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Hanover Acceptances Limited

Company Registration No. 01063495

Hanover Acceptances Limited

Annual Report and Financial Statements

for the year ended 31 December 2020

Hanover Acceptances Limited

Annual Report and Financial Statements 31 December 2020

Contents

Hanover Acceptances Limited

Officers and professional advisers

Chairman

M S Gorvy BCom FCA

Directors

L R Gorvy
S Gorvy BA (Hons) PhD (Cantab)
J Grossmann Dipl.-Ing. M.Sc.I.A PhD *
A J Leibowitz BSc MSc FRICS
T Moross BA BSc (Est Man) FRICS
C J Sheridan FCIB MSI*
E I Walker-Arnott QC, LLM (Lond)*
(* Non -executive)

Company Secretary

Hanover Management Services Limited

Registered Office

16 Hans Road
London
SW3 1RT

Bankers

Aviva Commercial Finance Limited
Bank of Ireland
Barclays Bank PLC
HSBC Bank plc
Nationwide Building Society
The Royal Bank of Scotland plc

Solicitor

Herbert Smith Freehills LLP

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Hanover Acceptances Limited

Strategic report

Business review and key performance indicators

Hanover Acceptances Limited (the 'Company') and its subsidiaries (the 'Group') are engaged in property investment, development and trading in the UK and venture capital investment.

The subsidiary undertakings are listed in note 28.

We report on a year in which the Group produced robust results on the rental income and trading sales despite considerable market turmoil caused by the COVID-19 pandemic.

Our operating loss for the year was £21.7m down from a profit £50.3m in the previous year. This significant variance is accounted for by the mark to market movement on the property investment portfolio, resulting from uncertainty in the commercial property market.

The loss for the year before taxation was £41.7m compared with a profit of £30.0m in the previous year. The significant variance is for the reasons stated above.

Property

We report on a year in which the Group produced robust results despite considerable market turmoil caused by the COVID-19 pandemic.

We are pleased to report strong operational results from the Group's property portfolio. Turnover from rents and property sales was just ahead of the previous year at £73.9m (2019: £69.4m). Net rental income was £29.8m compared to £35.0m in 2019.

The uncertainty caused by the pandemic and economic climate for most of 2020 had a negative impact on the housing market in London and the South of England. By the end of the year there were signs that values were starting to recover, although with a limited number of transactions. Despite this, the residential portfolio has seen a minor improvement in values. In the commercial office market, rental values have softened and market activity has slowed markedly due to the pandemic. Our trading performance and our investment income remain strong and our interest cover remains comfortable. Overall the business has produced very good results.

Venture Capital

The venture capital arm, Fresh Capital Group, did not make any investments during the year.

Adjusted net assets

The statutory shareholders' funds for the financial year was £603.0m (2019: £643.6m). The value of the stock of trading and development properties was, in the opinion of the directors, £301.7m (2019 £329.5m) which exceeds the amount at which it is reflected in the financial statements by £182.7m (2019: £204.1m). Taking these valuations into account, and before any adjustment for taxation, the adjusted net assets of the Group at 31 December 2020 were £785.7m (2019: £847.7m), a decrease of 7.3% (2019: decrease 0.21%) on the prior year.

Principal risks and uncertainties

Liquidity risk

The Group's main financial objective is to create shareholder value through a diversified real estate portfolio, maximising its returns against strict investment criteria. Liquidity and cash flow are managed through external bank financing.

The Group refinanced on acceptable terms all loans that were due for repayment during the year. None of the current facilities is repayable before 2023, and the directors expect that the existing facilities will provide sufficient liquidity for the Group's proposed activities for the reasonably foreseeable future.

The Group constantly monitors its banking covenants position to ensure compliance. We believe that our gearing is comfortable and our security structure is strong relative to the size of our portfolio.

Principal risks and uncertainties (continued)

Property valuations

The cyclical nature of the property market raises the risk of variations in the value of our portfolio. Residential valuations remained constant in 2020. Commercial values, however, fell during the year, due to market uncertainty triggered by the pandemic. Whilst the outlook for residential sales is positive, there remains uncertainty in the commercial market. We believe that the valuation risk is mitigated by our diverse, robust and defensive portfolio, located primarily in London and the South of England. We have a strong and sustainable income flow, with acceptable future expenditure commitments. We will continue to mitigate our exposure to market risk through a balanced approach to asset selection and cautious decision-making relating to revenue streams and capital growth.

Interest rates

Derivative financial instruments are used by the Group to manage exposure to fluctuations in interest rates, but are not employed for speculative purposes. Interest rate management is carried out by means of a combination of interest rate swaps and financial collars used to provide a degree of certainty over future interest rate costs.

COVID-19

The COVID-19 crisis that started in 2020 has been a source of new risk for the Group. A thorough analysis of its potential impact was carried out, which included the revision of cash flow forecasts and extended considerations. The main impact identified has been on the recoverability of tenant amounts from occupiers and to date, rent collection has remained strong and the business has performed robustly.

Tenant default

The significant risk to cash flow in property investment is the loss of rental income. The nature of the portfolio is such that this income is derived from a large and diverse tenant base thereby reducing risk. In addition, the exposure and control over potential bad debts is managed in the residential portfolio through intensive asset and property management and by careful vetting of potential tenants; and in the commercial portfolio through close contact with our occupiers, attention to customer service and early warnings of potential problems. Collections from the residential and office portfolios remained robust through the year, despite market concerns of the impact of the pandemic on both residential and office tenants. Our retail tenants, in common with the rest of the sector, experienced difficulties in meeting their rental obligations, and we have engaged pro actively with them, agreeing rent deferrals and rent free periods where appropriate.

Property investments

Detailed financial appraisals are conducted for all significant acquisitions and disposals. A full due diligence review is carried out prior to all asset acquisitions, including relevant corporate due diligence where assets are acquired through separate corporate entities.

Additional details relating to the financial risk management policy and financial instruments used by the Group are set out in notes 18 and 19 to the financial statements.

Future developments

The company will continue to invest in commercial and residential real estate when the right opportunities arise.

Section 172 (1) statement – Engaging with stakeholders

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships is important to us, and working together towards shared goals assists us in delivering long-term sustainable success.

Shareholders

We rely on the support of shareholders and their opinions are important to us. We have open communication with our shareholders, which cover a wide range of topics including financial performance, strategy and outlook.

Colleagues

The health and wellbeing of our colleagues is a priority.

We have invested in additional IT equipment to enable our colleagues to work from home during COVID 19 government lockdowns. In the office we carried out a thorough risk assessment and put extra hygiene measures and social distancing rules in place to protect the health and safety of everyone in the building.

Section 172 (1) statement – Engaging with stakeholders (continued)

Colleagues (continued)

We provide an Employee Assistance Programme as a support mechanism for anyone facing mental health challenges.

Training opportunities have continued virtually throughout the year.

Customers

Our ambition is to deliver best-in-class service to our commercial and residential occupiers. We utilise surveys with residential customers to understand their needs and views and listen to how we can improve our offer and service to them. We use this knowledge to inform our decision-making.

Suppliers

The Board recognises that relationships with trusted suppliers are integral to the business's long-term success. We build strong relationships with our suppliers to develop mutually beneficial and lasting partnerships.

Communities

We contribute to the communities in which we operate in a proactive and positive way. We support and encourage our colleagues to contribute to non-profit and charitable organisations; particularly those associated with our communities.

Government and regulators

We engage with government, regulators and other authorities primarily through our active membership of the British Property Federation and its various committees. The Board is updated on legal and regulatory developments and takes these into account when considering future actions.

Environment

An ESG Steering Committee has been formed and holds regular meetings to review our progress related to our ESG commitments.

The Group is now a corporate member of the UK Green Building Council, an industry body representing leadership in sustainability

Energy and carbon reporting

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2018. An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1, Scope 2 and Scope 3 emissions for which the Group is responsible.

