before 28th August, 1996 or on such later date as the Company and UBS may agree, being on or before 9th September, 1996:

- (a) the passing at the Extraordinary General Meeting of the Company (or any adjournment of such meeting) of the Resolution set out in the Notice of Extraordinary General Meeting at the end of this document;
- (b) the Acquisition Agreement becoming unconditional, save for any condition relating to admission and/or the Placing Agreement becoming unconditional;
- (c) the Placing Agreement becoming unconditional in all respects and not being terminated by UBS in accordance with its terms;
- (d) the Loan Facility becoming unconditional in all respects, all the conditions precedent to first drawdown being satisfied or waived and Barclays Bank PLC confirming that the funds are available for drawdown;
- (e) the London Stock Exchange re-admitting the Existing Ordinary Shares and admitting the New Ordinary Shares to the Official List and such admission becoming effective.

Qualifying Shareholders may only apply for the New Ordinary Shares under the Open Offer on the enclosed Application Form which may not be assigned or transferred except to satisfy bona fide market claims in relation to purchases through the market prior to the Record Date which had not been registered as at such date.

The Application Form is not a document of title and may not be traded. Qualifying Shareholders who have sold all or part of their shareholding through the London Stock Exchange should consult their stockbroker or other professional advisers as soon as possible, as the invitation to apply to subscribe for the New Ordinary Shares under the Open Offer may represent a benefit which may be claimed from them by purchasers under the rules of the London Stock Exchange.

The rights of Qualifying Shareholders to subscribe for New Ordinary Shares will lapse if they are not taken up. Any New Ordinary Shares not taken up pursuant to the Open Offer will be allocated pursuant to the Placing and will not be sold in the market for the benefit of Qualifying Shareholders.

Application has been made to the London Stock Exchange for the admission to the Official List of the New Ordinary Shares and the readmission of the Existing Ordinary Shares. The New Ordinary Shares when allotted and issued will be credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares including in respect of dividends or other distributions hereafter declared or made. The New Ordinary Shares have not been marketed nor are they available in whole or in part to the public in conjunction with any application.

2. Procedure for Application

The Application Form enclosed with this document shows the number of Existing Ordinary Shares and/or Preference Shares registered in your name as at the Record Date and also shows your *pro rata* maximum entitlement to New Ordinary Shares.

If you wish to apply for all or any New Ordinary Shares to which you are entitled, you should complete the enclosed Application Form in accordance with the instructions thereon and send or deliver it, together with a remittance for the full amount payable in accordance with the instructions on the Application Form and in this document, to the Company's Registrars, New Issues Department, Independent Registrars Group Limited, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive not later than 3.00 pm on 21st August, 1996. Applications received after this time will not be accepted. The instructions and other terms set out on the Application Form are terms of the Open Offer.

If you do not intend to apply for any New Ordinary Shares, you should not complete and return the enclosed Application Form. You are, however, requested to complete and return the Form of Proxy for use at the Extraordinary General Meeting.

Applications once made will be irrevocable. UBS may (at its sole discretion) treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or not accompanied by a power of attorney where required.

The Company and UBS reserve the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 p.m. on 21st August, 1996 from an authorised person (as defined in the Financial Services Act 1986) specifying the Offer Shares concerned and undertaking to lodge the relevant Application Form in due course.

Cheques and bankers' drafts should be made payable to "Independent Registrars a/c Hanover International" and crossed "A/C Payee only". All payments must be made in pounds sterling by cheque or bankers' draft drawn on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Company Limited or a member of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or bankers' drafts to be cleared through the facilities provided for members of either those companies or those Committees and must bear the appropriate sort code in the top right-hand corner. The Application Form contains a warranty that cheques will be honoured on first presentation. The Company and UBS reserve the right to present the cheques and bankers' draft for clearance at any time after receipt. Following the closing date of the Open Offer, application monies will be transferred to a separate bank account pending satisfaction of the conditions to the Open Offer set out above. No monies payable under the Open Offer will be released to the Company until the Open Offer has become unconditional. If any of these conditions are not satisfied by 28th August, 1996 or on such later date as the Company and UBS may agree, being on or before 9th September, 1996, all monies will be returned to applicants without interest. All documentation or remittances sent through the post by or to an applicant, or as he may direct, will be sent at the applicant's risk.

It is a term of the Placing and Open Offer that, to ensure compliance with the Money Laundering Regulations 1993 (the "Money Laundering Regulations") Independent Registrars Group Limited (the "Registrars") may, at its absolute discretion, require the verification of the identity of the person by whom, or on whose behalf, an Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). The person(s) (the "acceptor") who, by lodging an Application Form with payment, as described above, apply for New Ordinary Shares (the "relevant shares") and any agent lodging such an Application Form on his behalf shall thereby be deemed to agree to provide the Registrars and/or the Company with such information and other evidence as they may require to satisfy the verification of identity requirements.

If the Registrars determine that the verification of identity requirements apply to any acceptance of an application and the verification of identity requirements have not been satisfied (which the Registrars shall in their absolute discretion determine) by 3.00 p.m. on 21st August, 1996, the Company may, in its absolute discretion, treat the acceptance as invalid, in which case the payment held by the Registrars in respect of the acceptor's application will be returned without interest to the account of the drawee bank from which such sums were originally debited, or may allot the relevant shares to the acceptor but (notwithstanding any other term of the Open Offer) such shares will not be issued to him or registered in his name until the verification of identity requirements have been satisfied (which the Registrars shall in their absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, not being less than twenty-one days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares and for that purpose the Company will be expressly authorised to act as agent of the acceptor. Any proceeds of sale of the relevant shares (net of expenses of sale) which shall be issued to and registered in the name of the purchaser(s) will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Registrars are entitled in their absolute discretion to determine whether the verification of identity requirements apply to any acceptor or to any person on whose behalf the Registrars consider that an acceptor may be acting and whether such requirements have been satisfied and neither the Registrars nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of relevant shares.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your application being treated as invalid or in delays in the despatch of a share certificate.

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no. 91/308/EEC));
- (b) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (c) if the aggregate subscription price for the relevant shares is less than £10,000.

Where the verification of identity requirements apply, satisfaction of the requirements may be facilitated in the following ways:

- (i) if payment is made by bank or building society cheque (not being a cheque drawn on an account of the acceptor) or a bankers' draft, request the bank or building society to endorse on the cheque or draft the acceptor's name and the number of an account held in the acceptor's name at such bank or building society. Such endorsement must be validated by a stamp and an authorised signature;
- (ii) if payment is not made by cheque drawn on an account in the name of the acceptor, the acceptor should enclose with his Application Form evidence of his name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the acceptor's name and address (originals of such documents (not copies) are required; such documents will be returned in due course); or

- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money-laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Bahrain, Canada, Hong Kong, Iceland, Japan, Kuwait, New Zealand, Norway, Oman, Qatar, Saudi Arabia, Singapore, Switzerland, Turkey, the United Arab Emirates and the United States of America) the agent should provide written confirmation that it has that status, and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrars or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (iii) above or in any other case, the acceptor should contact the Registrars.

If an Application Form is delivered by hand by the acceptor in person he should ensure that he has with him evidence of identity bearing his photograph (for example his passport) and evidence of his address.

3. Overseas Shareholders

(a) Shareholders resident in the United States

The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended).

Accordingly, the New Ordinary Shares may not be offered or sold directly or indirectly in the United States or to or for the benefit of any US person or to any person acquiring the New Ordinary Shares for re-offer or re-sale directly or indirectly into the United States, or to or for the benefit of any US person. "United States" means the United States of America (including the States and District of Columbia) and its territories, possessions and other areas subject to its jurisdiction. "US person" means a resident of the United States or the estate of such person, a corporation, partnership or other entity created or organised under the laws of the United States and any estate or trust the income of which is subject to United States federal taxation regardless of its source provided, however that the term "US person" does not include a branch or agency of a United States bank or insurance company which is operating outside the United States for valid business reasons as a locally regulated branch or agency engaged in banking or insurance business and not solely for the purpose of investing in securities not registered under the United States Securities Act of 1933 as amended.

By completing and delivering an Application Form the applicant declares that he is not and is not applying on behalf of a US person, nor will he hold or acquire any of the New Ordinary Shares for the account of any such person, nor is he applying with a view to the re-offer or re-sale of any of the New Ordinary Shares which is subject to the application directly or indirectly in the United States.

(b) Other overseas shareholders

No person receiving a copy of this document or an 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 form unless in the relevant territory such invitation or offer could lawfully be made to him or such form could lawfully be used without contravention of any regulation or other legal requirement. Any person outside the United Kingdom wishing to make an application under the Open Offer must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including any requisite governmental or other consents which may be required and compliance with any other requisite formalities and the

payment of any issue transfer or other taxes due in such territory. Shareholders resident outside the United Kingdom should consult their professional advisers about and observe any legal or regulatory requirements applicable to an application for New Ordinary Shares under the Open Offer. The Company reserves the right to treat an application represented by an Application Form as invalid, if it believes that acceptance of such application may violate applicable legal or regulatory requirements. All payments must be made in pounds sterling.

4. Taxation

Shareholders are referred to the information set out in paragraph 12 of Part XI of this document.

If you are in any doubt as to your tax position you should consult your own professional adviser.

5. Settlement and Dealings

Application has been made for the Existing Ordinary Shares to be re-admitted, and the New Ordinary Shares to be admitted, to the Official List. Subject to satisfaction of the conditions of the Placing and Open Offer, dealings in the New Ordinary Shares for rolling settlement are expected to commence on 28th August, 1996. Definitive certificates in respect of New Ordinary Shares, which will be in registered form, are expected to be despatched by post at the risk of applicants on 2nd September, 1996. No temporary documents of title will be issued and, pending the issue of definitive share certificates, transfers will be certified against the register.

6. Further information

Your attention is drawn to the further information set out in Parts I and III to XI of this document.

Yours faithfully
for and on behalf of
UBS Limited

Robert Kretowicz
Executive Director

PART III

FINANCIAL INFORMATION ON HANOVER INTERNATIONAL PLC

Financial information on Hanover International PLC for the three years to 31st December, 1995 is presented in two parts of this Prospectus.

Consolidated information is contained in this Part III and includes the Company from the date of its incorporation on the 4th April, 1995, and the subsidiary, the Imperial Hotel (Cork) Limited, from the date of acquisition on 16th August, 1995.

Pre-acquisition information on the Imperial Hotel (Cork) Limited is presented in Part IV of this Prospectus.

1. Nature of Financial Information

The financial information contained in this Part III is extracted without material adjustment from the audited consolidated accounts of Hanover International PLC for the period from 4th April, 1995 to 31st December, 1995.

The financial information contained in this Part III does not constitute the Company's statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the period from 4th April, 1995 to 31st December, 1995, on which an unqualified audit report (not containing a statement under Section 237 (2) or (3) of the Companies Act 1985) has been given by the Company's auditors, has been delivered to the Registrar of Companies.

2. Accounting policies

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards.

Basis of consolidation

The Group accounts consolidate the accounts of Hanover International PLC and its sole subsidiary undertaking, made up to 31st December, 1995. 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. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given is credited to reserves.

In the Company's accounts, investment in subsidiary undertakings are stated at cost less amounts written off. Only dividends received and receivable are credited to the Company's profit and loss account.

Fixed assets and depreciation

In accordance with normal practice within the hotel industry, no depreciation is provided on the leasehold hotel land and buildings. The Group's hotel is maintained at all times in sound condition and to a high standard. Accordingly, the Directors are of the opinion that its useful life and residual value is such that any provision for depreciation would not be material.

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 and fittings	5 to 8 years
Plant and equipment	5 to 10 years
Motor vehicles	4 years

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 and application of the equity method of accounting, 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.

Taxation

The taxation charge is based upon the profit for the period 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.

Turnover

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

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 period to which the Grant relates.

Stocks

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

Operating leases

The Group enters into operating leases. The rentals on such leases are charged to the profit and loss account as incurred.

3. Consolidated Profit and Loss Account

for the period from 4th April to 31st December, 1995

	Notes	1995 £'000
Turnover - Acquisitions	2	1,098
Operating costs		<u>(1,004)</u>
Operating profit		
- Acquisition		117
- Continuing operations		<u>(23)</u>
		94
Interest payable and similar charges	8.5	(46)
Interest receivable and similar income	8.6	<u>5</u>
Profit on ordinary activities before taxation	8.2	53
Taxation	8.7	<u>—</u>
Retained profit for the period	8.18	<u>53</u>
Earnings per share	8.8	<u>10.0p</u>
Fully diluted earnings per share	8.8	<u>4.3p</u>

There are no other recognised gains or losses other than the profit for the period.

There is no difference to profit for the period on an historical cost basis from that shown above.

4. Consolidated Balance Sheet

as at 31st December, 1995

	Notes	£000
Fixed assets		
Tangible assets	8.9	4,398
Current assets		
Stocks	8.10	53
Debtors	8.11	130
Cash at bank and in hand		271
		<u>454</u>
Creditors: amounts falling due within one year	8.12	<u>(553)</u>
Net current (liabilities)/assets		(99)
Total assets less current liabilities		4,299
Creditors: amounts falling due after more than one year	8.13	<u>(1,543)</u>
Net assets		<u><u>2,756</u></u>
Capital and reserves		
Called up share capital		
- ordinary shares	8.15	263
- preference shares	8.15	350
		<u>613</u>
Share premium account	8.16	1,050
Other reserves	8.17	1,040
Profit and loss account	8.18	<u>53</u>
Shareholders' funds		
Equity - ordinary shares		1,356
Non equity - preference shares		<u>1,400</u>
		<u><u>2,756</u></u>

5. Consolidated Cash Flow Statement

for the period from 4th April to 31st December, 1995

	Notes	£000	£000
Net cash inflow from operating activities			182
Return on investments and servicing of financing			
Interest received		5	
Interest paid		(46)	
Net cash outflow from returns on investments and servicing of finance			(41)
Investing activities			
Purchase of tangible fixed assets		(17)	
Purchase of subsidiary undertaking (net of cash acquired)	8.20	(275)	
Net cash outflow from investing activities			(292)
Net cash outflow before financing			(151)
Financing			
Issue of share capital net of expenses	8.21	453	
Capital element of finance lease repayments	8.21	(31)	
Net cash inflow from financing			422
Increase in cash			271

6. Reconciliation of operating profit before interest to net cash inflow from operations

	£000
Operating profit	94
Depreciation	39
Government Grant amortisation	(5)
Increase in stocks	(26)
Decrease in debtors	77
Increase in creditors	3
Net cash inflow from operating activities	182

7. Reconciliation of Movement in Shareholders' Funds for the period from 4th April to 31st December, 1995

	Notes	£000
New share capital subscribed	8.15,8.16	2,450
Share issue costs	8.17	(97)
Retained profit for the period	8.18	53
Capital reserve arising on acquisition	8.17	350
Closing shareholders' funds		2,756

8. Notes to the Financial Information

8.1 Segmental Information

The Group's sole operating subsidiary, The Imperial Hotel (Cork) Limited, operates The Imperial Hotel in Cork which is the Group's only trading asset. All third party incomes and costs are therefore derived from the provision of hotel accommodation in the Republic of Ireland except for £69,400 representing the costs of the Group's head office in London.

8.2 Profit on ordinary activities before taxation

This is stated after charging:

	£000	£000
Auditors' remuneration		20
Depreciation	39	
Less amortisation of Irish Government Grant	<u>(5)</u>	
		34
Rentals payable under operating leases		25

In addition to the above the auditors received £15,000 in respect of non audit work.

8.3 Remuneration of directors

Directors' remuneration was as follows:

	£000
In respect of Directors of the Company	
- fees	21
In respect of Directors of the Company's subsidiary undertaking*	
- remuneration for services as General Manager	2
- compensation for loss of office	<u>20</u>
Total remuneration	<u><u>43</u></u>

* paid by the subsidiary undertaking

The emoluments of the Chairman and highest paid UK Director were £10,400. No pensions contributions were paid for the period.

There were no bonuses or benefits in kind paid to Directors during the period and only one Director received pensions contributions in the sum of £100. No emoluments were paid to the non executive Director throughout the period.

Directors received emoluments (excluding pension contributions) in the following ranges:

	Number
£0	3
£1-£5,000	1
£10,001-£15,000	2

8.4 Staff numbers and costs.

The average number of persons employed by the Group during the period was 92 including employed Directors. All employed persons are located in Cork in the Republic of Ireland, except for the Directors of the Company at the period end, all of whom are based in the UK.

The total payroll costs comprised the following:

	£000
Wages and salaries	343
Social security costs	37
Other pension costs	11
	<u>391</u>

8.5 Interest payable and similar charges

	£000
On overdrafts	1
On Bank of Ireland loan (see note 8.14)	45
	<u>46</u>

8.6 Interest receivable

	£000
On bank deposits accounts	<u>5</u>

8.7 Taxation

There is no charge to taxation in the period due to the loss incurred by the Company and the availability of tax losses brought forward in The Imperial Hotel (Cork) Limited.

The amount payable of £4,600, included under creditors (note 8.12), represents the balance of tax payable by The Imperial Hotel (Cork) Limited in respect of the accounting year to 31st December, 1994.

8.8 Earnings per share

Earnings per ordinary share is calculated on Group profit after taxation of £53,000 and on 530,813 ordinary shares being the weighted average number of ordinary shares in issue during the period.

Fully diluted earnings per share has been calculated on the assumption that the 1,400,000 preference shares in issue at the balance sheet date are converted from the date of issue, 16th August, 1995.

