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BHR Group Limited

Annual Report and Accounts 1997

The Eighth Annual Report of BHR Group Limited



BHR Group Limited

The Fluid Engineering Centre
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Registered in England No. 2420351

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BHR GROUP LIMITED

Report of the Directors for the Year to 31st December 1997

Directors Responsibilities

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

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

We are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable us to ensure that the financial statements comply with the Companies Act 1985. We are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal Activities

The Profit and Loss Account for the year is set out on Page 5.

The principal activities of the Group are those of research and technological development using our expertise in fluid engineering together with technology transfer to industry.

Review of Business and Future Development

The core businesses continue to be profitable with the new business initiatives growing.

In January 1997, Don Miller resigned from the Board following his retirement from the Group after 31 years of employment.

Mr B Halligan retired as Non-Executive Director effective from December 1997 after a long association with BHR Group.

Diajet Limited (a subsidiary company) commenced trading in May 1997 to exploit the Company's patented abrasive Jet Cutting Technology.

Purchase of Own Shares

On 6th January 1997 the Company purchased 48236 of its own £1 A Ordinary Shares for £96,472 from Mr D Miller upon his retirement. This represented 13.9% of the issued £1 A ordinary shares.

Dividends

The Directors do not recommend the payment of a dividend.

Directors

Directors who served during the year ended 31st December 1997 and their interests in the shares of the Company are as follows:-

Ordinary Share Capital A Shares of £1 each		
	At 31st December 1997	At 31st December 1996
Mr I Cooper	69,048	69,048
Dr R King	55,238	55,238
Mr D S Miller	0	48,236
Mr J A R Muir	55,238	55,238
Mr M Papworth	55,238	55,238
Mr D N Turley	55,238	55,238
Ms R Wallsgrove	10,000	10,000
Mr B D P Halligan	NIL	NIL
Dr A Maclean	NIL	NIL

Ms R Wallsgrove also owned 200 B Shares of £1 each at 31 December 1997 and at 31 December 1996.

Mr D Miller resigned as director on 6th January 1997 and Mr B D P Halligan resigned as director on 31st December 1997.

Changes in Fixed Assets

The movements in fixed assets during the period are set out in Notes 11 to 13 to the financial statements.

Close Company Provisions

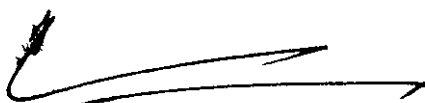
The Company is a close company as defined by the provisions of the Income and Corporation Taxes Act 1988.

Auditors

The auditors, Howard Watson Smith & Co., have indicated their willingness to accept re-appointment under Section 385(2) of the Companies Act 1985.

On Behalf of the Board

**Registered Office:-
The Fluid Engineering Centre
Cranfield
Bedfordshire
MK43 OAJ**

A handwritten signature in black ink, appearing to be 'I Cooper', with a long horizontal stroke extending to the right.

I Cooper
Chairman

BHR GROUP LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 1997

	NOTE	1997	1997	1996	1996
		£	£	£	£
Turnover	2		6,145,091		5,597,637
Change in stocks of finished goods and work in progress			(9,120)		6,718
			<u>6,135,971</u>		<u>5,604,355</u>
Own work capitalised			192,475		17,314
			<u>6,328,446</u>		<u>5,621,669</u>
Materials and other consumables		767,694		634,266	
Other external charges	3	<u>1,990,239</u>		<u>1,598,187</u>	
			2,757,933		2,232,453
			<u>3,570,513</u>		<u>3,389,216</u>
Staff costs	4	3,089,345		3,044,876	
Depreciation	11&12	<u>327,548</u>		<u>340,773</u>	
			3,416,893		3,385,649
Operating profit			<u>153,620</u>		<u>3,567</u>
Interest and other non-operating income	6		38,040		45,334
Interest payable	7		(72,632)		(53,318)
Profit / (loss) ordinary activities before tax			<u>119,028</u>		<u>(4,417)</u>
Tax on profit / (loss) on ordinary activities	8		(3,800)		(3,833)
Profit / (loss) on ordinary activities after tax			<u>115,228</u>		<u>(8,250)</u>
Purchase of own shares	18		(96,472)		(20,467)
Dividends	10		0		(19,928)
Retained profit / (loss) for the financial period	21		<u>18,756</u>		<u>(48,645)</u>

All activities derive from continuing operations. There are no recognised gains or losses other than the results for the two financial years disclosed above.