For the Group's reporting, the Group has employed the services of a specialist adviser, Verco, to quantify and calculate the Greenhouse Gas (GHG) emissions associated with the Group's operations.

The following methodology was applied by Verco in the preparation and presentation of this data:

- the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol")
- application of appropriate emission factors to the Group's activities to calculate GHG emissions;
- scope 2 reporting methods – application of location-based and market-based emission factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO_2e;
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents); and
- where data was missing, values were estimated using an extrapolation of available data.

Energy and carbon reporting (continued)

Absolute Emissions

The total Scope 1 and 2 GHG emissions from the Group's operations in the year ending 31st December 2020 were:

- **5,499.2** tonnes of CO_2 equivalent (tCO_2e) using a 'location-based' emission factor methodology for Scope 2 emissions; and
- **5,304.2** tonnes of CO_2 equivalent (tCO_2e) using a 'market-based' emission factor methodology for Scope 2 emissions.

Scope 1 emissions from onsite combustion of natural gas, fuels, refrigerant gas losses and fuels used in company-owned vehicles.

Scope 2 emissions from purchased electricity using the location-based and market-based method and district heating.

Scope 3 emissions from fuel for personal cars for business use.

Intensity Ratio

As well as reporting the absolute emissions, the Group's GHG emissions are reported below on the following intensity ratios. These were decided as the most appropriate metric for each division of the Group.

Residential

- 2.13 tCO_2e per number of residential units using the location-based method and 2.08 tCO_2e per number of residential units using the market-based method.

Commercial

- 0.003 tCO_2e per square foot of commercial space using the location-based method and 0.002 tCO_2e per square foot of commercial space using the market-based method.

Target and Baselines

The Group's objective is to maintain or reduce its GHG emissions per residential unit and per square foot of commercial space each year and will report each year whether it has been successful in this regard.

Total Energy Use

The total energy use for the Group for FY2020 was 28,932,800 kWh.

	2020						
	Electricity (kWh)	**District heating (kWh)**	**Natural Gas (kWh)**	**Gas Oil (kWh)**	**Group-owned vehicles (kWh)**	**Transport (kWh)**	**Total Energy Use (kWh)**
Electricity / fuel	3,374,418	302,877	25,042,872	198,157	-	-	28,918,324
Group-owned vehicles	-	-	-	-	7,899	-	7,899
Mileage claimed	-	-	-	-	-	6,578	6,578
TOTAL							**28,932,800**

Strategic report (continued)

Energy and carbon reporting (continued)

Energy Efficiency Actions

A number of energy saving initiatives were implemented within each of our portfolios.

Commercial portfolio:

Refurbishment of 75,000 sq. ft of offices which included the following improvements:

- changes to lighting from fluorescent to LED with PIR sensors and time regime switching;
- waste diverted from landfill, saving emissions by increasing our recycling;
- installation of BMS controls; and
- existing inefficient heating system changed to efficient VRF heating/cooling.

As a result of the changes we have made to the Panagram Building, it now has an EPC rating of A, having previously been a D rating.

Residential Portfolio:

Refurbishment of 72 flats which included the following improvements:

- changes to lighting from halogen and fluorescent to LED;
- installation of dual flush toilets throughout; and
- existing boilers were replaced with more efficient boilers and upgraded heating & hot water controls.

Approved by the Board of Directors
and signed by order of the Board:

MB Jenkins

M B Jenkins
For and on behalf of
Hanover Management Services Limited
Company Secretary

22nd June 2021

Hanover Acceptances Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2020. This should be read in conjunction with the Strategic Report on pages 2 and 5.

Future developments

Financial risk management and future developments are discussed within the strategic report on page 3.

Going concern

At the date of signing the accounts, while the restrictions imposed by the UK Government following the Covid-19 pandemic are easing, the impact remains widespread. Our residential portfolio has been largely unaffected , but our office portfolio remains partially occupied. We quickly and successfully transitioned to working from home through the lockdown periods, without issue, and are now transitioning back to working principally from our offices.

The directors have assessed the impact of the current uncertainty around COVID-19 on all aspects of the business, focussing specifically on operations and cash flows of the group. The assessment of the ability of the group to continue as a going concern has been undertaken having regard to these circumstances and management have undertaken stress-testing of forecasts and have also completed a reverse stress test.

This stress-testing included assessing the levels of cash and available finance within the group assuming a very significant reduction in turnover on the basis of reduced sales of trading stock, customer default or payment plans, reduced lettings and increased vacations at break and expiry. This has been offset by a review and deferment in uncommitted capital expenditure, where necessary.

The directors have also considered the ongoing availability of finance by modelling the impact on loan covenants of reduced income and significant decreases in valuations of properties. Even considering reasonably likely downside scenarios, there are no covenant breaches forecast. The reverse stress test reflects the fact that trading sales and rental income would need to decline significantly, which has not been the group's experience to date.

Based on reviewing these forecasts and sensitivities the directors have concluded that the company is a going concern and accordingly have prepared the financial statements on this basis. Further details regarding the adoption of the going concern basis can be found in note 1 of the financial statements.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The nature of the Group's operation means that its operating cashflows arise from diverse sources. Day to day cashflow fluctuations are monitored through financial modelling and daily monitoring.

The Group uses interest rate swap contracts to hedge the interest rate exposure risk.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Hanover Acceptances Limited

Directors' report (continued)

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

Further details regarding liquidity risk can be found in the statement of accounting policies in note 1 to the financial statements.

Dividends and retained profit

An interim dividend of £1.0m was declared in 2020 (0.09p per ordinary share) and paid immediately after the year end (2019: £1.6m, 0.15p per ordinary share).

A final dividend of £0.6m (0.05p per ordinary share) was declared in respect of the year 2020 (2019: £nil). The retained loss for the year is £33.8m (2019: profit £17.6m).

Directors

The present directors are listed on page 1. All directors served throughout the year.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Charitable donations

Donations to UK charities amounted to £36,000 (2019: £21,000).

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed by order of the Board:

M B Jenkins
For and on behalf of
Hanover Management Services Limited
Company Secretary

22nd June 2021

Hanover Acceptances Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal control

The directors are responsible for the systems of internal control throughout the Group which are designed to provide reasonable, although not absolute, assurance against material misstatement or loss.

The Group exercises control with a clearly defined responsibility and reporting structure, and the internal systems are designed to meet the particular needs of each business. Management reviews these systems regularly.

The Group operates a comprehensive budgeting and financial reporting system with quarterly monitoring and reporting of actual results against targets.

Forecasts for profits and cash requirements are updated on a regular basis. The cash forecast is used to ensure that the Group has adequate funds to implement its strategy.

The directors continually review Group strategy, capital expenditure and treasury operations.

Environment and health and safety

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment in relation to energy efficiency and waste, and designs and implements policies to reduce any damage that might be caused by its activities.

Opportunities to improve our energy use efficiency are being investigated and changes will be implemented where appropriate. The Group is committed to achieving high standards of health and safety through diligent management and where necessary the use of external consultants.

Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements.

The Group is cognisant of its legal and other responsibilities in relation to diversity in the workplace.

We encourage involvement of all employees in group activities through team briefings and communication.

The Group has a whistle-blowing policy in place.

Independent Auditor's Report to the Members of Hanover Acceptances Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Hanover Acceptances Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the Members of Hanover Acceptances Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006, UK GAAP FRS 102 and UK tax legislation.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included health and safety regulations, general data protection regulation and the Landlord and Tenant Act.

Independent Auditor's Report to the Members of Hanover Acceptances Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

Our first significant risk in respect of fraud has been pinpointed to the valuation of trading properties at the year end. Trading properties are held at the lower of cost and realisable value. The process for valuing the properties is internal, therefore the risk has been pinpointed to the key assumptions used when determining the valuations.

