Annual report and accounts

for the year ended 31 December 2001

3043860

Committed to the highest standards of quality and service.

Our mission...

'We aim to provide our customers with a standard of service, comfort and convenience which will exceed their highest expectations, thereby earning and keeping their respect and loyalty. We will maximise the Company's profit to such a level as to finance its growth and provide sufficient resources to achieve all our objectives.'

Financial Highlights

The figures below represent the sustained growth of the Group over the last five years. The comparative table with the 2000 results demonstrates our ability to trade well in difficult times.

Profit on ordinary activities before tax, exceptionals and joint venture
£m

Dividends per share
pence

Net assets per share
pence

Financial comparison of 2000 v 2001

	2000	2001	Variance (%)
Turnover (£000)	30,847	38,397	24.5
Operating profit (£000)	7,572	8,543	12.8
Continuing PBT (£000)	4,686	5,272	12.5
Basic EPS before exceptionals and joint venture (pence)	16.5	15.1	(8.5)
Gearing	80.8%	73.5%	(7.3)
Interest cover	3.3x	3.4x	3.0

Contents

Our Portfolio

Ashbourne
An attractive hotel located on the edge of this ancient spa town in the spectacular Derbyshire Dales.

Basingstoke
Surrounded by mature woodland and set in four and a half acres, this elegant hotel is situated in the M3 corridor within 20 minutes of Heathrow.

Bradford
A modern hotel located on the perimeter of Bradford with direct access links to the M62, M1 and Leeds Bradford airport.

Bristol
This conference and training centre is a Grade II Regency style house, in eight acres of riverside gardens, located between Bristol and Bath.

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

Bromsgrove
A magnificent hotel with a distinctive Mediterranean flavour and charm, ideally located for the M42, M40 and M5 motorways.

Cardiff
An imaginative design with a maritime theme throughout and within one mile of the city centre and the Cardiff Bay development area.

Daventry
This modern hotel, set in its own grounds overlooking Drayton Water in picturesque Northamptonshire, is convenient for both the M1 and M40 motorways.

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

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

Reading
This modern hotel is set in 55 acres of Berkshire countryside incorporating a 33 acre lake. Within the M4 silicon valley corridor.

Warrington
Conveniently situated in a peaceful and secluded location, this hotel has excellent motorway connections to Manchester, Liverpool and Chester, 12 miles from Manchester airport.

Hinckley
Situated in delightful open countryside, yet convenient to the M69, M1 and M6 motorways, Birmingham and the NEC.

Skipton
A waterside location within easy access of Leeds, Bradford and Harrogate.

Oxford
This conference and training centre is a historic hall with traditional charm and character and is located close to Oxford, the M4 and M40 motorways.

Central reservations number 01455 630 000
www.hanover-international.com

Chairman's Statement

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

The year under review was a year of two conflicting halves.

When I wrote about future trading in the half-year trading statement I laid out my views on how the dreadful events of 11 September might affect our industry. Unfortunately those predictions have come true. Travel policies have been changed, the demand for hotel rooms has diminished and greater price competition has been the result. In circumstances where an underlying reduction in demand has occurred, such as has happened recently in the hotel market, price-cutting does little if anything to increase that demand instead making the reduced business less profitable for all concerned in the industry.

With the benefit of hindsight, the slow-down in many sectors of the UK economy had started to occur much earlier than September. However the damage suffered by the hotel industry as a consequence of the atrocities in New York on 11 September was substantial. Whilst I do not believe that the World Trade Centre disaster was the sole reason for a downturn in demand for hotel facilities, it was certainly a catalyst for substantial change in many sectors of industry in the UK and provided many companies with an opportunity to put into effect cost reductions that were overdue; inevitably this has affected corporate spend on hospitality, accommodation and conferences.

During the period September to December we saw a substantial decrease in bookings and the cancellation of the Ryder Cup. Given the fact that the four months September-December normally account for approximately 45% of the Group's annual operating profit the effect on our bottom line has been disproportionate. Nevertheless, during 2001 our turnover increased to £38.4m (2000: £30.8m), an increase of 24.7%, operating profit before interest, tax, exceptional items and joint venture activities increased to £8.5m (2000: £7.6m) an increase of 11.8%, whilst basic earnings per share before exceptional items were 14.5p (2000: 16.5p) a decrease of 12.1%. At the year end, gearing was 73.5% (2000: 80.8%) a decrease of 9.0%.

The Group continues to improve and develop its financial controls. Moreover, the economies of scale we realise from our expansion of Tweed Investments Limited ('Tweed') continue to enhance the efficiency of our central buying unit. We have also completed the installation of a new centralised accounting system and further developed our central internal audit function. These actions have enabled us to further increase our gross profit margins.

Dividend
Your Board has decided to propose a final dividend of 1.8p per share (2000: 1.25p) an increase of 44% payable on 28 June 2002 to all shareholders on the register as at 22 March 2002, bringing the total dividend for the year to 3.0p per share. Shareholders will be given the opportunity to take this dividend in cash or in ordinary shares.

Acquisitions and disposals
In March 2001 we set up our joint venture Tweed, which is owned 50% by Hanover International and 50% by Bank of Scotland. Since its establishment, Tweed has acquired two hotels in Bradford and Warrington and a training centre in Bromley (Greater London). Each of these units is operated under the Hanover International brand by means of a management contract. All three have been successfully integrated within the Group. The financial benefits derived from owning hotels and training centres through this particular joint venture structure are greater in terms of return on capital than through direct ownership. We are delighted with the performance of Tweed and continue to seek further acquisitions.

The disposal in July of our hotels in Huddersfield and Scunthorpe, both of which had been identified as not being core units, for an aggregate price of £2.75m gave rise to a profit after costs of £0.1m. The Group's acquisition criteria continues to be focused on large, full-service, four-star hotels with conference and health club facilities and residential conference and training centres, capable of attracting corporate clients. The enlarged Group now operates three residential training centres and 12 hotels.

Exceptional item
The exceptional item of £340,000 contained within these accounts relates to costs incurred in connection with our detailed planning application and the subsequent appeal for our Reading hotel, in which endeavours we were unsuccessful.

The development of this scheme, which was supported by the relevant planning officers, took four years. Given the significant office development and new railway station being built on land abutting our hotel site we were extremely surprised by the refusal. It is your Board's intention to pursue this opportunity and seek a long awaited meeting with the council members in order to explore a possible compromise.

Sales and marketing
Whilst, during the first half of 2001, the foot and mouth crisis as well as the slow-down in the manufacturing sector affected the UK hotel industry, the second half suffered the consequences of the atrocities of 11 September. Our policy to target the corporate and commercial market, with specific emphasis on conference meetings and series training, continues and we believe this policy offers greater security and quality of earnings than other types of business. During 2001 this market segment accounted for 83.1% of the rooms revenue and we believe that our policy has helped substantially to reduce the effect that these events have had on our business. In addition, during the last quarter of the year under review, we committed greater resource to the leisure market in order to develop our weekend business and provide a greater source of short-term bookings.

During the period, the Group achieved an average rooms rate of £60.53 (2000: £58.78) an increase of 3.0%, and occupancy of 60.5% (2000: 62.4%), a decrease of 3.0% resulting in a rooms yield of £36.59 (2000: £36.65). This result is a direct reflection of our policy to concentrate on maintaining room rate, wherever possible, over room occupancy. By adopting this approach we believe that when the demand for hotel rooms improves we shall be in a better position to take advantage of it. With your Group's increased distribution of hotels, we are able to offer our corporate clients a greater choice and as a result we benefit from increased referral business. In light of the inevitable increase in competition as a result of a diminished market in 2002, we intend to augment our sales and marketing resource in order to maintain and, hopefully, increase our share in what will undoubtedly be a difficult period.

Training and incentives
We are committed to providing training and incentives to all employed within the Group. One of our plans for 2002 is to place even greater emphasis on customer service. Whilst part of this will be covered by our capital expenditure, the prime thrust will be through our planned training programmes. Each section of the team within Hanover International has agreed training objectives, and specific programmes have been set up for their attainment.

Chairman's Statement continued

The tangible benefits to be derived from well-designed training and incentive programmes are substantial, both in terms of ongoing motivation and a reduction in staff turnover. Through the correct application of such programmes, we believe that greater staff flexibility and increased job satisfaction can be achieved. Our commitment to the Investors in People ('IIP') award continues, and it is our objective to have all the properties in the Group achieve this prestigious award.