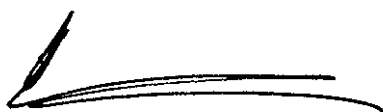
There are no material differences between the results disclosed in the above profit and loss account and those on an unmodified historical cost basis.

The annexed notes form part of these accounts.

BHR GROUP LIMITED
GROUP BALANCE SHEET AT 31 DECEMBER 1997

	NOTE	1997	1997	1996	1996
		£	£	£	£
FIXED ASSETS					
Intangible Assets	11		100,000		0
Tangible Assets	12		<u>1,398,717</u>		<u>1,321,969</u>
			1,498,717		1,321,969
CURRENT ASSETS					
Stocks and Work in Progress	14	155,356		164,137	
Debtors: amounts due within one year	15	2,308,655		1,977,509	
Cash at Bank and in hand		<u>621,217</u>		<u>197,987</u>	
		3,085,228		2,339,633	
Creditors: amounts falling due within one year	16	<u>3,528,948</u>		<u>2,555,505</u>	
NET CURRENT LIABILITIES			(443,720)		(215,872)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,054,997		1,106,097
Creditors: amounts falling due after more than one year	17		<u>229,367</u>		<u>299,223</u>
NET ASSETS			<u>825,630</u>		<u>806,874</u>
CAPITAL AND RESERVES					
Called up Share Capital	18		350,333		398,569
Share Premium	19		15,500		15,500
Capital Redemption Reserve	20		193,577		145,341
Profit & Loss Account	21		<u>262,720</u>		<u>243,964</u>
EQUITY SHAREHOLDERS' FUNDS	22		822,130		803,374
Minority Interest - Equity			<u>3,500</u>		<u>3,500</u>
			<u>825,630</u>		<u>806,874</u>

These accounts were approved by the board of directors on 9th July 1998 and were signed on its behalf by:



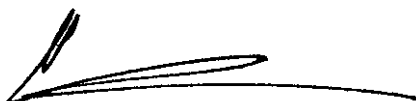
I. Cooper, Director

The annexed notes form part of these accounts.

BHR GROUP LIMITED
COMPANY BALANCE SHEET AT 31 DECEMBER 1997

	NOTE	1997	1997	1996	1996
		£	£	£	£
FIXED ASSETS					
Intangible Assets	11		100,000		0
Tangible Assets	12		1,295,076		1,209,607
Investments	13		10,591		10,591
			<u>1,405,667</u>		<u>1,220,198</u>
CURRENT ASSETS					
Stocks and Work in Progress	14	110,302		114,226	
Debtors: amounts due within one year	15	2,165,093		1,712,389	
Cash at Bank and in hand		619,283		190,048	
		<u>2,894,678</u>		<u>2,016,663</u>	
Creditors: amounts falling due within one year	16	3,381,398		2,314,050	
NET CURRENT LIABILITIES			<u>(486,720)</u>		<u>(297,387)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>918,947</u>		<u>922,811</u>
Creditors: amounts falling due after more than one year	17		195,014		241,830
NET ASSETS			<u>723,933</u>		<u>680,981</u>
CAPITAL AND RESERVES					
Called up Share Capital	18		350,333		398,569
Share Premium	19		15,500		15,500
Capital Redemption Reserve	20		193,577		145,341
Profit & Loss Account	21		164,523		121,571
EQUITY SHAREHOLDERS' FUNDS			<u>723,933</u>		<u>680,981</u>

These accounts were approved by the board of directors on 9th July 1998 and were signed on its behalf by:



I. Cooper, Director

The annexed notes form part of these accounts.