- We obtained and documented an understanding of relevant controls in the valuation process and in particular the information provided to the valuers;
- We have challenged the key assumptions used by the valuation team, including those in respect of yields, discounts and expected rental values. In doing so, we have sought to benchmark against relative comparatives, evaluated contradictory evidence and obtained documentation and understanding in respct of key properties.
- We tested the data provided to the internal valuer. This included obtaining an independent source of the tenants at the property and verifying that they were appropriately included in the data relied upon in the valuation.

Our second significant risk in respect of fraud has been pinpointed to the valuation of investment properties at the year end. The process for valuing the properties is internal, therefore the risk has been pinpointed to the key assumptions used when determining the valuations.

- We obtained and documented an understanding of relevant controls in the valuation process and in particular the information provided to the valuers;
- We have challenged the key assumptions used by the valuation team, including those in respect of yields, discounts and expected rental values. In doing so, we have sought to benchmark against relative comparatives, evaluated contradictory evidence and obtained documentation and understanding in respect of key properties.
- We tested the data provided to the internal valuer. This included obtaining an independent source of the tenants at the property and verifying that they were appropriately included in the data relied upon in the valuation.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Independent Auditor's Report to the Members of Hanover Acceptances Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

S. Tubridy

Sara Tubridy FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

22nd June 2021

Hanover Acceptances Limited

Consolidated Profit and loss account
For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Turnover	3	73,939	69,388
Cost of properties sold		(14,402)	(5,558)
Property expenses		(16,146)	(15,000)
Gross profit		43,391	48,830
Net operating expenses	3	(23,296)	(17,101)
		20,095	31,729
Unrealised (losses)/gains on revaluation of investment properties	12	(42,754)	17,907
Profit on sale of tangible fixed assets	4	913	684
Operating (loss)/profit	7	(21,746)	50,320
Finance costs (net)	8	(19,919)	(20,278)
(Loss)/profit before taxation		(41,665)	30,042
Tax on (loss)/profit	9	7,847	(12,405)
(Loss)/profit for the financial year		(33,818)	17,637

All activities derive from continuing operations.

Consolidated statement of comprehensive income

	Notes	2020 £'000	2019 £'000
(Loss)/profit for the financial year		(33,818)	17,637
Losses arising during the year on cash flow hedges	19	(2,408)	(818)
Reversal of valuation adjustment to cash flow hedges on acquisition of remaining joint venture shares		-	168
Movements re historic swap cancellations		1,258	1,258
Remeasurement of net defined benefit liability	25	(4,795)	545
Tax relating to components of comprehensive income		1,130	82
Total comprehensive (expense)/income for the year		(38,633)	18,872

Hanover Acceptances Limited

Consolidated balance sheet
As at 31 December 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	12		1,015,140		1,039,096
Investments in associates	13	14		14	
Other investments	13	2042		2,068	
			2,056		2,082
			1,017,196		1,041,178
Current assets					
Stocks	14	119,092		125,378	
Debtors due within one year	15	10,738		9,842	
Debtors due after one year	15	7,112		7,811	
Cash at bank and in hand		36,181		12,284	
		173,123		155,315	
Creditors: amounts falling due within one year	16	(18,986)		(20,133)	
Net current assets			154,137		135,182
Total assets less current liabilities			1,171,333		1,176,360
Creditors: amounts falling due after one year	16		(507,320)		(464,447)
Provisions for liabilities	17		(60,652)		(68,319)
Net assets			603,361		643,594

Hanover Acceptances Limited

Consolidated balance sheet (continued)
As at 31 December 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Capital and reserves					
Called up share capital	20		1,100		1,100
Share premium	20		100		100
Hedging reserve	20		(11,510)		(10,579)
Other reserves	20		94		94
Profit and loss account	20		613,577		652,879
Shareholders' funds			603,361		643,594

The financial statements of Hanover Acceptances Limited, Company Registration No. 01063495 were approved by the Board of Directors and authorised for issue on 22nd June 2021.

Signed on behalf of the Board of Directors:

M S Gorvy
Director

A J Leibowitz
Director

Company balance sheet
As at 31 December 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Fixed assets					
Tangible assets	12		103		54
Investments	13		131,656		131,656
Current assets					
Debtors due within one year	15	234		330	
Debtors due after one year	15	42,794		47,272	
Cash at bank and in hand		3		3	
		43,031		47,605	
Creditors: amounts falling due within one year	16	(4,140)		(3,694)	
Net current assets			38,891		43,911
Total assets less current liabilities			170,650		175,621
Creditors: amounts falling due after one year	16		(28,315)		(27,468)
Provision for liabilities	17		(7,886)		(5,193)
Net assets			134,449		142,960
Capital and reserves					
Called up share capital	20		1,100		1,100
Share premium account	20		100		100
Profit and loss account	20		133,249		141,760
Shareholders' funds			134,449		142,960

The loss for the financial year dealt with in the financial statements of the parent Company was £3.0m (2019: profit £0.5m).

The financial statements of Hanover Acceptances Limited, Company Registration No. 01063495) were approved by the Board of Directors and authorised for issue on 22nd June 2021.

Signed on behalf of the Board of Directors:

M S Gorvy
Director

A J Leibowitz
Director

Hanover Acceptances Limited

Consolidated statement of changes in equity
For the year ended 31 December 2020

	Notes	Called up share capital	Share Premium	Other reserves	Hedging reserves	Profit and loss account	Total
		£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019		1,100	100	94	(11,373)	636,451	626,372
Profit for the financial year		-	-	-	-	17,637	17,637
Gains on fair value of cash flow hedges		-	-	-	(818)	-	(818)
Joint venture 50% share of hedges		-	-	-	168	-	168
Movements re swap cancellations		-	-	-	1,258	-	1,258
Remeasurement of net defined benefit pension scheme	25	-	-	-	-	545	545
Tax relating to items of other comprehensive income		-	-	-	186	(104)	82
Total comprehensive income		-	-	-	794	18,078	18,872
Dividends	11	-	-	-	-	(1,650)	(1,650)
At 31 December 2019		1,100	100	94	(10,579)	652,879	643,594
Loss for the financial year		-	-	-	-	(33,818)	(33,818)
Loss on fair value of cash flow hedges		-	-	-	(2,408)	-	(2,408)
Movements re swap cancellations		-	-	-	1,258	-	1,258
Remeasurement of net defined benefit pension scheme	25	-	-	-	-	(4,795)	(4,795)
Tax relating to items of other comprehensive income		-	-	-	219	911	1,130
Total comprehensive expense		-	-	-	(931)	(37,702)	(38,633)
Dividends	11	-	-	-	-	(1,600)	(1,600)
At 31 December 2020		1,100	100	94	(11,510)	613,577	603,361

Hanover Acceptances Limited

Company statement of changes in equity
For the year ended 31 December 2020

	Note	Called up Share Capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		1,100	100	142,473	143,673
Profit for the financial year		-	-	496	496
Remeasurement of net defined benefit pension scheme	25	-	-	545	545
Tax relating to items of other comprehensive income		-	-	(104)	(104)
Total comprehensive income		-	-	937	937
Dividends	11	-	-	(1,650)	(1,650)
At 31 December 2019		1,100	100	141,760	142,960
Loss for the financial year		-	-	(3,027)	(3,027)
Remeasurement of net defined benefit pension scheme	25	-	-	(4,795)	(4,795)
Tax relating to items of other comprehensive income		-	-	911	911
Total comprehensive expense		-	-	(6,911)	(6,911)
Dividends	11	-	-	(1,600)	(1,600)
At 31 December 2020		1,100	100	133,249	134,449

Consolidated cash flow statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Net cash flows from operating activities	**21**	26,946	12,401
Cash flows from investing and servicing of finance activities			
Proceeds from sale of tangible fixed assets		12,279	11,795
Proceeds from sale of fixed asset investments		-	-
Purchase of tangible fixed assets		(30,281)	(17,843)
Purchase of fixed asset investment		(37)	(40)
Interest received		135	112
Interest paid		(18,778)	(17,888)
Net cash flows from investing activities		(36,682)	(23,864)
Cash flows from financing activities			
Dividends paid		(1,650)	(27,426)
Debt due within one year:			
Loans repaid		-	(182,000)
Debt due after one year:			
Loans repaid		(37,660)	(80,000)
New loans		75,300	304,132
Net cash flows from financing activities		35,990	14,706
Taxation – UK		(1,825)	(2,024)
Net increase in cash in the year		24,429	1,219
Cash and cash equivalents at the beginning of the year		11,210	9,991
Cash and cash equivalents at the end of the year	**23**	35,639	11,210

The cash and cash equivalents at the end of the year represents cash at bank of £36,181,000 and an overdraft balance of £542,000.