We operate a number of share incentive schemes, all of which are integral parts of the Group's overall remuneration arrangements. To this end, Shareholders' approval is being sought at the Annual General Meeting for certain amendments to be made to the terms of the Executive Share Option Schemes and for the introduction of a new all-employee share scheme to replace the existing Profit Share Sharing Scheme. It is proposed that the limit on the total number of shares, which may be issued pursuant to options granted under the Executive Share Option Schemes, currently set at 5% of issued share capital, which was market practice at the time of the introduction of the scheme, be amended. This change is being made because we have little scope to grant additional options under the Executive Share Option Schemes and are therefore restricted in our ability to provide appropriate incentives in order to recruit and retain staff of a suitable calibre. Participation in the Group's all-employee share schemes was last year extended to employees of the Company's joint venture with Bank of Scotland. It is now proposed that participation in the Group's Executive Share Option Schemes be extended to those employees.

We have over the last few years operated a Profit Share Sharing Scheme in which all employees are eligible to participate with tax benefits for them and the Group. However, such schemes are to be discontinued with effect from December 2002. To replace the Profit Share Sharing Scheme, the Government has introduced a new type of all-employee share plan - known initially as the All-Employee Share Ownership Plan ('AESOP') and now as the Share Incentive Plan ('SIP'). We are therefore seeking approval to establish the Hanover International PLC SIP, which will replace the existing Profit Share Sharing Scheme. We believe that the SIP will be an important part of the Group's incentive arrangements and expect it to be popular amongst employees. A summary of its principal terms can found in the circular to be despatched with the Report and Accounts.

Information technology

In 2001, we started the installation and development of the first centralised reservation office for bedrooms and conferences with the objective of making our operation more efficient and giving our customer a better service. This unique facility, called "one call books all", when completed, will give our customers the ability to book any or all the Group's facilities by making a single call. Whilst we are disappointed by the length of time taken to achieve our objective, the ability for us to offer instant availability or alternative accommodation to our clients will be a substantial advantage. The power of the combined system we are installing, in terms of speed, availability, response time and management information, we believe, will give us a distinct advantage over our competitors.

Both our IT department and Central Reservations Sales Office have worked extremely hard in the attainment of our objective and I would like to thank everyone involved in the installation and ongoing development of this exciting management tool.

Whilst certain of the costs of this development are contained within the results under review, the benefits in terms of customer service, room yield and information will not be completely realised until the final quarter of this year, when we expect the system will become fully operational.

Developments

We are committed to maintaining and improving our properties. During 2001 we have, in addition to the substantial investment in IT, continued to maintain our hotels and conference and training centres to a high standard. In particular, we have refurbished guest bedrooms at our Reading hotel and upgraded and extended our very busy kitchen at our Hinckley hotel. Throughout 2002, providing we achieve our profit budgets, we plan to double our spend on property-related developments. The core objective behind our capital expenditure programme is our desire to make our hotels and training centres more attractive to our customers.

On 7 February we suffered a fire at the Hanover International hotel Basingstoke; whilst it is too early to comment in detail about the nature of the damage we suffered, we are confident that we have appropriate insurance in place to cover the losses. The staff at the Basingstoke hotel are to be praised for their professional and successful evacuation of the hotel. We continue to work with our advisors and the local authority in order to achieve a timely reinstatement of this valuable asset.

Future trading

During the period September to December hotel bookings of both a short and medium term corporate nature were substantially reduced. The Group's relatively strong advance reservations went some way towards shielding us from the immediate effect of this down-turn. Whilst we have seen some recovery in short-term bookings, they are currently not of sufficient volume to compensate for the decline in longer-term reservations experienced during the post 11 September period, and this will undoubtedly affect the first half of 2002. The increased price-cutting that has occurred in the market will not assist.

Our strength and experience of management, our proven ability to operate in difficult markets, our financial controls and our increasingly powerful state of the art management information and central reservations system will all come into play in helping us to continue to perform well in undoubtedly challenging times. The visibility of our future business, as a result of our targeting the corporate and conference and training business, gives us a good base from which to move forward. Taking all these factors into consideration your Board is confident that it will be able to capitalise on any improvement in the trading environment and is therefore cautiously optimistic about the future.

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

Peter G. Eyles
Executive Chairman

"Through the correct application of training, we believe that greater staff flexibility and increased job satisfaction can be achieved."

Julie Pyle, Front of House & Board of Senior Managers,
Hanover International Hotel and Club, Hinckley.

Review of Operations

Continuing along similar lines as previous years, our employees are encouraged to participate in the development of the Company by being involved in the strategic planning and implementation of new initiatives across the Group.

2001 proved to be another busy year with the acquisition of two hotels, Warrington and Bradford, and one Conference and Training Centre - Sundridge Park, Bromley. Also two disposals (Huddersfield and Scunthorpe). Maximising revenue and controlling costs continue to be a priority whilst endeavouring to deliver the best possible service to our guests.

Business reviews

Monthly business reviews take place in a new format with our General Managers attending on a 'one-to-one' basis. These include separate meetings with Sales and Marketing and our new Central Reservations Sales Office. Payroll costs continue to be monitored very closely.

Sales and marketing restructure update

The geographical coverage by region is producing some excellent results and has meant our professional sales teams can get closer to our customers. The dedicated agency Sales Manager appointment has proved very successful. A full-time weekend Sales Manager has now been appointed with a view to strengthening this important market for Hanover. Central Marketing has been re-located to Reigate.

Board of Senior Managers (BOSM)

The flat management structure with which we operate, both at hotel level and throughout the Company, now receives structured training which is on-going and supports each BOSM member. Full responsibility and autonomy is granted to each member of the team. A centre of excellence is to be set up for each operational area offering mentoring to others in the same position.

Human resources

Internal training courses were carried out during 2001 with 1,256 employees trained throughout the year. All General Managers and BOSM team members receive annual appraisals and regular reviews. Service delivery of the highest standard *is still our number one priority.*

Leisure centre

With three additional leisure clubs during the year and the membership now standing at 8,557 members (2000: 5,600 members) clearly this is an area that has benefited from strong sales and marketing input. The Group Leisure Club Manager has been given support in these areas with a view to growing the revenue through improved yield management.

Review of Operations continued

Review 2001

Continuing along similar lines as previous years, our employees are encouraged to participate in the development of the Company by being involved in the strategic planning and implementation of new initiatives across the Group. Review 2001 specifically dealt with employee uniforms as a standard across the Group. As a result of the good work completed by the employee committee, new uniforms for all members of staff will be rolled out in 2002. Other subjects covered were staff social committee improvements and future recommendations for improved employee benefits. The two new hotels, Warrington and Bradford, and the new Conference and Training Centre, Bromley, will be actively involved in Review 2002.

Hotels league table

Recognising above average performance across the Group's hotels, the star performer in 2001 was Harpenden. Congratulations to Claire Sylvester, General Manager, and all members of staff at the hotel.

Capital expenditure

During 2001 we completed phase one and two of our new Central Reservation System, upgraded and extended our main kitchen in Hinckley, rolled out a new Group Leisure Club membership system and refurbished guest rooms in Reading.

During 2002 we plan to invest in our bedroom stock, refurbishing rooms in Hinckley, Reading, Eynsham and Bromley. There will be further IT investment in phase three of our yield management system, group e-mail and website development.

Finally, I would like to welcome new members of staff to the Group and thank everyone for their hard work and commitment to Hanover International during 2001.

Peter Taylor FHIMA
Managing Director

"Throughout 2001 a total of 1,256 employees were provided with specific training and development under the guidance of the Group's internal training department."

Tony Murphy, Sous Chef,
Hanover International Hotel
and Club, Hinckley.

Financial Review

These results continue to show the progress that the Group has made in the last two years. The development of our centralised accounting, payroll and internal audit functions will assist us to maximise profits from the income that we generate.

Results for the period

Following the full year of ownership of the assets acquired in 2000, Group turnover during the period was £38.4m (2000: £30.8m), an increase of 24.7%. Operating profit for the period was £8.5m (2000: £7.6m), an increase of 11.8%. Profit before tax ('PBT') and exceptional items, for the period was £5.3m (2000: £4.7m). Basic earnings per share ('EPS'), before exceptional items and joint venture activities was 15.1p (2000: 16.5p), a decrease of 8.5%.

After including turnover arising from the interest in our joint venture, Tweed Investments Limited ('Tweed'), turnover for the period was £43.8m. The Group's operating profit after including operating profit arising from the joint venture rose by 31.6% to £10.0m. Group PBT for the period including the exceptional items was £4.9m (2000: £5.0m).

After the inclusion of joint venture activities and exceptional items EPS was 13.8p (2000: 17.7p). This decline was mostly due to the inclusion in the 2000 accounts of an exceptional profit of £0.8m, which arose on the sale of one of the Group's assets. The calculations of earnings per share are set out in Note 11 to the financial statements.

Whilst these results continue to show the progress that the Group has made in the last two years, they were achieved against a background of a recession in the UK manufacturing sector, an uncertain world and UK economy, the effect of foot and mouth on the UK leisure sector and the tragic events of 11 September in New York. The combined effects of these events led to a dramatic slowdown in short term bookings, which materially affected the second half of the year. As a further consequence the cancellation of the Ryder Cup also had an impact on the Group's profitability. We estimate that the Group lost £0.5m in operating profit following the cancellation of this event.