BHR GROUP LIMITED
 GROUP CASH FLOW STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £	1997 £	1996 £	1996 £
NET CASH INFLOW FROM OPERATING ACTIVITIES		1,102,008		420,322
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Rent received	22,000		26,423	
Interest received	4,024		15,185	
Interest paid	<u>(72,632)</u>		<u>(53,318)</u>	
		(46,608)		(11,710)
TAXATION				
Corporation tax paid		0		(17,501)
CAPITAL EXPENDITURE				
Payments to acquire fixed assets	(507,409)		(369,280)	
Receipts from sale of fixed assets	<u>7,759</u>		<u>17,453</u>	
		(499,650)		(351,827)
EQUITY DIVIDENDS PAID				
On ordinary share capital		0		(19,928)
FINANCING				
Purchase of own shares	(96,472)		(20,467)	
Net debt outflow	<u>(95,669)</u>		<u>(6,943)</u>	
		(192,141)		(27,410)
INCREASE / (DECREASE) IN CASH		<u>363,609</u>		<u>(8,054)</u>

BHR GROUP LIMITED

GROUP CASH FLOW STATEMENT - CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £		1996 £
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Operating profit	153,620		3,567
Depreciation charges	327,548		340,773
Foreign exchange gain	7,370		0
Decrease / (Increase) in stocks	8,781		(11,917)
Increase in debtors	(331,146)		(326,147)
Increase in creditors	935,835		414,046
NET CASH FLOW OPERATING ACTIVITIES	<u>1,102,008</u>		<u>420,322</u>
ANALYSIS OF CHANGES IN NET DEBT			
	1996 £	Cash flow	1997 £
Cash at bank and in hand	197,987	423,230	621,217
Bank overdraft	(320,476)	(59,621)	(380,097)
		<u>363,609</u>	
Debt due within one year (hire purchase and loans)	(171,645)	25,813	(145,832)
Debt due after one year (hire purchase and loans)	(299,223)	69,856	(229,367)
		<u>95,669</u>	
	<u>(593,357)</u>		<u>(134,079)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	£		£
Increase / (decrease) in cash	363,609		(8,054)
Cash outflow from decrease in debt	95,669		6,943
	<u>459,278</u>		<u>(1,111)</u>
Net debt at 31st December 1996	(593,357)		(592,246)
Net debt at 31st December 1997	<u>(134,079)</u>		<u>(593,357)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 1997

COMPLIANCE WITH ACCOUNTING STANDARDS

The financial statements have been prepared in accordance with applicable accounting standards. There were no material departures from those standards.

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year and also have been consistently applied within the accounts.

Basis of Preparation of Financial Statement

The financial statements have been prepared under the historical cost convention. In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account for BHR Group is not presented.

The effect of events relating to the year ended 31st December 1997 which occurred before the date of approval of the financial statements by the Board of Directors has been included in the statements to the extent required to show a true and fair view of the state of affairs at 31st December 1997 and of the results for the year ended on that date.

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

Turnover

Turnover, which excludes value added tax, represents the amount receivable for work done in the period in respect of all items. Consortia income is accounted for on an accruals basis, being time-apportioned over the period of each consortium year, with further adjustments, if necessary, to reflect the assessed state of completion of work done. Subscriptions and publications are treated as income in the period in which they become receivable, no provision being made for accruals. Turnover includes grants of a revenue nature received from departments of the UK Government and European Commission.

Depreciation on Tangible Fixed Assets

Tangible fixed assets are depreciated, on a straight-line basis, over the following periods:-

Leasehold Property - over the remaining life of the lease
 Furniture and Equipment, 4-13 years
 Equipment and Motor Vehicles - 4 years

Research and Development Expenditure

Expenditure on research is written off in the year in which it is incurred.

