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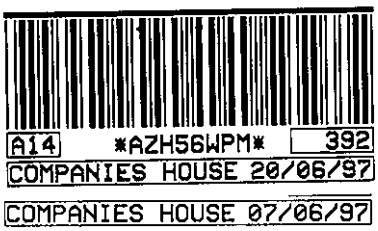
HANOVER INTERNATIONAL PLC
HOTELS & CLUBS



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DIRECTORS AND ADVISERS

Peter G Eyles
Executive Chairman

David J Greene F.C.A.
Group Finance Director and Company Secretary

Charles Gaunt
Operations Director

Mike Jourdain
Projects and Administration Director

Hugh William Whitbread
Non-Executive Director

Neil P List
Non-Executive Director

Registered Office and Head Office

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Norton Rose
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Registrars
Independent Registrars Group
Bourne House
34 Beckenham Road
KENT
BR3 4TU

CHAIRMAN'S STATEMENT 1996

This is my first Chairman's statement since the acquisition of the UHG hotels, completed on August 28th, 1996. I am extremely pleased to announce the result for the combined Group of £857,000 pre tax profit for the year ending December 31st, 1996. As a result of the capital allowances available on the UHG hotels acquired there is no corporation tax to pay.

This result has been achieved following the continued implementation of our policy to improve room rates. At The Imperial, Cork we have increased average room rates (1996 £42.86, 1995 £34.69) whilst accepting a lower level of occupancy (1996 53.5%, 1995 58.1%) which is the result of considerably increased local competition. In addition we have improved our margins on food and drink and reduced costs, achieving an increase of 149% in operating profits after depreciation.

In the UK, on a like for like basis, we have increased average room rates from £43.46 to £46.98 and increased occupancies from 62.6% to 64.7%. With improvements in margins and cost reductions this has resulted in an increase in operating profits after depreciation of 36%. Whilst we are pleased by this outcome, we are well aware of further potential for improvement within the UK hotels.

It is the Board's intention to develop a progressive dividend policy in the future and we expect to make an inaugural payment in respect of 1997.

Since acquiring the UHG hotels, a considerable amount of development has taken place within the Group and I would like to take this opportunity to

explain what has occurred and the resultant benefits to the Group.

THE HANOVER BRAND

As of February this year, we have re-branded and re-named the hotels within the group "Hanover International Hotel and Club". The 'Club' suffix attaching to those hotels that have a leisure club. It is our intention to develop our leisure operations and also to introduce, during this year, a new concept in hospitality to be named the Hanover International Club, catering primarily for the travelling businessman. We will notify you of further details when this scheme is implemented.

1997 will see considerable costs spent on the creation of the Hanover Brand. I hope that you have the opportunity to see our poster advertising campaign, which starts this month and agree with the sentiments which we feel are critical for our industry.

HANOVER INTERNATIONAL HOTEL & CLUB, READING

At the Hanover International Hotel & Club, Reading a major office development has recently received planning permission, within half a mile of the hotel. On the eastern side of our lake, Prudential Corporation is going to develop a business park that will contain some 2m sq. ft of offices. This should substantially increase the local market for the hotel and its leisure facilities. To the south of the hotel site, on the other side of the M4, the local authority has granted planning permission for the development of 2,500 dwellings. Again, this should add to the hotel's market.

As a result of the above developments, and as part of our long term hotel development plan, we are considering a scheme which would see the substantial expansion of the hotel and the incorporation of a free-standing leisure centre.

HANOVER INTERNATIONAL HOTEL & CLUB, DAVENTRY

Since we acquired the hotel, Daventry has seen the start of a significant development carrying the name of the Daventry International Rail Freight Terminal (DIRFT). This is destined to be the Midlands freight terminal for the Channel Tunnel and is being developed on a 53 hectare (131 acre) site. Adjacent to this, further areas are being developed for commercial use in two phases, the first being 51 hectares (126 acres) and the second covering 22 hectares (54 acres). This development is likely to enhance the trading potential of the Daventry hotel.

HANOVER INTERNATIONAL HOTEL & CLUB, HINCKLEY

During 1997, we intend to complete the building of an additional 78 bedrooms and suites at the Hanover International Hotel and Club, Hinckley. This will incorporate a section known as the Hanover International Club, which is designed to offer a level of

service and in-room facilities surpassing any previously seen in the UK.

HOTEL MANAGEMENT

Four out of six of the UHG hotels now have in place new general managers. These moves have been completed since the acquisition and I believe provide Hanover with the opportunity of moving forward with an impressive, effective and highly regarded group of hotel managers, committed to the profitable development of the Group and the personal development of our workforce. The commitment which we have received from all who work for Hanover in achieving the results in the year ended December 31st, 1996 has been first class and this is part of the reason for our proposals covering staff benefits on which we are asking you to vote positively.

PEOPLE

Since the completion of the acquisition of the UHG hotels, and as an extension of Group personnel development, we have carried out a complete review of all personnel functions and the individual training requirements of our employees. As a result, we are finalising a new training programme for all employees of the Group. We hope that this programme will be implemented by March 1997. It is our belief that, if we are to achieve the Group objective of delivering a service above our guests' expectations, then all our employees must be properly equipped and aware, in order to satisfy this ambition.

We are also introducing a series of schemes designed to incentivise everyone in the Group towards an achievement of group targets. Two of these incentive schemes require shareholder approval and will be put to you during the forthcoming Annual General Meeting in the form of ordinary resolutions.

The first of these is a SAYE share option scheme which we believe will broaden the ownership of the Company, thereby heightening personal commitment and participation. The second is a profit sharing share scheme to which the Company will allocate a percentage of its annual profits for the purchase of shares on behalf of employees. These shares will be allocated in proportion to salaries at the end of the financial year. Whilst we expect that such a scheme will initially reduce the Group's pre tax profit by a small amount, we believe that incentive schemes which involve an element of time loyalty will serve to increase commitment across the Group, reduce staff turnover and thereby, in the longer term, improve the performance and profitability of the Group. Further details of these proposed new schemes are set out in the circular to shareholders accompanying these accounts.

CHAIRMAN'S STATEMENT 1996

NEW HEAD OFFICE

As part of the acquisition of the UHG hotels, we acquired at the Hanover International Hotel & Club, Reading, 9,000 sq. ft of office space, of which some 2,000 sq. ft was empty. That space has now become the home of the Group's head office, which was opened in September 1996. We have also created a central sales and marketing office in the office space available at the Hanover International Hotel & Club, Hinckley.

INFORMATION TECHNOLOGY

We are carrying out a complete review of the Group's current and future I.T. requirements. A working party has been set up in order to examine the reservation and accounting systems which are currently available in the market with a view to establishing a Group wide system. Whilst this will involve a reasonably substantial capital outlay for the Group, we believe that the benefits to be derived through more timely and better specified information will lead to better control and therefore improved profitability.

You will no doubt know of the substantial recent publicity surrounding the so-called Millennium Bug. As a result of the high level of plant, machinery and computing equipment that operates using silicon chip, a failure brought about by the so called Millennium Bug could substantially affect our business. We are therefore taking this particular problem very seriously and have started a thorough review of all areas of the Group that may be affected in order that we can take the necessary action to avoid any problems in the year 2000.

APPOINTMENT OF NON-EXECUTIVE

As was announced today, Mr Robin Privett, a former partner of Herbert Smith and currently Chairman of Lec Refrigeration PLC, has agreed to join the Group as a Non-executive Director, bringing with him many years of legal and corporate experience. This brings the total number of our Non-executives to three.

SHAREHOLDER'S DISCOUNT SCHEME

Enclosed with these accounts is a shareholder discount card which offers you the opportunity to take advantage of the Group's hotels and restaurants at a substantial discount. Details of the way it works are included with the card and I hope you will take the opportunity to use this card and visit some or all of the Group's hotels.

CHAIRMAN'S STATEMENT 1996

OUTLOOK

The Board considers that the UK hotel market is now in a buoyant period, following its recovery from the last recession. The Group continues to produce a strong performance and the Board considers that the outlook for the Group is good, with prospects for expansion and further development both through organic growth and further acquisitions. With this in view, we have established within the Group a new sales and marketing operation. The sales operation is probably one of the largest and most professional direct selling operations within the UK hotel industry. We have sought to employ divisional and regional sales managers of the highest quality and the majority of appointments have already been made. It is our intention, as with all other positions within the Group, to employ the highest calibre personnel and accordingly, we are taking the time and care to complete the process which we expect to be finalised by the end of next month.

On the marketing front, in advance of the Hanover Brand launch, we have completed the re-branding of all hotel literature and signage, a task which has been enormous in terms of complexity and sheer volume of work. The fact that this has been completed in such a short period of time and on budget is a great compliment to our Projects and Administration Director and to the Group Marketing Manager.

IN CONCLUSION

On behalf of the Board, I would like to thank everybody for the hard work and commitment that they have contributed to the achievement of the Group's results this year. We look forward to more success next year.

Peter G Eyles
Executive Chairman

February 24th, 1997

FINANCIAL REVIEW

INTRODUCTION

Ou balance sheet has changed considerably since last year as a result of the acquisition and related financing of the six UHG hotels.

The purchase price for the UHG hotels was £40million and there were related costs of £1.5m. The total cost of £41.5m was financed by; an issue and placing realising £13m, consideration shares for £2.2m, a secured term loan of £23m, a convertible redeemable loan note of £2m and cash of £1.3m. The terms of the secured term loan and the convertible redeemable loan note are set out in Note 15 to the accounts.

NET ASSETS, GEARING AND INTEREST COVER

As a result of the above acquisition and the related financing, as well as a good performance from all of the hotels, the Group's net assets have grown considerably since December 31st, 1995 from £2.7m to £20.9m.

At December 31st, 1996 total borrowings, including the convertible redeemable loan note, expressed as a percentage of net assets represent 124.6%. Had this loan note been converted at December 31st, 1996 gearing would have been 104.9%.

Interest cover for 1996 was 2.1.

PROFIT FOR THE YEAR ENDED DECEMBER 31ST, 1996

The profits declared represent those earned by The Imperial Hotel in Cork acquired in August 1995 for the whole year, plus those of the six UHG hotels since the date of acquisition on August 28th, 1996.