1. **Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

Statutory information

Hanover Acceptances Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on pages 2 to 6.

Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling.

Hanover Acceptances Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements.

Going concern

After making enquiries, the directors believe that the group has adequate resources to continue in operational existence for at least twelve months from the approval date of these financial statements.

We report on a year in which the Group produced robust results despite considerable market turmoil caused by the COVID-19 pandemic.

The uncertainty caused by the pandemic and economic climate for most of 2020 had a negative impact on the housing market in London and the South of England. By the end of the year there were signs that values were starting to recover, although with a limited number of transactions. Despite this, the residential portfolio has seen a minor improvement in values. In the commercial office market, rental values have softened and market activity has slowed markedly due to the pandemic. Our trading performance and our investment income remain strong and our interest cover remains comfortable and overall the business has produced acceptable results.

As referenced in the directors' report the directors have assessed the impact of the current uncertainty around COVID-19 on all aspects of the business, focussing specifically on the operations and cash flows of the company and group. In considering the ability of the Group to provide any necessary support in the context of the uncertainties all property companies face as a result of the current economic climate, the directors have obtained an understanding of the Group's forecasts, the continuing availability of its facilities and its strategic and contingent plans. The directors have stress-tested these forecasts assuming a significant reduction in turnover, offset by identified and actioned operational and capital expenditure savings. The availability of on-going finance has also been considered, modelling the impact on covenants of reduced income, cash balances, decreases in property valuations and net assets. Taking into account reasonably likely downside scenarios there are no covenant breaches forecast.

Accordingly, the Group continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the accounts of the company and its subsidiary undertakings drawn up to 31 December each year.

1. **Accounting policies (continued)**

Turnover

Turnover excludes value added tax (where applicable), represents sales of trading properties and rents receivable. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Sales are invoiced when the services have been performed at the point of completion. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Dividend and interest income

Dividend income from investments is recognised when the Shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Intangible fixed assets

Goodwill and negative goodwill

Goodwill arising on acquisitions completed on or after 1 January 1999 is capitalised and amortised to the profit and loss account over the lesser of its useful economic life or 20 years. Goodwill arising on acquisitions completed prior to 1 January 1999 has been written off directly to the profit and loss reserve.

Negative goodwill arising on acquisitions, representing the excess of the fair value of identifiable assets and liabilities acquired over the fair consideration given, is included in the balance sheet and credited to the profit and loss account in the periods in which the non-monetary assets are recovered, whether through depreciation or sale. If an acquired business is subsequently sold, any goodwill relating to it which has not previously been dealt with in the profit and loss account is taken into account in calculating the profit or loss on disposal of the business.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets other than investment properties, certain Group occupied buildings and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Freehold buildings	Over 40 years
Plant and machinery	3 -10 years
Office and other equipment	5 years
Motor vehicles	2 - 4 years

Investment properties

Investment properties are measured at fair value annually with any change recognised in the profit and loss account, refer to note 12.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

1. **Accounting policies (continued)**

Stocks

Trading properties, which are held as stock, are valued at the lower of cost and net realisable value. Deficits against cost are charged to cost of sales in the profit and loss account, refer to note 14.

Pension scheme

The Group is a member of the Hanover Acceptances Group Pension Scheme, which is a defined benefit scheme covering certain employees. For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the year and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis. The actuarial valuations are obtained every year and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account. Transactions in foreign currencies are recorded at the rates ruling at the date of transaction or, if hedged, at the forward contract rate. The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Differences arising from the translation of the opening net investment in overseas subsidiaries and associated undertakings at the closing rate are taken direct to reserves.

Exchange differences arising on the translation of foreign currency borrowings, to the extent that they hedge the group's investment in overseas operations, are recognised in other comprehensive income.

Investments in associates

In the group financial statements investments in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of associates' profit less losses while the group's share of the net assets of the associate and joint venture is shown in the consolidated balance sheet.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. An assessment is performed where one or more events occur that may indicate potential impairment. The recoverable amount of an asset is then assessed, based on the higher of its fair value less costs to sell and its value of use. If there is objective evidence of impairment, an impairment loss is recognised in profit and loss account.

1. **Accounting policies (continued)**

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments are measured at amortised cost using the effective interest method. Debt instruments that are classified as payable or receivable within one year on initial recognition are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Commitments to make and receive loans are measured at cost (which may be £nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(iii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(iv) Hedge accounting

The Group designates certain derivatives as hedging instruments in cash flow hedges. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes.

1. **Accounting policies (continued)**

Financial instruments (continued)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

In December 2019, the FRC issued Amendments to FRS 102 - Interest Rate Benchmark Reform. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for effective hedges during the period of uncertainty before the hedged items or hedging instrument affected by the current interest rate benchmarks are amended.

The Group chose to apply the amendments early for the reporting period ended 31 December 2019. The amendments are relevant to the Group because it applied hedge accounting to swaps which were cancelled. The remaining value within the cash flow hedging reserve at the date of cancellation is recycled to the Group Statement of Comprehensive Income on a straight line basis from the date of cancellation to the original swap expiry date. Adopting the amendments permits the Group to continue this treatment.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property and investment property, measured using the revaluation model is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or statement of changes in equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the parent company's balance sheet less provision for impairment.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the accounting period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates

Property portfolio valuation

The valuation of the Group's stocks is inherently subjective, held at £119.1m (2019: £125.4m) as per note 14. The stocks are valued by the directors of the company who are members of the Royal Institution of Chartered Surveyors, as at each balance sheet date. An assessment is then performed in respect of the carrying value of the stocks, based on the value attributed. Assumptions are made with regards to sales value in an open market, external market conditions and potential future revenue streams or value in use. The directors believe the market value of work in progress held to be in excess of the book value and therefore no impairment is required.

Freehold and long leasehold land and buildings are revalued at fair value by those directors of the company and subsidiary undertakings who are members of the Royal Institution of Chartered Surveyors, as at each balance sheet date, refer to note 12.

Derivative financial instruments

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, refer to note 18.

Judgements

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Distinction between investment and trading property

On acquiring a property asset, the Group considers the intention at the outset in order to classify the property as either an investment or as trading stock. Where the intention is to hold the property for its long-term rental yield and capital appreciation, the property is held as an investment property. Where the intention is to trade the property in the ordinary course of business, the property is held as trading stock. The directors continue to perform the assessment on an annual basis, especially where property is held over the long term.