Development expenditure is capitalised only on projects where the Board have a very high expectation that future income generated by such expenditure will exceed capitalised past costs plus anticipated future expenditure. The period of amortisation varies according to the Directors' assessment of the expected benefit from the expenditure and commences in the period in which the related income is expected to be earned. Expenditure is amortised over a maximum period of 4 years.

The deferred expenditure is reviewed at the end of each accounting period and where the circumstances which have justified the deferral no longer apply or are considered doubtful, the expenditure, to the extent to which it is considered to be irrecoverable, is written off immediately.

In view of the policy adopted development expenditure capitalised is not considered to be a realised loss under Section 269 Companies Act 1985, and thus not a reduction in distributable profits.

All other development costs have been included in the normal trading of the Company.

Stocks and Work in Progress

Stocks and Work-in-Progress are stated at the lower of cost and net realisable value. In the case of work in progress, cost consists of direct materials, labour and overheads.

There were no significant differences between the replacement cost and the values disclosed for any categories of stock.

Amounts recoverable on long term contracts represent the excess of the value of work carried out over cumulative payments on account. Long term contracts are valued at cost plus attributable profit earned to date less provision for foreseeable losses.

Foreign Currencies

Assets and liabilities denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Assets Acquired on Finance Leases and Hire Purchase

The accounting treatment of assets acquired on finance leases and hire purchase agreements is to capitalise the full cost of the asset at the commencement of each agreement. Outstanding instalments are shown as part of creditors. Instalments paid under such agreements are regarded as consisting of a capital element which reduces the outstanding liability and an interest element which is charged to the profit and loss account.

All other leases are regarded as operating leases and the total payments made under them are charged in the profit and loss account on a straight line basis over the lease term.

Contributions to Pension Fund

The Company operates a defined benefit pension scheme for eligible employees under which contributions by employees and the Company are administered by trustees in a fund independent from the company's assets. Payments made to the fund are charged annually in these accounts as part of employment costs. Full actuarial valuations by an independent qualified actuary are made regularly at least at three yearly intervals and contribution rates reviewed. In the intervening years the actuary reviews the continuing appropriateness of rates.

Basis of Consolidation

The consolidated financial statements include the company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated fully on consolidation.

Deferred Taxation

Tax deferred or accelerated is accounted for using the liability method, in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Investment Property

In accordance with SSAP19, the investment property is revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. Since becoming an investment property, no depreciation is provided in respect of the investment property.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP19. The directors consider that, because the property is not held for consumption but for its investment potential, to depreciate it would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view.

2) TURNOVER

The geographical split of turnover is as follows:

	1997 £	1996 £
United Kingdom	3,292,127	2,884,339
Europe	1,635,791	1,732,890
America	726,670	346,952
Africa	16,233	102,507
South America	112,830	50,486
Middle East	27,323	0
Australasia	0	2,424
Asia	334,117	478,039
	<u>6,145,091</u>	<u>5,597,637</u>

3) OTHER EXTERNAL CHARGES include:

	£	£
Operating Lease payments:-		
- Land & Buildings	41,560	39,666
Audit Fees	23,750	19,750
Loss on foreign exchange	2,224	17,009

4) STAFF

Staff costs including executive directors amounted to :-

	£	£
Wages and salaries	2,697,283	2,648,724
Social security	218,280	234,359
Pension costs	159,234	146,350
Private medical insurance	14,548	15,443
	<u>3,089,345</u>	<u>3,044,876</u>

The average number of employees and executive directors during the year was 142 (1996: 138), in the following categories:

	Number	Number
Scientific and Research	97	93
Administrative and management	25	25
Technical support	20	20

5) EMOLUMENTS

	1997 £	1996 £
In respect of directors of the company:		
Fees	10,000	10,000
Other emoluments	325,449	375,088
	<u>335,449</u>	<u>385,088</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	£	£
The highest paid director	73,568	79,553

In addition, the highest paid director had accrued pension benefits of £ 21,501 (1996:£19,722), under the defined benefit scheme.

During the year 7 directors were accruing benefits under the defined benefit pension scheme.