INTEREST RATE HEDGING

The interest rates on the secured term loan of £23m are 1⅝% plus three month LIBOR for £18.8m, and 2⅝% plus three month LIBOR on the balance of £4.2m. However, interest rates on 70% of the total loan have been hedged as follows:

(a) In respect of 35% of the loan, an interest rate cap of 8% and a 6.95% collar have been bought and sold respectively at no net cost.

(b) In respect of a further 35% of the loan, the rate has been swapped for stepped fixed rates as follows:

Until 28th August	Rate
1997	6.5%
1998	7.0%
1999	8.0%
2000	8.2%
2001	8.2%

The rate on the remaining 30% of the loan has not been hedged. The hedging arrangements overall have been designed to spread our interest costs over the life of the loan in a manner which best fits the profile of our projected cashflows.

FINANCIAL REVIEW

TAX POSITION

There is no charge for UK corporation tax for the year ended December 31st, 1996 nor any liability thereto at the balance sheet date due to the capital allowances available on the assets acquired during the year.

In addition, at December 31st, 1996 there are some £3.8m of declared tax losses in total in two of the Group's subsidiaries, Hanover International Hotels Management (Daventry) Ltd and Hanover International Hotels Management (Reading) Ltd, which are available for relief against future earnings of those subsidiaries.

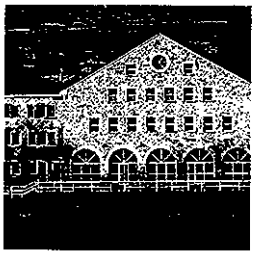
RETURN ON CAPITAL EMPLOYED

Return on capital employed, calculated on profits after taxation of £772,000 expressed as a percentage of weighted average net assets during the year was 8.8%

EARNINGS PER SHARE

Earnings per share at 11.7p have improved by 17% compared to 1995 and, on a fully diluted basis, have increased by 137% to 10.2p.

This growth has come from improving considerably the profitability of The Imperial Hotel in Cork as well as achieving as good a performance from the hotels assets acquired during the year. Earnings per share have been further assisted by the more highly geared financial structure of the Group resulting in a lower level of dilution of earnings, as compared to December 31st, 1995. This is not considered to be a high risk strategy because the profits of the hotels acquired continue to grow. In addition, interest cover at 2.1 for 1996 is based upon a level of borrowings that will continue to reduce quarterly and although, in accordance with FRS 4, interest has been provided on the convertible loan note (see Note 15 to the accounts none is due to be paid until February 28th, 1999).



DIRECTORS' REPORT

REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts for the year ended December 31st, 1996. The references below to 1995 relate to the period from incorporation on April 4th, 1995 to December 31st, 1995.

PRINCIPAL ACTIVITY

The principal activity of the Group is the acquisition, management and development of hotels of a four star quality. Full details of the Group's activities and a review of the Group's business and likely future developments are set out in the Chairman's Statement on pages 4 to 8.

RESULTS AND DIVIDENDS

The Group earned an operating profit before interest and tax of £1,637,000 (1995: £94,000) and retained earnings of £772,000 (1995: £53,000).

As explained in the interim financial statements to June 30th, 1996, no dividend is proposed for the year (1995: £Nil) in respect of the ordinary shares. No dividends (1995: £Nil) were declared on the preference shares prior to their conversion into ordinary shares on August 28th, 1996 as explained in Note 16.

SHARE CAPITAL

The authorised share capital of the Company, together with the amounts allotted, called up and fully paid are as set out in Note 16 to the accounts.

SUBSTANTIAL INTEREST IN THE SHARES OF THE COMPANY

As of February 19th, 1997, 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:

	Number of Issued Ord. Shares	Percentage of Ord. Share Capital
Bank of Scotland Nominees Ltd	978,028	5.7%
Bridgend Group PLC	530,000	3.1%
Citifriends Nominee Ltd. MFUSTE ACCT	600,000	3.5%
Citifriends Nominee Ltd. UTSTEW ACCT	600,000	3.5%
Clydesdale Bank (Head Office) Nominees Ltd FRT ACCT	589,357	3.4%
Clydesdale Bank (Head Office) Nominees Ltd SCE ACCT	789,057	4.6%
Co Nominees Ltd	700,000	4.1%
The Equitable Life Assurance Society	1,022,851	6.0%
Lloyds Bank Nominees Ltd	974,144	5.7%
Midland Bank Trust Company Ltd	1,071,558	6.3%
Morgan Nominees Ltd	789,057	4.6%
Twenty - Nine Gracechurch Street Nominees Ltd	789,057	4.6%

DIRECTORS

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

Executives	Appointed
Peter G Eyles	*April 7th 1995*
David J Greene	*April 7th 1995*
Charles Gaunt	*August 28th, 1996*
Mike Jourdain	*August 28th, 1996*
Non Executive	
Neil List	*August 17th, 1995*
Hugh William Whitbread	*August 28th, 1996*

DIRECTORS' REPORT

EMPLOYMENT INCENTIVES AND STANDARDS

As part of the Group policy to encourage its staff and enable them to participate in the profitability of the Group's operations, it is intended that employee incentive schemes including a Profit Sharing Share Scheme and an SAYE Share Option Scheme will be introduced in 1997 in addition to the Executive Share Option Scheme adopted in 1995. Further details of these proposed schemes which are subject to shareholder and, in some cases Inland Revenue approval, are as set out on pages 43 to 44.

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 the financial results at the period end, in order to support and develop the contribution that each employee makes to the business.

The Group employment policies respect the individual and offer career opportunities regardless of gender, race or religion. Full and fair consideration is given to the employment and opportunities for training and development of people with disabilities according to their skills and capability.

CHARITABLE DONATIONS

During the period, the Group made charitable donations totalling £175 (1995: £250). No political contributions were made by the Group in the year (1995: £Nil).

SUPPLIER PAYMENTS POLICY

It is Group policy to develop long term relationships with its suppliers, which includes agreeing payment practices with all suppliers. The Group policy is to abide by such practices, which vary from supplier to supplier, at all times.

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 Meeting for the Company's Annual General Meeting is set out at the back of these accounts.

EXPLANATION OF RESOLUTIONS TO BE PROPOSED AT THE ANNUAL GENERAL MEETING

You will find the notice of the Annual General Meeting set out on pages 42 to 44 of this document.

In addition to the ordinary business of the Annual General Meeting, the Directors are proposing a number of resolutions as special business.

Resolution 8, which is an Ordinary Resolution, will if passed, authorise the Directors to allot shares in the Company with an aggregate nominal value of up to £1,410,450. This amount represents approximately 33 per cent. of the ordinary share capital of the Company in issue at the date of the notice of the Annual General Meeting. The authority will last until the earlier of the Annual General Meeting of the Company to be held in 1998 or the expiry of 15 months from March 26th, 1997.

Although the Directors have no present intention of making any material issue of shares without first seeking the approval of shareholders, they consider that the authority to allot, which is consistent with applicable investor protection committee guidelines, offers flexibility to the Company.

Resolution 9, which is a Special Resolution, and which is conditional upon the passing of Resolution 8, will if passed, empower the Directors to dis-apply statutory pre-emption rights in relation to the issue of the new shares. The dis-application will cover issues of shares in connection with (i) rights issues or open offers made on normal terms, (ii) share option schemes of the Company and (iii) limited cash placings of shares with an aggregate nominal value of up to £211,568 (representing approximately 5 per cent. of the Company's issued ordinary share capital at the date of the notice of the Annual General Meeting).

This authority will last until the earlier of the Annual General Meeting of the Company to be held in 1998 or the expiry of 15 months from February 24th, 1997.

The Directors consider that the dis-application of pre-emption rights, which is in accordance with applicable investor protection committee guidelines, is in the best interests of the shareholders of the Company and recommend shareholders to vote in favour of Resolution 9.

Resolutions 10, 11, 12, 13 and 14, all of which are Ordinary Resolutions, will, if passed, adopt the new share schemes of the Company, details of which are set out in the circular accompanying this document.

Resolutions 15 and 16, which are Ordinary Resolutions, will, if passed, amend the terms of the existing Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme. Details of the amendments are set out in the circular accompanying this document.

DIRECTORS' REPORT

NOTIFICATION OF A DIRECTORS' RESOLUTION RELATING TO THE CREST SYSTEM

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), that, on Friday January 24th, 1997, the Company resolved by a resolution of its Directors ("Directors' Resolution") that title to the ordinary shares of 25 pence each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The Directors' Resolution became effective immediately.

The effect of the Directors' Resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares enter the CREST system.

Shareholders should also note that, under the Regulations, they have the right by ordinary resolution:

- if the permission of the Operator of the system, CRESTCo Limited, has not yet been given to the Shares concerned becoming transferable by means of the CREST system, to resolve that the Directors' Resolution shall cease to have effect; and
- once the permission of the Operator of the system, CRESTCo Limited, has been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors of the Company shall take the necessary steps to ensure that title to the shares concerned shall cease to be transferable by means of the CREST system and that the Directors' Resolution shall cease to have effect.

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

David J Greene F.C.A.
Group Finance Director
February 24th, 1997.

REPORT OF THE REMUNERATION COMMITTEE

INTRODUCTION

A Remuneration Committee was formed following the appointment of Mr Hugh William Whitbread on August 28th, 1996 and comprises both Non-Executive Directors as well as the Executive Chairman Mr Peter Eyles.

As explained on page 18, the Company did not have sufficient Non-Executive Directors to establish a Remuneration Committee in full compliance with the provisions of Section A of the best practice provisions annexed to the London Stock Exchange Listing rules. However, following the appointment of Mr Robin Privett (see Chairman's Statement) as our third Non-Executive Director, he will replace Mr Eyles on the Committee.

REMUNERATION POLICY

The Committee is responsible for the policies in respect of Directors remuneration, including the setting of appropriate performance targets and in framing such policies the Remuneration Committee gives full consideration to Section B of the best practice provisions. The current remuneration policy for Executive Directors has been designed to reward competitively, relative to other similar companies, so as to attract and retain quality executives who are expected to perform at the highest levels.

The remuneration arrangements incude basic salary and benefits, together with commission entitlements for both Mr Eyles and Mr Greene. These entitlements provide for a bonus based upon growth in earnings per share.