Application of hedge accounting

The Group applies the hedge accounting qualifications required under FRS 102 paragraph 12.18. In some instances, the Group employs long dated hedging instruments that go beyond the expiry date of the hedged items. In order to document the hedging relationship, the Group has determined that the debt recognised as the hedged items will be renewed consistently to the expiry date of the various hedging instruments.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

3. Analyses of turnover, operating profit and net assets

Analyses of turnover and operating profit before taxation by class of business are:

	Turnover		Operating (loss)/profit	
Class of business	**2020 £'000**	**2019 £'000**	**2020 £'000**	**2019 £'000**
Property trading sales	27,945	19,420	13,238	12,333
Rental income	45,994	49,968	(18,568)	48,118
Central administration and finance	-	-	(16,416)	(10,131)
	73,939	69,388	(21,746)	50,320

The analysis of net assets employed by class of business and reflecting the stock of trading and development properties at directors' valuation totalling £301,762,000 (2019: £329,464,000), as part of capital employed, is:

	2020 £'000	2019 £'000
Class of business		
Property investment and trading	714,383	767,442
Central administration and finance	71,648	80,238
Adjusted net assets	786,031	847,680
Less surplus on revaluation of trading and development properties	(182,670)	(204,086)
Net assets	603,361	643,594

The Group's net assets at 31 December 2020 and 2019 were held in the United Kingdom.

The geographical analysis of Group turnover by origination and destination is:

	2020 £'000	2019 £'000
United Kingdom	73,939	69,388

Analysis of net operating expenses

	2020 £'000	2019 £'000
Net operating expenses		
Property expenses	16,146	15,000
Administrative expenses	23,355	17,126
Provision against investments	(59)	(25)
	39,442	32,101

4. Profit on sale of tangible fixed assets

	2020 £'000	2019 £'000
Group	913	684
	913	684

Notes to the financial statements (continued)
For the Year ended 31 December 2020

5. Information regarding employees

Average monthly number of employees by activity (including directors):

	2020 No.	2019 No.
Property investment, development, trading and management	31	34
Central administration and finance	15	16
	46	50

Employee costs (including directors' emoluments):

	2020 £'000	2019 £'000
Wages and salaries	11,665	12,768
Social security costs	1,603	1,760
Other pension costs	486	416
	13,754	14,944

6. Information regarding directors

Directors' emoluments:

	2020 £'000	2019 £'000
Fees	90	90
Remuneration	10,216	7,255
Pension contributions	3	10
	10,308	7,355

Highest paid director:

	2020 £'000	2019 £'000
Emoluments	5,357	3,328

There was no pension accruing to the highest paid director under the defined benefit scheme at 31 December 2020 (2019: £nil).

No benefits are accruing to the directors (2019: nil) under a defined benefit scheme.

Benefits are accruing to one director under a defined contribution scheme (2019: one).

Hanover Acceptances Limited

Notes to the financial statements (continued)
For the Year ended 31 December 2020

7. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2020 £'000	2019 £'000
Auditor's remuneration :		
Fees paid to the Company's auditor for the audit of the company's annual financial statements	20	25
Fees paid to the Company's auditor for the audit of the company's subsidiaries pursuant to legislation	151	150
Other services in relation to tax	43	85
Other non-tax services	-	80
Unrealised losses/(gains) on fair value movement of investment properties	42,754	(17,907)
Depreciation of tangible fixed assets - owned	132	127
Decrease in diminution in value of trading stocks below costs	(238)	(56)

8. Finance costs (net)

Group	2020 £'000	2019 £'000
Interest payable and similar expenses	20,054	20,390
Less: investment income	(135)	(112)
	19,919	20,278

Investment income

	2020 £'000	2019 £'000
Bank interest	15	63
Other interest receivable and similar income	120	49
	135	112

Interest payable and similar expenses

	2020 £'000	2019 £'000
Bank loans and overdrafts wholly or partly repayable within five years	14,532	15,397
Interest rate swaps	5,415	4,548
Other interest payable	-	251
Pension scheme interest (net)	107	194
	20,054	20,390

Hanover Acceptances Limited

Notes to the financial statements (continued)
For the Year ended 31 December 2020

8. Finance costs (net) (continued)

Company	2020 £'000	2019 £'000
Interest payable and similar expenses	574	934
Less: investment income	(977)	(1,641)
	(403)	(707)

Investment income

	2020 £'000	2019 £'000
Loan to Group undertaking	7	1,640
Other interest receivable and similar income	970	1
	977	1,641

Interest payable and similar expenses

	2020 £'000	2019 £'000
Loan from Group undertaking	467	740
Pension scheme interest (net)	107	194
	574	934

9. Taxation

	2020 £'000	2019 £'000
Current tax		
UK Corporation Tax at 19% (2019: 19%)	2,593	2,466
Overseas taxation	2	2
Adjustments in respect of prior years	(203)	(138)
Total current tax	2,392	2,330
Deferred tax		
Origination and reversal of timing differences	(971)	665
Effect of increase in value of investment properties	(9,416)	2,144
Effect of change in tax rate on opening liability of investment properties	-	6,781
Tax associated with pension movements	(98)	351
Adjustments in respect of prior years	246	134
Total deferred tax (note 17)	(10,239)	10,075
Total tax on (loss)/profit	(7,847)	12,405

9. Taxation (continued)

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax is as follows:

	2020 £'000	2019 £'000
Group (loss)/profit before tax	(41,665)	30,042
(Loss)/profit multiplied by standard rate of corporation tax in the UK	(7,916)	5,708
Effects of:		
Expenses not deductible for tax purposes	(270)	249
Impact of allowances on the net revaluation of investment properties,	(198)	(218)
Provisions	(8)	(1)
Other tax rate impacts	(13)	269
Overseas tax rate differences	2	2
Effect of change in tax rate on opening liability of investment properties	-	6,781
Effect of change in tax rate on opening liability of other deferred tax	(44)	(462)
Fair value adjustment attributed at acquisition to assets sold in the year	557	81
Adjustments to tax in respect of previous periods	43	(4)
Group tax for the year	(7,847)	12,405

In the UK Finance Bill 2016, enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 were introduced. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation tax rate will be held at 19%. As substantive enactment occurred before the balance sheet date, the changes in respect of the rate have been applied to tax balances within these financial statements.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate had not been substantively enacted at the balance sheet and as a result deferred tax balances as at 31 December 2020 continued to be measured at 19%. If all the deferred tax was to revert at the amended 25% rate the impact on the closing deferred tax position would be to increase the deferred tax liability by £18m.

There is no expiry date on timing differences, unused tax losses or tax credits.

10. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account and statement of comprehensive income of the company are not presented as part of these accounts.

The loss for the financial year of the company amounted to £3,027,000 (2019: profit £496,000).

11. Dividends

	2020 £'000	2019 £'000
Dividends per ordinary share: Interim paid £0.15p (2019: £0.15p)	1,600	1,650
	1,600	1,650

12. Tangible fixed assets

Group	Investment properties £'000	Plant and machinery £'000	Office and other equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2020	1,038,828	668	746	92	1,040,334
Additions	30,021	-	260	-	30,281
Disposals	(11,321)	-	(45)	-	(11,366)
Deficit on revaluation	(42,754)	-	-	-	(42,754)
At 31 December 2020	1,014,774	668	961	92	1,016,495
Accumulated depreciation					
At 1 January 2020	(73)	(653)	(420)	(92)	(1,238)
Charge for year	-	(10)	(122)	-	(132)
Disposals	-	-	15	-	15
At 31 December 2020	(73)	(663)	(527)	(92)	(1,355)
Net book value					
At 31 December 2020	1,014,701	5	434	-	1,015,140
At 31 December 2019	1,038,755	15	326	-	1,039,096

Group

Investment properties comprise the following tenures:

	2020 £'000	2019 £'000
Freehold	933,442	947,027
Long leasehold	81,259	91,728
	1,014,701	1,038,755

Freehold and long leasehold investment properties were revalued to fair value by those directors of the company and subsidiary undertakings who are members of the Royal Institution of Chartered Surveyors, at £1,014,701,000 (2019: £1,038,755,000) as at 31 December 2020. For the residential assets, the Group's in-house team provided a vacant possession value, against which a discount is applied to establish the fair value. The discounts are established by tenancy type and are based on evidence gathered from recent transactional market evidence. For the commercial assets, the valuation is based on an assessment of the future cash flows that will arise and on the effective interest rate used to discount those cash flows. The key assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observation.