6) INTEREST & OTHER NON-OPERATING INCOME

	£	£
Bank interest received	4,024	14,323
Other interest received	0	862
Profit on foreign exchange	7,370	
Profit from sale of fixed assets	4,646	3,726
Rent	22,000	26,423
	<u>38,040</u>	<u>45,334</u>

7) INTEREST PAYABLE

	£	£
On bank loan and overdrafts	32,084	19,834
On hire purchase contracts of a financing nature	25,343	21,427
On a loan from the BHRG Pension Fund repayable by instalments over 20 years.	15,205	11,968
Other interest	0	89
	<u>72,632</u>	<u>53,318</u>

8) TAX ON PROFIT ON ORDINARY ACTIVITIES	1997 £	1996 £
Current year:		
Corporation tax at 21.75% (1996 - 24.25%)	3,800	4,567
Prior years' corporation tax	0	(734)
	<u>3,800</u>	<u>3,833</u>

The movement on unprovided deferred taxation for the year was as follows:

Development costs	20,000	(7,880)
Accelerated capital allowances	8,284	(4,786)
Short term difference	(1,493)	3,704
	<u>26,791</u>	<u>(8,962)</u>

9) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit before dividends and purchase of own shares for the financial period of the parent company is £139,424 (1996: £22,915).

10) DIVIDENDS	£	£
Interim dividend paid on 398,569 ordinary shares at 5p per share	<u>NIL</u>	<u>19,928</u>

11) INTANGIBLE FIXED ASSETS

This relates to deferred development expenditure. Such expenditure is capitalised in the year in which it is incurred, and amortised in subsequent years in accordance with the accounting policy set out in note 1.

DEFERRED DEVELOPMENT EXPENDITURE	GROUP £	COMPANY £
COST		
At 31 December 1996	35,000	20,000
Fully written down	(35,000)	(20,000)
Additions	100,000	100,000
At 31 December 1997	<u>100,000</u>	<u>100,000</u>
AMORTISATION		
At 31 December 1996	35,000	20,000
Fully written down	(35,000)	(20,000)
Charge for the year	0	0
At 31 December 1997	<u>0</u>	<u>0</u>
NET BOOK VALUE		
At 31 December 1996	<u>0</u>	<u>0</u>
At 31 December 1997	<u>100,000</u>	<u>100,000</u>

12) TANGIBLE FIXED ASSETS

GROUP	TOTAL	FREEHOLD PROPERTY	SHORT LEASEHOLD	LABORATORY & OFFICE EQUIPMENT	MOTOR VEHICLES
	£	£	£	£	£
COST					
At 31st December 1996	3,814,265	257,827	593,074	2,648,566	314,798
Additions	407,409	0	0	352,053	55,356
Disposals	(41,483)	0	0	(1,650)	(39,833)
At 31st December 1997	<u>4,180,191</u>	<u>257,827</u>	<u>593,074</u>	<u>2,998,969</u>	<u>330,321</u>
DEPRECIATION					
At 31st December 1996	2,492,296	15,468	290,445	1,987,183	199,200
	327,548	0	41,612	222,170	63,766
	(38,370)	0	0	(755)	(37,615)
	<u>2,781,474</u>	<u>15,468</u>	<u>332,057</u>	<u>2,208,598</u>	<u>225,351</u>
NET BOOK VALUE					
At 31st December 1996	1,321,969	242,359	302,629	661,383	115,598
At 31st December 1997	<u>1,398,717</u>	<u>242,359</u>	<u>261,017</u>	<u>790,371</u>	<u>104,970</u>

At 31st December 1997, tangible fixed assets (included above) with a cost of £382,272 (1996: £581,312) and a net book value of £233,721 (1996: £360,548) were the subject of finance lease under hire purchase arrangements. Depreciation charged during the year on these assets amounted to £90,062 (1996: £129,825)