Joint venture activities

During the year the Group announced the creation of the joint venture, Tweed, with Bank of Scotland. Tweed has been set up to acquire four-star quality hotels and training and conference centres and to date has acquired three properties, two hotels in Warrington and Bradford and a residential Conference and Training Centre in Bromley.

Tweed enables the Group to acquire and retain 50% of the net asset value of the properties it acquires whilst only having to fund approximately 10% of the purchase price. In return the Group receives the management contracts to run the properties and receives fees related to turnover and EBITDA. In addition the Group receives interest on the loan stock that is invested in Tweed at 4% above LIBOR and a greater exposure to new markets within the UK, so helping to fulfil the Group's growth ambitions.

Profit before tax
£m

Earnings per share before exceptionals and joint venture
pence

Tweed is shown on the Group's balance sheet using the gross equity method of accounting. 50% of the profits, assets and liabilities are reported within the consolidated accounts of the Group. It is important to understand that the Hanover Group is only financially exposed to that which it currently has invested within Tweed. To date this is £5.4m. All other debt, interest and redemption premiums, which are liabilities of Tweed, are totally without recourse to Hanover.

Over the period the Group has received £0.3m in management fees and £0.3m in interest payments. This income is contained within the continuing operations of the Hanover Group. The income received during the year only represents fees and interest due since the respective dates of acquisition. Losses on the joint venture arise as a function of the highly geared capital structure and the accrual for redemption premiums due at the end of the 10 year financing period. The losses within the joint venture are stated after allowing for fees payable to the Company.

Exceptional items

Contained within these accounts are net exceptional items of £0.2m. These include a charge of £0.3m in respect of the failed planning appeal at our Reading hotel and a profit of £0.1m on the sale of two non-core properties in Huddersfield and Scunthorpe.

Taxation

The tax charge in the accounts for the year was £0.8m. By utilising the capital allowances and tax losses available to it the Group has once again paid no tax during 2001. The tax losses in certain subsidiaries have now been fully utilised and the Group expects to start paying tax in the third quarter of 2002, although in other subsidiaries tax losses and capital allowances remain available to shelter the profits arising.

During the year £8.5m of capital allowances were available to the Group, approximately £1.0m of these have been disclaimed and will be carried forward. There remain further significant capital allowances available to shelter future taxable profits.

During 2002 the introduction of FRS19, Deferred Tax will become mandatory for the Group. The standard requires companies to provide for deferred tax on a full provision basis as opposed to the partial provision basis used in the past. The Group has not opted for early adoption.

Net assets

Net assets for the period increased by £7.0m to £67.4m (2000: £60.4m). This represents an increase of 11.6%. The net asset value per share at the balance sheet date of 224p (2000: 202p) represents an increase of 10.9%.

In accordance with our stated policy of revaluing our whole portfolio at least every five years, ATIS Real Weatheralls were retained to revalue the Hinckley and Reading properties at the end of the year. This has resulted in a surplus to the current re-valued amount of £3.7m which has been taken to the revaluation reserve.

The Directors, having reviewed the book values of the remaining portfolio, do not consider that there has been any permanent diminution in the value of its property investments.

Cash flow, interest and gearing

Net cash flow from operations was £10.1m (2000: £8.5m), an increase of £1.6m or 18.8%.

During what has been a difficult year for the Group the operating activities have still managed to generate significant levels of net income. This in the main has been used to repay borrowings and service our finance, further invest in our product and return cash to shareholders through increased dividend payments.

Financial Review continued

Operating cash flow
£m

Gearing
%

Our investment in Tweed of £5.4m was financed through £4.0m of bank borrowings drawn against the available headroom within our revolving credit facility and £1.4m of cash generated through operating activities. The Group continues to have adequate headroom within its banking facilities.

Interest charges from owned assets during the period rose to £3.3m (2000: £2.9m), an increase of 13.8%. This was due to the Group paying interest for the full year in 2001 on the borrowings taken out in mid 2000 to finance the Andrew Weir and Birchin acquisitions.

Interest cover based on operating profit before exceptional items and depreciation rose to 3.4x (2000: 3.3x). This level of interest cover comfortably meets the covenants imposed by the bank. The Group regularly monitors its banking covenants and reports its compliance to its principal bankers on a quarterly basis. There were no actual or potential breaches of covenants throughout the period under review. Furthermore there are no expected or potential breaches foreseeable in the future.

Gearing at the balance sheet date was 73.5% (2000: 80.8%), a decrease of 9.0%. This improvement resulted from repayments of debt during the year, the increase in retained earnings and the re-valuation of certain of the Group's assets. Despite the cash generative nature of our business and the significant repayments of debt made during the year, net debt at £49.5m (2000: £48.9m) is similar to the previous year. This is in the main due to the investment of £5.4m into the joint venture with Bank of Scotland.

Finance and funding

The Group's funding arrangements consist of a seven-year term loan of £19.3m, a seven-year revolving credit facility of £30.0m and a working capital facility of £2.0m. The Group currently has drawn £47.6m of the total banking facilities available to it.

The term loan and revolving credit facility carry interest based on a ratchet mechanism whereby interest payable is directly linked to the Group's achieved interest cover. The margin applicable for the year 2002 will be 1.4% above LIBOR for any drawn amounts and 0.25% for any un-drawn amounts.

Interest rates are currently at a 40-year low; for this reason the Group decided to fix a large portion of its debt in order to protect itself from any future interest rate fluctuations. The Group fixed its entire term loan on an amortising basis at a swap rate of 5.28 % and 50.0% of its revolving credit facility at 5.33%. The Board believes that the certainty that these transactions provide in terms of cost of financing will enable the Group to accurately forecast future financing costs. The Group currently has 75.8% of its drawn banking facilities hedged.

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

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

New accounting standards

The accounts have been prepared using all new applicable accounting standards, including FRS 18, Accounting Policies.

The Group does not operate any defined benefit pension schemes and is not required to make any new disclosures in respect of FRS 17, Retirement Benefits.

Anthony B.Kelly ACMA
Group Finance Director

Directors and Advisers

1 Peter G Eyles
Executive Chairman
Aged 55, has been Executive Chairman of the Group since he formed it in 1995. Prior to that he was Chairman of Pavilion Leisure PLC, Chief Executive of Norfolk Capital PLC and Chairman and Chief Executive of several private companies involved in property and marketing activities.

2 Peter J Taylor
Managing Director
Aged 55, previously with the Copthorne Group, becoming their joint Chief Executive in 1987 and serving as Chief Executive from 1993-1995. Subsequently he was UK Regional Director for Millennium & Copthorne Hotels PLC.

3 Michael E Jourdain
Projects and Administration Director
Aged 37, previously Senior Commercial Development Manager for United Hotels Group and United Care Group.

4 Anthony B Kelly
Group Finance Director
and Company Secretary
Aged 35, Tony is a Chartered Management Accountant and before joining the Group held various senior positions within the private hotel and leisure sector.

5 Robin Privett
Senior Non-Executive Director
Joint Deputy Chairman
Aged 61, Solicitor, formerly partner in Herbert Smith. Chairman Lec Refrigeration PLC. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

6 Bernard Clow
Non-Executive Director
Joint Deputy Chairman
Aged 60, joined the Board in May 1999 and was appointed a Deputy Chairman in September 1999. Formerly a partner at KPMG, he is a member of the Remuneration Committee and the Audit Committee.

7 Billy Whitbread
Non-Executive Director
Aged 60, Consultant to Taverners Trust PLC, an investment trust managed by Aberdeen Asset Managers Limited. Previous positions include Director and Investment Manager of The Whitbread Investment Company PLC and Managing Director of Thomas Wethered and Sons Limited, a subsidiary of Whitbread PLC. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

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Financial Advisers
NM Rothschild & Sons
Newcourt
St Swithin's Lane
London EC4P 4DU

Joint Stockbrokers
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&
Seymour Pierce
28/30 Cornhill
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"Of the Group's 1,139 employees approximately 44% have become shareholders through the application of the SAYE, PSS and Executive Share Option Scheme."

Phillip Dunn, Butler
Hanover International Hotel
and Club, Hinckley

Directors' Report

Report of the Directors
The Directors present their report and the audited Accounts for the year ended 31 December 2001.

Principal activity
The principal activity of the Group is the acquisition, management and development of hotels and training and conference centres of a four-star quality. Details of the Group's activities during the year and an operating and financial review of the Group's business are set out on pages 9 to 14.

The subsidiary and joint venture undertakings principally affecting the profits or net assets of the Group during the year are listed in Note 14 to the Accounts.

Business review
The Group continues to target conference and training business as its core business due to its contracted nature and the visibility it gives in terms of advance reservations. The Group is committed to expanding its product offering and continues to seek out opportunities, which meet its stringent acquisition criteria. During the year the Group expanded its portfolio by entering into a joint venture with Bank of Scotland to acquire four-star hotels and training and conference centres. Furthermore the Group continued its policy of profitably disposing of its non-core assets.