8.9 Tangible fixed assets

	Leasehold Land & Buildings £000	Fixtures Fittings Plant & Equipment £000	Total £000
Cost or Valuation			
Acquired with Subsidiary Undertaking	4,002	419	4,421
Other additions	—	17	17
At 31st December, 1995	4,002	436	4,438
Depreciation			
Charge for the period	—	39	39
At 31st December, 1995	—	39	39
Net Book Value at 31st December, 1995	4,002	396	4,398

8.10 Stocks

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

8.11 Debtors

	£000
Trade debtors	96
Prepayments and accrued income	34
	<u>130</u>

8.12 Creditors

Amounts falling due within one year:

	£000
Trade creditors	232
VAT payable	43
PAYE and National Insurance	38
Current taxation	5
Accruals and deferred income	144
Bank loan (note 8.14)	91
	<u>553</u>

8.13 Creditors

Amounts falling due after more than one year:

	£000
Bank loan (note 8.14)	1,452
Government Grant	64
Deferred taxation	27
	<u>1,543</u>

The Irish Government Grant represents the un-amortised portion of grants received from Bord Failte, the Irish state tourist authority.

8.14 Bank loan

The Imperial Hotel (Cork) Limited has a secured loan outstanding with the Bank of Ireland and is repayable as follows:

	£000
In one year or less	91
Between one and two years	182
Between two and five years	545
In later years	725
	<u>1,543</u>

Interest is payable on the loan at the aggregate of 1.75 per cent per annum and the rate per annum at which deposits of IR£250,000 and over are offered to the Bank of Ireland on the Dublin Inter-Bank market for periods of one, three or six months as appropriate. Repayment of the loan is in equal three monthly instalments over 8½ years commencing on 1st August, 1996.

The above loan is secured by way of a first charge on The Imperial Hotel in Cork and letters of guarantee from Hanover International PLC for £1,336,760 and from Bridgend Group PLC for £257,070.

In addition to the above loan, The Imperial Hotel (Cork) Limited has a bank overdraft facility of £51,000 unused at the balance sheet date.

8.15 Called up share capital

	£000
Authorised	
Ordinary shares of 25p each	1,250
Redeemable preference shares of £1 each	50
Convertible redeemable preference shares of 25p each	350
	<u>1,650</u>
Allotted, called up and fully paid	
Ordinary shares of 25p each	263
Convertible redeemable preference shares of 25p each	350
	<u>613</u>

No options have been granted to subscribe for any class of shares.

The redeemable preference shares of £1 each were allotted but not called up at the period end and were redeemed and cancelled on 19th March, 1996.

The convertible redeemable preference shares do not carry voting rights and confer no right to a dividend in respect of the period to 31st December, 1995. In respect of any subsequent financial year, they shall only confer a right to a dividend, up to a maximum of £70,000 in total, to the extent that profits after taxation available for distribution exceed £100,000 in 1996 and £200,000 in any year thereafter.

The convertible redeemable preference shares may be converted into ordinary shares at any time at the election of the holder. However, such conversion is not permitted if the holder would, as a result, together with any person acting in concert therewith, hold, in aggregate, more than 29.9% of the ordinary shares in issue.

The Company may, at any time and with the consent of the holder, redeem the capital paid up on the convertible redeemable preference shares. In the absence of conversion or redemption prior to 31st December, 1998, the capital paid up on all remaining convertible redeemable preference shares will be redeemed on that date and the shares cancelled.

8.16 Share premium account

	£000
Premium arising on issue of	
Convertible redeemable preference shares	<u>1,050</u>

The allotted and called up 25p ordinary shares and 25p convertible redeemable preference shares referred to in note 8.15 were subscribed for at 100 pence each. The difference between the issue price and the nominal value was taken to share premium account as shown above.

8.17 Other reserves

	£000
Merger reserve	
Premium arising on issue of Ordinary shares	787
Less expenses of issue	<u>(97)</u>
	690
Capital reserve (note 8.19)	<u>350</u>
	<u>1,040</u>

8.18 Profit and loss account

The Group revenue reserves carried forward at the period end represent the retained profit for the Group of £53,000.

8.19 Purchase of subsidiary undertaking

The assets and liabilities of The Imperial Hotel (Cork) Limited on 16th August, 1995, the date it was acquired by the Group, are summarised as follows:

	£000
Tangible fixed assets	4,421
Stocks	28
Debtors and prepayments	207
Cash at bank and in hand	20
Creditors and accruals	(492)
Bank overdraft	(33)
Bank loan	(1,542)
Government Grant	(69)
Deferred taxation	(28)
	<u>2,512</u>
Acquisition costs	(161)
Capital reserve	(350)
Consideration given	<u><u>2,001</u></u>
Consideration satisfied by:	
Ordinary shares	500
Preference shares	1,400
Cash	101
	<u><u>2,001</u></u>

The tangible fixed assets above include an amount of £4,473,000 resulting from an independent valuation as at 10th November, 1994 and incorporated into the accounts of the subsidiary prior to its acquisition by the Group.

The subsidiary contributed £211,000 to the Group's net operating cash-flow, paid £45,900 in respect of interest and utilised £8,000 for purchase of fixed assets. There were no amounts paid in respect of taxation.

The results of The Imperial Hotel (Cork) Limited from 1st January, 1995 to the date of acquisition are summarised as follows:

	£000
Turnover	<u><u>1,545</u></u>
Operating loss	<u><u>(48)</u></u>
Loss before taxation	<u><u>(128)</u></u>

There was no taxation charge for the period. For the year ended 31st December, 1994, The Imperial Hotel (Cork) Limited reported profit after taxation of £187,000.

8.20 Analysis of the net outflow of cash and cash equivalents in respect of the purchase of the subsidiary

	£000
Cash consideration and costs of acquisition	262
Cash at bank and in hand acquired	(20)
Bank overdraft acquired	33
Net cash outflow	<u>275</u>

8.21 Analysis of changes in financing in the period

	Share capital (including premium) £000	Loan and finance lease obligations £000
Shares issued	1,900	—
Loans and finance lease obligations acquired with subsidiary undertaking	—	1,576
Cash inflow/(outflow) from financing	453	(31)
Balance as at 31st December, 1995	<u>2,353</u>	<u>1,545</u>

8.22 Deferred taxation

	Group £000
Amounts provided for	<u>28</u>

The amount provided was acquired with the subsidiary undertaking and represents the tax effect of timing differences due to excess of tax allowances over depreciation. No provision has been made for further potential taxation liabilities arising from timing differences associated with accelerated capital allowances of £237,700.

The potential liability does not include a further provision for deferred taxation that would arise if the revalued property within the subsidiary undertaking was sold at its revalued amount as in the opinion of the Directors the revaluation does not constitute a timing difference.

8.23 Commitments

Capital commitments:

	£000
Authorised but not contracted for	<u>62</u>

Operating lease commitments:

The Group has entered into commitments under operating leases to make annual payments as follows:

	£000
Operating leases which expire	
- between two and five years	7
- more than five years	61

8.24 Pensions

The Imperial Hotel (Cork) Limited operates a *defined contribution pension scheme*. Pension benefits are funded over the relevant employees period of service by way of contribution to an insured fund. Annual contributions are charged to the profit and loss account in the period to which they relate. The pension charge for the period was £11,000.

8.25 Contingent liabilities

The Group has a contingent liability at the balance sheet date to repay, in whole or in part, capital grants received from Bord Failte, the Irish State Tourist Authority, of £157,120, made to the Company's subsidiary, The Imperial Hotel (Cork) Limited, if certain conditions set out in the agreements are not adhered to. Of this amount £64,000 is held within creditors falling due after more than one year as deferred income.

PART IV

**FINANCIAL INFORMATION ON
THE IMPERIAL HOTEL (CORK) LIMITED**

“

KPMG
8 Salisbury Square
London EC4Y 8BB

The Directors
Hanover International PLC
7 Hanover Street
London W1R 9HH

The Directors
UBS Limited
100 Liverpool Street
London EC2M 2RH

31st July, 1996

Dear Sirs

The Imperial Hotel (Cork) Limited

We have examined the audited accounts of the Imperial Hotel (Cork) Limited for the three years ended 31st December, 1995. Our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant.

KPMG Stokes Kennedy Crowley have been auditors of the company for the three years ended 31st December, 1995. No audited financial statements of the company have been prepared in respect of any period subsequent to 31st December, 1995.

KPMG Stokes Kennedy Crowley issued an unqualified audit opinion on the financial statements for the year ended 31st December, 1995 and for the year ended 31st December, 1994.

KPMG Stokes Kennedy Crowley qualified their audit opinion on the financial statements for the year ended 31st December, 1993, on the basis of the valuation of the company's freehold and long leasehold land and buildings, including fixtures, fittings and equipment. These assets were revalued and included in the financial statements at 31st December, 1993 at open market value for existing use basis in the amount of IR£4,750,000. On the basis of all relevant circumstances and information to hand, at that time, it was considered that the carrying value of the foregoing assets should have been IR£3,750,000 which if reflected in the financial statements would have required an additional provision of IR£1,000,000 to be charged against the revaluation reserve.

For the purposes of this report the company's freehold and long leasehold land and buildings, including fixtures, fittings and equipment for the year ended 31st December, 1993 have been restated at IR£3,750,000. Accordingly it is not necessary to repeat the above qualification in the context of our opinion. The financial information set out at paragraphs one to five following is based on the audited financial statements of the company, after making such adjustments as we consider necessary.

In our opinion the financial information gives, for the purposes of the Prospectus issued by Hanover International PLC dated 31st July, 1996, a true and fair view of the profits and losses, cash flows and of the state of affairs for the period and years, and as at the dates stated.

1 Profit and loss accounts

		31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
	Notes			
Turnover	5.1	2,497	2,757	2,570
Cost of sales		(1,617)	(1,717)	(1,748)
Gross profit		880	1,040	822
Other operating expenses (net)	5.2	(699)	(777)	(755)
Operating profit/(loss)		181	263	67
Investment income	5.3	3	—	—
Interest payable and similar charges	5.4	(11)	(22)	(122)
Profit/(loss) on ordinary activities before taxation	5.5	173	241	(55)
Tax on profit on ordinary activities	5.8	(66)	(49)	—
Profit/(loss) for the financial period		107	192	(55)
Dividends paid	5.9	—	(1,545)	—
Retained profit/loss for the period		107	(1,353)	(55)
Retained profit at 1st January		1,445	1,552	199
Prior year adjustment	5.23	—	—	(10)
Retained profit at period end		<u>1,552</u>	<u>199</u>	<u>134</u>

All results are derived from continuing activities

2 Statements of total recognised gains and losses

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Profit for the financial period	107	192	(55)
(Deficit)/surplus on revaluation of tangible fixed assets	—	640	—
Total recognised gains and (losses) for the period	<u>107</u>	<u>832</u>	<u>(55)</u>

2.1 Reconciliation of shareholders' funds

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Shareholders' funds at beginning of period	3,183	3,290	2,577
Total recognised (losses) and gains for the period	107	832	(55)
Prior year adjustment (note 5.23)	—	—	(10)
Dividends paid	—	(1,545)	—
Shareholders' funds at end of period	<u>3,290</u>	<u>2,577</u>	<u>2,512</u>

2.2 Note of Historical Cost Profits and Losses

There is no material difference between the historical cost profits and losses and the profits and losses as presented in the profit and loss accounts above.

3 Balance sheets

		31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
	Notes			
Fixed assets				
Tangible assets	5.10	<u>3,763</u>	<u>4,343</u>	<u>4,266</u>
Current assets				
Stocks	5.11	66	72	52
Debtors	5.12	167	150	128
Cash at bank and in hand		<u>81</u>	<u>97</u>	<u>157</u>
		314	319	337
Creditors: amounts falling due within one year	5.13	<u>(684)</u>	<u>(496)</u>	<u>(604)</u>
Net current liabilities		<u>(370)</u>	<u>(177)</u>	<u>(267)</u>
Total assets less current liabilities		3,393	4,166	3,999
Creditors: amounts falling due after more than one year	5.14	(76)	(1,562)	(1,460)
Provisions for liabilities and charges	5.15	<u>(27)</u>	<u>(27)</u>	<u>(27)</u>
Net assets		3,290	2,577	2,512
Capital and reserves				
Called up share capital	5.17	92	92	92
Revaluation reserve	5.16	1,646	2,286	2,286
Profit and loss account	5.16	<u>1,552</u>	<u>199</u>	<u>134</u>
Total capital employed - equity		<u><u>3,290</u></u>	<u><u>2,577</u></u>	<u><u>2,512</u></u>

4 Cash flow statements

		31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
	Notes			
Net cash inflow from operating activities	5.21	246	372	290
Returns on investments and servicing of finance				
Interest received		3	—	—
Interest paid		(11)	(21)	(122)
Dividend paid		—	(1,545)	—
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow) from returns on investments and servicing of finance		(8)	(1,566)	(122)
Taxation				
Corporation tax		(73)	(69)	(48)
		<u> </u>	<u> </u>	<u> </u>
Investing activities				
Purchase of fixed assets		(128)	(60)	(30)
Sale of fixed assets		—	—	—
		<u> </u>	<u> </u>	<u> </u>
Net cash outflow from investing activities		(128)	(60)	(30)
Net cash inflow/(outflow) before financing		<u>37</u>	<u>(1,323)</u>	<u>90</u>
Financing				
Repayment of long term loan		55	123	—
New loan in year		—	(1,500)	—
		<u> </u>	<u> </u>	<u> </u>
Net cash outflow/(inflow) from financing		55	(1,377)	—
(Decrease)/increase in cash and cash equivalents	5.22	(18)	54	90
		<u>37</u>	<u>(1,323)</u>	<u>90</u>

5 Notes to the financial information

5.1 Accounting policies

(a) Basis of accounting

The financial information is prepared under the historical accounting convention, modified to include the revaluation of freehold and long leasehold land and buildings including fixtures, fittings and equipment, drawn up in accordance with applicable United Kingdom accounting standards.

(b) Turnover

Turnover comprises the value of sales, excluding VAT and trade discounts, of goods and services in the normal course of business.

(c) Tangible fixed assets

Land and buildings including fixtures, fittings and equipment are shown at valuation. Other fixed assets are shown at original cost. Fixtures and fittings additions incorporate refurbishment expenditure thereon.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset, other than freehold land and hotel premises, over its expected useful life as follows:

Hotel premises	—	Nil
Fixtures and fittings	—	10% per annum straight-line
Leased equipment	—	10% per annum straight-line
Linen	—	20% per annum straight-line
Motor vehicles	—	20% per annum on reducing balance

No depreciation is provided for the hotel premises. It is the company's practice to maintain such assets in a continual state of sound repair and to make improvements thereto from time to time. Accordingly the directors consider the assets' life so long and the residual value, based on prices prevailing, at the time or subsequent valuations, so high that their depreciation is insignificant. Any permanent diminution in value is charged to the profit and loss account as appropriate.

(d) Stocks

Stocks, which consist of goods purchased for resale, are stated at the lower of cost and net realisable value. Cost is based on invoice price.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred on completion and disposal. Provision is made for obsolete, slow moving or defective items, where appropriate.

(e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Tax deferred or accelerated is accounted for in respect of all material timing differences only to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

No provision is made for the potential deferred tax liability that would arise if revalued properties were sold at their revalued amount as it is not the current intention of the company to dispose of these properties.

(f) Pension costs

The company operates a defined contribution pension scheme.

Pension benefits are funded over the relevant employee's period of service by way of contribution to an insured fund. Annual contributions are charged to the profit and loss account in the period to which they relate.

(g) Government grants

Capital based grants are reported as deferred income and amortised over the expected useful lives of the assets concerned. The balance of unamortised grants is included under creditors and separately identified.

(h) Operating leases

Operating lease rentals are charged to the profit and loss account as incurred.

(i) *Revaluation reserve*

Surpluses/deficits arising on the revaluation of tangible fixed assets are credited to a non-distributable reserve known as revaluation reserve. On the disposal of a revalued fixed asset the revaluation surplus corresponding to the item is also transferred to the profit and loss account.