REMUNERATION AND BENEFITS

	Executive Directors					Non-executive Directors	
£000	Peter G Eyles	David J Greene	Charles Gaunt	Mike Jourdain	Dermot Kelly	Neil List	Hugh W Whitbread
1996							
Basic Salary	65	48	13	11	-	4	4
Commission entitlement	-	-	-	-	-	-	-
Benefits	5	2	4	3	-	-	-
Total	70	50	17	14	-	4	4
Pension contributions	7	5	2	1	-	-	-
1995							
Basic Salary	10	10	-	-	-	-	-
Benefits	-	-	-	-	-	-	-
*Remuneration as General manager**	-	-	-	-	2	-	-
*Compensation for loss of office**	-	-	-	-	21	-	-
Total	10	10	-	-	23	-	-
Pension contributions	-	-	-	-	-	-	-

**paid by the subsidiary undertaking.*

The above table includes remuneration for Directors who held office for only part of the year.

The main benefits available to Directors consists of company cars, petrol, private medical insurance and life assurance.

REPORT OF THE REMUNERATION COMMITTEE

DIRECTORS' INTERESTS

The Directors' beneficial, including family, interests in the ordinary shares of the Company at December 31st, 1996 were as follows:

	Holdings of Ordinary Shares	
	31st December 1996	1st January 1996*
Peter G Eyles	**59,599**	25,000
David J Greene	**36,128**	20,000
Charles Gaunt	-	-
Mike Jourdain	-	-
Non Executive		
Neil List	-	-
Hugh William Whitbread	**30,000**	-

** or date appointed where later*

During the period from January 1st, 1997 to February 24th, 1997, there were no changes in the interests held by the Directors.

SERVICE CONTRACTS

The board have considered and adopted the recommendation put forward in the Greenbury Report that the notice periods for executive Directors should be one year or less.

Until August 28th, 1996, both Mr Eyles and Mr Greene had consultancy agreements with the company. These were terminated on this date and replaced by service contracts, for an initial period of two years, and which are terminable by the Company giving not less than 12 months' notice. The contracts provide for fixed salaries together with a commission entitlement based upon growth in earnings per share.

Mr Gaunt and Mr Jourdain have service contracts which are terminable by the Company giving not less than 6 months' notice.

There is no long term incentive scheme in operation other than the commission entitlements referred to above.

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

PENSIONS

As discussed in Note 22 to the accounts the Company is in process of establishing a UK defined contribution pension scheme. Under the rules of the scheme contributions will be payable for the Executive Directors and certain senior management from their date of employment or August 28th, 1996 whichever is the latest. The pension costs noted above reflect such accrued pension contributions.

REPORT OF THE REMUNERATION COMMITTEE

SHARE SCHEMES

Executive Share Options

In July 1995, the Company adopted an Executive Share Option Scheme which was formally approved by the Board. The following options have been granted:

	Granted	Exercise Price
Peter G. Eyles	288,000	125.5p
David J. Greene	192,000	125.5p

The above options are only exercisable if growth in earnings per share of the Group over a three year period exceed the growth in earnings per share of at least 60% of the companies listed daily in the 'Leisure and Hotels' section of the Financial Times.

The market price of the ordinary shares at December 31st, 1996 was 137.5p and the range during the year under review was 108.5p to 137.5p.

No options were exercised or lapsed during the year.

INCENTIVE SCHEMES

As discussed on page 12, a Profit Sharing Scheme and a SAYE Share Option Scheme is proposed for introduction in 1997. Executive Directors will be eligible to participate in both schemes, details of which may be found on pages 43 to 44 of theses accounts.

Hugh William Whitbread

Chairman of the Remuneration Committee

February 24th, 1997

CORPORATE GOVERNANCE

INTRODUCTION

The Board has reviewed the 'Code of Best Practice' (the 'Code') issued by the Cadbury Committee and the 'Best Practice Provisions' set out in the Greenbury Code and agrees with their recommendations. However, the Board considers that it is only since August 28th, 1996, with the acquisition of the six UHG hotels, that the Group is of sufficient size for it to be appropriate to progress towards full compliance with the Code. Except for the areas mentioned below, the Group has been in compliance with the Code during the year ended December 31st, 1996.

The Group appointed its second Non-executive Director on August 28th, 1996 and is in the process of appointing a third. As a consequence, the Company did not, in 1996, have sufficient resources to establish a Nomination or Audit Committee and the whole Board continues to undertake full responsibility for the issues that the aforementioned committees should supervise. However, following the appointment of the third Non-executive Director in 1997, these Committees will be established.

The Board meets regularly and has ultimate responsibility for the management of the Group. The Board comprised two Executives and one Non-executive until the acquisition of the six UHG hotels when two further Executives and one Non-executive were appointed. At this time a Remuneration Committee was established, as discussed on page 15.

All major decisions affecting the Group are made by the Board and there is no formal schedule of matters specifically reserved to it as it does not, at this stage of the Group's development, wish to limit the matters it considers.

INTERNAL FINANCIAL CONTROLS

The Directors recognise that they are responsible for the Group's system of internal financial controls and have reviewed their effectiveness. It should be understood that no practicable level or nature of such controls can provide absolute assurance against material loss or misstatement.

Internal financial controls take many forms but are designed to provide reasonable assurance that assets are safeguarded and that proper, reliable accounting records, reports and other financial data are produced.

The Directors believe that there are a number of ways to contribute to these objectives and the principal methodology adopted and implemented by the Company may be set out under three principal headings:

Analytical Study and Review Procedures

These comprise the setting of detailed budgets and the monthly measurement and evaluation of actual performance against them as well as against performance of the previous year. In addition, comparisons of performance criteria are made with the published norms for the industry.

CORPORATE GOVERNANCE

Proper Division of Duties and Responsibilities

The Directors believe firmly in the importance of a clear organisational structure providing for clearly defined 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. The quality and integrity of the Group's personnel is considered to be of primary importance.

Formal Procedures

The daily operations of the Group and its personnel are subject to a series of set procedures and authority limits designed to ensure that all transactions are recorded on a timely basis and that they are submitted to proper review and approval procedures. To enhance the internal communication and quality of the procedures, as well as adherence thereto, the Directors have prepared and implemented a detailed operating and financial controls manual which became mandatory throughout the Group in 1996.

There are certain specific areas such as investment appraisal and capital expenditure which, currently, are handled directly and exclusively by the Directors.

As explained in the 'Introductory' section above once the Company has appointed its third Non-Executive Director in 1997, an Audit Committee will be formed and will evaluate the creation of an internal audit department. In the meantime, the nature and quality of internal controls will be kept under continual review by the Directors and be re-evaluated at each stage of the Group's future growth.

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, the Directors have adopted the going concern basis in preparing these accounts.

AUDITORS' REVIEW

The auditors, KPMG Audit Plc, have confirmed that, in their opinion, with respect to the Directors' statements on internal financial control on pages 18 and 19 and going concern above, the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which they are aware from their audit work on the accounts - and that the Directors' statement on pages 18 and 19 appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review.

They have carried out their review in accordance with the relevant Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

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.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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.

REPORT OF THE AUDITORS

Report of the Auditors to the Members of Hanover International PLC

We have audited the accounts on pages 23 to 41. We have also examined the amounts disclosed relating to the emoluments, share options and long term incentive scheme interests of the Directors, which form part of the Remuneration Committee report on pages 15 to 17.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on the previous page the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts 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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at December 31st, 1996 and of the profit of the Group for the year then ended have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London February 24th, 1997

FINANCIAL INFORMATION

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended December 31st

	Notes	1996 £000	1995 £000
TURNOVER	2		
- Acquisitions		6,171	-
- Continuing operations		2,694	1,098
		8,865	1,098
COST OF SALES	3	(2,725)	(341)
GROSS PROFIT		6,140	757
ADMINISTRATIVE EXPENSES	3	(4,503)	(663)
OPERATING PROFIT			
- Acquisitions		1,468	-
- Continuing operations		169	94
		1,637	94
Net interest payable	6	(780)	(41)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	857	53
TAXATION	7	(85)	-
RETAINED PROFIT FOR THE FINANCIAL YEAR	17	772	53
EARNINGS PER SHARE	9	11.7p	10.0p
FULLY DILUTED EARNINGS PER SHARE	9	10.2p	4.3p

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

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS

BALANCE SHEETS

as at December 31st

	Notes	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
FIXED ASSETS					
Tangible assets	10	46,646	4,398	83	8
Investments	11	-	-	2,855	2,162
		46,646	4,398	2,938	2,170
CURRENT ASSETS					
Stocks	12	196	53	-	-
Debtors	13	2,033	130	18,758	114
Cash at bank and in hand		2,513	271	759	110
		4,742	454	19,517	224
CURRENT LIABILITIES: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Creditors	14	(4,073)	(462)	(616)	(58)
Loans and borrowings	15	(1,861)	(91)	(19)	-
		(5,934)	(553)	(635)	(58)
NET CURRENT (LIABILITIES)/ASSETS		(1,192)	(99)	18,882	166
TOTAL ASSETS LESS CURRENT LIABILITIES		45,454	4,299	21,820	2,336
LIABILITIES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Creditors	14	(146)	(91)	-	-
Loans and borrowings	15	(22,389)	(1,452)	(33)	-
Convertible Loan Note	15	(2,000)	-	(2,000)	-
		(24,535)	(1,543)	(2,033)	-
NET ASSETS		20,919	2,756	19,787	2,336
CAPITAL AND RESERVES					
Called up share capital					
- ordinary shares	16	4,272	263	4,272	263
- preference shares	16	-	350	-	350
		4,272	613	4,272	613
Share premium account	17	14,844	1,050	14,844	1,050
Other reserves	17	1,048	1,040	690	690
Profit and loss account	17	755	53	(19)	(17)
SHAREHOLDERS' FUNDS					
Equity - ordinary shares		20,919	1,356	19,787	936
Non equity - preference shares		-	1,400	-	1,400
		20,919	2,756	19,787	2,336

Approved by the Board on February 24th, 1997 and signed on its behalf by:

Peter G. Eyles

David J. Greene F.C.A.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31st

	Note	1996 £000	1995 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES			
Operating profit		1,637	94
Depreciation of tangible fixed assets		222	39
Amortisation of Government grants		(16)	(5)
(Profit) on disposal of fixed assets and assets written off		(29)	-
(Increase) in stock		(104)	(26)
(Increase)/decrease in debtors		(837)	77
Increase in creditors		2,726	3
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,599	182
CASH FLOW STATEMENT			
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,599	182
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	20	(553)	(41)
TAXATION		-	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	20	(40,145)	(17)
ACQUISITIONS AND DISPOSALS	20	(436)	(275)
NET CASH INFLOW BEFORE FINANCING AND MANAGEMENT OF LIQUID RESOURCES		(37,535)	(151)
MANAGEMENT OF LIQUID RESOURCES		-	-
FINANCING	20	39,759	422
NET INCREASE IN CASH		2,224	271
RECONCILIATION OF NET CASH FLOW TO NET MOVEMENT IN NET DEBT:			
Increase in cash for the period		2,224	271
Loans and finance leases acquired with subsidiary		-	(1,543)
Cash inflow from increase in net debt and lease financing		(24,506)	-
New finance leases		(220)	-
Foreign exchange difference		36	-
NET INCREASE IN NET DEBT		(22,466)	(1,272)
Net debt at January 1st		(1,272)	-
Net debt at December 31st		(23,738)	(1,272)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended December 31st

	Note	1996 £000	1995 £000
Profit for the financial year	17	772	53
Foreign exchange difference	17	(70)	-
Total recognised gains and losses for the year		702	53

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the year ended December 31st

	Note	1996 £000	1995 £000
Retained profit for the period	17	772	53
Foreign exchange difference	17	(70)	-
New share capital subscribed		18,149	2,450
Share issue costs	17	(696)	(97)
Capital reserve arising on acquisition	17	8	350
Net increase in shareholders funds		18,163	2,756
Opening shareholders' funds		2,756	-
Closing shareholders' funds		20,919	2,756

NOTES TO THE ACCOUNTS

1. Accounting policies

The Company has adopted the following accounting policies 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 and in accordance with the provisions of the Companies Act 1985 and with applicable accounting standards.

Following the issue of Financial Reporting Standard 8 (Related Party Transactions), disclosures in respect of such transactions have been presented in Note 23.

Presentational changes

During 1996 FRS 1 (Cash Flow Statements) was revised. The cash flow statement presented on page 25, and its accompanying notes, has consequently been prepared in accordance with this revised standard.

Basis of consolidation

The Group accounts consolidate the accounts of Hanover International PLC and its subsidiary undertakings, all of which are made up to December 31st, 1996. 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. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the aggregate of the fair value of the separable net assets acquired) is written off against reserves on acquisition or capitalised and amortised through the profit and loss account over the Directors' estimate of its useful life. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited directly to reserves.

In the Company's accounts, investment in subsidiary undertakings are stated at cost less provision for permanent diminution in value. 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 8 to these accounts.

Turnover

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

Foreign currencies

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

NOTES TO THE ACCOUNTS (CONTINUED)

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

Fixed assets and depreciation

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

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

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

Taxation

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

Government grants

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

Stocks

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

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

During the year, the Company's subsidary undertaking, The Imperial Hotel (Cork) Limited, operated a defined contribution pension scheme. The costs of this scheme are charged to the profit and loss account in the period to which they relate.

NOTES TO THE ACCOUNTS (CONTINUED)

2. Segmental Information

All third party incomes and costs are derived from the provision of hotel accommodation and related services in the UK and the Republic of Ireland. Overhead costs relating to headquarters are allocated to the individual hotels.

GEOGRAPHICAL ANALYSIS	Turnover		Profit Before Tax	
	1996	1995	1996	1995
	£000	£000	£000	£000
- *UK*	6,171	-	562	(63)
- *Republic of Ireland*	2,694	1,098	295	116
	8,865	1,098	857	53

Segmental profit before tax excludes inter-Group charges.

All net assets are held in the UK and the Republic of Ireland.

3. Profit on Ordinary Activities Before Taxation

This is stated after charging:

	1996	1995
	£000	£000
Depreciation	222	39
less amortisation of Government grant	(16)	(5)
	206	34
Rentals payable under operating leases		
- *Land and buildings*	60	25
- *Other*	10	-

In relation to acquisitions, the total figures for cost of sales and administrative expenses in 1996 include £1,953,000 and £2,749,000 respectively.

The remuneration of the Company's auditors and its associates for the year ended December 31st, 1996 for statutory audit work was £71,000 (1995: £20,000) including £35,000 (1995: £15,000) for the Company. In addition £209,500 (1995: £15,000) was paid to the auditors and its associates for non-audit work, primarily in respect of corporate activities and taxation work.

NOTES TO THE ACCOUNTS (CONTINUED)

4. Remuneration of Directors

The Company has provided fuller disclosure on the remuneration of Directors on pages 15 to 17. The following information is provided for the purposes of compliance with the Companies Act. The total remuneration, as defined by the Companies Act, of the Directors for the year was £158,897 (1995: £42,833)

The emoluments of the Chairman, the highest paid UK Director, excluding pension contributions, were £70,078 (1995: £10,400).

Pension contributions of £14,900 (1995: £Nil) were provided for in the accounts in respect of the Directors, including £7,500 in respect of the Chairman, the highest paid UK Director (1995: £Nil). These contributions will be made once the pension scheme is implemented (see Note 22). No amounts were paid this or last year to past Directors relating to pensions.

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

	1996	1995
	Number	Number
£0	**-**	3
£1-£5,000	**2**	1
£5,001-£10,000	**-**	-
£10,001-£15,000	**1**	2
£15,001-£20,000	**1**	-
£50,001-£55,000	**1**	-
£70,001-£75,000	**1**	-

5. Staff Numbers and Costs

The average number of persons employed by the Group, including employed Directors, during the year was 762 (1995: 92). Of the persons employed, 413 were full time and 349 were part time.

The total payroll costs comprised the following:

	1996	1995
	£000	£000
Wages and salaries	**2,719**	343
Social security costs	**201**	37
*Other pension costs**	**60**	11
	2,980	391

*Included within pension costs is an accrual for £27,000 for the Group's UK pension scheme which is currently being implemented, see Note 22.

NOTES TO THE ACCOUNTS (CONTINUED)

6. Interest

	1996	1995
	£000	£000
Interest receivable and similar income	41	5
Interest payable and similar charges:		
- On bank loans and overdrafts	(765)	(46)
- On Convertabile Loan Note	(53)	-
- On finance leases	(3)	-
	(780)	(41)

7. Taxation

	1996	1995
	£000	£000
Tax on profit on ordinary activities		
Deferred Tax	85	-
	85	-

There is no charge to UK Corporation tax in the year (1995: £Nil) due to the availability of capital allowances and losses arising on certain of the Company's subsidiary undertakings. In addition, there is no net overseas tax arising in the year (1995:£Nil).

8. Company profit and loss account

In accordance with the exemption granted under the Companies Act 1985 a separate profit and loss account for the Company has not been presented. The Company's loss for the year, determined in accordance with the Act, was £2,000 (1995: loss £17,000)

9. Earnings per share

Earnings per ordinary share is calculated on Group profit after taxation of £772,000 (1995: £53,000) and on 6,570,834 ordinary shares (1995: 530,813) being the weighted average number of ordinary shares in issue during the period.

Fully diluted earnings per share has been calculated on the assumption that all outstanding options and conversion rights were exercised from the date of issue.

NOTES TO THE ACCOUNTS (CONTINUED)

10. Tangible Fixed Assets

£000	Land & Buildings	Furniture Fixtures and Fixings	Computer and other Office Equipment	Motor Vehicles	Total
GROUP					
Cost					
At January 1st, 1996	4,001	429	-	7	4,437
Additions	39,950	2,321	177	184	42,632
Disposals	(40)	-	-	-	(40)
Exchange differences	(111)	(12)	-	-	(123)
At December 31st, 1996	43,800	2,738	177	191	46,906
Depreciation					
At January 1st, 1996	-	38	-	1	39
Charge for the year	19	179	7	17	222
Exchange differences	-	(1)	-	-	(1)
At December 31st, 1996	19	216	7	18	260
Net Book Value at December 31st, 1996	**43,781**	**2,522**	**170**	**173**	**46,646**
Net Book Value at December 31st, 1995	4,001	391	-	6	4,398
COMPANY					
Cost					
At January 1st, 1996	-	9	-	-	9
Additions	-	-	-	83	83
At December 31st, 1996	-	9	-	83	92
Depreciation					
At January 1st, 1996	-	1	-	-	1
Charge for the year	-	1	-	7	8
At December 31st, 1996	-	2	-	7	9
Net Book Value at December 31st, 1996	**-**	**7**	**-**	**76**	**83**
Net Book Value at December 31st, 1995	-	8	-	-	8

NOTES TO THE ACCOUNTS (CONTINUED)

10. Tangible fixed assets (continued)

£000	Land & Buildings	Furniture Fixtures and Fixings	Computer and other Office Equipment	Motor Vehicles	Total
The amounts above include the following in respect of capitalised finance leases					
GROUP					
Cost at December 31st, 1996	-	23	41	165	229
Accumulated depreciation	-	1	2	35	38
Depreciation charge for the year	-	1	2	35	38
COMPANY					
Cost at December 31st, 1996	-	-	-	81	81
Accumulated depreciation	-	-	-	7	7
Depreciation charge for the year	-	-	-	7	7

Land and buildings includes freehold and long leasehold at cost or fair value at acquisition with net book values at December 31st, 1996 of £39,910,000 and £3,871,000 respectively.

Included above are non-depreciated assets in respect of land and buildings with net book value of £43,760,000 at December 31st, 1996. The Company is in the process of acquiring the freehold title for the Daventry Hotel, which is currently disclosed within long leasehold above.

During the year the Company acquired a portfolio of hotel assets. The cost of these assets are included as additions in the above, and further details of the acquisition are set out in Note 19.

No commitments for capital expenditure exist at the balance sheet date.