COMPANY

	£	£	£	£	£
COST					
At 31st December 1996	3,504,655	257,827	593,074	2,418,693	235,061
Additions	363,648	0	0	336,210	27,438
Disposals	(27,194)	0	0	0	(27,194)
At 31st December 1997	<u>3,841,109</u>	<u>257,827</u>	<u>593,074</u>	<u>2,754,903</u>	<u>235,305</u>
DEPRECIATION					
At 31st December 1996	2,295,048	15,468	290,445	1,823,838	165,297
	275,961	0	41,612	190,590	43,759
	(24,976)	0	0	0	(24,976)
	<u>2,546,033</u>	<u>15,468</u>	<u>332,057</u>	<u>2,014,428</u>	<u>184,080</u>
NET BOOK VALUE					
At 31st December 1996	1,209,607	242,359	302,629	594,855	69,764
At 31st December 1997	<u>1,295,076</u>	<u>242,359</u>	<u>261,017</u>	<u>740,475</u>	<u>51,225</u>

a) At 31st December 1997, tangible fixed assets (included above) with a cost of £282,774 (1996: £511,093) and a net book value of £180,109 (1996: £309,647) were the subject of finance lease under hire purchase arrangements. Depreciation charged during the year on these assets amounted to £67,230 (1996: £113,608).

b) The freehold property is an investment property. At 31st December 1997, the property is stated at open market value, as determined by the directors following advice from a property agent.

13) INVESTMENTS - Company only

	1997 £	1996 £
950 ordinary shares of £1 each in SFK Technology Limited (100% of issued share capital) (Computer software research and technological development)	950	950
2 ordinary shares of £1 each in Diajet Limited (formerly Fluid Developments Limited (100% of issued share capital) (Research and technical development of abrasive water jet cutting equipment)	0	0
965 ordinary shares of £1 each in Nimix Limited (96.5% of issued share capital) (Manufacturer of industrial mixers)	9,641	9,641
1 ordinary share of £1 in Intech Technology Management Limited (100% of issued share capital)(Developing World Technology aid)	0	0
	<u>10,591</u>	<u>10,591</u>

All the above companies are incorporated in England and Wales.

GROUP

COMPANY

14) STOCKS & WORK-IN-PROGRESS

	1997 £	1996 £	1997 £	1996 £
Work in progress	81,042	92,014	79,027	72,308
Publication stocks	11,807	14,099	11,807	14,099
Other stocks	62,742	62,403	19,468	27,819
Payments on account	(235)	(4,379)	0	0
	<u>155,356</u>	<u>164,137</u>	<u>110,302</u>	<u>114,226</u>

15) DEBTORS

	£	£	£	£
DUE WITHIN ONE YEAR:				
Trade debtors	1,401,306	1,392,963	958,342	1,157,165
Trade debtors - BHRA	0	10,221	0	10,221
Amounts recoverable on contracts	738,756	400,937	653,272	257,373
Other debtors	40,396	50,970	36,646	45,265
Prepayments and accrued income	87,854	87,670	80,508	78,998
Loan	36,843	31,248	0	0
Called up share capital not paid	3,500	3,500	0	0
Amounts owed by group undertakings	0	0	436,325	163,367
	<u>2,308,655</u>	<u>1,977,509</u>	<u>2,165,093</u>	<u>1,712,389</u>

Included in other debtors is an amount of £849 (1996: £3,230) owed to the company by a director, Mr I Cooper. The maximum amount owed during the year was £3,230.

16) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£	£	£	£
Bank loan and overdraft (secured)	400,097	339,044	315,576	288,825
Trade creditors	927,270	726,147	768,188	636,962
Social security and other taxes	96,679	84,614	70,790	84,614
Accruals and deferred income	493,509	360,701	450,802	345,179
Other creditors	131,288	51,574	123,879	39,480
Payments received on account	1,350,473	840,348	1,284,481	789,300
Obligations under hire purchase (secured)	112,632	139,877	88,682	116,490
Corporation tax	3,800	0	3,800	0
Long term loans - due within one year (secured)	13,200	13,200	13,200	13,200
Amounts owed to group undertakings	0	0	262,000	0
	<u>3,528,948</u>	<u>2,555,505</u>	<u>3,381,398</u>	<u>2,314,050</u>

The bank loan and overdraft are secured by a fixed and floating charge over the assets of the company and subsidiary companies.