5.2 Other operating expenses (net)

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Administration expenses	713	791	769
Government capital grants released	(14)	(14)	(14)
	<u>699</u>	<u>777</u>	<u>755</u>

5.3 Investment income

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Interest receivable and similar income	<u>3</u>	<u>—</u>	<u>—</u>

5.4 Interest payable and similar charges

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Interest payable on bank loans and overdrafts repayable within five years	11	4	3
Interest payable to group companies	—	—	—
Interest payable on bank loan repayable in more than five years	<u>—</u>	<u>18</u>	<u>119</u>
	<u>11</u>	<u>22</u>	<u>122</u>

5.5 Profit on ordinary activities before taxation

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Stated after crediting			
Government capital grants released	14	14	14
And after charging			
Directors emoluments:			
- for management services	45	46	32
- for compensation for loss of office	—	—	20
Auditors' remuneration - audit	7	9	6
- non audit	<u>1</u>	<u>1</u>	<u>—</u>
Depreciation and amounts written off			
Tangible fixed assets	<u>107</u>	<u>114</u>	<u>108</u>
Rentals payable under operating leases			
Motor vehicles	—	3	6
Car park	<u>5</u>	<u>60</u>	<u>59</u>

5.6 Employees

The average weekly number of employees, including executive directors, during the year, analysed by category, was as follows:

	31st December, 1993 Number	31st December, 1994 Number	31st December, 1995 Number
Hotel staff	73	79	75
Administration	19	19	19
	<u>92</u>	<u>98</u>	<u>94</u>

The aggregate payroll costs of these employees were as follows:

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Wages and salaries	794	813	843
Social Welfare costs	104	100	93
Pension costs	25	25	27
	<u>923</u>	<u>938</u>	<u>963</u>

5.7 Remuneration of directors

	31st December, 1993 IR£	31st December, 1994 IR£	31st December, 1995 IR£
Remuneration as executives	42,034	43,325	29,800
Benefits in kind	6,019	6,632	17,001
Pension	—	—	—
Compensation for loss of office	—	—	20,000
	<u>48,053</u>	<u>49,957</u>	<u>66,801</u>

The emoluments, excluding pension contributions, of the highest paid director for the year ended 31st December, 1995: IR£46,801 (year ended 31st December, 1994: IR£49,957 ; year ended 31st December, 1993: IR£48,053). The chairman received no emoluments throughout the period to 31st December, 1995

The emoluments, excluding pension contributions, of the directors were within the following ranges:

	31st December, 1993	31st December, 1994	31st December, 1995
IR£0 - IR£5,000	2	2	2
IR£45,001-IR£50,000	1	1	1

5.8 Tax on profit on ordinary activities

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Corporation tax at 40%	72	52	—
Adjustment in respect of previous year	—	(3)	—
Deferred tax (see note 5.15)	(6)	—	—
	<u>66</u>	<u>49</u>	<u>—</u>

5.9 Dividends

	31st December, 1993 IR£000	31st December, 1994 IR£000	31st December, 1995 IR£000
Dividend paid of IR£16.76 per share	<u>—</u>	<u>1,545</u>	<u>—</u>

5.10 Tangible fixed assets

	Premises IR£000	Fixtures & fittings (incl linen) IR£000	Leased equipment IR£000	Motor vehicles IR£000	Total IR£000
Cost or valuation					
Balance at 1st January, 1993	3,231	1,542	17	48	4,838
Additions: 1993	20	83	—	—	103
Additions: 1994	2	58	—	—	60
Additions: 1995	—	30	—	—	30
Disposals: 1994	—	—	—	(31)	(31)
Revaluation: 1994	640	—	—	—	640
Balance at 31st December, 1995	<u>3,893</u>	<u>1,713</u>	<u>17</u>	<u>17</u>	<u>5,640</u>
Depreciation					
Balance at 1st January, 1993	—	1,027	11	32	1,070
Charge: 1993	—	102	2	3	107
Charge: 1994	—	109	2	3	114
Charge: 1995	—	104	2	3	109
Disposals: 1994	—	—	—	(26)	(26)
Balance at 31st December, 1995	<u>—</u>	<u>1,342</u>	<u>17</u>	<u>15</u>	<u>1,374</u>
Net book value					
31st December, 1994	<u>3,893</u>	<u>444</u>	<u>2</u>	<u>5</u>	<u>4,345</u>
31st December, 1995	<u>3,893</u>	<u>371</u>	<u>—</u>	<u>2</u>	<u>4,266</u>

The company's freehold and long leasehold land and buildings, including fixtures, fittings and equipment, were revalued at 10th November, 1994 at open market value for existing use basis at IR£4,350,000 by John D Wood International Limited, Consultants in Commercial Property.

5.11 Stocks

	31st December, 1994 IR£000	31st December, 1995 IR£000
Food	12	11
Bar	60	41
	<u>72</u>	<u>52</u>

The replacement cost of stocks does not materially exceed their balance sheet value.

5.12 Debtors

	31st December, 1994 IR£000	31st December, 1995 IR£000
Trade debtors	88	94
Prepayments and accrued income	62	34
	<u>150</u>	<u>128</u>

5.13 Creditors (amounts falling due within one year)

	31st December, 1994 IR£000	31st December, 1995 IR£000
Bank overdraft	31	—
Trade creditors	268	226
Accruals and deferred income	55	87
Amounts owed to group companies	—	106
Government grants	14	14
Taxation and social welfare		
- Corporation tax	52	5
- PAYE/PRSI	36	36
- VAT	40	42
Bank loan	—	88
	<u>496</u>	<u>604</u>

5.14 Creditors (amounts falling due after more than one year)

	31st December, 1994 IR£000	31st December, 1995 IR£000
Bank loan (see below)	1,500	1,412
Government grant (see below)	62	48
	<u>1,562</u>	<u>1,460</u>
Government grants unamortised	76	62
Included in creditors falling due within one year (see note 5.13)	(14)	(14)
	<u>62</u>	<u>48</u>

The bank loan is secured by a specific charge over the property of the Imperial Hotel (Cork) Limited for and by two letters of guarantee from Bridgend Group PLC for IR£250,000 and from Hanover International PLC for IR£1,300,000.

The bank loan is repayable by instalments over eight and a half years as follows: within one year IR£88,288; between one and two years IR£176,576; between two and five years IR£529,728; after more than five years IR£705,408.

5.15 Provision for liabilities and charges

The amounts provided for deferred taxation are as follows:

	31st December, 1994 IR£000	31st December, 1995 IR£000
Beginning of period	27	27
Credit to profit and loss account (see note 5.8)	—	—
End of period	<u>27</u>	<u>27</u>

The amounts provided for deferred taxation are due to the effect of timing differences due to the excess of tax allowances over depreciation.

No provision has been made for further potential taxation liabilities arising from timing differences associated with accelerated capital allowances of IR£231,183 (1994:IR£242,127; 1993:IR£243,720).

The potential liability does not include a further provision for the deferred tax which would arise if the revalued property was sold at its revalued amount as, in the opinion of the directors, the revaluation does not constitute a timing difference.

5.16 Reserves

	Profit and loss IR£000	Non distributable reserve IR£000	Revaluation reserve IR£000	Total IR£000
Reserves at 1st January, 1993	1,396	49	1,646	3,091
Retained profit for the financial year: 1993	93	14	—	107
Retained profit for the financial year: 1994	(1,367)	14	—	(1,353)
Retained loss for the financial year: 1995	(69)	14	—	(55)
Effect of prior year adjustment	(10)	—	—	(10)
Surplus on revaluation of fixed assets: 1994	—	—	640	640
Reserves at 31st December, 1995	<u>43</u>	<u>91</u>	<u>2,286</u>	<u>2,420</u>

5.17 Share capital

	Year ended 31st December, 1993 IR£000	Year ended 31st December, 1994 IR£000	Year ended 31st December, 1995 IR£000
Authorised			
100,000 ordinary shares of IR£1 each	<u>100</u>	<u>100</u>	<u>100</u>
Allotted and fully paid up			
92,200 ordinary shares of IR£1 each	<u>92</u>	<u>92</u>	<u>92</u>

5.18 Commitments

(a) Capital commitments

	Year ended 31st December, 1994 IR£000	Year ended 31st December, 1995 IR£000
Authorised but not contracted for	<u>60</u>	<u>60</u>

(b) *Operating lease commitments*

The company has commitments under operating leases to make payments totalling IR£65,762 for the next year (1994: IR£65,516) as follows:

	31st December, 1994		31st December, 1995	
	Car park IR£000	Motor vehicles IR£000	Car park IR£000	Motor vehicles IR£000
Expiring				
Between two and five years	—	6	—	6
More than five years	59	—	59	—
	<u>59</u>	<u>6</u>	<u>59</u>	<u>6</u>

5.19 Contingencies

There exists a contingent liability to repay in whole or in part capital grants received from Bord Failte, the Irish State Tourist Authority, of IR£152,800 if certain conditions set out in the agreements are not adhered to

5.20 Pensions

The company operates a defined contribution pension scheme

Pension benefits are funded over the related employees period of service by way of contribution to an insured fund. Annual contributions are charged to the profit and loss account in the period to which they relate. The pension charge for the year to 31st December, 1995 was IR£26,958 (year to 31st December, 1994: IR£25,000 ; year to 31st December, 1993: IR£25,000).

There was no material prepayment recognised in the balance sheet at the period end.

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

	Year ended 31st December, 1993 IR£000	Year ended 31st December, 1994 IR£000	Year ended 31st December, 1995 IR£000
Operating profit/(loss)	181	263	67
Depreciation	107	114	108
Grant amortisation	(14)	(14)	(14)
(Increase)/ decrease in stocks	6	(6)	20
Decrease/(increase) in debtors	(39)	23	16
(Decrease)/ increase in creditors	5	(8)	93
	<u>246</u>	<u>372</u>	<u>290</u>

5.22 Analysis of balances in cash and cash equivalents and movements during the year

	Cash at bank and in hand IR£000	Bank overdraft IR£000	Total IR£000
At 1st January, 1993	79	(49)	30
Net cash inflow/(outflow)	2	(20)	(18)
At 31st December, 1993	81	(69)	12
Net cash inflow	16	38	54
At 31st December, 1994	97	(31)	66
Net cash inflow	59	31	90
At 31st December, 1995	156	—	156

5.23 Prior year adjustment

With effect from 1st January, 1995, the company has changed its accounting policy in relation to the treatment of costs incurred on the acquisition of finance. In previous years the company amortised these costs to the profit and loss account over the term of the related finance. This policy has been changed to effect an immediate write off of finance costs to the profit and loss account.

5.24 Earning/(loss) per share

The earnings/(loss) per share for the period to 31st December, 1995 are as follows:

	31st December, 1993	31st December, 1994	31st December, 1995
Earnings/(loss) per share	20.2p	36.2p	(10.4)p

The above is calculated on the loss after taxation of IR£(55,000) (1994: Profit IR£192,000; 1993: Profit IR£107,000) and on 530,813 ordinary shares being the weighted average number of ordinary shares of Hanover International PLC as disclosed in the audited consolidated accounts for the period from 4th April, 1995 to 31st December, 1995.

Yours faithfully

KPMG”

PART V

FINANCIAL INFORMATION ON THE HOTELS

“

KPMG
8 Salisbury Square
London EC4Y 8BB

The Directors
Hanover International PLC
7 Hanover Street
London W1R 9HH

The Directors
UBS Limited
100 Liverpool Street
London EC2M 2RH

31st July, 1996

Dear Sirs

United Hotels

On 21st July, 1996 Hanover International PLC (“the Company”) entered into an agreement with (*inter alia*) UFB Group PLC to acquire the United Hotels.

We have examined for the purposes of this report the audited accounts of the companies listed in note 5.1, owning the United Hotels, for the three years ended 31st December, 1995, and the audited accounts of the United Hotels for the five months ended 31st May, 1996; our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant.

No audited accounts of the United Hotels have been made up in respect of any period subsequent to 31st May, 1996.

The financial information set out at paragraphs 1 to 5, which have been prepared on the basis set out in note 5.1, is based on the audited accounts of the companies owning the United Hotels for the three years ended 31st December, 1995, and the audited accounts of the United Hotels for the five months ended 31st May, 1996, after making such adjustments as we consider necessary.

In our opinion the financial information gives, for the purposes of the Prospectus issued by the Company dated 31st July, 1996, a true and fair view of the profits and losses, cash flows and of the state of affairs for the period and years, and as at the dates stated.

1 Profit and loss accounts

		31st December, 1993	31st December, 1994	31st December, 1995	31st May, 1996
	Notes	£000	£000	£000	£000
Turnover	5.3	10,831	13,887	14,586	6,593
Cost of sales		(5,110)	(6,518)	(6,659)	(2,827)
Gross profit		5,721	7,369	7,927	3,766
Administrative expenses	5.4	(4,360)	(4,565)	(5,021)	(2,307)
Operating profit of the United Hotels	5.5	1,361	2,804	2,906	1,459
Inter group charges from UFB		(569)	—	—	—
Operating profit/(loss)		792	2,804	2,906	1,459
Other interest receivable and similar income		3	11	26	7
Interest payable and similar charges	5.6	(4,860)	(5,430)	(5,415)	(1,934)
Profit/(loss) on ordinary activities before taxation		(4,065)	(2,615)	(2,483)	(468)
Tax on profit on ordinary activities	5.9	—	—	—	—
Profit/(loss) for the financial period		<u>(4,065)</u>	<u>(2,615)</u>	<u>(2,483)</u>	<u>(468)</u>

All results are derived from continuing activities

There are no other recognised gains and losses other than the loss for the financial period as shown above.

2 Reconciliation of shareholders' funds

	31st December, 1993	31st December, 1994	31st December, 1995	31st May, 1996
	£000	£000	£000	£000
Shareholders' funds at beginning of period	(3,102)	(7,167)	(9,782)	(12,265)
Total recognised (losses) for the period	<u>(4,065)</u>	<u>(2,615)</u>	<u>(2,483)</u>	<u>(468)</u>
Shareholders' funds at end of period	<u>(7,167)</u>	<u>(9,782)</u>	<u>(12,265)</u>	<u>(12,733)</u>

There is no material difference between the historical cost profits and losses and the profits and losses as presented in the profit and loss accounts above.

3 Balance sheets

		31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
	Notes				
Fixed assets					
Intangible assets	5.10	25	22	19	18
Tangible assets	5.11	46,889	46,840	47,008	46,940
Current assets					
Stocks	5.12	129	123	131	122
Debtors	5.13	1,349	1,565	1,542	1,673
Cash at bank and in hand		416	926	1,469	1,354
		<u>1,894</u>	<u>2,614</u>	<u>3,142</u>	<u>3,149</u>
Creditors: amounts falling due within one year	5.14	(2,766)	(2,180)	(2,160)	(2,166)
Net current assets/liabilities		<u>(872)</u>	<u>434</u>	<u>982</u>	<u>983</u>
Total assets less current liabilities		46,042	47,296	48,009	47,941
Creditors: amounts falling due after more than one year	5.15	(497)	(71)	—	—
Net assets of the United Hotels		<u>45,545</u>	<u>47,225</u>	<u>48,009</u>	<u>47,941</u>
Capital funding with parent undertaking	5.16	(52,712)	(57,007)	(60,274)	(60,674)
Net liabilities		<u>(7,167)</u>	<u>(9,782)</u>	<u>(12,265)</u>	<u>(12,733)</u>
Capital and reserves					
Called up share capital	5.18	—	—	—	—
Profit and loss account	5.17	(7,167)	(9,782)	(12,265)	(12,733)
Total capital employed (deficit)		<u>(7,167)</u>	<u>(9,782)</u>	<u>(12,265)</u>	<u>(12,733)</u>

4 Cash flow statements

		31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
	Notes				
Net cash inflow from operating activities	5.20	1,663	2,570	3,418	1,813
Returns on investments and servicing of finance					
Interest received		4	12	26	6
Interest paid		(373)	(855)	(2)	(1,540)
Interest paid on finance leases		(172)	(123)	(42)	(4)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance		(541)	(966)	(18)	(1,538)
Investing activities					
Purchase of fixed assets		(7,029)	(600)	(785)	(122)
Sale of fixed assets		—	4	2	7
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from investing activities		(7,029)	(596)	(783)	(115)
Net cash inflow/(outflow) before financing		(5,907)	1,008	2,617	160
Financing					
Capital element of finance lease payments		(222)	(583)	(79)	(45)
Loans received/(paid) from/to group undertakings		6,558	(157)	(2,104)	10
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing	5.22	6,336	(740)	(2,183)	(35)
Increase in cash and cash equivalents	5.21	<u>429</u>	<u>268</u>	<u>434</u>	<u>125</u>

5 Notes to the financial information

5.1 Basis of preparation

The financial information set out in this report is based on an aggregation of the results of the hotels being acquired. For those hotels acquired during the period of the report the results are included from the date on which UFB Humberclyde acquired and recorded the business within the UFB Humberclyde group.

The results have been obtained from the audited accounts of the various companies as detailed in the table below, and the audited accounts of the United Hotels for the five months ended 31st May, 1996. In some cases the operations of the hotel concerned have been held in a separate company from that owning the actual property. Details of the dates from which the results are included for each hotel are presented below together with details of the respective auditors of the companies for the periods covered by this report:

Hotel	Dates from which results are included	Company*	Period	Auditor
Hinckley Island	1st January, 1993	HIH Management Limited	1993	Robson Rhodes
			1994-96	Coopers & Lybrand
Kirtons	1st February, 1993	Humberclyde Commercial Investments (No 1) Limited	1993-96	Mazars & Guérard
		K F Management Limited	1993-96	Coopers & Lybrand
The Daventry	1st January, 1993	Humberclyde Commercial Investments (No 3) Limited	1993-96	Mazars & Guérard
		HID Management Limited	1993-96	Coopers & Lybrand
Springfield Park	1st October, 1993	Humberclyde Commercial Investments (No 4) Limited	1993-96	Mazars & Guérard
		United Hotels Group Limited	1993	Garbutt & Elliott
Randell's	1st February, 1993	United Hotels Group Limited	1994-96	Coopers & Lybrand
			1993	Garbutt & Elliott
Ashbourne Lodge	1st October, 1993	United Hotels Group Limited	1994-96	Coopers & Lybrand
			1993	Garbutt & Elliott

*All companies listed were part of the UFB Humberclyde Group and were subject to common ownership throughout the period from the dates the results were included as noted above to the last date covered by this Accountants' Report, this being 31st May, 1996.

The principal offices of the other auditors referred to above, are given below:

Name	Address
Robson Rhodes	186 City Road, London, EC1V 2NU
Coopers & Lybrand	1 Embankment Place, London, WC2N 6NN
Mazars & Guérard	12 Floor, New Zealand House, 80 Haymarket, SW1
Garbutt & Elliot	Monkgate House, 44 Monkgate, York, YO3 7HF

5.2 Accounting policies

(a) *Basis of accounting*

The financial information has been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention.