NOTES TO THE ACCOUNTS (CONTINUED)

11. Fixed asset investment

COMPANY	Investment £000
Cost	
At January 1st, 1996	2,162
Additions	693
At December 31st, 1996	2,855

The subsidiary undertakings all of which are wholly owned, contributing to the Group's results at December 31st, 1996 were as follows:

	Country of Incorporation and Principal Place of Operation	Issued Ordinary Share Capital £
The Imperial Hotel (Cork) Limited	Republic of Ireland	92,200
Hanover International Hotels Limited	UK	2
Hanover International Hotels Management (Daventry) Limited	UK	20,000
Hanover International Hotels Management (Reading) Limited	UK	20,000

All of the above subsidiaries are involved in the provision of hotel accommodation and related services.

12. Stocks

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

13. Debtors: amounts due within one year

	Group		Company	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Trade debtors	**1,221**	96	**4**	-
Prepayments and accrued income	**583**	34	**5**	4
Amounts due from subsidiary undertaking	**-**	-	**18,746**	110
Other debtors	**229**	-	**3**	-
	2,033	130	**18,758**	114

NOTES TO THE ACCOUNTS (CONTINUED)

14. Creditors

Amounts falling due within one year:

	Group		Company	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Trade creditors	**1,334**	232	**104**	-
Amounts due to subsidiary undertakings	**-**	-	**416**	-
VAT payable	**564**	43	**-**	-
PAYE and National Insurance	**142**	38	**8**	-
Accruals and deferred income	**1,762**	149	**88**	58
Other creditors	**271**	-	**-**	-
	4,073	462	**616**	58

Amounts falling due after more than one year:

	Group		Company	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Accruals and deferred income	**34**	64	**-**	-
Provision for deferred taxation	**112**	27	**-**	-
	146	91	**-**	-

NOTES TO THE ACCOUNTS (CONTINUED)

15. Loans and Borrowings

	Group		Company	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Due within one year:				
Bank loans and overdrafts	**1,798**	91	**-**	-
Obligations under finance leases	**63**	-	**19**	-
	1,861	91	**19**	-
Due after more than one year:				
Bank loans and overdrafts	**22,285**	1,452	**-**	-
Obligations under finance leases	**104**	-	**33**	-
	22,389	1,452	**33**	-
Convertible loan note	**2,000**	-	**2,000**	-
Repayable				
- In one year or less	**1,861**	91	**19**	-
- Between one and two years	**2,664**	182	**19**	-
- Between two and five years	**21,194**	545	**2,014**	-
- In later years	**531**	725	**-**	-
	26,250	1,543	**2,052**	-

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

Type	**£000**	**Rate**	**Repayment profile**
Barclays term loan †	22,650	LIBOR + margin (margin 1⅝% - 2⅝%)	3 monthly instalments over 5 years commencing August 28th, 1996 with a final repayment of £12 million due on August 28th, 2001.
Bank of Ireland term loan ‡	1,411	DIBOR + 1.75%	3 monthly instalments over 8½ years, commencing August 1st, 1996
Finance Leases	167		Repayable in equal monthly instalments
Overdrafts	22		Repayable on demand
Total bank loans and overdrafts	24,250		
*Convertible loan note**	2,000	LIBOR + 1% Payable ½ yearly in arrears commencing on second anniversary.	Redemption date of August 28th, 2001, with early redemption option available to the Company. Redemption at a premium of 17½ % of the par value.

† Secured by way of a fixed and floating charge over the assets and undertakings of Hanover International Hotels Limited.
‡ Secured by way of a first charge on The Imperial Hotel in Cork.

* Holder has the option to convert into ordinary shares on six monthly conversion dates commencing August 28th, 1998. The principal sum plus any unpaid interest will be converted into ordinary shares at the average mid-market price over the ten days prior to conversion subject to a minimum price of 124p.

NOTES TO THE ACCOUNTS (CONTINUED)

16. Called up share capital

	1996 £000	1995 £000	1996 Number 000	1995 Number 000
Authorised				
Ordinary shares of 25p each	**6,250**	1,250	**25,000**	5,000
Redeemable preference shares of £1 each	-	50	-	50
Convertible redeemable preference shares of 25p each	-	350	-	1,400
	6,250	1,650	**25,000**	6,450
Allotted, called up and fully paid				
Ordinary shares of 25p each	**4,272**	263	**17,088**	1,052
Convertible redeemable preference shares of 25p each	-	350	-	1,400
	4,272	613	**17,088**	2,452

On August 28th, 1996, 14,636,703 of 25p ordinary shares were issued and placed on the London Stock Exchange at an issue price of 124p to part finance the acquisition of the six UHG hotels (see Note 20). The difference between the issue price and the nominal value has been taken to the share premium account as shown in Note 17.

During the year options have been granted to the directors to subscribe for 480,000 ordinary shares as discussed in the Directors report.

During 1996, Bridgend Group PLC, the holders of all 1,400,000 convertible redeemable preference shares at the previous period end, exercised their conversion right and converted these shares into ordinary shares on a one for one basis.

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

NOTES TO THE ACCOUNTS (CONTINUED)

17. Reserves

GROUP	Share premium £000	Merger reserve £000	Capital reserve £000	Profit and loss account £000	Total £000
Balance at January 1st, 1996	1,050	690	350	53	2,143
Issue of new ordinary shares	14,490	-	-	-	14,490
Issue expenses	(696)	-	-	-	(696)
Other	-	-	8	-	8
Exchange difference	-	-	-	(70)	(70)
Retained profit for the year	-	-	-	772	772
Balance at December 31st, 1996	**14,844**	**690**	**358**	**755**	**16,647**

COMPANY	Share premium £000	Merger reserve £000	Capital reserve £000	Profit and loss account £000	Total £000
Balance at January 1st, 1996	1,050	690	-	(17)	1,723
Issue of new ordinary shares	14,490	-	-	-	14,490
Issue expenses	(696)	-	-	-	(696)
Retained profit for the year	-	-	-	(2)	(2)
Balance at December 31st, 1996	**14,844**	**690**	**-**	**(19)**	**15,515**

The cumulative amount of negative goodwill credited to reserves is £358,000 (1995: £350,000).

NOTES TO THE ACCOUNTS (CONTINUED)

18. Deferred taxation

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Amounts provided for	112	27	-	-

There are no material amounts unprovided at the year end (1995:£Nil).

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

19. Acquisitions

During the year the Company acquired a portfolio of six hotel assets. The acquisition may be summarised as follows:

ASSETS ACQUIRED:	£000
Hotels assets	40,000
Acquisition costs	1,500
Addition to tangible fixed assets (Note 10)	41,500

CONSIDERATION	
Hotel assets satisfied by:	
*1,612,903 Consideration shares * (Note 16)*	2,000
Issue of convertible loan note (Note 15)	2,000
Cash - financed by:	
- *Barclays term loan (Note 15)*	23,000
- *Net proceeds from issue and placing of 12,862,510 shares (Note 16)*	13,000
	40,000
Acquisition costs satisfied by:	
Cash	1,300
*Issue of 161,290 Consideration shares * (Note 16)*	200
Total consideration	41,500

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

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

NOTES TO THE ACCOUNTS (CONTINUED)

The net assets acquired were as follows:

	£000
Trade debtors	1,107
Cash at bank	78
Trade creditors	(663)
	522
Satisfied by cash	522

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

20. Analysis of Headings within the Cash Flow Statement

	1996 £000	1995 £000
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	41	5
Interest paid	(591)	(46)
Interest element of finance lease payments	(3)	-
	(553)	(41)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(40,214)	(17)
Sale of tangible fixed assets	69	-
	(40,145)	(17)
ACQUISITIONS AND DISPOSALS		
Purchase of subsidiary undertakings	(514)	(262)
Cash at bank and in hand acquired	78	20
Bank overdraft acquired	-	(33)
	(436)	(275)
FINANCING		
Issue of share capital net of expenses	15,253	453
Proceeds from issue of Convertible Loan Notes	2,000	-
Capital element of finance lease rental payments	(53)	(31)
Increase in loans	22,559	-
	39,759	422

NOTES TO THE ACCOUNTS (CONTINUED)

RECONCILIATION OF MOVEMENT ON NET DEBT	At January 1st, 1996	Cash flow	Non-cash movement	Exchange adjustment	At December 31st, 1996
	£000	£000	£000	£000	£000
Cash at bank and in hand	271	2,246	-	(4)	2,513
Overdraft	-	(22)	-	-	(22)
	271	2,224	-	(4)	2,491
Debt due after more than one year	(1,452)	(22,873)	-	40	(24,285)
Debt due within one year	(91)	(1,686)	-	-	(1,777)
Finance leases	-	53	(220)	-	(167)
	(1,272)	(22,282)	(220)	36	(23,738)

21. Operating Lease Commitments

The commitments of the Group (Company £Nil (1995: £Nil)) in respect of expenditure in the year ahead arising from operating leases is set out below:

	1996		1995	
	Land and Buildings	Other	Land and Buildings	Other
Committed expenditure arising from operating leases expiring:	£000	£000	£000	£000
- within one year	-	18	-	-
- between two and five years	-	59	7	-
- more than five years	60	-	61	-

22. Pensions

The Company's subsidiary undertaking, The Imperial Hotel (Cork) Limited, currently operates a defined contribution pension scheme. Pension benefits are funded over the relevant employees period of service by way of contribution to an insured fund. Annual contributions are charged to the profit and loss account in the period to which they relate.

The Group is in the process of establishing a defined contribution pension scheme for all of its eligible UK employees. Under the rules of the proposed scheme, contributions will be payable for certain senior management from the date of their employment, commencing at various dates throughout 1996. The Company has provided £27,100 for the year to December 31st, 1996 in respect of these contributions.

The pension charge for the year was £60,000 (1995:£11,000).

23. Related party transactions

Neil List, a Non-Executive Director of the Company, is also the Chairman of Bridgend Group PLC ('Bridgend'). During 1995 the Company purchased the assets and liabilities of The Imperial Hotel (Cork) Limited from Bridgend, the consideration for which was part satisfied by the issue, credited as fully paid, of 500,000 ordinary shares and 1,400,000 convertible preference shares. On August 28th, 1996, Bridgend exercised their conversion rights, and converted all of their holding. At December 31st, 1996 Bridgend's interest in the ordinary shares of the Company was 530,000 representing 3.1% of the issued share capital.