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

Results and dividends
The Group earned an operating profit, including its share of joint ventures of £9.7m (2000: £7.1m); retained earnings for the year were £3.2m (2000: £3.6m).

A final dividend of 1.8p per share (2000: 1.25p per share) is proposed, which if approved, will be paid to shareholders on the register as at 22 March 2002. Shareholders will be given the opportunity to take this dividend in Ordinary Shares.

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

Executive Directors	Non-Executive Directors
P G Eyles	B J Clow
P J Taylor	R J C Privett
M E Jourdain	H W Whitbread
A B Kelly	

In accordance with the Company's Articles of Association Mr Privett and Mr Eyles will be offering themselves for re-election as Directors at the Annual General Meeting of the Company. Details of the service contracts of the Directors are contained in the Remuneration Report on page 22.

Share capital
The authorised share capital of the Company, together with the number of shares allotted, called up and fully paid are as set out in Note 22 to the Accounts.

Substantial interests in the shares of the Company
As of 13 March 2002 the latest practicable date prior to the printing of this report, the Company has been notified of the following substantial interests (representing 3% or more) in the Ordinary Shares of the Company:

Nominee	Number of Issued Ordinary Shares	Percentage of Ordinary Share Capital
Andrew Weir & Company Limited	5,899,285	19.58
Montanaro UK Smaller Companies	1,721,622	5.71
Montanaro UK Special Situations Fund	955,458	3.17
	2,677,080	8.88
Friends Ivory & Sime	1,969,289	6.54
Fidelity Recovery Trust Limited	430,958	1.43
Fidelity International Limited	1,000,000	3.32
Fidelity Smaller Companies	403,600	1.34
	1,834,558	6.09
Invesco Perpetual	981,985	3.26
Venaglass Limited	941,942	3.13
Axa Insurance UK PLC	907,415	3.01

Directors' interests
The Directors' beneficial, including family, interests in the Ordinary Shares of the Company are set out below:

	31 December 2001	1 January 2001
P G Eyles	298,143	282,919
P J Taylor	24,585	23,651
M E Jourdain	21,586	15,673
A B Kelly	16,398	9,946
R J C Privett	25,502	25,393
H W Whitbread	62,007	61,562
B J Clow	30,538	29,677

On 10 January 2002, prior to the Company entering a close period, Mr P Eyles purchased 10,000 Ordinary Shares of the Company making his total beneficial holding 308,143.

Details of Directors' options over Ordinary Shares are set out in Note 23.

Directors' Report continued

Employment incentives
To encourage the Group's staff and enable them to benefit from the Group's profitability and status as a public Company, the Group operates a SAYE Share Option Scheme ('SAYE Scheme') and a Profit Share Sharing Scheme ('PSS Scheme').

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

The PSS Scheme currently holds 280,187 Ordinary Shares as a fixed asset investment as set out in Note 15. In accordance with the rules of this scheme invitations were issued to eligible employees to accept as a gift 173,148 Ordinary Shares of the Company. Once awarded these shares vest unconditionally to the participants of the scheme. Under the rules of the PSS Scheme the participants may not sell or transfer these shares for a period of two years. Between two and three years the shares may be sold but may be subject to income tax. After three years the shares may be sold free of any income tax liability.

In addition to the above schemes, there are also Approved and Unapproved Discretionary Executive Share Option Schemes. Details of options granted under these schemes are set out in Note 23 to the Accounts.

At 31 December 2001, 353,750 shares were held within the Hanover International Employee Trust which will be used to satisfy options granted to Directors and eligible senior employees.

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

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

Properties
Note 12 to the Accounts gives details of the cost and valuations of the Group's operating properties as at the balance sheet date.

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

Charitable donations
During the period, the Group made charitable donations totalling £3,061 (2000: £1,362). There were no political contributions made by the Group in the year (2000: £Nil).

Supplier payments policy
It is Group policy to develop long-term relationships with its suppliers including agreeing payment practices with each of them. The Group does not follow a universal code or standard on payment practices but payments to suppliers are expected to be made on terms of trade consistent with the above policy, provided each supplier complies with all relevant terms and conditions. The number of days credit provided by suppliers to the Group at the year end was 50 days (2000: 58 days). The parent company had trade creditors totalling £6,159 (2000: £Nil) on 31 December.

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

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

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

Resolution 6 is the usual resolution to give Directors authority to allot shares. It covers a nominal amount of £2,914,725, which represents about 38.7% of the present issued share capital. Some 5.7% of this covers shares reserved for the exercise of options, and the remaining 33.0% is a general authority. This authority will last until the next Annual General Meeting or for a maximum of fifteen months. This practice is consistent with investor protection guidelines and gives the Company useful flexibility. The Directors have no present intention of making any material issue of shares without first seeking shareholder approval.

Resolution 7 is likewise in accordance with usual practice. It will disapply the statutory pre-emption rights over shares to be issued for cash in relation to (a) rights issues of open offers made on normal terms (b) the Company's share options schemes and (c) limited cash placings of shares up to about 5% of the present issued share capital. This authority will also last until the next Annual General Meeting, or up to fifteen months.

Resolution 8 will allow the Company to renew the power to offer share dividend alternatives for any financial period ending prior to the date of the Annual General Meeting to be held in 2007.

Resolution 9 will allow the Company to repurchase up to 4,516,428 Ordinary Shares in the market (about 14.99% of the present issued ordinary share capital). The conditions applicable to any purchase are substantially the same as in previous years and are in accordance with market practice.

The Company's Executive Share Option Schemes both contain a limit on the total number of shares which may be issued under executive options, which is set at 5% of the Company's issued share capital. Resolutions 10 and 11 will allow the Directors to amend this limit to 10% in the Company's Unapproved and Approved Executive Share Option Schemes respectively.

Resolutions 12 and 13 will allow the Directors to amend the Company's Unapproved and Approved Executive Share Option Schemes respectively to enable executives of the Company's joint venture with Bank of Scotland, Tweed Investments Limited, or any of its subsidiaries, to be granted options under each scheme.

Resolution 14 will allow the Directors to introduce the Hanover International PLC Share Incentive Plan (the 'SIP'). The SIP is being introduced to replace the Company's existing Profit Share Scheme, which cannot be operated after December 2002, and will be an Inland Revenue approved plan which will enable the Group's Executive Directors and employees to establish a shareholding in the Company on tax-favourable terms for both the Company and participants.

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

Director
13 March 2002

Statement of Directors' Responsibilities

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

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

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

Corporate Governance

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

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

Board composition
The Hanover Board currently comprises an Executive Chairman, two Independent Non-Executive Deputy Chairmen, one of whom is the senior Non-Executive Director, Managing Director, Group Finance Director, Projects and Administration Director and a third independent Non-Executive Director. A brief biography of each member of the Board is set out on page 15. The Board reviews, on a regular basis, its composition in the context of the size of activities and strategy of the Group. Such reviews consider the diversity of experience of skills across the Board members, and aim to ensure that an appropriate balance is maintained in terms of experience and also the mix of Executive and independent Non-Executive Directors. New appointments to the Board are not subject to a formal nominations committee review but are considered by the whole Board.

Having regard to the current size of the Group's activities, the Board considers that it is in the best interests of the Group that Mr P Eyles should maintain the position of Executive Chairman, which combines the roles of Chairman and Chief Executive. The Group Managing Director, Mr P Taylor, is responsible to the Board for the day-to-day operational running of the Group.

At each Annual General Meeting of the Company one-third of the Directors who are subject to retirement by rotation retire from office or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third retire. This is in compliance with the Code for each Director to retire by rotation every three years.

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

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

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

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

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

The Committees

The Remuneration Committee
Details of this Committee are set out in the Remuneration Report on page 22.

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

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

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

Compliance with Code Provisions
During the period under review there were no areas of non-compliance with the Code Provisions.

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

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

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

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

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

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

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

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

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

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

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

Remuneration Report

The three independent Non-Executive Directors comprise the Remuneration Committee of Hanover International PLC under the Chairmanship of Mr H W Whitbread. The Committee deals with all aspects of Executive Directors' remuneration and incentives.

Remuneration Policy

The Remuneration Committee is responsible, on behalf of the Board, for the policy for Executive Directors' remuneration, the granting of options to the Directors under the Company's share option schemes and for the setting of performance targets. The current remuneration policy for Executive Directors has been designed to reward competitively, relative to other similar companies, so as to attract and retain executives of the appropriate calibre and experience who are expected to perform at the highest levels.

The remuneration arrangements for Executive Directors include a basic salary and benefits. Mr P Eyles' contract with the Company is in his capacity as Executive Chairman and as such he is entitled to an annual commission which since the formation of Hanover has been based upon the growth in the Company's earnings per share for the year. In addition, the Executive Directors are entitled to an annual bonus payment at the discretion of the Remuneration Committee. There is no long-term incentive scheme in operation.