(b) *Turnover*

Turnover comprises the value of sales, excluding VAT and trade discounts, of goods and services in the normal course of business.

(c) *Tangible fixed assets*

Hotel premises, being land and buildings (both freehold and long leasehold), are shown at the book value held by UFB Humberclyde at the date of acquisition. Where the leasehold interest is owned and held in a separate company, as detailed in note 5.1 above, the book value represents the net present value of the future lease rentals receivable under the terms of the original lease. Other fixed assets are shown at original cost. Fixtures and fittings additions incorporate refurbishment expenditure thereon.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset, other than freehold land and hotel premises, over its expected useful life as follows:

Hotel premises	— Nil
Fixtures and fittings	— 25% per annum straight-line
Leasehold improvements	— 10% per annum straight-line
Computer equipment	— 25% per annum straight-line
Motor vehicles	— 25% per annum on reducing balance

No depreciation is provided on freehold properties. It is the company's policy to maintain all its hotels to a high standard in order to protect their trade. Because of this, such properties maintain residual disposal values, based on prices prevailing at the time of acquisition, at least equal to their book values and accordingly no provision for depreciation is required.

(d) *Stocks*

Stocks are stated at the lower of cost and net realisable value.

(e) *Deferred taxation*

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the financial statements.

Provision is made for deferred taxation to the extent that there is a reasonable probability of the tax falling due for payment in the foreseeable future. Tax not provided for is disclosed as a contingent liability.

(f) *Pension costs*

HHH Management Limited operates a pension scheme for certain employees based upon defined monthly contributions. The funds are independent of the company's finances. The scheme is funded by contributions from the company. Contributions are charged against trading profit in the period in which they are made.

(g) *Finance and operating leases*

Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the assets.

Costs in respect of operating leases are charged to the profit and loss account as incurred.

5.3 Turnover

The turnover is attributable to one principal activity and was entirely within the United Kingdom.

5.4 Administrative expenses

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Stated after charging				
Auditors' remuneration - audit	25	29	31	13
- non audit	5	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation and amounts written off				
Intangible fixed assets	—	3	3	1
Tangible fixed assets	544	639	617	188
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Hire of plant and machinery	81	78	150	62
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5.5 Trading profit

The trading profit for the United Hotels Group, excluding depreciation and central management charges is as follows:

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Operating profit	1,361	2,804	2,906	1,459
Add back				
Management charge	—	—	338	154
Depreciation and amounts written off	544	642	620	189
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Trading profit	1,905	3,446	3,864	1,802
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5.6 Interest payable and similar charges

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Interest on loans from holding company*:	4,678	5,307	5,373	1,930
Lease finance charges and hire purchase interest	172	123	42	4
Other interest	10	—	—	—
	<u>4,860</u>	<u>5,430</u>	<u>5,415</u>	<u>1,934</u>

*Including interest payable by HCI (No 1) Limited, HCI (No 3) Limited and HCI (No 4) Limited to UFB Humberclyde in relation to the respective leasehold properties.

5.7 Employees

The average weekly number of employees, including executive directors, during the year was as follows:

	31st December, 1993 Number	31st December, 1994 Number	31st December, 1995 Number	31st May, 1996 Number
	<u>443</u>	<u>561</u>	<u>598</u>	<u>651</u>

The aggregate payroll costs of these employees were as follows:

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Wages and salaries	3,110	3,901	4,046	1,790
Social security costs	248	267	267	111
Pension costs	5	5	16	6
	<u>3,363</u>	<u>4,173</u>	<u>4,329</u>	<u>1,907</u>

5.8 Remuneration of directors

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Remuneration as executives	11	—	—	—
Compensation for loss of office	10	—	—	—
Pension costs	—	—	—	—
	<u>21</u>	<u>—</u>	<u>—</u>	<u>—</u>

The compensation for loss of office in 1993 includes £1,250 of non cash benefits. This represents the approximate market value of the director's company car.

The emoluments, excluding pension contributions, of the highest paid director for the period ended 31st May, 1996 was £Nil (year ended 31st December, 1995: £Nil; year ended 31st December, 1994: £Nil; year ended 31st December, 1993: £20,467.)

The emoluments, excluding pension contributions, of the directors were within the following ranges:

	Number of directors			
	31st December, 1993	31st December, 1994	31st December, 1995	31st May, 1996
£0- £5,000	7	3	3	3
£20,001-£25,000	1	—	—	—

5.9 Tax on profit on ordinary activities

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Corporation tax at 33%	—	—	—	—
Potential liability to deferred tax	—	—	—	—

5.10 Intangible fixed assets

	Goodwill £000
Cost	
Balance at 1st January, 1994	25
Addition: 1994 - 1996	—
Balance at 31st May, 1996	25
Amortisation	
Balance at 1st January, 1994	—
Charge: 1994	3
Charge: 1995	3
Charge: 1996	1
Balance at 31st May, 1996	7
Net book value	
31st December, 1995	19
31st May, 1996	18

5.11 Tangible fixed assets

	Hotel premises £000	Fixtures & fittings £000	Leasehold improvements £000	Motor vehicles £000	Total £000
Cost or valuation					
Balance at 1st January, 1994	44,928	2,017	1,026	16	47,987
Additions 1994	300	250	44	—	594
Additions 1995	300	320	157	8	785
Additions 1996	3	96	23	—	122
Disposals: 1994	—	—	—	(8)	(8)
Disposals: 1995	—	(7)	—	(8)	(15)
Disposals: 1996	—	—	—	(2)	(2)
Balance at 31st May, 1996	<u>45,531</u>	<u>2,676</u>	<u>1,250</u>	<u>6</u>	<u>49,463</u>
Depreciation					
Balance at 1st January, 1994	—	939	154	6	1,099
Charge: 1994	—	492	141	6	639
Charge: 1995	—	502	113	2	617
Charge: 1996	—	135	52	1	188
Disposals: 1994	—	—	—	(4)	(4)
Disposals: 1995	—	(7)	—	(8)	(15)
Disposals: 1996	—	—	—	(1)	(1)
Balance at 31st May, 1996	<u>—</u>	<u>2,061</u>	<u>460</u>	<u>2</u>	<u>2,523</u>
Net book value					
31st December, 1995	<u>45,528</u>	<u>655</u>	<u>819</u>	<u>6</u>	<u>47,008</u>
31st May, 1996	<u>45,531</u>	<u>615</u>	<u>790</u>	<u>4</u>	<u>46,940</u>

Included within the net book value of the hotel premises is £39 million representing the total value of the leasehold interests held in HCI (No 1) Limited, HCI (No 3) Limited and HCI (No 4) Limited. This does not represent the original cost of the hotel premises.

5.12 Stocks

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Goods for resale	<u>123</u>	<u>131</u>	<u>122</u>

5.13 Debtors

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Trade debtors	1,093	1,293	1,219
Amounts owed by group undertakings	22	—	—
Other debtors	247	118	23
Prepayments and accrued income	203	131	431
	<u>1,565</u>	<u>1,542</u>	<u>1,673</u>

All of the above debtors fall due within one year.

5.14 Creditors (amounts falling due within one year)

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Obligations under finance leases and hire purchase contracts	99	91	46
Bank overdraft	273	382	142
Trade creditors	549	779	879
Accruals and deferred income	655	374	483
Other creditors	425	177	205
Other taxation and social security	179	357	411
	<u>2,180</u>	<u>2,160</u>	<u>2,166</u>

5.15 Creditors (amounts falling due after more than one year)

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Obligations due under hire purchase and finance leases: between one and five years	71	—	—
	<u>71</u>	<u>—</u>	<u>—</u>

5.16 Capital funding with parent undertaking

This amount represents the intercompany balances with UFB Humberclyde, including amounts due in respect of HCI (No.1) Limited. HCI (No.3) Limited and HCI (No.4) Limited of £56 million at 31st May, 1996 (1995: £55 million).

5.17 Reserves

	Profit and loss account £000
Reserves at 1st January, 1993	(3,102)
Retained loss for the financial year: 1993	(4,065)
Retained loss for the financial year: 1994	(2,615)
Retained loss for the financial year: 1995	(2,483)
Retained loss for the financial period 1996	(468)
Reserves at 31st May, 1996	<u>(12,733)</u>

5.18 Share capital

	Authorised	Issued and fully paid up	
	31st December, 1995 £000	31st May, 1996 £000	31st May, 1996 £
Ordinary shares of £1 each	<u>1,300</u>	<u>1,300</u>	<u>8</u>

5.19 Commitments

(a) Capital commitments

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Contracted but not provided for	263	38	14
Authorised but not contracted for	207	3	—

(b) Operating lease commitments

The company has commitments under operating leases to make payments totalling £51,000 for the period to 31st May, 1997 (December 1995: £84,000; December 1994: £22,000) as follows:

	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Expiring			
Within one year	—	—	5
Between one and five years	22	83	45
More than five years	—	1	1

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

	31st December, 1993 £000	31st December, 1994 £000	31st December, 1995 £000	31st May, 1996 £000
Operating profit	1,361	2,804	2,906	1,459
Depreciation	544	642	620	189
Profit on disposal of fixed assets	—	—	(2)	—
(Increase)/ decrease in stocks	(65)	6	(8)	9
Decrease/(increase) in debtors	(715)	(216)	23	(131)
(Decrease)/ increase in creditors	538	(666)	(121)	287
	<u>1,663</u>	<u>2,570</u>	<u>3,418</u>	<u>1,813</u>

5.21 Analysis of balances in cash and cash equivalents and movements during the year

	Cash at bank and in hand £000	Bank overdraft £000	Total £000
At 1st January, 1993	184	(228)	(44)
Net cash inflow	232	197	429
At 31st December, 1993	416	(31)	385
Net cash inflow/(outflow)	510	(242)	268
At 31st December, 1994	926	(273)	653
Net cash inflow/(outflow)	543	(109)	434
At 31st December, 1995	1,469	(382)	1,087
Net cash inflow/(outflow)	(115)	240	125
At 31st May, 1996	<u>1,354</u>	<u>(142)</u>	<u>1,212</u>

5.22 Analysis of financing and movements during the year

	Inter company funding £000	Finance Leases £000	Total £000
At 1st January, 1993	31,569	975	32,544
Intercompany funding in HCI (No. 3) Limited included within UFB Humberclyde Group during the year	10,280	—	10,280
Interest charged	4,678	172	4,850
Interest paid	(373)	(172)	(545)
Net cash inflow/(outflow)	<u>6,558</u>	<u>(222)</u>	<u>6,336</u>
At 31st December, 1993	52,712	753	53,465
Interest charged	5,307	123	5,430
Interest paid	(855)	(123)	(978)
Net cash outflow	<u>(157)</u>	<u>(583)</u>	<u>(740)</u>
At 31st December, 1994	57,007	170	57,177
Interest charged	5,373	42	5,415
Interest paid	(2)	(42)	(44)
Net cash outflow	<u>(2,104)</u>	<u>(79)</u>	<u>(2,183)</u>
At 31st December, 1995	60,274	91	60,365
Interest charged	1,930	4	1,934
Interest paid	(1,540)	(4)	(1,544)
Net cash inflow/(outflow)	<u>10</u>	<u>(45)</u>	<u>(35)</u>
At 31st May, 1996	<u>60,674</u>	<u>46</u>	<u>60,720</u>

Yours faithfully

KPMG"

PART VI

FURTHER INFORMATION ON THE HOTELS

All of the Hotels are of a modern spacious design and construction and stand in their own grounds. They all benefit from a range of conference and banqueting facilities, leisure facilities (except Springfield Park) and bedrooms generally larger than 4 star industry averages. All of the bedrooms are equipped with satellite TV, hair dryer, trouser press and tea and coffee making facilities. The leisure facilities are all made available to outside members as well as being available to hotel guests.

Hinckley Island

The Hinckley Island Hotel is situated in open countryside close to the M69, M1 and M6. Birmingham International airport is within a 20 minute drive and East Midlands airport is within a 30 minute drive. Hinckley Railway station is 1 mile from the hotel. Within the hotel there are two restaurants, a health/leisure club which includes an indoor swimming pool, a sauna and gymnasium. In addition to the restaurants and bars the hotel has a public house called the Snooty Fox incorporated within the building. A bedroom block of 83 rooms requires internal completion and provides the opportunity to further enhance the hotel's performance. In addition there is a separate building forming part of the hotel complex that currently houses a small transport exhibition which, subject to planning permission, could also form part of the future development of the site.

Kirtons Hotel

The Kirtons Hotel is set in some 55 acres, incorporating a 33 acre lake on which both national and international water skiing championships are held. The hotel is two miles from junction 11 of the M4, 5 miles from Reading station and 35 miles from Heathrow Airport. Within the hotel there are three restaurants. In addition to water-skiing facilities the hotel offers a comprehensive health and leisure club which incorporates, in addition to an indoor pool and gymnasium, tennis courts, squash courts and a dance studio.

The Daventry Hotel

This modern hotel stands in its own grounds on the A361 one mile north of Daventry, close to the M45 and the M1. The nearest railway station, Long Buckby, is 4 miles away and Birmingham Airport is 40 miles away. In addition to the conference rooms, the hotel also contains a fully equipped business centre. The hotel has a restaurant and bar and at the lower ground floor level there is a night club. The health and leisure club includes an indoor pool, jacuzzi, beauty treatment rooms and gymnasium.

Springfield Park

The hotel was converted in 1990 and is positioned on the A629 south of Huddersfield city centre. It is a short drive from both the M62 and M1 with Manchester airport a 50 minute drive and Leeds/Bradford airport 27 miles away. The nearest railway station is Huddersfield which is 3.5 miles away. The hotel has one restaurant, a bar and coffee lounge.

Randell's Hotel

This hotel is situated close to the Yorkshire Dales. It is positioned off the A629 1 mile south of Skipton town centre and 1.5 miles from Skipton railway station. The airports of Leeds/Bradford and Manchester are within a short drive. In addition to the meeting facilities, the hotel also has a designated training centre and business centre. The leisure facilities include a large indoor pool, squash courts, gymnasium, sauna, spa steam room, solarium, hairdresser and beauty treatment suite. There is also a nursery to cater for guests' children.

Ashbourne Lodge

This hotel is located on the edge of the ancient spa town of Ashbourne and was completed in 1989 and its leisure facilities were added in 1995. Sited on the Derby Road, it is readily accessible to junctions 24 and 25 of the M1 and 12 miles from Derby and 25 miles from East Midlands airport. The leisure facilities added in the spring of 1995 include an indoor pool, spa, solarium and gymnasium. The hotel has a restaurant, brasserie and cocktail bar and also contains a public house.

PART VII

**VALUER'S REPORTS ON
THE HOTELS**

CHRISTIE & CO

SURVEYORS, VALUERS & AGENTS

50 Victoria Street
London SW1H 0NW

Offices at:	Ipswich
Birmingham	Leeds
Bristol	Manchester
Edinburgh	Newcastle
Exeter	Nottingham
Glasgow	Winchester

The Directors
Hanover International PLC
7 Hanover Street
London
W1R 9HH

The Directors
UBS Limited
100 Liverpool Street
London
EC2M 2RH

31st July, 1996

Dear Sirs

VALUATION OF UNITED HOTELS

In accordance with your instructions we have undertaken valuations of the freehold and long leasehold interests in the six operational hotels (hereinafter referred to as the "Properties") currently operated as United Hotels, by subsidiaries of UFB Group, summarised in the attached Schedule. We now advise you as to our opinions of their Open Market Value in their existing use as fully equipped operational businesses having regard to trading potential as at 31st July, 1996, for the purposes of the Circular dated 31st July, 1996, issued in connection with Hanover International PLC's (the "Company's") Placing and Open Offer.

This Valuation Report is for the stated purpose and for the sole and exclusive use of the parties to whom it is addressed. The Report shall not be published or reproduced in any way other than as required to be in the aforementioned circular. It is governed by English Law and any dispute therefrom shall be adjudicated upon only in the English Courts. This Valuation Report has been prepared in accordance with the Practice Statements in the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual (hereinafter referred to as the Manual) and with the Listing Rules published by the London Stock Exchange.

The Properties were inspected between 4th July, 1996 and 8th July, 1996 and all inspections and valuations have been undertaken by external valuers qualified in accordance with Practice Statement 5.1. contained in the Manual.

The properties together produced an aggregate operating profit at unit level of £3,864,000 for the year ended 31st December, 1995, before deduction of depreciation, head offices costs, finance charges and taxation.

On the same basis for the period from 1st January, 1996 to 31st May, 1996 the hotels have produced £1,821,000.

The hotels have been run by or on behalf of members of UFB Group and, in our opinion, having regard to the improved trading environment should, under corporate professional hotel direction, show substantially improved levels of business and profitability. In forming this view we have had regard to the levels of profitability attained by the other UK corporate hotel operators.

We have ascribed Open Market Values to the Properties as fully equipped operational individual trading entities, not part of a group or portfolio.

Open Market Value is defined in the Practice Statement 4.2.1 of the Manual as follows:

“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 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; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

ASSUMPTIONS AND EXCLUSIONS

Trade Furnishings, Fixtures, Fittings, Plant and Equipment

Properties of the type valued normally change hands in the open market as fully operational business units. Our valuations, therefore, include all plant, machinery, fixtures, fittings, furniture and moveable items as these are usually included in a sale.

Furthermore, the valuations are based upon the understanding that all plant, machinery, fixtures, fittings, furniture and moveable items are free from hire purchase, leasing, rental, free loan or service agreements. No additional allowance has been made for individual items of furniture, fine art or articles with antique or rarity values. We have assumed that the plant, machinery and services are in good working order.