NOTICE OF ANNUAL GENERAL MEETING

HANOVER INTERNATIONAL PLC

(REGISTERED IN ENGLAND AND WALES - NO. 3043860)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held on March 26th, 1997 at 11.00 a.m. at UBS Limited, 100 Liverpool Street, London, EC2M 2RH for the following purposes:

As ordinary business:

1. To receive the Report of the Directors and the Accounts of the Company for the period ended December 31st, 1996 together with the report of the Auditors thereon;
2. To re-elect Mr C.R. Gaunt who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
3. To re-elect Mr M.E. Jourdain who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
4. To re-elect Mr H.W. Whitbread who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
5. To re-elect Mr R. Privett who will have been appointed as a Director of the Company and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;
6. To re-elect Mr. D.J. Greene who will be retiring by rotation in accordance with the Articles of Association of the Company at the Annual General Meeting;
7. To consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution:

   That KPMG Audit Plc be and are hereby appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.

As special business:

8. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

   That in substitution for any existing power under Section 80 of the Companies Act 1985 (as amended and in force from time to time) (the "Act") but without prejudice to the exercise of any such power prior to the date hereof, the Directors be are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £1,410,450, such authority to expire at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 1998 and 15 months from the date of the passing of this resolution, but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred herein had not expired.

9. To consider and, if thought fit, to pass the following Resolution as a Special Resolution:

   That subject to the passing of the Ordinary Resolution numbered 8 set out in this notice, in substitution for any existing power under Section 95 of the Companies Act 1985 (as amended and in force from time to time) (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and are hereby empowered and pursuant to Section 95(1) of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 8 above as if Section 89(1) did not apply to any such allotment provided that this power shall be limited to:

NOTICE OF ANNUAL GENERAL MEETING

a) The allotment of equity securities in connection with a rights issue or open offer in favour of shareholders where the equity securities for which the shareholders are entitled to subscribe: are proportionate (as nearly as may be) to the respective number of ordinary shares held by them, subject to such exclusions or other arrangements that the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under any law or requirement of any regulatory authority;

b) The allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and

c) The allotment for cash (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £211,568 (equivalent to approximately 5% of the Company's issued ordinary share capital at the date of the notice of this resolution);

and shall expire on the earliest of the conclusion of the Annual General Meeting of the Company to be held in 1998 and 15 months from the date of the passing of this Resolution, except that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

10. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 UK Savings Related Share Option Scheme, the provisions of which are summarised in Appendix 1 to the letter to members of the Company dated February 24th, 1997, and to be constituted by the rules drafts of which produced to this Meeting and for the purpose of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

11. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 Ireland Savings Related Share Option Scheme, the provisions of which are summarised in Appendix 2 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the rules the drafts of which are produced to this Meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

12. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 UK Profit Sharing Scheme, the provisions of which are summarised in Appendix 3 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed and Rules produced in draft to this Meeting and for the purposes of identification initialled by the Chairman, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

13. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 Ireland Profit Sharing Scheme, the provisions of which are summarised in Appendix 4 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed and Rules the drafts of which are produced to this Meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

NOTICE OF ANNUAL GENERAL MEETING

14. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution :

a) That the Hanover International Employee Trust ("the Trust"), the provisions of which are summarised in Appendix 5 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed a draft of which is produced to this meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby approved and the Directors be and are hereby authorised to cause the Company to enter into such Trust Deed in the form of such draft with such modifications (if any) as they may consider necessary or expedient for implementing and giving effect to the same; and

b) That the Directors be and are hereby authorised to vote and to be counted in a quorum at any meeting of the Directors at which any matter connected with the Trust is under consideration notwithstanding that they may be interested in the same in any present or proposed capacity whatsoever and that this Resolution shall operate so far as is necessary by way of suspension and relaxation of the prohibition on interested Directors voting contained in the Articles of Association of the Company provided that no Director may vote or be counted in a quorum in the consideration of any matter concerning his individual rights of participation in any employee share scheme operated in conjunction with the said Trust.

15. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That rule 2.3 of the Rules of the Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme be deleted.

16. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the last paragraph of Rule 11.3 of the Rules of the Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme be deleted and substituted as follows:

"the Company shall within 28 days after the later of the date of receipt of a notice exercising an Option and (if applicable) the receipt of the Auditor's confirmation under Rule 9.1 allot or procure the transfer (or a combination of both) of the shares in respect of which such Option has been exercised to the Grantee, and deliver to the Grantee, or procure the delivery of to the Grantee, a definitive share certificate in respect thereof."

Registered Office:
Hanover House, Pingewood, Reading,
Berkshire, RG30 3UN

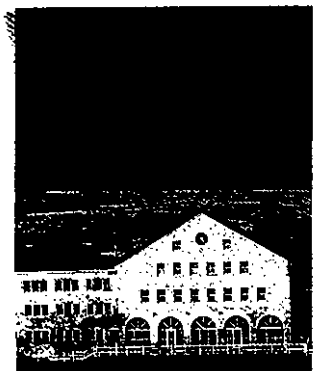
By Order of the Board
David J. Greene F.C.A.
Secretary

Dated February 24th, 1997

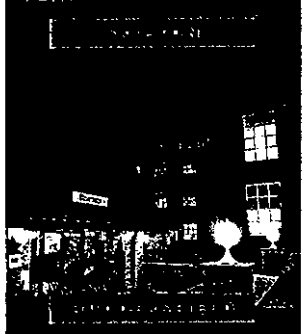
Notes:

1. A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. To be effective, the enclosed form of proxy together with the Power of Attorney or authority (if any) under which it is signed or a notarially certified copy of such authority must be deposited with the Company's Registrars, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for the Meeting.
3. The Register of Directors' interests in the shares of the Company and copies of the service agreements between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 9:30am until the conclusion of the Meeting.
4. A copy of the rules of the Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme will be available for inspection at the registered office of the Company, Hanover House, Pingewood, Reading, Berkshire, RG30 3UN from the date hereof until the conclusion of the Annual General Meeting.

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS



Tel: 01756 700100
Fax: 01756 700107



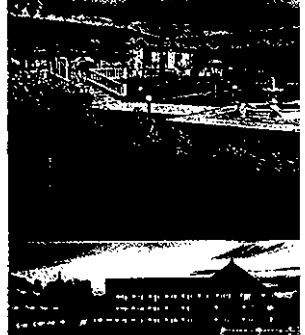
Tel: 01484 607788
Fax: 01484 607961

In the increasingly competitive world of high class hotels, Hanover International are rapidly establishing a fine reputation for excellence. Situated in attractive yet easily accessible locations, the hotels blend the very best of traditional care with the most modern comprehensive business and lesiure facilities.

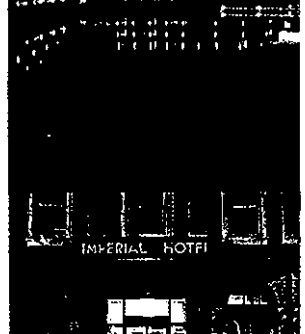
Each of Hanover International's hotels has its own character, while sharing common standards of excellence. That is why their customers are learning that wherever they see the name Hanover International, they are guaranteed a consistency of hospitality, enhanced service, diverse amenities and excellent value for money.

Tel: 01335 346666
Fax: 01335 346549

Tel: 01455 631122
Fax: 01455 634536



Tel: 01327 301777
Fax: 01327 706313



Tel: 0118 950 0885
Fax: 0118 939 1996

Tel: ++353 (0)21 274040
Fax: ++353 (0)21 275375

CENTRAL
RESERVATIONS
TEL: 0345 444 123

Designed and produced by
Integer Marketing Communications
Tel: 0181 255 2999

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS

FORM OF PROXY

To be used for the annual General Meeting of the Company to be held on March 26th 1997
I/We (Block Capitals)

_____

_____

_____

being a member, of Hanover International Plc hereby appoint the Chairman of the Meeting or failing him

_____

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at UBS Limited, 100 Liverpool Street, London, EC2M 2RH on March 26th 1997 at 11.00 a.m any adjournment therof on the resolutions set forth in the Notice of Meeting as follows:
I/We require such proxy to vote on the following resolutions as indicated below.

RESOLUTIONS

As ordinary business:

1. To receive the Report of the Directors and the Accounts of the Company for the period ended December 31st, 1996 together with the report of the Auditors thereon;

FOR	AGAINST

2. To re-elect Mr C.R. Gaunt who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;

FOR	AGAINST

3. To re-elect Mr M.E. Jourdain who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;

FOR	AGAINST

4. To re-elect Mr H.W. Whitbread who was appointed as a Director of the Company during the year and will be retiring in accordance with the Articles of Association of the Company at the Annual General Meeting;

FOR	AGAINST

5. To re-elect Mr R. Privett who will have been appointed as a Director of the Company and will be retring in accordance with the Articles of Association of the Company at the Annual General Meeting;

FOR	AGAINST

6. To re-elect Mr. D.J. Greene who will be retiring by rotation in accordance with the Articles of Association of the Company at the Annual General Meeting;

FOR	AGAINST

7. To consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution:

   That KPMG Audit Plc be and are hereby appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.

FOR	AGAINST

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS

FORM OF PROXY

As special business:

8. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That in substitution for any existing power under Section 80 of the Companies Act 1985 (as amended and in force from time to time) (the "Act") but without prejudice to the exercise of any such power prior to the date hereof, the Directors be are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £1,410,450, such authority to expire at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 1998 and 15 months from the date of the passing of this resolution, but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred herein had not expired.