The Remuneration Committee considers that commission entitlements form an integral part of Mr P Eyles' remuneration package and are therefore pensionable.

Service contracts

The notice period for all Executive Directors is one year or less. Mr P Eyles has a service contract which is terminable by the Company giving not less than 12 months' notice. Mr P Taylor, Mr M Jourdain and Mr A Kelly have service contracts which are terminable by the Company giving not less than six months' notice: this notice period increases to 12 months in the case of termination arising as a result of an offer, or a contemplated offer for the shares of the Company.

Non-Executive Directors' remuneration

The fees of the Non-Executive Directors are determined by the Board having regard to the commitment of time required from each Non-Executive Director and the level of fees in other similar companies.

Pensions

The Company has established defined contribution pension schemes for the Executive Directors. Contributions based upon salary and commission payments are payable for Mr P Eyles. Contributions based upon salary are payable for Mr P Taylor, Mr M Jourdain and Mr A Kelly.

Remuneration and benefits

Details of Directors' remuneration and benefits for the year are set out in Note 4 to the Accounts.

Directors' interests

Details of Directors' beneficial, including family, interests in the Ordinary Share capital and options of the Company are set out in the Directors' Report and Note 23 to the Accounts.

Report of the Auditors on the Accounts

Independent Auditors' Report to the members of Hanover International PLC
We have audited the financial statements on pages 24 to 43.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report. As described on page 19 this includes the responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 20 to 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statement on internal controls covers all risks or controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its internal control procedures.

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

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
13 March 2002

Consolidated Profit and Loss Account

	Notes	Year Ended 31 December 2001 £000	Year Ended 31 December 2000 £000
Turnover			
Continuing operations: group and share of joint venture		**43,816**	30,847
Less: share of joint venture's turnover		**(5,419)**	-
Group turnover		**38,397**	30,847
Cost of sales		**(14,406)**	(11,607)
Gross profit		**23,991**	19,240
Administrative expenses			
- Before exceptional costs		**(15,448)**	(11,668)
- Exceptional costs	6	**(340)**	(452)
		(15,788)	(12,120)
Operating profit			
- Continuing operations		**8,543**	7,572
- Exceptional costs - continuing operations	6	**(340)**	(452)
Group operating profit		**8,203**	7,120
- Share of operating profit in joint venture		**1,454**	-
		9,657	7,120
Profit on the sale of fixed assets	6	**89**	811
Profit on ordinary activities before interest & tax		**9,746**	7,931
Net interest payable and similar charges			
- Group	7	**(3,271)**	(2,886)
- Joint venture	7	**(1,614)**	-
		(4,885)	(2,886)
Profit on ordinary activities before tax			
- Before exceptional items and joint venture		**5,272**	4,686
- Exceptional items	6	**(251)**	359
Group profit on ordinary activities before tax		**5,021**	5,045
- Share of loss on joint venture		**(160)**	-
		4,861	5,045
Tax on profit on ordinary activities	8	**(803)**	(757)
Profit on ordinary activities after tax		**4,058**	4,288
Dividends paid and proposed	9	**(894)**	(704)
Retained profit	24	**3,164**	3,584
Basic earnings per share			
Including exceptional items	11	**13.8p**	17.7p
Excluding exceptional items	11	**14.5p**	16.5p
Diluted earnings per share			
Including exceptional items	11	**13.8p**	17.7p
Excluding exceptional items	11	**14.5p**	16.4p
Dividends per share	9	**3.0p**	2.25p

Balance Sheets

	Notes	Group As at 31 December 2001 £000	Group As at 31 December 2000 £000	Company As at 31 December 2001 £000	Company As at 31 December 2000 £000
Fixed assets					
Tangible assets	12	**113,943**	111,704	**64**	65
Investments	14	**-**	-	**36,364**	35,639
Interest in joint venture					
Share of gross assets	14	**27,202**	-	**-**	-
Share of gross liabilities	14	**(26,636)**	-	**-**	-
		566	-	**-**	-
Loan to joint venture	14	**4,650**	-	**4,650**	-
Investment in own shares	15	**567**	351	**567**	351
		119,726	112,055	**41,645**	36,055
Current assets					
Stocks	16	**478**	420	**-**	-
Debtors	17	**4,338**	4,482	**47,361**	53,756
Cash at bank and in hand		**795**	2,197	**22**	15
		5,611	7,099	**47,383**	53,771
Creditors: amounts falling due within one year					
Creditors	18	**(5,220)**	(5,991)	**(2,036)**	(2,100)
Loans and borrowings	19	**(2,750)**	(2,270)	**(2,750)**	(2,250)
		(7,970)	(8,261)	**(4,786)**	(4,350)
Net current assets/(liabilities)		**(2,359)**	(1,162)	**42,597**	49,421
Total assets less current liabilities		**117,367**	110,893	**84,242**	85,476
Creditors: amounts falling due after more than one year					
Loans and borrowings	19	**(47,550)**	(48,802)	**(47,550)**	(48,800)
Provisions for liabilities and charges	21	**(2,446)**	(1,643)	**-**	-
Net assets		**67,371**	60,448	**36,692**	36,676
Equity - capital and reserves					
Called up share capital					
- Ordinary Shares	22	**7,532**	7,498	**7,532**	7,498
Share premium account	24	**20,823**	20,780	**20,823**	20,780
Revaluation reserve	24	**19,074**	15,392	**-**	-
Merger reserve	24	**7,261**	7,261	**7,261**	7,261
Profit and loss account	24	**12,681**	9,517	**1,076**	1,137
Shareholders' funds		**67,371**	60,448	**36,692**	36,676

Approved by the Board on 13 March 2002 and signed on its behalf by:

Peter G. Eyles **Anthony B. Kelly** ACMA

Consolidated Cash Flow Statement

	Notes	**Year Ended 31 December 2001 £000**	Year Ended 31 December 2000 £000
Reconciliation of operating profit to net operating cash flows			
Operating profit		**8,203**	7,120
Depreciation of tangible fixed assets	3	**2,714**	1,898
Amortisation of profit share shares	15	**80**	-
Increase in stock		**(58)**	(111)
Decrease/(increase) in debtors		**74**	(992)
(Decrease)/increase in creditors		**(892)**	564
Net cash inflow from operating activities		**10,121**	8,479
Cashflow statement			
Net cash inflow from operating activities		**10,121**	8,479
Returns on investment & servicing of finance	25	**(3,103)**	(3,059)
Capital expenditure & financial investment	25	**(8,775)**	(2,947)
Acquisitions & disposals	25	**1,777**	(36,641)
Equity dividends paid		**(614)**	(508)
Net cash outflow before financing		**(594)**	(34,676)
Financing	25	**(808)**	35,571
Net (decrease)/increase in cash		**(1,402)**	895
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		**(1,402)**	895
Cash outflow/(inflow) from movement in debt & lease financing		**772**	(30,145)
Change in net debt resulting from cash flows		**(630)**	(29,250)
Loan note		**-**	(2,750)
Increase in net debt		**(630)**	(32,000)
Net debt as at 1 January		**(48,875)**	(16,875)
Net debt as at 31 December	26	**(49,505)**	(48,875)

Consolidated Statement of Total Recognised Gains and Losses

	Notes	**Year Ended 31 December 2001 £000**	Year Ended 31 December 2000 £000
Profit for the financial period		**4,058**	4,288
Unrealised surplus on revaluation of properties	24	**3,682**	-
Prior year adjustments in 2000		**-**	(422)
Total recognised gains and losses for the period		**7,740**	3,866

Reconciliation of Movement on Shareholders' Funds

	Notes	**Year Ended 31 December 2001 £000**	Year Ended 31 December 2000 £000
Profit for the financial period		**4,058**	4,288
Dividends	9	**(894)**	(704)
		3,164	3,584
Other recognised gains and losses relating to the year		**3,682**	-
New share capital subscribed - net of costs		**77**	13,486
Net increase in shareholders' funds		**6,923**	17,070
Opening shareholders' funds		**60,448**	43,378
Closing shareholders' funds		**67,371**	60,448
Net Assets per share		**224p**	202p

Note of Historical Cost Profits and Losses

	Year Ended 31 December 2001 £000	Year Ended 31 December 2000 £000
Profit on ordinary activities before tax	**4,861**	5,045
Difference between historical cost depreciation charge and the actual depreciation charge on the revalued amount	**93**	93
Historical cost profit on ordinary activities before tax	**4,954**	5,138
Historical cost profit for the year retained after tax and dividends	**3,257**	3,677

Notes to the Accounts

1. Statement of accounting policies

The Company has adopted the following accounting policies, which have been applied consistently, in dealing with items which are considered to be material in relation to these Accounts.