Services

We were not instructed to arrange for any services or installations to be tested and therefore this Report does not express any opinion as to their adequacy or condition. We have valued on the basis that the services and installations comply with statutory requirements and are adequate for the businesses being undertaken at the time of our inspections.

Statutory Requirements

We have not made enquiries of the appropriate statutory authorities and have therefore assumed that the Properties comply in all material respects with all statutory requirements, including the Fire Precautions Act 1971 and the Food Safety Act 1990.

Structural Condition

We were not instructed to carry out structural surveys of the Properties and therefore in preparing this Report we have assumed the Properties to be of sound design and construction, free from any inherent defect or defects. Furthermore, we did not inspect woodwork or other parts of the Properties which were covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. This Report does not therefore express any opinion about or advise upon the condition of uninspected parts nor does this Report in any way constitute or could this Report be construed as constituting any representation or warranty actual or implied regarding such parts.

Site Investigations

We have not carried out or commissioned site investigations or geographical or geophysical surveys, and therefore can give no opinion or assurance or guarantee that the grounds have sufficient load bearing strength to support the existing constructions, or any other constructions that may be erected upon them in the future. We also cannot give any opinion or assurance or guarantee that there are no underground mineral or other workings beneath the sites, or in their vicinity, nor that there is any fault or disability underground which could or might affect the Properties or any construction thereon.

Environmental Factors

We are not aware of the contents of any environmental audits or other environmental investigations or soil surveys which may have been carried out on the Properties and which may draw attention to any contamination or the possibility of any such contamination (save for an area of infill land at Kirtons Hotel and Country Club upon which we comment in the Schedule of Hotels which forms part of this Certificate). In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the Properties. We have not carried out any investigations into past or present uses either of the Properties or of any neighbouring land to establish whether there is any potential for contamination from these uses or sites to the Properties and have therefore assumed that none exists.

However, should it be established subsequently that contamination exists at the Properties or on any neighbouring land or that the premises have been or are being put to a contaminative use this might reduce the values now reported.

Licences and Planning

We have valued on the assumption that all consents, licences and permissions have been obtained, that the businesses are being operated in accordance with those consents, licences and permissions and that they will continue to hold them. We have also assumed that they can be transferred to a suitable purchaser. We have assumed that there are no outstanding conditions or works required by the appropriate authorities and therefore that there are no proposals likely detrimentally to affect the Properties.

We have valued the Properties on the basis of existing use on the assumption that it is the lawful or permitted use, that there are no onerous proposals affecting the Properties and that the Properties and their values are unaffected by matters which would be revealed by local authority searches and replies to legal enquiries. However we are aware of a number of planning issues which affect the properties and which require planning permission or regularisation. Where such matters have been revealed and may be material, we have referred to them in the descriptions of the properties in the Schedule of Hotels which forms part of this Report.

Tenure

We have assumed that the Properties are free from any unusual or especially onerous restrictions, encumbrances or outgoing, and that good titles can be shown and that all covenants (including leasehold covenants), restrictions and stipulations affecting the Properties have been strictly complied with. We comment upon title in respect of an area of car parking at the Daventry Hotel in the Schedule of Hotels which forms part of this Certificate.

Furthermore, we have assumed the areas and boundaries of the Properties are correct as indicated to us at the time of our inspections. Where tenancies have been created these have been taken into account in arriving at our valuations.

Exclusions

Our valuations do not take into consideration the values of stock-in trade, motor vehicles, trade debtors or creditors, other assets or liabilities or contingent liabilities.

Our valuations do not take into consideration alternative uses.

We have not allowed for the costs of realising the asset values on the open market including professional fees, possible tax liabilities and redundancy or other compensation payments that could be incurred in the event of sales.

We have valued each of the Properties as being clear and free of all debentures, mortgages or other forms of secured lending and any other charges which may be secured thereon.

Information

We have relied upon the historic trading information supplied to us and have assumed that such information is correct and can be substantiated by independent audit. As required we have also had regard to the trading potential of the Hotels. In the event of a future change in trading potential or actual level of trade from that indicated by such information and assumptions, the open market values for existing use could also vary. We can take no responsibility for any mis-statement, omission, or misrepresentation made to us.

Information about the tenure of the Properties, licences, environmental health matters, planning and fire certificates has been supplied by the Company's solicitors.

VALUATION CERTIFICATE

We are of the opinion that the aggregates of the Open Market Values on the basis previously described of the six hotels, currently operated as United Hotels by the UFB Group, listed in the Schedule of Hotels attaching, as at 31st July, 1996 is as follows:

	£
Freehold Hotels	31,000,000
Long leasehold Hotel	9,100,000
Total Aggregate value	40,100,000

The above valuation figures represents the aggregates of the values attributable to the individual Properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot.

Yours faithfully

Christie & Co
Valuers

Schedule of United Hotels

	Open Market Value £
Springfield Park Hotel, Penistone Road, Kirkburton, Huddersfield, HD8 0PE	1,400,000
Springfield Park Hotel, freehold, is a converted mill building with purpose built extensions (mid 1980's), providing 46 letting bedrooms, attendant function and restaurant facilities. The hotel trades principally to the commercial week day market with additional leisure break and function trade and occupies a rural, secondary trading location. The original planning permission indicates that no public rooms or bedrooms should have windows to the eastern elevation. Two public rooms and 15 bedrooms have such windows and are in breach of the planning permission, which Hanover International PLC have informed us will be the subject of insurance, to protect value, in the event of the action being taken.	
Ashbourne Lodge Hotel, Ashbourne, Derbyshire, DE6 1XH	2,400,000
Ashbourne Lodge Hotel, freehold, comprises a purpose built (1989), 50 bedroom hotel, with restaurant, bar and leisure club facilities. The unit derives an even mix of trade from the tourist and commercial markets given its location near to Derby and at the gateway to the Derbyshire Dales.	
Hinckley Island Hotel, A5, Hinckley, Leicestershire, LE10 3SA	17,500,000
Hinckley Island Hotel, freehold, provides 353 bedrooms (83 requiring internal completion) and substantial conference facilities, with trade principally geared to the commercial and corporate conference markets. The hotel was developed in the late 1980's. The hotel occupies a strategic position close to the major conurbations of the East and West Midlands.	
Randells Hotel, Keighley Road, Skipton, North Yorkshire, B23 2TA	3,700,000
Randells Hotel, freehold, provides 75 letting bedrooms with restaurant, conference and leisure facilities, contained within a purpose built modern hotel (1990). The hotel derives trade principally from the commercial, conference and leisure/tourist markets, and is situated at the gateway to the Yorkshire Dales.	
The Daventry Hotel, Daventry, Ashby Road, Daventry, Northants, NN11 5SG	9,100,000
The Daventry Hotel, long leasehold, with 119 years unexpired provides 138 letting bedrooms with extensive conference, restaurant and leisure facilities. Purpose built in 1990 the hotel was formerly operated as a Holiday Inn. Trade is predominantly to the commercial and conference markets with additional income from events and leisure sources. It is strategically located close to the M1 and M6 on the Northamptonshire/Warwickshire county boundary. 70 car parking spaces used in conjunction with the hotel are on land outside of the hotel's ownership and the owners of the land could take action to stop this usage. However we are of the opinion that additional parking could be made available on land owned by the hotel subject to planning permission and that under such circumstances the hotel trade would not be seriously disrupted by the loss of this area of parking.	

Kirtons Hotel and Country Club, Pingewood, Reading, RG30 3UN 6,000,000

Kirtons, freehold, is a purpose built hotel and country club developed in a piecemeal manner between 1976 and 1990, adjacent to gravel pit lakes and the M4 motorway, approximately 5 miles from Reading. Accommodation includes 81 letting bedrooms, restaurants, conference, leisure, water sport and office facilities. The hotel trades predominantly to the commercial midweek market with some additional leisure income. An area of landfill, developed as tennis courts, is reported to include a low level of asbestos waste. Three areas of office accommodation, subject to separate lettings or proposed lettings do not have planning permission for office use. Such use would not cause a major intensification of use of the site and we anticipate the planning permission may be granted as has occurred with further office accommodation on the site which has received retrospective planning permission.

The freehold interest is subject to a number of minor lettings which we summarise as follows:

- a) Lease dated 16 February 1996 in respect of Unit 2 Ground Floor, between KF Management Limited and Marketing Objectives Limited. The lease is for a term of 3 years from 16 February 1996 at a rent of £6,990 per annum without review. The premises are to be used as offices. The lease is excluded from Landlord and Tenant renewal provisions.
- b) Lease dated 16 February 1996 in respect of Unit 3 Ground Floor, between KF Management Limited and Marketing Objectives Limited. The lease is for a term of 3 years from 16 February 1996 at a rent of £11,760 per annum without review. The premises are to be used as offices. The lease is excluded from Landlord and Tenant renewal provisions.
- c) Lease dated 19 January 1996 in respect of Unit 4 Ground Floor between KF Management Limited and Peter George Aldrich. The lease is for a term of 3 years from 19 January 1996 at a peppercorn rent until 1 March 1996 and £5,160 per annum thereafter without review. The premises are to be used as Hair Image Studio. The lease is excluded from Landlord and Tenant renewal provisions. The lease is excluded from the Landlord and the Tenant renewal provisions.
- d) Lease dated 22 September 1989 in respect of Unit 5 between Kirtons Farm and Country Club and Hotel Limited and Anita Hamblin. The lease is for a term of 10 years from and including 1 January 1987 at a current rent of £4,950 per annum to the end of the lease. The premises are to be used as Health and Beauty Clinic.
- e) Lease dated 28 May 1996 in respect of the lake and hut used for water skiing at Kirtons Farm Hotel, between KF Management Limited, Watercrest Leisure Limited and Mrs M Battleday. The lease is for a term of 2 years from

1 January 1996 at an initial rent of £583.34 plus VAT per month rising to £700.00 plus VAT per month on 1 July 1996, £752.50 plus VAT per month on 1 January 1997 and £808.94 plus VAT per month on 1 January 1998. The demise includes part of the lake and the adjoining hut to be used for water skiing and ancillary shop, offices, changing areas and stores. The lease is excluded from Landlord and Tenant renewal provisions.

- f) Licence Agreement dated 22 February 1994 in respect of sports shop and reception display area situated within the Country Club reception, between Kirtons Resort Hotel and Country Club and Pamela Stannard trading as Kestrel Sportswear. The Agreement is for a term of 5 years from 1 March 1994 at nil rent, subject to various conditions regarding the sale of goods.
- g) Licence Agreement dated 2 May 1996 in respect of Unit 10, between KF Management Limited and Advance IT Limited. The Agreement is for a period from 2 May 1996 to 31 December 1996, to allow time for a lease in respect of the White House office accommodation to be executed between the parties. The rental is at £2,075.85 per month, and the premises are to be used as offices.

PART VIII

SUMMARY OF THE TERMS OF THE CONVERTIBLE LOAN NOTES

The principal terms of the Convertible Loan Notes which are to be issued to UFB Group under the Acquisition Agreement are as follows:

- (a) the Convertible Loan Notes (which are unlisted) are transferable freely to any person within the United Kingdom;
- (b) the Convertible Loan Notes carry a rate of interest of 1 per cent. above LIBOR payable half yearly in arrears for the period commencing on the second anniversary of issue and ending on the fifth anniversary upon which they are redeemable by the holder in accordance with the procedure set out below (the “maturity date”);
- (c) a holder may convert all or part of his outstanding Convertible Loan Notes into Ordinary Shares on six-monthly conversion dates commencing on 31st August, 1998, with the number of resultant Ordinary Shares arising upon conversion being equal to the principal sum (plus accrued but unpaid interest) of the notes to be converted divided by the average mid-market value of the Ordinary Shares on the London Stock Exchange on the ten days prior to conversion, provided that if the said mid-market price is less than the Offer Price then the Offer Price shall be so substituted;
- (d) upon redemption on the maturity date the holder is entitled to all accrued but unpaid interest together with a premium of 17.5 per cent. of the par value representing deemed interest for the first two year period at a rate of 7 per cent. per annum on the amount then outstanding under the Convertible Loan Notes, together with the aggregate nominal value thereof. The Company may redeem the Convertible Loan Notes at its option at any time before the maturity date; and
- (e) the Convertible Loan Notes are secured by a second charge over the assets of HHH.

PART IX

PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP AND INDEBTEDNESS

The following is an illustrative pro forma balance sheet of the Enlarged Group, reflecting the proposed acquisition by HIH of United Hotels. It is prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the financial position of the Enlarged Group.

	Hanover International PLC as at 31st December, 1995 £000	United Hotels as at 31st May, 1996 £000	Purchase consideration and other adjustments £000	Enlarged Group £000
Fixed assets	4,398	46,958	(6,840)	44,516
Net current (liabilities)	(370)	(371)	371	(370)
Net cash	271	1,354	(1,354)	271
Long term liabilities	<u>(1,543)</u>	<u>(60,674)</u>	<u>35,674</u>	<u>(26,543)</u>
Net assets	<u>2,756</u>	<u>(12,733)</u>	<u>27,851</u>	<u>17,874</u>

Notes:

- 1 The figures of the Hanover International PLC ("the Hanover Group") have been extracted from the 1995 Report and accounts set out in Part III.
- 2 The figures for United Hotels have been extracted from the Accountants' Report as set out in Part V.
- 3 Purchase consideration and other adjustments include:
 - A the reduction in fixed assets of £6,840,000 reflecting the difference between the book value of United Hotels of £46,940,000 as set out in Part V and the Valuation of £40,100,000 as set out in Part VII.
 - B adjustment to exclude the net liabilities of the United Hotels of £371,000, representing the net current assets of £3,149,000 (excluding cash of £1,354,000) less the current liabilities of £2,166,000, as set out in Part V which are not being acquired by the Company.
 - C adjustment to exclude the cash of £1,354,000 of United Hotels as set out in Part V.
 - D adjustment to include the £23 million loan facility as set out in Part XI and the issue of the £2 million convertible loan as set out in Part X, and to exclude the capital funding of £60,674,000 of United Hotels, as set out in Part V, which is not to be acquired by the Company.
- 4 No account has been taken of trading of Hanover International PLC since 31st December, 1995 or United Hotels since 31st May, 1996.
- 5 No account has been taken of the costs of acquisition.

Indebtedness

The loans, borrowings and indebtedness in the nature of borrowing, excluding intra-group borrowing, at the close of business on 5th July, 1996, of the Hanover Group, United Hotels and the Enlarged Group were as follows:

	Hanover Group £000	United Hotels £000	Enlarged Group £000
Bank and other loans	1,500	—	1,500
Finance lease liabilities	—	31	31
Contingent liabilities and guarantees	157	—	157
	<u>1,657</u>	<u>31</u>	<u>1,688</u>

Save as disclosed above and apart from intra-group indebtedness and guarantees, as at 5th July, 1996 neither the Hanover Group nor United Hotels had any borrowings, loan capital outstanding or created but unissued, term loans or any other borrowings or indebtedness in the nature of borrowing (whether guaranteed, unguaranteed, secured or unsecured), including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, obligations under finance leases, hire purchase commitments, mortgages, charges, guarantees or other contingent liabilities.

The cash and bank balances, at the close of business on 5th July, 1996, of the Hanover Group, United Hotels and the Enlarged Group were as follows:

	Hanover Group £000	United Hotels £000	Enlarged Group £000
Cash and bank balances	<u>242</u>	<u>1,041</u>	<u>1,283</u>

PART X

DETAILS OF THE ACQUISITION AGREEMENT

1. Details of the Acquisition

1 The Acquisition Agreement was dated 21st July, 1996 (which was amended on 31st July, 1996) was made between UFB Group (1), United Hotels Group Limited ("UHG") (2), HIH (3) and the Company (4). Its principal terms include the following:

- (a) the consideration comprises £40,000,000, subject to certain adjustments as described below, to be satisfied by the issue, credited as fully paid, of 1,612,903 Consideration Shares, the Convertible Loan Notes with a par value of £2,000,000 and the payment of £36,000,000 in cash. To the extent that placees can be procured for Consideration Shares in the Additional Placing, an amount equal to the aggregate value of the Consideration Shares so placed shall be paid to UFB Group. The components of the consideration may be further varied by agreement between the parties. The consideration for the Acquisition has been arrived at by reference to the value of the Hotels as shown in the valuation report prepared by the Valuer as set out in Part VII of this document. The consideration was expressed to be subject to adjustment, *inter alia*, in the following circumstances:
 - (i) to reflect (by way of increase or decrease) the value of the stock, receivables, and liabilities acquired or incurred (as the case may be) at completion of the Acquisition Agreement; and
 - (ii) to take into account any undisclosed material defects in any of the Hotels and certain other defects identified after the date of the execution of the Acquisition Agreement but prior to the despatch of this document (these provisions have not become applicable);
- (b) the principal assets to be acquired by HIH include the following:

Description	Tenure	Title No.	Lease details (if applicable)
Land on the east side of Keighley Road, Low Snaygill, North Yorkshire known as Randells Hotel	Freehold	NYK44633	
Land lying to the west of Springfield Lane and to the east of Penistone Lane, Kirklees, West Yorkshire known as Springfield Park Hotel	Freehold	WYK259192 WYK292134 WYK190699	
Kirtons Farm, Burghfield, Newbury, Berkshire	Freehold	BK143524	
Ashbourne Lodge Hotel, Ashbourne, Derbyshire Dales, Derbyshire (excluding the land the subject of an agreement dated 16th July, 1995 between (1) United Hotels (Yorkshire) Limited and (2) The Secretary of State for Transport)	Freehold	DY176216	

Description	Tenure	Title No.	Lease details (if applicable)
The Hinckley Island Hotel, Watling Street, Hinckley, Leicestershire (excluding the land the subject of an agreement dated 19th October 1995 between (1) The Secretary of State for Transport and (2) Humberclyde Finance Group Limited)	Freehold	LT218080	
Land and buildings on the north west side of Drayton Way, Daventry, Northamptonshire, being the Daventry Hotel	Leasehold	NN147598	Term of 125 years from 25/11/90 at an annual rent of £100

- (c) under the Acquisition Agreement the Company will also acquire the issued share capital of the Management Companies which are understood to have certain tax losses as referred to in Part I of this document of which £1.4 million is being warranted by the UFB Group;
- (d) the Acquisition Agreement is subject to a number of conditions, including the entry by the liquidator of the Hinckley Island Hotel Limited ("the Liquidator") and certain other parties into documentation to effect the transfer of all rights, title and interest held by such company, acting through the Liquidator, pursuant to an agreement made with the Liquidator relating to such property;
- (e) in addition to the warranty referred to in paragraph (c) above, UFB Group has given certain other warranties and representations to HHH in relation to the Acquisition. The maximum liability of UFB Group pursuant to all warranty claims (other than the warranty referred to in paragraph (c) above) is an amount equal to £2 million. There are certain other limitations in respect of liability under the warranties and the timing of claims. In addition, the Company has the benefit of a deed of indemnity from UHG in respect of the taxation position of the Management Companies acquired pursuant to the Acquisition, under which the maximum liability of UHG is £2,000,000;
- (f) in addition to the acquisition of the Hotels and the Management Companies, the Company will also acquire certain other assets at the hotel sites and the benefit of the on-going businesses.