FOR	AGAINST

9. To consider and, if thought fit, to pass the following Resolution as a Special Resolution:

That subject to the passing of the Ordinary Resolution numbered 8 set out in this notice, in substitution for any existing power under Section 95 of the Companies Act 1985 (as amended and in force from time to time) (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and are hereby empowered pursuant to Section 95(1) of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 8 above as if Section 89(1) did not apply to any such allotment provided that this power shall be limited to:

a) The allotment of equity securities in connection with a rights issue or open offer in favour of shareholders where the equity securities for which the shareholders are entitled to subscribe are proportionate (as nearly as may be) to the respective number of ordinary shares held by them, subject to such exclusions or other arrangements that the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under any law or requirement of any regulatory authority;

b) The allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and

c) The allotment for cash (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £211,568 (equivalent to approximately 5% of the Company's issued ordinary share capital at the date of the notice of this resolution);

and shall expire on the earliest of the conclusion of the Annual General Meeting of the Company to be held in 1998 and 15 months from the date of the passing of this Resolution, except that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

FOR	AGAINST

FORM OF PROXY

10. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 UK Savings Related Share Option Scheme, the provisions of which are summarised in Appendix 1 to the letter to members of the Company dated February 24th, 1997, and to be constituted by the rules drafts of which produced to this Meeting and for the purpose of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

FOR	AGAINST

11. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 Ireland Savings Related Share Option Scheme, the provisions of which are summarised in Appendix 2 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the rules the drafts of which are produced to this Meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

FOR	AGAINST

12. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 UK Profit Sharing Scheme, the provisions of which are summarised in Appendix 3 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed and Rules drafts of which are produced in draft to this Meeting and for the purposes of identification initialled by the Chairman, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

FOR	AGAINST

13. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the Hanover International 1997 Ireland Profit Sharing Scheme, the provisions of which are summarised in Appendix 4 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed and Rules the drafts of which are produced to this Meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby adopted and the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

FOR	AGAINST

HANOVER INTERNATIONAL PLC
HOTELS & CLUBS

FORM OF PROXY

14. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution :

a) That the Hanover International Employee Trust ("the Trust"), the provisions of which are summarised in Appendix 5 to the letter to members of the Company dated February 24th, 1997 and to be constituted by the Trust Deed a draft of which is produced to this meeting and for the purposes of identification initialled by the Chairman hereof, be and is hereby approved and the Directors be and are hereby authorised to cause the Company to enter into such Trust Deed in the form of such draft with such modifications (if any) as they may consider necessary or expedient for implementing and giving effect to the same; and

b) That the Directors be and are hereby authorised to vote and to be counted in a quorum at any meeting of the Directors at which any matter connected with the Trust is under consideration notwithstanding that they may be interested in the same in any present or proposed capacity whatsoever and that this Resolution shall operate so far as is necessary by way of suspension and relaxation of the prohibition on interested Directors voting contained in the Articles of Association of the Company provided that no Director may vote or be counted in a quorum in the consideration of any matter concerning his individual rights of participation in any employee share scheme operated in conjunction with the said Trust.

FOR	AGAINST

15. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That rule 2.3 of the Rules of the Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme be deleted.

FOR	AGAINST

16. To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

That the last paragraph of Rule 11.3 of the Rules of the Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme be deleted and substituted as follows:

"the Company shall within 28 days after the later of the date of receipt of a notice exercising an Option and (if applicable) the receipt of the Auditor's confirmation under Rule 9.1 allot or procure the transfer (or a combination of both) of the shares in respect of which such Option has been exercised to the Grantee, and deliver to the Grantee, or procure the delivery of to the Grantee, a definitive share certificate in respect thereof."

FOR	AGAINST

Registered Office:
Hanover House, Pingewood, Reading,
Berkshire, RG30 3UN

By Order of the Board
David J. Greene F.C.A.
Secretary
Dated February 24th, 1997

Notes:

1. A member is entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. To be effective, the enclosed form of proxy together with the Power of Attorney or authority (if any) under which it is signed or a notarially certified copy of such authority must be deposited with the Company's Registrars, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR no later than 11.00am on March 24th, 1997.
3. The Register of Directors' interests in the shares of the Company and copies of the service agreements between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 9:30am until the conclusion of the Meeting.
4. A copy of the rules of the Hanover International PLC Unapproved Discretionary Share Option Scheme will be available for inspection at the registered office of the Company, Hanover House, Pingewood, Reading, Berkshire, RG30 3UN for the date hereof until the conclusion of the Annual General Meeting.

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

If you have sold or transferred all your shares in Hanover International PLC please forward this letter together with the form of proxy enclosed with the Annual Report and Accounts for the year ended 31st December, 1996 to the purchaser or transferee or to the stockbroker, bank or other professional adviser through whom the sale or transfer was effected immediately for transmission to the purchaser or transferee.

HANOVER INTERNATIONAL PLC

(Incorporated in England and Wales with registered number 3043860)

Directors:

Peter G. Eyles *(Executive Chairman)*
David J. Greene *(Group Finance Director)*
Charles R. Gaunt *(Operations Director)*
Michael E. Jourdain *(Projects & Administration Director)*
Hugh W. Whitbread *(Non-executive)*
Neil P. List *(Non-executive)*

Registered Office:

Hanover House
Pingewood
Reading
Berkshire
RG30 3UN

24th February, 1997

To the holders of Ordinary Shares

Dear Shareholder,

EMPLOYEE SHARE SCHEMES

Your Directors consider that employees at all levels should be encouraged to identify their interests with those of the Company's shareholders and that this objective can be furthered by providing means for employees to become shareholders themselves. They have therefore decided, subject to shareholders' approval (and Inland Revenue approval, where relevant), to introduce a number of "all-employee" share schemes for employees in the UK and the Republic of Ireland as well as set up an employee share trust ("employee trust").

For UK employees, it is proposed that a savings related share option scheme and a profit sharing share scheme be introduced for which Inland Revenue approval will also be sought.

Similar schemes are proposed for employees based in the Republic of Ireland although these schemes will operate on a different basis, to take account of the legislation, taxation provisions and best practice in that jurisdiction.

The proposed employee trust will primarily operate in conjunction with the all-employee share schemes and may also be used to hold shares to satisfy options granted under the existing Hanover International PLC 1995 Unapproved Discretionary Share Option Scheme ("discretionary scheme").

Your Directors are also proposing an amendment to one of the rationing limits of the discretionary scheme. The limit in question permits only three per cent of issued ordinary share capital to be used in total under all the Company's employee share schemes over any three year period. The introduction of the proposed "all-employee" share schemes will make the application of this limit no longer feasible and it is therefore proposed that the limit be removed. The discretionary scheme's other overall limits, such as a maximum of five per cent of issued ordinary share capital being issued or issuable pursuant to rights granted under the discretionary scheme in a ten year period and a maximum of ten per cent of issued ordinary share capital being issued or issuable under any employee share scheme of the Company in a ten year period will not be altered. Shares subscribed for by the employee trust which are held to satisfy options granted under the discretionary scheme will be treated as counting towards these limits. Minor amendments will also be required to the discretionary scheme to enable it to operate in conjunction with the employee trust.

Summaries of each of the proposed schemes and the employee trust are set out in the Appendices to this letter. The maximum number of new ordinary shares that have been issued or may be issued under all the employee share schemes or the employee trust in any ten year period is ten per cent of the Company's issued ordinary share capital for the time being.

Resolutions to approve the introduction of the schemes, the employee trust and the amendment of the discretionary scheme will be proposed as Ordinary Resolutions as part of the special business at the forthcoming Annual General Meeting. The text of these resolutions is set out in the Notice convening that meeting which appears at the end of the Annual Report and Accounts.

Your Directors believe that the all-employee share schemes, the employee trust and the amendment of the discretionary scheme will be in the best interests of the Company and its shareholders, and strongly recommend that you vote in favour of the relevant resolutions as they intend to do in respect of their own beneficial holdings currently representing 0.74 per cent of the Company's issued ordinary share capital at the date hereof by making the appropriate entry on the form of proxy before you return it. By doing so, you will not preclude yourself from attending and voting in person at the meeting.

Copies of the draft rules of the proposed schemes, the employee trust (all of which are subject to modification) and the discretionary scheme (including the proposed amendments) will be available for inspection during normal business hours on any weekday (Saturdays and Public Holidays excepted) up to the date of the meeting at offices of Sedgwick Group plc at Sackville House, 142-152 Fenchurch Street, London EC3M 6BN, at the registered office of the Company and also for fifteen minutes prior to the meeting and at the meeting itself.

Yours faithfully,

Peter G. Eyles
EXECUTIVE CHAIRMAN

APPENDIX 1

HANOVER INTERNATIONAL 1997 UK SAVINGS RELATED SHARE OPTION SCHEME

("the UK Savings Related Scheme")

SUMMARY OF THE RULES

1. Constitution and Basis of Operation

The UK Savings Related Scheme will be operated in accordance with the relevant provisions of the Income and Corporation Taxes Act 1988. It will be governed by rules and administered under the direction of the board of directors of the Company ("the Directors"). Eligible employees will be invited to apply for an option to acquire ordinary shares in the Company ("Shares") and contemporaneously to enter into an approved save-as-you-earn ("SAYE") savings contract to make regular savings with a nominated bank or building society. The UK Savings Related Scheme provides for flexibility so that, under the current rules governing savings contracts, a participant may elect to make regular savings for three or five years, subject to the Directors' consenting to such flexibility. At the end of the relevant savings contract, the participant's contributions, together with the tax-free bonus payable, may be used in exercise of his option to acquire Shares at a price fixed when the option is offered.

2. Eligible Employees

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

3. Option Exercise Price

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

4. Grant of Options

(i) Where the Directors decide to issue an invitation to participate in the UK Savings Related Scheme they shall only do so to all eligible employees during the six week periods following:-

(a) the date of approval of the UK Savings Related Scheme by the Inland Revenue; and

(b) subsequently, the announcement of the Company's final and interim results to the London Stock Exchange for any financial period

and at other times following changes to the approved SAYE contract or applicable tax legislation or under exceptional circumstances.

(ii) An employee who applies to participate will normally be granted an option over the number of Shares whose aggregate option exercise price equals as closely as possible the proceeds (including relevant bonus) on completion of the related SAYE contract entered into at that time by the employee, but the maximum aggregate number of Shares to which options relate may be limited by the Directors and applications scaled down accordingly.

(iii) Options will not be transferable and any awards under the UK Savings Related Scheme will be non-pensionable.

5. Limits

(i) The number of unissued Shares over which options may be granted under the UK Savings Related Scheme on any date shall be limited so that the number of Shares issued under any employee share scheme not involving the grant of options, when aggregated with the number of Shares made issuable pursuant to options granted (excluding lapsed options) under the UK Savings Related Scheme and any other employee share option scheme shall not in any ten year period exceed ten per cent of the Company's issued ordinary share capital for the time being.