Basis of preparation

The Accounts are prepared under the historical cost convention as modified by the revaluation of certain land and buildings and in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards.

Basis of consolidation

The Group accounts consolidate the accounts of Hanover International PLC and its subsidiary undertakings, all of which are made up to 31 December 2001. The joint venture is included in the Accounts in accordance with FRS 9, Associates and Joint Ventures. There are no associated undertakings.

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

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

In accordance with Section 230 (4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The amount of the profit for the financial year dealt with in the accounts of the Group is disclosed in Note 10 to these Accounts.

Turnover

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

Fixed assets and depreciation

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

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

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

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

Freehold land is not depreciated.

Taxation

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

Stocks

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

Notes to the Accounts continued

1. Statement of accounting policies continued

Brand costs

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

Leases

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

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

Pensions

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

2. Segmental information

All third-party incomes and costs are derived from the provision of accommodation and related services for hotel, training and conferencing in the UK. Overhead costs relating to headquarters are included within administrative expenses. All assets are held in the UK.

3. Profit on ordinary activities before taxation

This is stated after charging:

	2001 £000	2000 £000
Depreciation	**2,714**	1,898
Costs associated with a termination of an acquisition	**-**	83
Compensation for loss of directorships including legal costs	**-**	252
Rentals payable under operating leases		
Land and buildings	**134**	76
Plant and machinery	**392**	227

The remuneration of the Group's auditors for the year ended 31 December 2001 for statutory audit work was £89,000 (2000: £89,000) including £5,000 (2000: £5,000) for the Company. In addition £2,000 (2000: £478,000) was paid to the auditors and its associates for non-audit work.

4. Remuneration of Directors

Total emoluments, as defined by the Companies Act, of the Directors who held office during the year were £696,000 (2000: £840,000).

The emoluments of the highest paid Director were £255,000 (2000: £361,000).

Pension contributions of £70,000 (2000: £69,000) were charged in the Accounts in respect of the Directors, including £35,000 (2000: £51,000) in respect of the highest paid Director.

Further information concerning Directors' shareholdings are contained in the Directors' report. Details of Directors' share options are included in Note 23. Directors' emoluments during the year are set out below. These include all benefits (including any non-taxable benefits).

Notes to the Accounts continued

4. Remuneration of Directors continued

Remuneration benefits

	Executive Directors					Non-Executive Directors		
	P G Eyles	*P J Taylor	M E Jourdain	A B Kelly	*C R Gaunt	H W Whitbread	R J C Privett	B J Clow
2001 £000								
Salaries and fees	235	158	83	109	-	20	20	20
Benefits	20	12	8	11	-	-	-	-
	255	**170**	**91**	**120**	**-**	**20**	**20**	**20**
Pension contribution	35	16	8	11	-	-	-	-
2000 £000								
Salaries and fees	216	86	74	83	30	15	15	15
Compensation for loss of office	-	-	-	-	36	-	-	-
Commission/ bonus entitlements	126	20	25	50	-	-	-	-
	342	106	99	133	66	15	15	15
Benefits	18	7	7	10	5	-	-	-
Gains on exercise of share options	1	-	1	-	-	-	-	-
	361	113	107	143	71	15	15	15
Pension contribution	51	-	7	8	3	-	-	-

The above table shows the remuneration for the period during which the Directors held office in the year.
The main benefits available to Executive Directors consist of a company car, petrol, private medical insurance, permanent health insurance and life assurance
P J Taylor was appointed as a Director and C R Gaunt resigned as a Director of the Company on 5 June 2000.

5. Staff numbers and costs

The average number of persons employed by the Group, including Executive Directors, during the year was 1,139 (2000: 904). Of the persons employed, 614 (2000: 487) were full time and 525 (2000: 417) were part time. All employees were involved with the provision of hotel and training and conference services.

The total payroll costs comprised the following:

	2001 £000	2000 £000
Wages and salaries	**11,537**	9,282
Social security costs	**780**	541
Other pension costs	**162**	106
	12,479	9,929

Notes to the Accounts continued

6. Exceptional Items

	2001 £000	2000 £000
Exceptional costs included within operating profit		
Costs associated with acquired company reorganisation	**-**	452
Costs associated with a failed planning application	**340**	-
	340	452

Exceptional items not included within operating profit		
Profit on sale of fixed assets	**89**	811
	89	811

7. Interest

	2001 £000	2000 £000
Interest payable and similar charges:		
On bank loans and overdrafts	**(3,444)**	(2,962)
On loan note	**(146)**	(61)
On finance leases	**-**	(14)
Group interest payable	**(3,590)**	(3,037)
Bank interest receivable and similar income	**60**	151
Interest receivable on loan to joint venture	**259**	-
Net Group interest payable	**(3,271)**	(2,886)
Share of joint venture's interest payable	**(1,614)**	-
	(4,885)	(2,886)

8. Taxation

	2001 £000	2000 £000
Deferred tax	**803**	757

There is no current UK corporation tax charge in the year as a result of the availability of capital allowances and tax losses arising in certain of the Company's subsidiary undertakings. Unutilised trading tax losses carried forward as at 31 December 2001 were approximately £1.5m (2000: £1.8m).

The tax effect of the exceptional items arising in the year is £40,000.

9. Dividends

	2001 £000	2000 £000
Interim of 1.2p (2000: 1.0p) per share - paid	**352**	329
Final of 1.8p (2000: 1.25p) per share - proposed/paid	**542**	375
	894	704

Notes to the Accounts continued

10. Company profit and loss account

In accordance with the exemption granted under Section 230 (4) of the Companies Act 1985, a separate profit and loss account for the Company has not been presented. The Company's profit for the year before dividends was £833,000 (2000: £1,163,000).

11. Earnings per share

	2001 Basic & Diluted £000	2000 Basic & Diluted £000
Earnings attributable to basic and diluted earnings		
(including exceptional items)	**4,058**	4,288
Less exceptional profit on sale of fixed assets (net of tax)	**(75)**	(689)
Add exceptional costs (net of tax)	**286**	385
Earnings excluding exceptional items	**4,269**	3,984
Add share of loss on joint venture	**160**	-
Earnings excluding exceptional items and share of joint venture	**4,429**	3,984
Basic earnings per share:		
Including exceptional items	**13.8p**	17.7p
Excluding exceptional items	**14.5p**	16.5p
Excluding exceptional items and share of joint venture	**15.1p**	16.5p
Diluted earnings per share:		
Including exceptional items	**13.8p**	17.7p
Excluding exceptional items	**14.5p**	16.4p
Excluding exceptional items and share of joint venture	**15.0p**	16.4p

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

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

	2001 Number	2000 Number
Weighted average number of shares used in calculating basic earnings per share	**29,405,703**	24,209,894
Incremental shares in respect of dilutive SAYE and Executive Share Option schemes	**60,856**	68,147
Weighted average number of shares used in calculating diluted earnings per share	**29,466,559**	24,278,041

In accordance with FRS 14, diluted earnings per share have been calculated on the assumption that dilutive outstanding options and conversion rights were exercised from the beginning of the financial year or the date of issue if later.

Notes to the Accounts continued

12. Tangible fixed assets

	Freehold land & buildings £000	Short leasehold land & buildings £000	Furniture, fixtures & fittings £000	Computer & other office equipment £000	Motor vehicles £000	Total £000
Group						
Cost or valuation						
At 1 January 2001	91,844	12,015	13,685	1,423	487	119,454
Revaluations	3,547	-	-	-	-	3,547
Additions	927	99	1,239	1,432	57	3,754
Disposals	(2,322)	-	(437)	(21)	(189)	(2,969)
At 31 December 2001	93,996	12,114	14,487	2,834	355	123,786
Depreciation						
At 1 January 2001	822	215	5,920	545	248	7,750
Revaluations	(135)	-	-	-	-	(135)
Charge for the year	465	244	1,661	276	69	2,715
Disposals	(25)	-	(334)	(15)	(113)	(487)
At 31 December 2001	1,127	459	7,247	806	204	9,843
Net book value at 31 December 2001	**92,869**	**11,655**	**7,240**	**2,028**	**151**	**113,943**
Net book value at 31 December 2000	91,022	11,800	7,765	878	239	111,704
Company						
Cost						
At 1 January 2001	-	-	9	-	69	78
Additions	-	-	-	-	17	17
Disposals	-	-	-	-	-	-
At 31 December 2001	-	-	9	-	86	95
Depreciation						
At 1 January 2001	-	-	6	-	7	13
Charge for the year	-	-	1	-	17	18
Disposals	-	-	-	-	-	-
At 31 December 2001	-	-	7	-	24	31
Net book value at 31 December 2001	**-**	**-**	**2**	**-**	**62**	**64**
Net book value at 31 December 2000	-	-	3	-	62	65

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

On 31 December 2001, the Group's properties at Hinckley and Reading were revalued to £45.3m giving rise to a gain on revaluation of £3.7m. Their historical cost was £23.5m. The remaining properties in the original Hanover portfolio are included in the Accounts at their revalued amount of £19.4m as at 31 December 1997 (historical cost £17.4m). The Directors are not aware of any material change in the value of these properties. All other properties are included in the Accounts at their cost to the Group of £50.4m.