PART XI

ADDITIONAL INFORMATION

1. Responsibility

The Directors and the Proposed Directors, whose names are set out on page 2 of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed 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.

2. Incorporation and administration

- (a) The Company was incorporated and registered in England and Wales with limited liability as a public limited company on 4th April, 1995 under the Companies Act 1985 ("the Act") with registered number 3043860. The Company operates under the Act and the regulations made under the Act.
- (b) The Company's principal place of business is at 7 Hanover Square, London W1R 9HH and its registered office is at Kempson House, Camomile Street, London EC3A 7AN.
- (c) The Company's principal object, as set out in clause 4(a) of its Memorandum of Association, is to carry on the business of a holding company. The Company is a holding company and has two subsidiary companies, the Imperial Hotel, the registered office of which is the Imperial Hotel, South Mall, Cork, Eire and HIH, the registered office of which is at Kempson House, Camomile Street, London EC3A 7AN.
- (d) 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 11th April, 1995.
- (e) KPMG, Chartered Accountants and Registered Auditor, of 8 Salisbury Square, London EC4Y 8BB have been the only auditors of the Company since its incorporation.

3. Share capital

- (a) The Company was incorporated with an authorised share capital of £100,000 divided into 200,000 Ordinary Shares of 25p each, two of which were agreed to be taken by the subscribers to the Memorandum of Association and 50,000 redeemable preference shares of £1 each ("Initial Shares"). On 7th April, 1995 the two subscribers' shares were transferred to Peter Eyles and David Greene.
- (b) On 7th April, 1995 Peter Eyles and David Greene were each allotted 25,000 Initial Shares (one quarter paid) to enable the Company to obtain a certificate under section 117 of the Act.
- (c) By ordinary and special resolutions passed on 28th July, 1995:
 - (i) the authorised share capital of the Company was increased to £1,650,000 by the creation of 4,800,000 Ordinary Shares and 1,400,000 Preference Shares;
 - (ii) the directors of the Company were generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,200,000, such authority to expire at the conclusion of the annual general meeting of the Company in 1996, (unless previously revoked, varied or extended by the Company in general meeting);

- (iii) the directors of the Company were empowered (pursuant to section 95(1) of the Act) to allot equity securities (as defined by section 94(2) of the Act) pursuant to the authority referred to in paragraph (ii) above as if section 89(1) of the Act did not apply to any such allotment provided that such power was expressed to expire at the conclusion of the annual general meeting of the Company in 1996 and was limited to the allotment of equity securities in connection with:
 - (A) a placing of 550,000 Ordinary Shares ("the Initial Placing") and the acquisition of the Imperial Hotel ("the Imperial Acquisition");
 - (B) any offer of securities by way of rights or open offer;
 - (C) the exercise of options under the Share Option Scheme;
 - (D) the issue of Ordinary Shares upon the exercise of conversion rights of the Preference Shares;
 - (E) (otherwise than pursuant to sub-paragraphs (A), (B), (C), or (D) above) an offer of equity securities up to an aggregate nominal amount equal to 5 per cent. of the issued share capital of the Company following completion of the Initial Placing and the Imperial Acquisition.
- (d) Pursuant to the authority conferred upon them as described in paragraph 3(c)(iii) above and by a resolution of the board passed on 28th July, 1995, the directors of the Company issued on 17th August, 1996: (i) 550,000 Ordinary Shares pursuant to the Initial Placing at a price of £1 per Ordinary Share and (ii) 500,000 Ordinary Shares and 1,400,000 Preference Shares pursuant to the terms of the Imperial Acquisition.
- (e) On 19th March, 1996, they having just been fully paid, the Initial Shares were redeemed at par value and were thereupon cancelled.
- (f) Subject to it being passed, the Resolution will:
 - (i) approve the Acquisition;
 - (ii) increase the authorised ordinary share capital of the Company by the creation of 18,600,000 New Ordinary Shares;
 - (iii) authorise the Directors in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £5,625,000, such authority to expire at the conclusion of the annual general meeting of the Company to be held in 1997 (unless previously revoked, varied or extended by the Company in general meeting) save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired;
 - (iv) to empower the Directors (pursuant to section 95(1) of the Act) to allot equity securities (as defined by section 94(2) of the Act) pursuant to the authority referred to in paragraph (iii) above as if section 89(1) of the Act did not apply to any such allotment provided that such power is expressed to expire at the conclusion of the annual general meeting of the Company in 1997 (or, if sooner, the expiry of fifteen months after the passing of the Resolution) and is limited to the allotment of equity securities in connection with:

- (A) the Placing and Open Offer, the Acquisition, the issue of Convertible Loan Notes and pursuant to the agreement referred to in paragraph 9(f) below;
 - (B) any offer of securities by way of rights or open offer;
 - (C) the exercise of options under the Share Option Scheme;
 - (D) (otherwise than pursuant to sub-paragraphs (A), (B) or (C) above) an offer of equity securities up to an aggregate nominal amount equal to 5 per cent. of the issued share capital of the Company following completion of the Placings, the Open Offer and the Acquisition; and
- (v) amend the Articles of Association of the Company to increase the limit on borrowings of the Company to the higher of three times the Adjusted Capital and Reserves (as defined in the Articles) and £30,000,000.
- (g) Bridgend has served notice on the Company of the conditional conversion of all of its Preference Shares. 1,370,000 of the Conversion Shares are to be included in the Bridgend Placing. The Articles of Association provide that the resultant holding of Ordinary Shares of the converting holder (and any person acting in concert with him) may not exceed 29.9 per cent. of the Ordinary Shares in issue following conversion, and accordingly the said conversion is conditional upon the implementation of the Placings and Open Offer. On the basis of full subscription in the Bridgend Placing, Bridgend will have a residual holding of 530,000 Ordinary Shares.
- (h) The provisions of section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are or are to be paid up in cash) apply to the authorised but unissued share capital of the Company save to the extent disapplied as mentioned above.
- (i) The authorised and issued share capital of the Company at the date of this document is as follows:

	Authorised		Issued	
	Number	£	Number	£
Ordinary Shares	5,000,000	1,250,000	1,050,002	262,500
Preference Shares	1,400,000	350,000	1,400,000	350,000

- (j) The authorised and issued share capital of the Company following the implementation of the Acquisition, the Placing and Open Offer and the conversion of the Conversion Shares will be as follows:

	Authorised		Issued	
	Number	£	Number	£
Ordinary Shares	25,000,000	6,250,000	16,925,415	4,231,353

Following the Placings and the Open Offer, the unissued Ordinary Share capital will represent approximately 32 per cent. of the issued ordinary share capital of the Company.

- (k) Save as disclosed in this Part XI, since the date of its incorporation, there has been no alteration in the share capital of the Company, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue of sale of any such capital and no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.

- (l) Other than pursuant to the Placing the Open Offer and the Acquisition or as referred to in paragraph 3(g) above, no material issue of shares (other than to shareholders *pro rata* to existing holdings) will be made by the Company within one year of the date of the admission to the Official List of the New Ordinary Shares without the prior approval of Shareholders in general meeting.
- (m) Following the Placing and Open Offer and the Acquisition the issued ordinary share capital of the Company will be fully paid as to its nominal value.
- (n) The Existing Ordinary Shares and Preference Shares are, and the New Ordinary Shares will be, in registered form. Temporary documents of title will not be issued. Share certificates in respect of the New Ordinary Shares are expected to be posted not later than 2nd September, 1996.

4. Articles of Association

The following is a summary of certain provisions of the Articles of Association of the Company (the "Articles"), a copy of which is available for inspection as stated in paragraph 15 below:

- (a) Share capital
 - (i) The authorised share capital of the Company consists of 5,000,000 Ordinary Shares and 1,400,000 Preference Shares.
 - (ii) The Company in general meeting may from time to time by ordinary resolution:
 - (A) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
 - (B) consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares;
 - (C) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and
 - (D) subject to the provisions of the Act, sub-divide its shares or any of them into shares of smaller amount, and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares.
- (b) Transfer of shares
 - (i) 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 shall be executed by or on behalf of the transferor and, in the case of partly paid shares, by or on behalf of the transferee.
 - (ii) The Board may, in its absolute discretion and without giving any reason, refuse to register any share transfer unless:
 - (A) it is in respect of a share which is fully paid up;
 - (B) it is in respect of a share upon which the Company has no lien;

- (C) it is in respect of only one class of share;
 - (D) it is in favour of a single transferee or not more than four joint transferees;
 - (E) it is duly stamped (if so required);
 - (F) it is delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so; and
 - (G) in the case of partly paid shares which are listed, any refusal prevents dealings in the shares taking place on an open and proper basis.
- (iii) If a member has been issued with a notice under section 212 of the Act and is in default in relation to any shares (the "Default Shares") for the prescribed period in supplying the information thereby required, unless the Board otherwise determines, where the Default Shares represent at least 0.25 per cent of their class, no transfer of any shares held by the member shall be registered unless it is an excepted transfer, meaning (*inter alia*) a transfer in relation to a takeover offer or a sale on a recognised stock exchange.
- (c) Dividends
- (i) The Company may by ordinary resolution declare dividends to be paid to members of the Company but no dividend is to exceed the amount recommended by the Board. The Board may declare and pay such interim dividends as appear to the Board to be justified by the profits of the Company available for distribution. Payment of dividends is subject always to there being profits available for distribution under the provisions of the Act.
 - (ii) All dividends unclaimed for a period of 12 years after having become due for payment shall (if the Board so resolves) be forfeited and cease to remain owing by the Company.
- (d) Voting
- (i) At any general meeting on a show of hands every member who is present in person or, being a corporation, by a corporate representative, shall have one vote and on a poll every member present in person or by proxy shall have one vote for each share held by him.
 - (ii) No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting either personally or by proxy or to exercise any other right as a member if any call or other sum then payable by him to the Company remains unpaid in respect of that share or if that member, or any other person appearing to be interested in shares held by him, has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying the information thereby required.

(e) Variation of rights and alteration of capital

- (i) If at any time the share capital of the Company is divided into shares of different classes, all or any of the rights for the time being attached to any share or class of shares (and notwithstanding that the Company may be or may be about to be in liquidation) may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provisions, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of the Articles relating to general meetings shall apply, but so that the quorum thereat shall be two or more persons holding or representing by proxy at least one third in nominal value of the issued shares of the class in question.
- (ii) The Company may, subject to applicable law and any rights attached to any shares, by special resolution reduce its share capital or any capital redemption reserve or share premium account in any manner.

(f) Directors

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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:-

- (A) 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;
- (B) 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;
- (C) 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;
- (D) 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);
- (E) 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
- (F) any contract, arrangement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy pursuant to the Articles of Association.

(g) **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) provided that prior to the publication of the first annual accounts of the Company any such aggregate principal amount shall be limited to £6 million.

(h) Winding-up

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 law, divide among the members in specie the whole or any part of the assets of the Company. Any such division may be otherwise than in accordance with the existing rights of the members, but if any division is resolved otherwise than in accordance with such rights, the members of the Company shall have the same right of dissent and consequential rights as if such resolution were a special resolution pursuant to section 110 of the Insolvency Act 1986.

(i) The following rights are attached to the Preference Shares:

- (i) as to voting: the Preference Shares shall not confer any right to receive notice of or to attend or vote at any general meeting of the Company;
- (ii) as to dividend: the Preference Shares shall not confer any right to dividends in respect of the year ended 31st December, 1995. In respect of subsequent financial years, they shall not confer any right to dividends unless for the relevant financial year the profit after tax ("PAT") of the Company is equal to or exceeds a specified amount and Hanover has distributable profits. The amount for 1996 is £100,000 and for subsequent financial years £200,000. In respect of each financial year other than 1995, the aggregate net dividend payable in respect of all the Preference Shares is equal, subject to scaling down in respect of conversion or redemption of Preference Shares, to the lower of (i) £70,000, (ii) PAT less the specified amount and (iii) the profits of the Company available for distribution at the time of payment. Any dividends payable but not paid shall accrue and shall be payable ahead of any later dividends on Preference Shares. No dividends shall be payable on the Ordinary Shares while any dividends on Preference Shares have become payable but not been paid;
- (iii) on a winding up or return of capital: the Preference Shares shall confer the right to be paid out of the assets of the Company available for distribution amongst the members the capital paid up on such shares *pari passu* with and in proportion to any amounts of capital paid to the holders of the Ordinary Shares, but shall not confer any right to participate in any surplus remaining following payment of the amount of capital paid up thereon;
- (iv) as to conversion: the Preference Shares may be converted into Ordinary Shares on the basis of 4 Ordinary Shares for every 4 Preference Shares at any time at the election of the holder provided that the resultant aggregate holding of Ordinary Shares of the converting holder (and any person acting in concert with it) does not exceed 29.9 per cent. of the Ordinary Shares in issue following the conversion;
- (v) as to redemption:
 - (A) the Company may, subject to and in accordance with the provisions of the Act, by notice in writing and upon tendering to a registered holder of Preference Shares (with the consent of such holder) the amount of capital paid up (as to capital and premium) thereon, redeem any Preference Share at any time (subject to the provisions of the Act) and such holder shall be bound to deliver up any certificate which he may have representing the same; and upon redemption the name of the registered holder shall be removed from the Register and the Preference Shares which have been redeemed shall be cancelled;

- (B) the Preference Shares shall be issued on the condition that if not previously redeemed or converted they are, subject to and in accordance with the provisions of the Act, to be redeemed by the Company on 31st December, 1998;
- (C) the price payable by the Company to the holders of the Preference Shares on their redemption shall be £1 per share.

5. Directors' and other interests in the Company

- (a) The names and functions of the Directors of the Company are as follows:

Peter George Eyles - (*Chairman*)
David John Greene - (*Finance Director*)
Neil Philip List*

* Non-executive

- (b) The interests of each Director and each Proposed Director and those of any person connected with them within the meaning of section 346 of the Act ("Connected Person") (all of which are beneficial) in the share capital of the Company which (i) have been notified to the Company pursuant to sections 324 and 328 of the Act, (ii) are required pursuant to section 325 of the Act to be entered in the register referred to therein; or (iii) are interests of a Connected Person which would, if the Connected Person were a Director or Proposed Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director or Proposed Director, (i) as at 30th July, 1996 (the latest practicable date prior to the publication of this document) were and (ii) following the implementation of the Acquisition and the Placing and Open Offer are expected to be, as follows:

As at 30th July, 1996	Number of Ordinary Shares	Percentage of issued Ordinary Share capital	Share Options
Peter Eyles	25,000	2.38	—
David Greene	20,000	1.90	—
Charles Gaunt	—	—	—
Michael Jourdain	—	—	—
Hugh Whitbread	—	—	—
Neil List	—	—	—

Following implementation of the Acquisition and the Placing and Open Offer

	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital	Share Options
Peter Eyles	25,000	0.15	—
David Greene	20,000	0.12	—
Charles Gaunt	—	—	—
Michael Jourdain	—	—	—
Hugh Whitbread	30,000	0.18	—
Neil List	—	—	—

- (c) Neil List is a director of Bridgend which currently holds 500,000 Ordinary Shares and 1,400,000 Preference Shares in the Company. The Bridgend Shares are subject to the arrangements referred to in Part I and paragraph 3(g) of Part XI of this document.

Hugh Whitbread has notified the Company of his intention to subscribe for 30,000 New Ordinary Shares under the Placing at 124p per share.