(ii) The maximum amount that a participant may save under his approved SAYE contract is currently £250 per month.

(iii) No options may be granted after the tenth anniversary of the shareholders' approval of the UK Savings Related Scheme.

6. Exercise of Options

(i) Options may be exercised only out of funds not exceeding the proceeds of the related SAYE contract (inclusive of the relevant bonus), contributions under which must be currently between £5 and £250 per month for either three or five years (as determined by the Directors).

(ii) An option will normally only be exercisable following the completion of savings over three or five years under the SAYE contract. However, earlier exercise is permitted if the participant first reaches age 60; or if he leaves the employment of the Group through death, redundancy, retirement (in some circumstances), injury, disability or the company or undertaking by which he is employed being transferred outside the Group; or in the event of a voluntary winding up, takeover or reconstruction of the Company. In the case of a takeover or reconstruction, options may alternatively be exchanged for options over the acquiring company's shares, but only with the consent of the acquiring company. Whenever an option is exercised before completion of the SAYE contract the exercise of such option is limited to the total of refunded contributions together with any bonus or interest received under the SAYE contract at that time.

7. Rights attaching to Shares

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

8. Variation of Share Capital

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

9. Amendments

(i) The UK Savings Related Scheme may be amended by the Directors provided that no amendment which would be to the advantage of participants may be made without the prior consent of the Company in general meeting to the provisions relating to:

(a) eligibility;

(b) overall limits;

(c) maximum individual entitlement; and

(d) the basis for determining such entitlement and the adjustment thereof following a variation of share capital

except for minor amendments to benefit the administration of the UK Savings Related Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Group.

(ii) Any amendment also requires the approval of the Inland Revenue and no amendment can be made to the UK Savings Related Scheme or the terms of any option to the disadvantage of a participant without his prior consent.

APPENDIX 2

HANOVER INTERNATIONAL 1997 IRELAND SAVINGS RELATED SHARE OPTION SCHEME

("the Irish Savings Related Scheme")

SUMMARY OF THE RULES

The Irish Savings Related Scheme is similar to the UK Savings Related Scheme except in the following respects:

1. Constitution

There are no corresponding Revenue Commissioners tax approved arrangements in the Republic of Ireland for such schemes and so references to the Inland Revenue and UK tax legislation will not apply.

2. Grant and Exercise of Options

(i) The first opportunity to issue an invitation will be during the six week period following the date of shareholders' approval to the Irish Savings Related Scheme.

(ii) To participate in the Irish Savings Related Scheme an eligible employee must commit himself to entering into a National Instalment Savings Agreement (NISA) over three or five years. Under such an agreement the participant must make monthly contributions of between IR£20 and the Sterling equivalent of £250. An option will normally be granted over the number of shares whose aggregate option price, which will be in Sterling, equals as nearly as possible the anticipated guaranteed minimum return on the NISA at the three or five year exercise date (as appropriate).

(iii) If the value of the NISA savings including interest is insufficient when converted into pounds Sterling to exercise the option in full at the three or five year exercise date, the employee may make up any shortfall from his own funds to preserve the right to exercise the option in full.

APPENDIX 3

HANVOVER INTERNATIONAL 1997 UK PROFIT SHARING SCHEME

("the UK Profit Sharing Scheme")

SUMMARY OF THE TRUST DEED AND RULES

1. Constitution and Basis of Operation

The UK Profit Sharing Scheme will be governed by a Trust Deed and will be introduced under the provisions of the Income and Corporation Taxes Act 1988. The proposed Trustee of the scheme will be Noble Lowndes Settlement Trustees Limited (a trustee company independent of the Company). The Trustee will acquire Shares by purchase or subscription from funds transferred to it by the Company. Eligible employees who have decided to participate will be allocated these Shares on a similar terms basis. The Shares will be held on trust for a retention period, and only after this period may the Shares be transferred to or sold by the participant. For the participant to receive the full tax income relief on the allocation of the Shares, the Shares must be left with the Trustee for a period of currently three years.

2. Funding

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

3. Eligible Employees

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

4. Entitlement of Eligible Employees

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

5. Acquisition Price

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

6. Restrictions on Shares and Tax Consequences

(i) A participant will not normally be able to instruct the Trustee to deal in the Shares held on his behalf until the expiry of the "period of retention" laid down by UK tax legislation. This period currently ends on the second anniversary of the date when the particular Shares were appropriated to him or, if earlier, in the event of a participant's death, redundancy, attainment of age 60 or leaving employment by reason of injury or disability.

(ii) A participant can request the Trustee to sell his Shares or transfer them into his name at any time between the end of the "period of retention" and the "release date" laid down by UK tax legislation (currently the third anniversary of the date on which the Shares were appropriated to him). However, if he does so, he will normally be liable to income tax on the value of his Shares at the time when they were appropriated to him (or, if less, their market value at the time or the proceeds of their sale). After the release date, the employee may request a sale or transfer of his Shares without being liable to pay income tax.

7. Limits

(i) The number of Shares which may be issued under the UK Profit Sharing Scheme plus the number of Shares issued under any other employee share scheme not involving the grant of options when aggregated with the number of Shares issued or capable of being issued pursuant to options granted (excluding lapsed options) under any employee share option scheme shall not in any ten year period exceed ten per cent of the Company's issued ordinary share capital for the time being.

(ii) The maximum value of the Shares appropriated to any participant in any tax year shall be such maximum amount as legislation may from time to time allow. The present maximum is £3,000 or if greater ten per cent of the participant's "salary" subject to an overall maximum of £8,000.

8. Dividends, Voting Rights and Notices to Shareholders

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

9. Variation of Share Capital

(i) Any Shares acquired by the Trustee on a capitalisation issue in respect of Shares held on behalf of participants will be treated as forming a part of the same appropriation from which those Shares arose.

(ii) The participant may, via the Trustee, participate in a rights issue. Any new Shares acquired will be considered to form part of the appropriation from which those Shares derive.

10. Takeover or Reconstruction

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

11. Listing

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

12. Amendments

(i) The UK Profit Sharing Scheme may be amended by the Directors provided that no amendment which would be to the advantage of participants may be made without prior consent of the Company in general meeting to the provisions relating to:

(a) eligibility;

(b) overall limits;

(c) maximum individual entitlement; and

(d) the basis for determining such entitlement and the adjustment thereof following a variation of share capital

except for minor amendments to benefit the administration of the UK Profit Sharing Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Group.

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

13. Termination

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

APPENDIX 4

HANOVER INTERNATIONAL 1997 IRELAND PROFIT SHARING SCHEME

("the Irish Profit Sharing Scheme")

SUMMARY OF THE TRUST DEED AND RULES

The Irish Profit Sharing Scheme is similar to the UK Savings Related Scheme except in the following important respects:

1. Constitution

The Irish Profit Sharing Scheme will be introduced under the provisions of the Finance Act 1982 of the Republic of Ireland. The Trustee of the scheme will be Irish Pensions Trust Limited (a trustee company independent of the Company).

2. Basis of Operation and Individual Participation Limits

(i) The Irish Profit Sharing Scheme will operate as a share bonus scheme and also contain a facility to forgo salary for additional Shares.

(ii) Each year in which the Irish Profit Sharing Scheme is operated, eligible employees will be notified of their share bonus entitlement which may be accepted or rejected by the employee. To the extent the share bonus is rejected, the employee will receive a cash bonus through payroll. Employees who accept the share bonus may also forgo between 1 per cent to 7½ per cent of basic salary on a monthly basis in return for an additional allocation of Shares under the Irish Profit Sharing Scheme.

(iii) Under the current legislation, the maximum value of Shares appropriated to a participant in any tax year through a share bonus and salary forgone is IR£10,000. Also, Shares appropriated to a participant with funds from salary forgone cannot exceed those acquired in the same tax year from share bonus accepted in Shares.

3. Restrictions on Shares and Tax Consequences

(i) The "period of retention" during which the appropriated Shares are held by the Trustee is two years but may end at an earlier date in circumstances similar to the UK Profit Sharing Scheme except that State Pension Age (currently 66) replaces age 60.

(ii) The "release date" is five rather than three years. If a participant sells or transfers Shares within four years of their appropriation, he will normally be liable to income tax on 100 per cent of the value of the Shares at the date of appropriation (or, if less, their market value at the time or the proceeds of sale). Sales or transfers after the fourth anniversary of the date of appropriation but before the release date, will attract an income tax charge on 75 per cent of the value mentioned above.

APPENDIX 5

HANOVER INTERNATIONAL EMPLOYEE TRUST

("the Employee Trust")

SUMMARY OF THE TRUST DEED

1. Constitution

The Employee Trust will be established under a trust deed. It will be designed to be an employee benefit trust within the meaning of Section 86 of the Inheritance Tax Act 1984 and an employees' share scheme as defined in Section 743 Companies Act 1985. The object of the Employee Trust is to help facilitate or enable the holding of shares in the Company ("Shares") by or for employees and former employees of the Company and its subsidiaries ("the Group").

2 Eligible Employees

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

3 Trustees

The Company will have the power to appoint the Trustees. Except where a corporate trustee is sole trustee, there shall always be at least three Trustees. It is intended that Hill Samuel (Channel Islands) Trust Company Limited, an independent corporate trustee resident outside the United Kingdom, will be appointed to act as trustee and administrator of the Employee Trust.

4 Powers and funding

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

5. Limits

(i) The number of Shares for which the Trustees may subscribe on any date shall be limited so that the number of Shares issued under any employee share scheme not involving the grant of options, when aggregated with the number of Shares made issuable pursuant to options granted (excluding lapsed options) under any employee share scheme adopted by the Company shall not in any ten year period exceed ten per cent of the Company's issued ordinary share capital for the time being.

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

(iii) Within the limits in (i) and (ii) above, the Trustees may not hold unallocated at any time more than five per cent of the Company's issued ordinary share capital for the time being.

(iv) The Trustees may not subscribe for Shares at less than their current market or, if higher, their nominal value.

6. Issue of Shares

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

7. Amendment

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

8. Law and Forum

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