The net revaluation deficit of £42,754,000 (2019: surplus £17,907,000) has been recognised in the profit and loss account and is classified as unrealised and non-distributable.

Investment properties with a carrying amount of £758,357,000 (2019: £790,586,000) have been pledged to secure borrowings of the Group.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

12. Tangible fixed assets (continued)

Included in investment properties are Group occupied freehold office buildings held at a valuation of £20,000,000 (2019: £20,000,000). No depreciation has been provided on these properties, as the charge is considered immaterial.

Comparable amounts determined on a historical cost basis:

	Investment properties £'000	Plant and machinery £'000	Office and other equipment £'000	Motor vehicles £'000	Total £'000
Net book value					
At 31 December 2020	695,227	5	434	-	695,666
At 31 December 2019	669,545	15	326	-	669,886

At the balance sheet date, the group had contracted with tenants for the following minimum lease payments:

	2020 £'000	2019 £'000
Within one year	35,225	38,705
In the second to fifth years inclusive	43,334	53,300
After five years	22,974	21,521

The group has entered into non –cancellable contractual commitments in respect of properties of £6,726,000 (2019: £18,380,000). The group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the current year amounted to £4,106,000 (2019: £3,583,000).

Company

Company	Office and other equipment £'000	Total £'000
Cost or valuation		
At 1 January 2020	67	67
Additions	78	78
At 31 December 2020	145	145
Accumulated depreciation		
At 1 January 2020	13	13
Charge for year	29	29
At 31 December 2020	42	42
Net book value		
At 31 December 2020	103	103
At 31 December 2019	54	54

13. Fixed asset investments

Group	Associated undertakings £'000	Other £'000	Total £'000
At 1 January 2020	3,921	2,865	6,786
Additions	-	37	37
At 31 December 2020	3,921	2,902	6,823
Provisions for impairment			
At 1 January 2020	3,907	797	4,704
Charge for year	-	63	63
At 31 December 2020	3,907	860	4,767
Net book value			
At 31 December 2020	14	2,042	2,056
At 31 December 2019	14	2,068	2,082

Investments in ordinary shares of the following companies have been accounted for as investments in associated undertakings:

Company	Registered office address	Activity	Proportion of equity capital and voting rights held
Sanfield Properties Limited	16 Hans Road, London SW3 1RT	Property investment	50%
Promote Investments Limited	16 Hans Road, London SW3 1RT	Property investment	50%
Dorrington Derwent Holdings Limited	16 Hans Road, London SW3 1RT	Holding company for property development investment and trading	50%

The balance of other investments are held at historic cost at £2,191,000 (2019: £2,191,000).

Company	Shares in subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost or valuation			
At 1 January and 31 December 2020	129,956	1,700	131,656
Provisions			
At 1 January and 31 December 2020	-	-	-
Net book value			
At 31 December 2020	129,956	1,700	131,656
At 31 December 2019	129,956	1,700	131,656

The subsidiary undertakings in which the company has an interest are dormant companies, all of which are wholly owned ordinary shares and have a 31 December year end, are listed in note 28.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

14. Stocks

Group	2020 £'000	2019 £'000
Trading properties	119,092	125,378

The directors' valuation of the stock of trading properties at 31 December 2020 was £301,762,000 (2019: £329,464,000).

At the balance sheet date, the group had contracted with tenants for the following minimum lease payments:

	2020 £'000	2019 £'000
Within one year	7,071	8,601
In the second to fifth years inclusive	17,410	19,730
After five years	3,832	9,786

The group has entered into non –cancellable contractual commitments in respect of properties of £2,481,000 (2019: £9,060,000). The group is additionally contractually obliged to carry out annual repairs and maintenance in respect of the properties, which in the current year amounted to £637,000 (2019: £523,000).

15. Debtors

	Due within one year		Due after one year	
Group	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade debtors	6,608	5,964	-	-
Other debtors	2,988	2,760	7,112	7,811
Prepayments and accrued income	1,142	1,118	-	-
	10,738	9,842	7,112	7,811

	Due within one year		Due after one year	
Company	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Other debtors	55	97	-	-
Prepayments	179	233	-	-
Amounts owed by subsidiary undertakings	-	-	42,794	47,272
	234	330	42,794	47,272

Other debtors include amounts relating to rent free period given to tenants and the incentive is spread over the term of the lease.

The loans owed by subsidiary undertakings are repayable after more than one year with no fixed repayment date and interest is levied at an average commercial rate of 2.23% (2019: 2.75%).

16. Creditors

Group	Due within one year 2020 £'000	Due within one year 2019 £'000	Due after one year 2020 £'000	Due after one year 2019 £'000
Bank loans and overdrafts	(814)	(228)	472,954	435,260
Trade creditors	4,006	2,758	-	-
Derivative financial instruments (note 19)	1,729	-	9,967	9,287
Accruals	8,858	11,881	-	-
Deferred income	1,294	1,297	-	-
Other creditors	2,313	2,775	24,399	19,900
Dividends	1,600	1,650	-	-
	18,986	20,133	507,320	464,447
Other creditors include:				
Other taxation and social security	311	298	-	-
Corporation tax	536	-	-	-
Analysis of amounts due after one year:				
Repayable within five years			327,850	165,123
Repayable after more than five years			179,470	299,324
			507,320	464,447

Company	Due within one year 2020 £	Due within one year 2019 £'000	Due after one year 2020 £	Due after one year 2019 £'000
Amounts due to subsidiary undertakings	-	-	28,315	27,468
Dividends	1,600	1,650	-	-
Other creditors	2,540	2,044	-	-
	4,140	3,694	28,315	27,468
Analysis				
Repayable after five years			28,315	27,468

Other creditors balance represents tenants' deposit, funding provided to managing agents and managing agents balances.

The amounts due to subsidiary undertakings are repayable after 5 years and interest is levied at an average commercial rates of 2.23% (2019: 2.75%).

16. Creditors (continued)

Loans and overdrafts are repayable as follows:

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	472,140	-	435,032	-
Less: amounts falling due within one year	814	-	228	-
Amounts falling due after more than one year	472,954	-	435,260	-

	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Analysis of loan repayments:				
Bank loans and overdrafts				
Within one year or on demand	(814)	-	(228)	-
In more than one but less than two years	(1,356)	-	(1,301)	-
In more than two but less than five years	320,124	-	342,227	-
In more than five years	154,186	-	94,334	-
	472,140	-	435,032	-

The bank loans and overdrafts bear interest at rates related to LIBOR. The loans are repayable at par over various periods between 2020 and 2034. Certain bank overdrafts and loans are secured by charges over certain land and buildings and certain property stock. Refer to note 12 for investment properties secured against loan borrowings of the Group.

Exposure to price, credit, and interest rate risk arise in the normal course of the Group's business. Derivative financial instruments are used to manage exposure to fluctuations in interest rates but are not employed for speculative purposes.