The net book value of the assets held under finance lease is £nil (2000: £59,000).

Notes to the Accounts continued

13. Disposal of businesses

On 10 July 2001, the Group disposed of its properties at Huddersfield and Scunthorpe to Wade Hotels Limited.

Net assets disposed of:

	£000
Tangible fixed assets	2,414
Costs associated with disposal	246
Profit on disposal	90
	2,750
Satisfied by cash	2,750

14. Fixed asset investments

	Company Investment in joint venture		**Company Shares in subsidiary undertakings**	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Cost				
At 1 January	**–**	-	**35,639**	1,358
Addition	**725**	-	**–**	34,281
Loan to joint venture	**4,650**	-	**–**	-
At 31 December	**5,375**	-	**35,639**	35,639

The subsidiary undertakings, all of which are wholly owned by Hanover International PLC, at 31 December 2001 were as follows:

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

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

During the year, the Company acquired 50% of the issued share capital of Tweed Investments Limited as follows:

Date	Type of share	Proportion of shares held	Number of shares	Consideration £
7 March 2001	Ordinary	50%	500,000	500,000
5 July 2001	Ordinary	50%	112,500	112,500
17 July 2001	Ordinary	50%	112,500	112,500
			725,000	725,000

Tweed Investments Limited owns two hotels and a residential training and conference centre which are operated and managed by Hanover International Hotels Limited.

Notes to the Accounts continued

14. Fixed asset investments continued

	2001 £000	2000 £000
Share of turnover	**5,419**	-
Share of loss before tax	**(160)**	-
Share of tax	**-**	-
Share of loss after tax	**(160)**	-
Share of fixed assets	**26,071**	-
Share of current assets	**1,131**	-
Share of liabilities due within one year*	**1,270**	-
Share of liabilities due after more than one year*	**25,366**	-
Share of capital commitments on operating leases in the year ahead	**118**	-

*The debt and liabilities within Tweed Investments Limited are wholly non-recourse to the Group.

15. Fixed asset investment in own shares

	Investment in own shares			
	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Cost				
At 1 January	**351**	220	**351**	220
Acquisitions	**296**	131	**296**	131
Amortisation of allotted shares	**(80)**	-	**(80)**	-
At 31 December	**567**	351	**567**	351

The above investment relates to shares purchased and held by the Company's employee share ownership trusts (the Hanover International UK Profit Share Sharing Scheme and the Hanover International Employee Trust) which are independently managed. At 31 December 2001 the trusts owned 633,937 Ordinary Shares (2000: 318,937) of 25p each of the Company listed on the London Stock Exchange the market value of which was £538,846 (2000: £291,827).

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

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

16. Stocks

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

17. Debtors

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Amounts falling due within one year:				
Trade debtors	**2,693**	2,503	**-**	-
Prepayments and accrued income	**843**	960	**-**	2
Amounts due from subsidiary undertakings	**-**	-	**46,983**	53,386
Other debtors	**802**	1,019	**378**	368
	4,338	4,482	**47,361**	53,756

Prepayments include an amount of £29,000 (2000: £142,000) representing part of the external expenditure incurred on creating the Hanover brand. During the year £113,000 (2000: £67,000) was expensed to the profit and loss account. The £29,000 balance remaining will be written off over the four months to April 2002.

Notes to the Accounts continued

18. Creditors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Amounts falling due within one year:				
Trade creditors	**2,133**	2,130	**6**	-
Amounts due to subsidiary undertakings	**-**	-	**1,277**	1,607
Other tax and social security:				
VAT payable	**793**	1,179	**(4)**	(1)
PAYE and National Insurance	**170**	237	**12**	11
Proposed final dividend	**542**	375	**542**	375
Other creditors	**447**	657	**12**	4
Accruals and deferred income	**1,135**	1,413	**191**	104
	5,220	5,991	**2,036**	2,100

19. Loans and borrowings

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Due within one year:				
Bank loans	**2,750**	2,250	**2,750**	2,250
Obligations under finance leases	**-**	20	**-**	-
	2,750	2,270	**2,750**	2,250
Due after more than one year:				
Bank loans	**44,800**	46,050	**44,800**	46,050
Loan note	**2,750**	2,750	**2,750**	2,750
Obligations under finance leases	**-**	2	**-**	-
	47,550	48,802	**47,550**	48,800
Repayable:				
In one year ending on 31 December 2002	**2,750**	2,270	**2,750**	2,250
Between 1 January 2003 & 31 December 2003	**6,050**	2,752	**6,050**	2,750
Between 1 January 2004 & 31 December 2007	**41,500**	18,650	**41,500**	18,650
In later years	**-**	27,400	**-**	27,400
	50,300	51,072	**50,300**	51,050

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

	£000	Rate (3)	Repayment Profile
Bank of Scotland	19,300 (1)	LIBOR +1.41%	3 monthly instalments over 7 years commencing December 2000
Bank of Scotland	28,250 (1)	LIBOR +1.41%	Repayable on 23 March 2007
Loan note	2,750 (2)	4.98%	Repayable on 31 December 2003
Total	50,300		

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

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

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

Notes to the Accounts continued

20. Financial instruments

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

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

Interest rate profile of financial assets

The Group has provided a loan to its joint venture during the year on which the Group receives interest at LIBOR plus 4%. There are no other financial assets, apart from short-term debtors and cash at bank. The sterling cash deposits at bank are placed with AA rated UK banks, on money markets at call. These are all floating rate balances that bear interest based on LIBOR.

Interest rate profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2001 after taking account of interest rate swaps was:

	2001 Total £000	2000 Total £000	**2001 Floating rate £000**	2000 Floating rate £000	**2001 Fixed rate £000**	2000 Fixed rate £000
Currency sterling						
Bank loans	**47,550**	48,300	**11,500**	48,300	**36,050**	-
Loan note	**2,750**	2,750	**-**	-	**2,750**	2,750
Finance leases	**-**	22	**-**	-	**-**	22
	50,300	51,072	**11,500**	48,300	**38,800**	2,772

Floating rate

The weighted average interest rate for all bank borrowings was 7.07% (2000: 7.81%).

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

Fixed rate	**Weighted average interest rate % 2001**	Weighted average interest rate % 2000	**Weighted average period until maturity for which rates are fixed - Years 2001**	Weighted average period until maturity for which rates are fixed - Years 2000
Currency sterling				
Bank loans	**6.70**	-	**4.5**	-
Loan note	**4.98**	4.98	**2.0**	3.0

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

Currency exposures

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

Notes to the Accounts continued

20. Financial instruments continued

Maturity of financial liabilities and borrowing facilities

	2001 Drawn £000	2000 Drawn £000	2001 Facilities £000	2000 Facilities £000	2001 Undrawn committed borrowing facilities* £000	2000 Undrawn committed borrowing facilities* £000
Expiring in one year or less	**2,750**	2,270	**2,750**	2,270	–	-
Expiring in more than one year, but not more than two years	**6,050**	2,752	**6,050**	2,752	–	-
Expiring in more than two years, but not more than five years	**41,500**	18,650	**45,250**	18,650	**3,750**	-
Expiring in more than five years	–	27,400	–	34,400	–	7,000
	50,300	51,072	**54,050**	58,072	**3,750**	7,000

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

Fair value of debt

For all debt, short-term assets and liabilities, the book values and fair values as at 31 December 2001 and 31 December 2000 are the same.

The Group uses interest swaps to manage its interest rate risk. As at 31 December 2001, the swaps held were valued at £190,000 in the Group's favour. At 31 December 2000, the Group had not entered into any interest rate swaps.

21. Provisions for liabilities and charges

	Deferred taxation		Deferred taxation	
	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
At 1 January	**1,643**	–	886	-
Charges in the year	**803**	–	757	-
At 31 December	**2,446**	–	1,643	-

	2001 Amounts provided £000	2001 Full potential liability £000	2000 Amounts provided £000	2000 Full potential liability £000
Group				
Excess tax allowance over depreciation	**2,446**	**8,146**	1,643	8,570
Company				
Excess tax allowance over depreciation	–	–	-	-

Provision for tax payable on capital gains on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset. The tax effect if all properties had been sold at their book values, assuming no reinvestment in similar properties and therefore without the benefit of roll over relief being available, is estimated to be £3.8m (2000: £3.0m).

The Group has not opted for early adoption of FRS 19, Deferred Tax, during the year. The likely effect on the Group's balance sheet is a reduction in the reserves of approximately £5.7m which will be treated as a prior year adjustment upon adoption. The Board is considering the option to discount this liability.