- (d) Other than as disclosed in this paragraph of this Part XI, no Director or Proposed Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Company and its subsidiaries and which were effected by the Company or its subsidiaries since the incorporation of the Company or its subsidiaries during the current or preceding financial year or during an earlier financial year and remain in any respect outstanding or unperformed.
- (e) As at 30th July, 1996, being the latest practicable date prior to the publication of this document, in so far as it is known to the Company, the following persons are directly or indirectly interested in 3 per cent. or more of the issued ordinary share capital of the Company:

Shareholder	Number of Ordinary Shares	Percentage of issued ordinary share capital
Bridgend	500,000	47.6
Royal Heritage Life Assurance Limited	35,000	3.3

- (f) Save as disclosed in paragraph 5(e) above, the Directors are not aware of any person who is interested (within the meaning of the Act), directly or indirectly, in 3 per cent. or more of the issued share capital of the Company or could, directly or indirectly, jointly or severally, exercise control over the Company. It is not possible to ascertain the relevant interests in the Company as at the date of publication of this document as they will be following the implementation of the Placings and the Open Offer as commitments to subscribe have not yet been received in the Placings and the result of the Open Offer is not yet known.
- (g) Peter Eyles and David Greene have consultancy agreements with the Group, the principal terms of which are summarised below.
- (i) Peter Eyles has a consultancy agreement with the Company dated 31st July, 1995. Under the agreement, Mr. Eyles agreed to spend not less than 2 days per week in the performance of his duties. The agreement, which was for a fixed initial period of 6 months and may thereafter be terminated on 1 year's notice by either party, provides that Mr. Eyles will receive a fee of £25,000 per annum. The agreement, unless previously terminated, will automatically terminate in the event that the aggregate of Mr. Eyles' and Mr. Greene's remuneration pursuant to the service agreements described below would be 20 per cent. or less of the board's operating profit forecast (before taxation, interest, head office and other administrative expenses (but not, for the avoidance of doubt relating to the on-site operation of hotels owned by the Company and its subsidiaries ("the Group"))) of the Group ("the threshold profit").

Upon the termination of the consultancy agreement in the circumstances described above where the threshold profit is attained, the Company and Mr. Eyles will enter into a service agreement providing that Mr. Eyles shall be a full-time employee of the Company. This agreement will provide for an annual salary of £120,000 together with certain additional benefits, including commission based on the growth in earnings per share of the Company and will be for an initial period of 2 years. In normal circumstances, the agreement will be terminable on one year's notice by either party save that such notice may not be given earlier than the first anniversary of the agreement. The service agreement will provide for certain restrictions upon Mr. Eyles following termination.

- (ii) David Greene has a consultancy agreement with the Company dated 31st July, 1995. Under the agreement, Mr. Greene agreed to spend not less than 2 days per week in the performance of his duties. The agreement, which was for a fixed initial period of 6 months and may thereafter be terminated on 1 years notice by either party, provides that Mr. Greene will receive a fee of £25,000 per annum. The agreement will automatically terminate in the event that the aggregate of Mr. Eyles' and Mr. Greene's remuneration pursuant to the service agreements described herein is 20 per cent or less of the threshold profit.

Upon the termination of the consultancy agreement in the circumstances described above where the threshold profit is attained, the Company and Mr. Greene will enter into a service agreement providing that Mr. Greene shall be a full-time executive employee of the Company. This agreement will provide for an annual salary of £80,000 together with certain additional benefits and will be for an initial period of 2 years. In normal circumstances, the agreement will be terminable on one year's notice by either party, save that such notice may not be given earlier than the first anniversary of the agreement. The service agreement will provide for certain restrictions upon Mr. Greene following termination.

- (h) Michael Jourdain has entered into a service agreement with the Company dated 23rd July, 1996 conditional upon the admission to the Official List of the New Ordinary Shares. The agreement is for an initial fixed period of 1 year, terminable thereafter by either party giving not less than 6 months' notice in writing, at an annual salary of £32,000. Under the agreement, Mr Jourdain is entitled to certain benefits including medical expenses, insurance, permanent health insurance, life assurance and a motor vehicle. The agreement provides for certain restrictions upon Mr Jourdain following termination.
- (i) Charles Gaunt has entered into a service agreement with the Company dated 29th July, 1996 conditional upon the admission to the Official List of the New Ordinary Shares. The terms of Mr Gaunt's contract are the same as for Mr Jourdain's, except that it is terminable upon 6 month's notice in writing by either party and a salary of £38,000 per annum is payable.
- (j) Neil List has a letter agreement with the Company dated 30th July, 1996 providing for his services as a Non-executive Director at the annual fee of £12,500, such agreement terminable upon 2 years written notice by either party.
- (k) No loan or guarantee has been granted or provided by the Company to or for the benefit of any Director or Proposed Director.
- (l) Dermot Kelly resigned as a director of the Company on 8th September, 1995, and received a payment from the Imperial Hotel of IR£20,000.

- (m) Save in relation to the terms of the consultancy agreements and service agreements for Peter Eyles and David Greene referred to in paragraph (g)(i) and (ii) above, there are no variations proposed to any emoluments of the Directors as a consequence of the Acquisition or the Placing and Open Offer.
- (n) The aggregate emoluments of the Directors in respect of the financial year ended 31st December, 1995 were £21,000. The aggregate emoluments of the Directors in respect of the financial year ending 31st December, 1996 are estimated to be approximately £95,000 (exclusive of value added tax).

6. Share Option Scheme

On 31st July, 1995 the Company adopted the Share Option Scheme. The principal features of the scheme, the terms of which are set out in full in the Rules of the scheme, are as follows:

(a) Administration

The Share Option Scheme will be administered by the Board, which may grant options to acquire Ordinary Shares of the Company at the Exercise Price (as defined in paragraph (iv) below). No consideration shall be paid for the grant of each option; the grant of each option shall be made by deed.

(b) Eligible employees

Participants in the Share Option Scheme must be (i) directors of the Company and/or one or more of its subsidiaries in the U.K. or overseas who are selected by the Board, or (ii) other employees of the Company and/or one or more of its subsidiaries in the U.K. or overseas, who devote substantially the whole of their working time each week to the business of the Company (and/or the relevant subsidiary) and who are selected by the Board. Part-time directors may therefore participate in the Share Option Scheme, if selected by the Board. Part-time employees may participate in the Share Option Scheme, if selected by the Board, provided that broadly their employment with the Company (and/or the relevant subsidiary) is their sole employment.

(c) Offers of options

Although the grant of options in any year is at the discretion of the Board, if offers are made in any year pursuant to the Share Option Scheme, they will be made during the period commencing on the 2nd dealing day following and ending 6 weeks following the announcement of the annual results or the announcement of any interim results of the Company, although they may not be granted prior to the fixing of the exercise price.

Options shall not be offered to any individual who is due for retirement at normal retirement age within two years.

Options granted under the Share Option Scheme will be personal to the participants to whom they are granted and may not be transferred or assigned. However, they will be exercisable by the legal personal representative of a participant who dies before exercising his option.

(d) Exercise Price

The Exercise Price per share payable on the exercise of an option will be determined by the Board and will be not less than the greater of:

- (i) the nominal value of the Ordinary Shares;

- (ii) the price equal to the middle market quotation for the Ordinary Shares as derived from the London Stock Exchange Daily Official List on the dealing day immediately preceding the date of the offer of the relevant option, provided that no such dealing day shall be a dealing day preceding the latest announcement of the results of the Company for any period; and
- (iii) if the Ordinary Shares are not listed on the London Stock Exchange, the market value of the Ordinary Shares on the day immediately preceding the date of the offer of the relevant option.

(e) Exercise of options

Options will normally be exercisable by the participant at any time between the third and seventh anniversaries of grant. Earlier exercise is permitted in the event of a takeover, reconstruction or liquidation of the Company or if the company by which the participant is employed leaves the Group, or if the participant's employment terminates by reason of his death, ill health, injury, disability or redundancy. There are time limits within which early exercise of options in such circumstances must be made, failing which the options lapse. Except in these circumstances, options will lapse if the participant ceases to be employed by the Group.

The Scheme Rules provide that options may be granted subject to such objective condition or conditions of exercise as the Board may determine.

An unexercised option may be exercised in the case of:

- (a) a general offer being made to all holders of Ordinary Shares and such offer becoming or being declared unconditional, within 6 months from the date on which such offer becomes or is declared unconditional;
- (b) the Court sanctioning a compromise or arrangement proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other company, within one month of such compromise or arrangement becoming effective; and
- (c) the Company convening a general meeting for the purpose of considering a resolution for its winding-up, at any time prior to the passing of such resolution.

(f) Issue of shares

Shares allotted and issued following exercise of an option will rank *pari passu* in all respects and form one class with the Ordinary Shares then in issue, save as regards dividends payable by reference to a record date prior to the date of issue. The Company will apply to the London Stock Exchange for the Ordinary Shares issued on the exercise of options pursuant to the Share Option Scheme to be admitted to the Official List. The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options save to the extent that such options may be satisfied by the transfer of shares which have already been issued.

(g) Scheme limits

The maximum number of Ordinary Shares over which options may be granted on any date, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Share Option Scheme and any other share option scheme, other than a SAYE share option scheme, operated by the Company for its employees and directors shall not exceed 5 per cent. of the number of the issued Ordinary Shares of the Company.

The number of Ordinary Shares over which options may be granted on any date, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Share Option Scheme and any other share scheme for the Company's employees, shall not exceed 10 per cent. of the number of Ordinary Shares of the Company.

Additionally, the number of Ordinary Shares over which options may be granted on any date shall not, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 3 years under the Share Option Scheme and any other share option or incentive scheme or profit sharing scheme operated by the Company, exceed 3 per cent. of the number of Ordinary Shares of the Company.

The above limits apply only to new Ordinary Shares issued or issuable upon the exercise of options under the relevant schemes and not to shares which the Company has procured to be transferred to participants in satisfaction of their options.

No options may be granted more than 10 years after the date on which the Share Option Scheme is adopted by resolution of the Board.

An individual employee's participation in the Share Option Scheme is limited so that, broadly, no option may be granted which would result in the aggregate market value (as defined in Part VIII of the Taxation of Chargeable Gains Act 1992), ascertained in accordance with schedule 9 to the Income and Corporation Taxes Act 1988, of the shares which he may acquire, might have acquired or has acquired in pursuance of rights granted under the Share Option Scheme and any other share option schemes for the Company's employees (except SAYE share option schemes) where such rights were granted within the 10 years ending on the date of the proposed grant exceeding a sum equal to 4 times his current total annual earnings from Group companies. In applying this limit to an individual employee's participation in the Share Option Scheme there may be disregarded, subject to certain conditions (for example, there must have been a significant improvement in the Company's performance during the two financial years ended next before, and any subsequent period in respect of which half-yearly results of the Company have been announced to the London Stock Exchange before, the date of the proposed grant) any shares which he has already acquired within the period of 10 years.

(h) Alteration of capital of the Company

The number, nominal amount and class of Ordinary Shares subject to the Share Option Scheme and the number and nominal amount of Ordinary Shares subject to any option are subject to appropriate adjustment in the event of any capitalisation or rights issue by the Company or any consolidation, sub-division or reduction of the Company's share capital.

(i) **Amendments**

The Directors have the power to amend the Share Option Scheme at any time, provided that, it cannot be amended to the advantage of the participants without prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the scheme or for the company operating the scheme or for members of its group) save that no amendment shall be made to the Scheme limits without the prior approval of shareholders in general meeting.

No options have been granted to date under the Share Option Scheme.

7. Subsidiaries and Properties

The Company is a holding company and as at the date of this document has two subsidiaries as set out below.

(a) **The Imperial Hotel (Cork) Limited**

The Imperial Hotel became a wholly owned subsidiary of the Company on 17th August, 1995 pursuant to the terms of the Imperial Acquisition Agreement.

The Imperial Hotel was incorporated on 17th December, 1973 under the laws of the Republic of Ireland. It has an authorised share capital of IR£100,000 comprising 100,000 Ordinary Shares of IR£1 each, of which 92,200 Ordinary Shares are issued fully paid and held by the Company, of which it is a wholly owned subsidiary. Its principal activity is the operation of a hotel. The Directors of Imperial since 30th July, 1993 have been Michael Bretherton, Neil List, Dermot Kelly, with Peter Eyles and David Greene joining the board on 17th August, 1995. Messrs. Bretherton and List resigned as directors of the Imperial Hotel on 17th August, 1996. Dermot Kelly resigned as a director of the Imperial Hotel on 8th September, 1995.

Details of the property of the Imperial Hotel are set out in paragraph 8 below.

The average number of employees of the Imperial Hotel over the three financial periods ending on 31st December, 1995 was 96.

(b) **Hanover International Hotels Limited**

HIH was incorporated in England and Wales with the name Dostrade Limited on 5th July, 1995 and changed its name by special resolution to Hanover International Hotels Limited on 4th October, 1995. It has an authorised share capital of 100 Ordinary Shares of £1 each of which 1 share has been issued and is held by the Company. The Directors are Peter Eyles and David Greene and the Secretary is David Greene. HIH has not traded nor prepared any accounts since its incorporation.

(c) **Under the Acquisition Agreement the Company will acquire the entire issued share capital of the Management Companies.**

(d) **Save as disclosed in this paragraph 7 and Part X of this document, the Company does not, and has not given any contractual commitments to hold any shares or other interest in the capital of any company, whether incorporated in England and Wales or elsewhere.**

8. Properties

(a) Properties of the Imperial Hotel

Property	Description	Tenure
6 & 7 Park View Victoria Road Cork	2 three storey terraced houses	Freehold
Imperial Hotel South Mall Cork	98 bedroom hotel with restaurants and bars in Central City location	Long Leasehold part short Leasehold [at nominal rent]
Union Quay Car Park Union Quay/Copley Street Cork	40 car parking spaces in modern development near the hotel	Short Leasehold 35 years from 1st November, 1993 at a current rent of IR £59,450 per annum

(b) The Company occupies office premises at 7 Hanover Street, London under the terms of a contractual licence for a monthly fee of £850.

(c) HIH does not currently hold any interest in any properties. However, details of the properties comprising the Hotels are set out in the report of the Valuer and under “Details of the Acquisition” in Part X of this document.

9. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of this document and are, or may be, material:

(a) The acquisition agreement dated 31st July, 1995, and made between Bridgend (1), Woodington PLC (“Woodington”) (2) and the Company (3) relating to the acquisition of the entire issued share capital of the Imperial Hotel by the Company (“the Imperial Acquisition Agreement”). The Imperial Acquisition Agreement provided for the payment of £200,000 in cash, and the issue of 500,000 Ordinary Shares together with 1,400,000 Preference Shares to Bridgend as consideration for the said acquisition (“the Consideration Shares”). Under the Acquisition Agreement, Bridgend agreed to pay £99,000 to the Company (subject to certain adjustments to reflect certain inter company indebtedness between Bridgend and Imperial following completion of the said acquisition. The Acquisition Agreement contained certain restrictions on, and warranties and indemnities given by, Bridgend and Woodington in favour of the Company, including the restrictions on the disposal of the Consideration Shares. The Imperial Hotel entered into certain financing facilities with the Bank of Ireland (“BOI”) dated 26th May 1994, comprising an overdraft facility of IR£50,000 and a loan facility of IR£1,500,000 (“the Existing Facilities”). Under the Acquisition Agreement the Company agreed to replace a Bridgend guarantee by the provision of a new guarantee to BOI in respect of Imperial’s obligations under the Existing Facilities, save that an amount equal to £250,000 of the Existing Facilities were to continue to be guaranteed by Bridgend (“the Residual Bridgend Guarantee”). The Company also agreed to counter-indemnify Bridgend in respect of its obligations under the Residual Bridgend Guarantee.

Bridgend also agreed to make a £50,000 standby facility available to the Company. Sums drawn down under the facility bear interest at an annual rate of ¼ per cent. above the rate payable by the Imperial Hotel under its existing bank facility with BOI.

- (b) A placing agreement (the "Initial Placing Agreement") dated 31st July, 1995 between the Company (1), David Greene and Peter Eyles (2), Dermot Kelly (3) and Charles Stanley and Company Limited ("Charles Stanley") (4) whereby Charles Stanley undertook as agent for the Company to use its reasonable endeavours to procure subscribers for Ordinary Shares in the Initial Placing at the price of 100p per share.

Under the Initial Placing Agreement, Charles Stanley received a fee of £40,000.

The Initial Placing Agreement contained warranties by the Company and David Greene, Peter Eyles and Dermot Kelly in favour of Charles Stanley, and also indemnities by the Company in favour of Charles Stanley for losses and liabilities arising out the proper performance of Charles Stanley's duties, save where such losses and liabilities resulted from the negligence, bad faith, wilful default of, or breach of the Initial Placing Agreement or applicable regulations by Charles Stanley.

- (c) An agreement dated 31st July, 1995 between the Company and Y-LEE Limited pursuant to which the Company paid an introduction fee of £100,000 in respect of services in connection with introducing the Imperial Hotel to the Company.
- (d) The Consultancy and Service Agreements referred to in paragraph 5 above.
- (e) An agreement dated 25th July, 1996 made between the Company (1) and Charles Stanley (2) relating to the provision of certain advice to the Company under which the Company has agreed to pay Charles Stanley £25,000 conditional upon the admission to listing of the New Ordinary Shares.
- (f) An agreement dated 25th July, 1996 between the Company and Myers Larkey plc pursuant to which the Company has agreed to pay an introduction fee of 1 per cent. of the value of the consideration under the Acquisition Agreement, conditional upon the Acquisition Agreement being completed, in connection with the introduction of the Hotels to the Company. The Company has agreed to satisfy half of the introduction fee by the issue of New Ordinary Shares.
- (g) The Placing Agreement dated 31st July, 1996 between the Company (1) certain of the Directors (2) and UBS (3) whereby UBS has agreed, subject to certain conditions provided therein, on behalf of and as agent for the Company to invite Qualifying Holders to apply for all of the Offer Shares upon and subject to the terms and conditions of this document and to procure subscribers (failing which itself to subscribe) for such number of Offer Shares, other than those applied for pursuant to the Open Offer by 3.00 p.m. on 21st August, 1996.