Debt management

Details of the Group's loan facilities and commitments are given above.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

17. Provisions for liabilities

Group	Pension fund deficit £'000	Deferred taxation £'000	Total £'000
Balance at 1 January 2019	7,618	52,293	59,911
Credited to profit and loss account	-	10,075	10,075
Charged to the statement of other comprehensive income	-	(82)	(82)
Pension liability (note 25)	(1,585)	-	(1,585)
Balance at 31 December 2019	6,033	62,286	68,319
Credited to profit and loss account	-	(14,062)	(14,062)
Charged to the statement of other comprehensive income	-	2,693	2,693
Pension liability (note 25)	3,702	-	3,702
Balance at 31 December 2020	9,735	50,917	60,652

	2020 £'000	2019 £'000
Provision for the Group's potential deferred tax liability comprises:		
Capital allowances	3,446	2,898
Deferred tax arising on the revaluation of investment properties	57,074	66,490
Deferred tax arising on the fair value of derivatives	(2,700)	(2,482)
Deferred tax arising on pension commitments	(1,849)	(839)
Other timing differences	(5,054)	(3,781)
Balance at 31 December	50,917	62,286

Company	2020 £'000	2019 £'000
Balance at 1 January (see note 25)	5,193	6,323
Movement in provisions	2,693	(1,130)
Balance at 31 December	7,886	5,193
Provision for the company's potential liability comprises :		
Pension liability	9,735	6,032
Deferred tax on the pension liability	(1,849)	(839)
	7,886	5,193

18. Financial instruments

The carrying value of the Group financial assets and liabilities are summarised by category below:

Group	Note	2020 £'000	2019 £'000
Financial assets			
Debt instruments measured at amortised cost:			
Trade and other debtors due within one year	15	10,738	9,842
Trade and other debtors due after one year	15	7,112	7,811
Cash and cash equivalents	23	36,181	12,284
Equity instruments measured at cost less impairment:			
Fixed asset unlisted investments	13	2,056	2,082
		56,087	32,019
Financial liabilities			
Measured at amortised cost:			
Bank loans and overdraft	16	472,140	435,032
Trade and other creditors due within one year	16	18,076	20,361
Trade and other creditors due after one year	16	34,366	29,187
		524,582	484,580

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

Group		2020 £'000	2019 £'000
Interest income and expenses			
Total interest income for financial assets at amortised cost	8	15	63
Total interest expense for financial liabilities at amortised cost		(20,054)	(20,139)
		(20,039)	(20,076)

19. Derivative financial instruments

	2020 £'000	2019 £'000
Group		
Derivatives that are designated and effective as hedging instruments carried at fair value		
Liabilities		
Interest rate swaps	11,000	7,519
Interest rate caps and collars	696	1,768
Balance at 31 December	11,696	9,287

19. Derivative financial instruments (continued)

Interest rate derivative contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Receive floating pay fixed contracts	Average contract fixed interest rate		Notional principal value		Fair value	
	2020	2019	2020	2019	2020	2019
	%	%	£'000	£'000	£'000	£'000
Less than 1 year	5.04	-	75,000	-	1,729	-
1 to 2 years	1.00	3.23	60,000	10,000	661	122
2 to 5 years	1.34	5.77	59,500	135,000	8,421	4,723
5 years +	0.35	1.70	150,000	34,500	885	4,442
Balance at 31 December			344,500	179,500	11,696	9,287

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

A loss of £2,408,000 (2019: loss of £818,000) was recognised in the other comprehensive income statement.

LIBOR is being discontinued due to regulatory change at the end of 2021 and will subsequently be replaced. The regulators and lenders are currently recommending that SONIA is the RFR that the business transitions to. The Group intends to follow the advice of the regulator and its lenders, and has therefore taken out a SONIA based hedge against a LIBOR lined loan, on the assumption that the loan would transition to SONIA during 2021 and would therefore be matched when the swap starts in 2021.

From 31 December 2021, LIBOR is to be discontinued as a benchmark rates for loans and hedging instruments. As at the year end, the company held hedges linked to 3 months GBP LIBOR with a face value of £219.5m against drawn LIBOR-linked loans of £382.5m. It also held contracts for future-dated swaps linked to both 3 months GBP LIBOR and SONIA, meaning that as at the transition date, the company will hold £229.5m of LIBOR-linked hedging instruments against drawn and undrawn LIBOR-linked facilities of £547.0m. These instruments are all directly affected by the Interest Rate Benchmark Reform.

The Group's intention is to transition all LIBOR-linked loans and hedge instruments to SONIA as at 31 December 2021. Initial discussions have been held with all lenders, hedge counterparties and relevant advisors with a view to completing documentation of the transition during the 2021 year. In applying FRS102 hedge accounting, we have assumed that the transition will be made as planned.

20. Share capital and reserves

	2020 £'000	2019 £'000
Authorised:		
12,000,000 (2019: 12,000,000) ordinary shares of 10p each	1,200	1,200
Allotted, called up and fully paid:		
11,000,000 (2019: 11,000,000) ordinary shares of 10p each	1,100	1,100

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments in firm commitments or highly probable forecast transactions. Amounts accumulated in this reserve are reclassified to profit and loss account in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

The profit and loss account represents cumulative profits, including unrealised profit on the remeasurement of investment properties, net of dividends paid and other adjustments. The share premium account contains the premium arising on issue of equity shares, net of issue expenses.

21. Cash flow statement

Reconciliation of operating (loss)/profit to net cash inflow from operating activities:

	2020 £'000	2019 £'000
Operating (loss)/profit	(21,746)	50,320
Adjustment for:		
Depreciation of tangible fixed assets	117	127
Impairment of fixed asset investments	63	144
Decrease/(increase) in fair value of investment property	42,754	(17,907)
Profit on sale of tangible fixed assets	(913)	(684)
Operating cash flow before movement in working capital	20,275	32,000
Decrease/(increase) in stocks	6,286	(6,502)
Increase in debtors	(764)	(759)
Increase/(decrease) in creditors	2,349	(11,104)
Increase in provisions	(1,200)	(1,234)
Net cash inflow from operating activities	26,946	12,401

Notes to the financial statements (continued)
For the Year ended 31 December 2020

22. Reconciliation of net cash flow to movement in net debt

	2020 £'000	2019 £'000
Increase in cash in year	24,429	1,219
Decrease in short term borrowings	37,660	182,000
Increase in medium term loans	(75,300)	(224,132)
Movement in net debt in the year	(13,211)	(40,913)
Opening net debt	(422,748)	(381,835)
Closing net debt	(435,959)	(422,748)

23. Analysis of net debt

	At 1 January 2020 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 December 2020 £'000
Cash at bank and in hand	12,284	23,897	-	36,181
Overdrafts	(1,074)	532	-	(542)
	11,210	24,429		35,639
Debt due within one year	1,302	-	54	1,356
Debt due after one year	(435,260)	(37,640)	(54)	(472,954)
	(422,748)	(13,211)	-	(435,959)

24. Capital commitments

Capital commitments not provided for in the financial statements are as follows:

Group	2020 £'000	2019 £'000
Contracted	9,207	27,440

The Group has contracted to spend £5.4m on commercial capex projects and £1.3m on residential capex projects. The Group has also contracted £2.5m for the redevelopment of three residential buildings at 111-117 Marylebone High Street, 2-8 Blandford Street and 14 St Vincent Street.

The Company had no capital commitments in the current and previous years.

25. Pension commitments

The Group operates a defined benefit scheme, The Hanover Acceptances Group Pension Scheme, and one defined contribution scheme.

The defined benefit scheme was closed to new entrants from 1 January 2003. From this date new employees are eligible to contribute to individual stakeholder pension policies benefiting from a Group contribution rate of 10%.

Defined benefit scheme

The Hanover Acceptances Group Pension Scheme is a contracted out final salary defined benefit pension scheme for certain employees in the UK. From 1 April 2009, members contributed at a rate of 6% of pensionable pay, and the Group contribution was increased to 46.1% of pensionable pay on the 1 July 2018. In addition, the employer also contributed £1,289,500 per annum in respect of the deficit funding. In accordance with the rules imposed by The Pensions Regulator, an actuarial valuation of the scheme at 28 February 2021 indicated that the scheme had a deficit of £6,375,000.

The service cost and liability valuations have been undertaken using the Attained Age method. This method is more appropriate for a scheme that is closed to new entrants as it considers the liabilities for benefits relating to service before and after the valuation date separately. Firstly, the value of the assets is compared with the past service liability to determine the funding level and the surplus or deficit. Secondly, in respect of the service after the valuation date, the future service contribution rate is calculated. An independent qualified actuary making certain assumptions determines the contributions.