Notes to the Accounts continued

22. Called up share capital

	2001 £000	2000 £000	2001 Number	2000 Number
Authorised				
Ordinary Shares of 25p each	**15,000**	15,000	**60,000,000**	60,000,000
Allotted, called up and fully paid				
Ordinary Shares of 25p each	**7,532**	7,498	**30,129,610**	29,991,137

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

Type of issue	Number of shares	Aggregate value
Scrip dividend alternative	132,439	£33,110
SAYE Share Option Scheme	6,034	£1,508

23. Share options

Under the Company's Executive Share Option Schemes and its SAYE Share Option Schemes, there are outstanding options at 31 December 2001 to subscribe to a total of 1,716,132 Ordinary Shares of the Company as follows:

	At 1 January 2001	Granted during year	Exercised during year	Lapsed during year	At 31 December 2001
Executive Share Option Schemes	1,593,000	20,000	-	(75,000)	**1,538,000**
SAYE Share Option Schemes	303,192	-	(6,034)	(119,026)	**178,132**
	1,896,192	20,000	(6,034)	(194,026)	**1,716,132**

On 4 May 2001, under the Executive Share Option Schemes, options of 20,000 Ordinary Shares were granted to eligible senior employees at 106.5p per share. Options granted under the Executive Share Option Schemes are normally only exercisable if growth in earnings per share of the Group over any three-year period exceeds the growth in earnings per share of at least 60% of the companies listed daily in the 'Leisure and Hotels' sector in the Financial Times. Unexercised options lapse up to ten years after the date of grant.

Notes to the Accounts continued

23. Share options continued

Details of the Directors' interests are set out below:

Executive Share Option Schemes

	Date granted	At 1 January 2001	Exercise price	Granted during 2001	Exercise price	Lapsed during 2001	**At 31 December 2001**
P G Eyles	10/09/96	288,000	125.5	-	-	-	**288,000**
	23/11/98	35,000	79.5	-	-	-	**35,000**
	05/10/99	50,000	135.5	-	-	-	**50,000**
	05/10/00	130,000	101.5	-	-	-	**130,000**
M E Jourdain	04/04/97	70,000	148.5	-	-	-	**70,000**
	23/11/98	20,000	79.5	-	-	-	**20,000**
	05/10/99	45,000	135.5	-	-	-	**45,000**
	05/10/00	50,000	101.5	-	-	-	**50,000**
A B Kelly	30/09/97	20,000	141.5	-	-	-	**20,000**
	23/11/98	15,000	79.5	-	-	-	**15,000**
	05/10/99	50,000	135.5	-	-	-	**50,000**
	05/10/00	120,000	101.5	-	-	-	**120,000**
P J Taylor	05/10/00	230,000	101.5	-	-	-	**230,000**
Other Employees	30/09/97	50,000	141.5	-	-	-	**50,000**
	04/04/97	80,000	148.5	-	-	-	**80,000**
	23/11/98	90,000	79.5	-	-	(40,000)	**50,000**
	05/10/99	145,000	135.5	-	-	(25,000)	**120,000**
	05/10/00	105,000	101.5	-	-	-	**105,000**
	04/05/01	-	-	20,000	106.5	(10,000)	**10,000**
		1,593,000		20,000		(75,000)	**1,538,000**

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

SAYE Share Option Scheme

	At 1 January 2001	Granted during 2001	Exercised during 2001	Lapsed during 2001	**At 31 December 2001**
P G Eyles	12,746	-	-	-	**12,746**
P J Taylor	12,746	-	-	-	**12,746**
M E Jourdain	11,029	-	-	-	**11,029**
A B Kelly	16,228	-	-	(3,482)	**12,746**
Other Employees	250,443	-	(6,034)	(115,544)	**128,865**
	303,192	-	(6,034)	(119,026)	**178,132**

Options issued in 1999 under the SAYE Share Option Scheme are exercisable at the end of the savings contract at an option price of 98.0p. Options issued in 2000 under the SAYE Share Option Scheme are also exercisable at the end of the savings contract at an option price of 76.0p. Both option prices reflect a 20% discount to the market price of the Ordinary Shares of the Company at the time of the invitation to join the SAYE Scheme.

The market price of Ordinary Shares at 31 December 2001 was 85.0p and the range during the year was 75.0p to 120.5p. The market price of the Ordinary Shares over the period of exercise of the share options was 106.9p.

Notes to the Accounts continued

24. Reserves

	Share premium £000	Revaluation reserve £000	Merger reserve £000	Profit & loss account £000	Total £000
Group					
Balance at 1 January 2001	20,780	15,392	7,261	9,517	52,950
Shares issued - net of costs	43	-	-	-	43
Revaluation of fixed assets	-	3,682	-	-	3,682
Retained profit for the year	-	-	-	3,164	3,164
Balance at 31 December 2001	20,823	19,074	7,261	12,681	59,839
Company					
Balance at 1 January 2001	20,780	-	7,261	1,137	29,178
Shares issued - net of costs	43	-	-	-	43
Retained loss for the year	-	-	-	(61)	(61)
Balance at 31 December 2001	20,823	-	7,261	1,076	29,160

25. Analysis of headings within the Cash Flow Statement

	2001 £000	2000 £000
Returns on investment & servicing of finance		
Interest received	**319**	151
Interest paid	**(3,422)**	(3,196)
Interest element of finance lease payments	**-**	(14)
	(3,103)	(3,059)
Capital expenditure & financial investment		
Purchase of tangible fixed assets	**(3,898)**	(2,828)
Sale of tangible fixed assets	**69**	12
Loan to joint venture	**(4,650)**	-
Investment in own shares	**(296)**	(131)
	(8,775)	(2,947)
Acquisitions & disposals		
Purchase of subsidiary undertaking	**-**	(22,000)
Cash acquired with subsidiary	**-**	1,157
Purchase of business	**-**	(17,000)
Retention sum recovered	**-**	2,000
Cash acquired with business	**-**	3
Investment in joint venture	**(725)**	-
Sale of businesses	**2,750**	2,400
Costs associated with acquisitions & disposals	**(248)**	(3,201)
	1,777	(36,641)

Notes to the Accounts continued

25. Analysis of headings within the cash flow statement continued

	2001 £000	2000 £000
Financing		
Issue of Ordinary Share capital	**(36)**	5,426
Capital element of finance lease rental payments	**(22)**	(92)
Debt due within one year		
Increase in short term borrowings	**2,750**	1,875
Repayments	**(2,250)**	(1,688)
Debt due beyond one year		
Increase in long term borrowings	**1,250**	34,050
Repayments	**(2,500)**	(4,000)
	(808)	35,571

26. Analysis of movement in net debt

	At 1 January 2001 £000	Cash flow movements £000	Non-cash movement £000	At 31 December 2001 £000
Cash at bank and in hand	2,197	(1,402)	-	**795**
Debt due after more than one year	(48,800)	(1,500)	2,750	**(47,550)**
Debt due within one year	(2,250)	2,250	(2,750)	**(2,750)**
Finance leases	(22)	22	-	**-**
	(48,875)	(630)	-	**(49,505)**

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

27. Capital commitments

Capital expenditure authorised and contracted at the balance sheet date but for which no provision has been made in the Accounts amounts to £Nil (2000: £Nil).

The commitments of the Group (Company £Nil; 2000: £Nil) in respect of expenditure in the year ahead arising from operating leases is set out below:

	Land and buildings 2001 £000	Other 2001 £000	Land and buildings 2000 £000	Other 2000 £000
Committed expenditure in 2002 arising from operating leases				
Within one year	**-**	**91**	-	23
Between two and five years	**-**	**278**	-	251
More than five years	**126**	**-**	112	2
	126	**369**	112	276

Notes to the Accounts continued

28. Subsequent events

Unfortunately on 7 February 2002, the Group's hotel and club at Basingstoke was damaged by fire. Thankfully nobody was injured but serious damage was caused to the kitchen and public areas. The Group is insured for this incident in respect of both material damage and business interruption.

29. Pensions

The Company operates defined contribution contributory and non-contributory UK pension schemes providing for fixed rates of contribution based upon salaries. Contributions are fully accrued and charged to the profit and loss account in the year to which they relate. The total pension charge for the year was £162,000 (2000: £106,000). There were no outstanding or prepaid contributions as at 31 December 2001 (2000: £Nil) in respect of the schemes.

30. Related party transactions

The Group owns 50% of Tweed Investments Limited. The Group operates and manages the properties owned by the joint venture. The transactions in the year between Tweed Investments Limited and the Group amounted to £1,490,000. The nature of these transactions was management fees, charges for the use of central services provided by the Group and interest receivable on the loan to the joint venture. The balances as at 31 December are as follows:

	2001 £000	2000 £000
Loan to Tweed Investments Limited	**4,650**	-
Amounts due from Tweed Investments Limited	**299**	-
	4,949	-