UBS has also undertaken to use its reasonable endeavours to obtain placees for the Consideration Shares and to pay the resulting payments from placees to UFB Group.

The obligations of UBS are conditional upon, *inter alia*, the passing of the Resolution, the Loan Facility becoming unconditional and capable of being drawn down in full and the admission of the New Ordinary Shares to the Official List of the London Stock Exchange becoming effective. The Placing Agreement may be terminated by UBS in certain circumstances, including at any time up to 6p.m. on 31st July, 1996 in the event of *force*

majeure circumstances and in the event that it does not receive sufficient letters of confirmation to the placing letters in respect of the Offer Shares from placees reasonably acceptable to it by that time and at any time up to the admission of the New Ordinary Shares to the Official List of the London Stock Exchange becoming effective in the event of any of the warranties given thereunder becoming untrue.

The Placing Agreement contains certain warranties by the Company and certain of the Directors in favour of UBS regarding the Company. In addition, the Company and certain Directors have agreed to indemnify UBS in respect of certain liabilities that it may incur in respect of the Placing and Open Offer, save to the extent that such liabilities arise from its own negligence, wilful default or breach of the Placing Agreement. The liabilities of the Directors under the said warranties and indemnities are the subject of certain limitations.

The Placing Agreement provides for the payment to UBS of a fee of £250,000 conditional upon the implementation of the Placing and Open Offer or £150,000 if it terminates for default by the Company. UBS is entitled to have its reasonable expenses and costs reimbursed by the Company. The Company has also agreed to pay any stamp duty arising on the placing of the Consideration Shares.

- (h) A letter agreement dated 28th May, 1996 between the Company and Greig Middleton & Co. Limited ("Greig Middleton") under which Greig Middleton agreed to assist in the Placing by using its reasonable endeavours to procure subscribers for New Ordinary Shares in return for a commission of 2 per cent. of the aggregate value of the New Ordinary Shares placed by it at the Offer Price.
- (i) The Acquisition Agreement dated 21st July, 1996 between UFB Group (1), UHG (2), HIH (3) and the Company (4) relating to the acquisition of the Hotels (as amended by a supplementary agreement dated 31st July, 1996). Further details of the Acquisition Agreement are set out under "Details of the Acquisition" in Part X of this document.
- (j) The Loan Facility referred to in paragraph 10 below.
- (k) A letter agreement dated 29th July, 1996 between Weatherall Green & Smith, Chartered Surveyors ("Weatherall") and the Company relating to valuation advice to Barclays Bank PLC, Specialist Property Finance Team and for building survey advice. The Company has agreed to pay Weatherall £230,000 for the said services.
- (l) Save as disclosed herein, no contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or any of its subsidiaries in the two years immediately preceding the date of this document which are or may be material.
- (m) Save as disclosed herein, no contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Hotels or the Management companies in the two years immediately preceding the date of this document which are or may be material.

10. The Loan Facility

The Company and HIH have entered into the Loan Facility dated 31st July, 1996 with Barclays Bank PLC which is conditional upon, *inter alia*, admission of the New Ordinary Shares to the Official List. The Loan Facility provides for the provision of a £23 million term loan to HIH and is to be secured over the assets and undertakings of HIH by way of fixed and floating charge. There is a deed of priority relating to the respective ranking of security between Barclays Bank PLC and UFB Group as trustee for the holders of the Convertible Loan Notes under which UFB Group will rank behind Barclays Bank PLC.

11. The Second Placing Agreement

Under the Second Placing Agreement dated 30th July, 1996 between Bridgend (1) and UBS (2), UBS has agreed to use its reasonable endeavours to procure placees in the Bridgend Placing.

The obligations of UBS under the Second Placing Agreement are conditional upon, *inter alia*, the passing of the Resolution and the admission of the New Ordinary Shares to the Official List of the London Stock Exchange becoming effective.

12. Taxation

The following information is based on current UK law and Inland Revenue practice. It is intended only as a general outline of the UK tax treatment of shareholders who are UK tax resident, and may not apply to certain classes of shareholders, such as dealers or market-makers and certain others. **Any shareholder who is in any doubt about his tax position, or is subject to tax in any jurisdiction outside the UK, should consult his professional adviser.**

(a) Dividends

This section assumes that the Company does not elect to pay dividends as foreign income dividends ("FIDs"). *The tax treatment of a FID is different from that outlined below.* The Company has no present intention of paying dividends as FIDs.

Under current UK tax legislation, no tax is withheld from dividend payments by the Company, but the Company is required to account to the UK Inland Revenue for advance corporation tax ("ACT") when it pays a dividend. The rate of ACT is currently 25 per cent. of the dividend.

Shareholders resident in the UK for taxation purposes (other than corporate shareholders) will generally be liable to income tax on the aggregate amount of the dividend and a tax credit equal to 25 per cent of the dividend. For example, on a dividend of £80, the tax credit would be £20 and the individual would be liable to income tax on £100. The tax credit satisfies in full the income tax liability in respect of the dividend for UK resident individual shareholders (and the trustees of certain trusts) who are liable to income tax at the basic or lower rate only. Individual shareholders resident in the UK whose income tax liability is less than the aggregate of the amount of income tax deducted from other income paid to them and the tax credit in respect of dividends are entitled to an appropriate repayment of tax. UK resident individual shareholders who are subject to tax at the higher rate (currently, 40 per cent.) will have to account for additional tax to the extent that the tax at such rate on the aggregate of the dividend and tax credit exceeds the tax credit. For example, on a dividend of £80, such a taxpayer would have to account for additional tax of £20. For this purpose, dividends will be treated as the top slice of the individual's income. UK resident trustees of discretionary trusts liable to account for income tax at a rate of 34 per cent. on the trust's income may also be required to account for additional tax.

UK resident shareholders who are exempt from tax in respect of investment income are entitled to repayment by the UK Inland Revenue of the tax credit in respect of dividends.

UK resident corporate shareholders (other than certain insurance companies) are not liable to corporation tax or income tax in respect of dividends received from the Company, and such dividends are available to frank dividends paid by such companies.

Subject to special provisions which apply to Commonwealth citizens, nationals of states within the European Economic Area, residents of the Isle of Man or the Channel Islands and certain others where there is an appropriate provision granting such entitlement in a double taxation agreement between the country where they are resident and the UK, shareholders not resident in the UK are generally not entitled to the benefit of a tax credit in respect of any dividend received or the repayment of all or part of that credit. Such shareholders are treated as receiving gross income of an amount which, when reduced by income tax at 20 per cent is equal to the cash dividend. No assessment is made on such shareholders in respect of lower or basic rate income tax and there is normally no liability to the excess of higher rate tax (currently, 40 per cent) over lower rate tax (currently, 20 per cent). This additional liability will, however, apply where, exceptionally, the non-resident individual's investment in the Company is managed by a UK investment manager acting, broadly, on non-arm's length terms. Special rules apply to non-UK resident discretionary trusts in receipt of UK dividends. Non-UK resident shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK.

(b) **Capital Gains**

For the purposes of UK tax on capital gains:

- (i) a holder of Ordinary Shares will not be treated as making a disposal of all or part of his holding of Ordinary Shares by reason of subscribing for Offer Shares;
- (ii) any Offer Shares subscribed by a holder of Ordinary Shares will, together with the corresponding holding of Ordinary Shares, be treated as a single asset acquired at the time at which the corresponding holding was acquired; the amount subscribed for the Offer Shares will be aggregated with the base cost of the corresponding holding;
- (iii) for the purposes of calculating the indexation allowance, the expenditure incurred in subscribing for Offer Shares will be treated as incurred when the subscription money for the Offer Shares is paid;
- (iv) a liability to UK tax on capital gains may be incurred if Ordinary Shares are sold or otherwise disposed of.

(c) **Stamp duty and stamp duty reserve tax**

No stamp duty or stamp duty reserve tax will be payable on the subscription of Offer Shares.

13. Working Capital

The Directors and the Proposed Directors are of the opinion that, after taking into account the cash proceeds of the Placing and Open Offer to be received by the Company and the facilities available to the Company, the Enlarged Group has sufficient working capital for its present requirements.

14. Litigation

- (a) Save as disclosed in paragraph (b) below, neither the Company nor any of its subsidiaries is, or has been, engaged in any legal or arbitration proceedings, nor, so far as the Directors or Proposed Directors are aware, are any such proceedings pending or threatened by or against the Company or any of its subsidiaries which may have or have had during the period of 12 months preceding the date of this document a significant effect on the Company's and its subsidiaries' financial position.

Save as disclosed in paragraph (c) below, neither the Hotels nor the Management Companies, are or have been, engaged in any legal or arbitration proceedings, nor, so far as the Directors or Proposed Directors are aware, are any such proceedings pending or threatened by or against the Hotel or the Management Companies which may have or have had during the period of 12 months preceding the date of this document a significant effect on the Hotels' or the Management Companies' financial position.

- (b) Proceedings were taken by Siskes & Co. Limited, a firm of building contractors in the Republic of Ireland, against the Imperial Hotel in respect of alleged unpaid invoices amounting in aggregate to approximately IR£65,000. The Imperial Hotel settled this claim on 25th July, 1996 for the payment of IR£58,000. The existence of such claim was not disclosed to the Company at the time of the acquisition of the Imperial Hotel and accordingly the Company has notified Bridgend of its intention to bring a claim under the warranties provided for in the Imperial Acquisition Agreement.
- (c) Certain actions have been commenced by Hinckley Island Hotel Limited, in liquidation, against certain members of the UFB Group in respect of the possession by the Vendor of the Hinckley Island Hotel. The Liquidator is under a legal obligation to deliver the relevant property interest, in such Hotel to the UFB Group, which is a precondition of completion of the Acquisition Agreement, and the Directors have been advised that they can rely on their dealings with the Liquidator to ensure the delivery of good title.

15. General

- (a) The total expenses payable by the Company (excluding commissions) in connection with the Acquisition, the Placings and the Open Offer (including value added tax where applicable) will amount to 14.0 per cent. of the gross amount raised under the Placing and Open Offer. The Company will pay commissions to Greig Middleton as referred to in paragraph 9 above.
- (b) For the purposes of Section 95(5) of the Act, the reasons of the Directors for recommending the Acquisition and the Placing and Open Offer are set out in Part I of this document. The aggregate amount to be paid to the Company in respect of the issue of equity securities is £15,949,512 (124p per share). The price of 124p per share represents a discount of 12.1 per cent. to the middle market quotation of 141p per share derived from the London Stock Exchange Daily Official List for 19th July, 1996 (being the last dealing day before dealings in the Existing Ordinary Shares were suspended pending the approval of the Acquisition and the Placing and Open Offer). The Directors consider that amount to be justified in the overall circumstances described in this document and on the basis of the advice received from UBS.
- (c) Peter Eyles and David Greene are or may be promoters of the Company and receive remuneration and the benefits from the Company as described in paragraphs 5(g)(i) and 5(g)(ii) above. Save as disclosed in paragraphs 5(g)(i) and 5(g)(ii) above, no amount or benefit has been paid or given to any promoter of the Company and none is intended to be paid or given.
- (d) HHH has not yet prepared accounts and has not yet traded.
- (e) There has been no significant change in the financial or trading position of the Hotels or the Management Companies since 31st May, 1996, being the date to which the most recent audited financial statements for the Hotels and the Management Companies have been made up.

- (f) There has been no significant change in the financial or trading position of the Company since 31st December, 1995, being the date to which the most recent audited financial statements the Company have been made up.
- (g) KPMG have given and not withdrawn their consents to the inclusion in this document of their reports in the form and context in which the same are included, and have authorised the contents of those reports, for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (h) The Valuer has given and not withdrawn its consent to the issue of this document and the references to it in the form and context in which the same is included, and have authorised the contents of Part II of this document, for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (i) UBS is regulated by The Securities and Futures Authority Limited and is a member of the London Stock Exchange. Its registered office is at 100 Liverpool Street, London EC2M 2RH. UBS has given and not withdrawn its consent to the issue of this document and the respective references to it in the form and context in which the same is included and have authorised the contents of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (j) The financial information set out in Part III relating to the Company does not constitute statutory accounts within the meaning of Section 240 of the Act.
- (k) The Offer Price of 124p payable in cash represents a premium of 99p over the nominal value of each Ordinary Share of 25p.
- (l) None of the Offer Shares have been marketed or are available to the public in conjunction with the application, save in connection with the Placing or Open Offer.
- (m) Neither the Company nor its subsidiaries are dependent on any patents, licences, industrial, commercial or financial contracts or new manufacturing processes.
- (n) The table below shows the closing middle market quotations of the Existing Ordinary shares as derived from the London Stock Exchange Daily Official List on the first dealing day in each of the six months prior to the date of this document and 19th July, 1996 the dealing day prior to the announcement of the Acquisition on 22nd July, 1996, being the date upon which dealings in the Existing Ordinary Shares on the London Stock Exchange were suspended.

<i>Date</i>	<i>Price (p)</i>
1st February, 1996	138
1st March, 1996	138
1st April, 1996	138
1st May, 1996	138
3rd June, 1996	140
1st July, 1996	144
19th July, 1996	141

16. Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company which is also the office of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN, during normal business hours on any weekday (Saturdays and public holidays excepted) until 23rd August, 1996, being the date of the Extraordinary General Meeting:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Valuation Report of Christie & Co set out in Part VII of this document;
- (c) the Accountants' Reports set out in Parts IV and V and the statements of adjustments;
- (d) the audited accounts of the Imperial Hotel for the two financial years ended 31st December, 1994 and 1995;
- (e) the audited accounts of the Company for the financial period ended 31st December, 1995;
- (f) the rules of the Share Option Scheme;
- (g) the consultancy and service agreements referred to in paragraphs 5(g)(i) and 5(g)(ii) of Part XI of this document;
- (h) the material contracts referred to in paragraph 9 of Part XI of this document; and
- (i) the letters of consent referred to in paragraph 15 of Part XI of this document.

31st July, 1996

HANOVER INTERNATIONAL PLC

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above named Company will be held at the offices of UBS Limited, 100 Liverpool Street, London EC2M 2RH at 11.30 a.m. on 23rd August, 1996, for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution.

SPECIAL RESOLUTION

THAT:

- (a) the acquisition by Hanover Hotels Limited ("HIH") of the United Hotels (as such term is defined in the Circular to shareholders of the Company dated 31st July, 1996 ("the Circular")) and their associated businesses and the acquisition by the Company of the issued share capital of KF Management Limited and HID Management Limited on the terms more particularly set out in the agreement dated 21st July, 1996 (as amended on 31st July, 1996) between UFB Group PLC (1), United Hotels Group Limited (2), HIH (3) and the Company (4) (the "Acquisition Agreement") as described in the Circular be and is hereby approved and the Directors be and are hereby authorised to complete the Acquisition Agreement and to give effect thereto subject to such non material variations or amendments (if any) as they may consider appropriate;
- (b) the authorised ordinary share capital of the Company be and is hereby increased from £1,250,000 to £5,900,000 by the creation of an additional 18,600,000 Ordinary Shares of 25p each;
- (c) the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £5,625,000 provided that this authority shall (unless previously revoked or varied by the Company in general meeting) expire 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 1997 save that, before such expiry, the Company may make any offer or agreement 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 any such offer or agreement, and so that all unexercised authorities previously granted to the Directors to allot relevant securities be and are hereby revoked;
- (d) the Directors be and are hereby empowered pursuant to section 95 of (the Act) to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the general authority conferred by paragraph (a) of this Resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power be limited to the allotment of equity securities:
 - (i) in connection with the placing and open offer of new Ordinary Shares of 25p each of the Company, pursuant to the terms of the Acquisition Agreement, in connection with the issue of the Convertible Cumulative Secured Loan Notes of £1 each of the Company and the conversion of such notes and pursuant to the agreement with Myers Larkey plc, (as each are more fully described in the Circular);
 - (ii) in connection with any share option scheme of the Company;

- (iii) an offer of securities, open for acceptance for a period fixed by the Directors, to the holders of Ordinary Shares on the register on any fixed record date in proportion to their holdings of Ordinary Shares, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractions of such securities or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or any stock exchange in, any territory; and
- (iv) (otherwise than pursuant to paragraphs (i) to (iii) above) up to an aggregate nominal amount of £210,000,

and shall expire at such time as the general authority conferred on the Directors by paragraph (c) of this Resolution expires save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot equity securities in pursuance of any such offer or agreement, and so that all unexercised powers previously granted to the Directors pursuant to section 95 of the Act be and are hereby revoked, but such revocation shall not have retrospective effect; and

- (e) the Articles of Association of the Company be amended by the deletion of Article 119.2 and the substitution therefor of the following:

“119.2 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 respect of its subsidiary undertakings so as to procure (as regards its subsidiary undertakings in so far as it can procure by such exercise) that the aggregate principal amount at any one time outstanding in respect of moneys borrowed by the Group (exclusive of moneys borrowed by one Group company from another and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the higher of an amount equal to 3 times the Adjusted Capital and Reserves and £30,000,000.”

BY ORDER OF THE BOARD

David Greene
Secretary
31st July, 1996

Registered Office:
Kempson House
Camomile Street
London EC3A 7AN