The most important assumptions made for the actuarial valuation at 28 February 2021 were as follows:

	2021
Excess rate of investment return over rate of salary growth – pre retirement	3.50%
Rate of pension increases in excess of the Guaranteed Minimum Pension	3.70%
Actuarial value of scheme's assets at 1 April	£35.08m
Discount rate	4.30%

For the purposes of the separate disclosures required by FRS 102, the projected credit unit method has been applied. The assets and liabilities have been valued at 31 December 2020, by an independent actuary, projecting forward the position from 1 April 2017 triennial valuation to 31 December 2020, using the following assumptions:

	2020	2019
Discount rate	1.30% p.a.	2.0% p.a.
Pensionable pay growth	3.85% p.a.	3.9% p.a.
Inflation	2.85% p.a.	2.9% p.a.
Pension in payment increases	3.45% p.a.	3.5% p.a.
Present value of scheme's liabilities at 31 December	£45.6m	£39.7m
Fair value of scheme's assets at 31 December	£35.9m	£33.7m

The assumed life expectations on retirement at age 65 are:	2020 Years	2019 Years
Retiring today:		
Males	22.3	22.2
Females	24.6	24.4
Retiring in twenty years:		
Males	23.6	23.5
Females	26.0	25.8

Based on the above assumptions, the estimated scheme deficit is approximately £9,735,000 (2019: £6,033,000).

The market value of assets includes figures supplied by State Street Global Advisors.

Notes to the financial statements (continued)
For the Year ended 31 December 2020

25. Pension commitments (continued)

The fair value of the scheme's assets is as follows:

	2020 Fair value £'000	2019 Fair value £'000	2018 Fair value £'000
Equities	25,677	23,972	23,208
Bonds (including gilts)	9,299	9,596	4,387
Cash/other	875	101	708
Total market value of assets	35,851	33,669	28,303
Present value of scheme liabilities	(45,586)	(39,702)	(35,921)
Deficit in the scheme	(9,735)	(6,033)	(7,618)
Related deferred tax asset	1,850	1,146	1,295
Net pension liability	(7,885)	(4,887)	(6,323)

Analysis of the changes in the present value of the defined benefit obligations

	2020 £'000	2019 £'000
Opening defined benefit obligation	39,702	35,921
Movement in the year:		
Current service cost	170	155
Member contributions	18	18
Interest cost	789	996
Actuarial losses/(gains)	5,479	3,338
Benefits paid	(572)	(726)
Closing defined benefit obligation	45,586	39,702

Analysis of the changes in the fair value of plan assets

	2020 £'000	2019 £'000
Opening fair value of plan assets	33,669	28,303
Movement in the year:		
Interest income	682	802
Expected return excluding amounts included in interest income	684	3,883
Contributions by employer	1,370	1,389
Member contributions	18	18
Benefits paid	(572)	(726)
Closing fair value of plan assets	35,851	33,669

25. Pension commitments (continued)

Analysis of amount charged to operating profit

	2020 £'000	2019 £'000
Current service cost	(170)	(155)
Contributions by employer	1,370	1,389
	1,200	1,234

Analysis of amount debited to other finance income/(expenses)

	2020 £'000	2019 £'000
Interest income on pension scheme assets	682	802
Interest on pension scheme liabilities	(789)	(996)
Net amount recognised in profit and loss	(107)	(194)

Analysis of amount recognised in other comprehensive income

	2020 £'000	2019 £'000
Return on pension scheme assets excluding amounts included in interest income	684	3,883
Experience gains and losses arising on the schemes' liabilities	-	-
Changes in assumptions underlying the present value of the scheme liabilities	(5,479)	(3,338)
Actuarial (loss)/gain recognised in other comprehensive income	(4,795)	545

Defined contribution schemes

A defined contribution scheme is operated for the employees of the Group joining after the defined benefit scheme was closed to new members. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost represents contributions payable by the group to the funds and amounted to £176,000 (2019: £196,000).

26. Parent undertaking

The company's ultimate parent company and controlling party is Quadriga International Limited, which is incorporated in the British Virgin Islands.

The immediate parent undertaking of the company is Rombas Holding SA, which is incorporated in the Republic of Panama.

27. Related party transactions

In accordance with Financial Reporting Standard No 102, transactions with other undertakings within the Hanover Acceptances Limited Group have not been disclosed in these financial statements.

28. Subsidiary undertakings

All subsidiaries have been incorporated in the UK and are registered in England and Wales, with registered office address as 16 Hans Road, London, SW3 1RT. They are 100% owned unless otherwise stated.

Directly held:	Activity:
Dorrington Holdings PLC	Dormant
Dorrington Property Group Limited	Investment Holding
Fresh Capital Group Limited	Investment Holding
Hanover Management Services Limited	Management and Secretarial Services
The Hanover Group Limited	Dormant

Indirectly held:	Activity:
25 Randolph Crescent Limited	Dormant
135 Ashmore Road Limited	Dormant
Barcforest Limited	Dormant
British Consolidated Investment Corporation Limited	Dormant
Capital & District Properties Limited	Dormant
Chesterfield Management Limited	Dormant
City West End & Suburban Shop Property Company Limited	Property Investment
Clifton House Islington Limited	Property Investment
Dorrington (Knightsbridge) Properties Limited	Dormant
Dorrington Belgravia Limited	Property Investment
Dorrington City Limited	Dormant
Dorrington Developments Limited	Dormant
Dorrington Estates Limited	Investment Holding
Dorrington Fulwood Limited	Property Investment
Dorrington Hanover Limited	Dormant
Dorrington Hatton Limited	Dormant
Dorrington Homes Limited	Dormant
Dorrington Housing Limited	Property Trading
Dorrington Hove Limited	Dormant
Dorrington Investment Plc	Investment Holding
Dorrington Investment Trust Limited	Dormant
Dorrington London Flats Limited	Property Investment
Dorrington Lyndale Limited	Investment Holding

28. Subsidiary undertakings (continued)

Indirectly held:	**Activity:**
Dorrington Management Limited	Dormant
Dorrington Midtown Limited	Property Investment
Dorrington Projects Limited	Dormant
Dorrington Properties Plc	Investment Holding
Dorrington Property Developments Limited	Property Investment
Dorrington Queensway Limited	Property Investment
Dorrington Residential Limited	Property Trading
Dorrington Southside Limited	Property Investment
Dorrington Southwark Limited	Dormant
F & D Knight Limited	Dormant
Hampstead Property (Residential) Limited	Dormant
Hampstead Property Limited	Dormant
Hanover Acceptances Finance Limited	Dormant
Hanover Administrators Limited	Dormant
Hanover Acceptances Investments Limited	Dormant
Hanover Dorrington Limited	Dormant
Hanover Financial Services Limited	Dormant
Hanover Property Developments Limited	Dormant
Hanover Property Trust Limited	Dormant
Heath (Properties) Limited	Dormant
Highcroft Estates Limited	Dormant
Lintsbrook Developments Limited	Dormant
London Consolidated Investments Limited	Dormant
London Consolidated Properties Limited	Property Investment
Lovat Pride (Mineral Water) Limited	Dormant
Lyndale Development Company Limited	Property Trading and Management
Oyo Properties Limited	Property Trading
Portman Estates Limited	Dormant
Portmans (Property Consultants) Limited	Dormant
Portstock Limited	Dormant
River's Edge Estates Limited	Dormant
Sarsfield Properties Limited	Dormant
SGMS Limited	Investment
Spice Property Investments Limited	Property Investment
Tamoa Investments Limited	Dormant
Throgmorton Securities Limited	Property Investment
Union Street Limited	Dormant
Ventaquest Developments Limited	Dormant
Walworth Investment Properties Limited	Property Investment

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Final Audit Report 2021-06-22

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