	GROUP		COMPANY	
17) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	1997 £	1996 £	1997 £	1996 £
Long term loans - amounts due after one year:				
Bank loan (secured)	18,602	38,455	0	0
Loan from BHRG Pension Fund	145,201	158,401	145,201	158,401
Obligations under hire purchase (secured)	65,564	102,367	49,813	83,429
	<u>229,367</u>	<u>299,223</u>	<u>195,014</u>	<u>241,830</u>

a) The loan from BHRG Pension Fund bears interest at 7.25%, is repayable within 17 years and is secured against the freehold building at Oxford.

b) The above liabilities are repayable as follows:

	£	£	£	£
Between one and two years	90,368	106,797	63,013	76,269
Between two and five years	46,598	86,826	39,600	59,961
In five years or more	92,401	105,600	92,401	105,600
	<u>229,367</u>	<u>299,223</u>	<u>195,014</u>	<u>241,830</u>

18) SHARE CAPITAL

	Authorised £	Allotted, called up and fully paid	
		1997 £	1996 £
Ordinary "A" shares £1 each	660,000	300,000	348,236
Ordinary "B" shares £1 each	440,000	50,333	50,333
Ordinary "C" shares £1 each	1,000,000	0	0
Preference shares £1 each	1,000,000	0	0
	<u>3,100,000</u>	<u>350,333</u>	<u>398,569</u>

On 6 January 1997 the company purchased 48,236 of its own £1 'A' ordinary shares from Mr D. Miller for £96,472, and these shares were cancelled.

19) SHARE PREMIUM ACCOUNT

GROUP AND COMPANY

£

At 31 December 1997 and 31 December 1996

15,500

GROUP AND COMPANY

20) CAPITAL REDEMPTION RESERVE

	£
At 31 December 1996	145,341
Arising on purchase of 48,236 'A' ordinary shares on 6 January 1997	48,236
At 31 December 1997	<u>193,577</u>

21) PROFIT AND LOSS ACCOUNT

	GROUP	COMPANY
	£	£
At 31 December 1996	243,964	121,571
Retained profit for the year	18,756	42,952
At 31 December 1997	<u>262,720</u>	<u>164,523</u>

22) RECONCILIATION OF MOVEMENTS
IN SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	1997 £	1996 £	1996 £	1996 £
Profit / (loss) for the financial year	115,228	(8,250)	139,424	22,915
Dividends	0	(19,928)	0	(19,928)
Purchase of own shares	(96,472)	(20,467)	(96,472)	(20,467)
Net addition to / (reduction in) shareholders' funds	<u>18,756</u>	<u>(48,645)</u>	<u>42,952</u>	<u>(17,480)</u>
Opening shareholders' funds	803,374	852,019	680,981	698,461
Closing shareholders' funds	<u>822,130</u>	<u>803,374</u>	<u>723,933</u>	<u>680,981</u>

23) CAPITAL COMMITMENTS

There were no capital commitments at 31 December 1997 or 31 December 1996.

24) CONTINGENT LIABILITIES

The company has provided guarantees to the bankers of the subsidiary companies. At 31 December 1997 total borrowings of the subsidiary companies amounted to £103,123 (1996: £88,674).

There is a contingent liability to deferred taxation as set out in note 27.

In respect of research and technological development work, the group receives grants from departments of the U.K. Government and European Commission. In certain circumstances these grants are repayable by the group either in whole or in part. The directors are not aware of any circumstances that have arisen that would give rise to the repayment of any grant and do not expect such a circumstance to arise in the future.

25) LEASING COMMITMENTS

At 31 December 1997 annual commitments under non-cancellable operating leases were as follows:

	1997	1996
	Land and Buildings £	Land and Buildings £
GROUP AND COMPANY		
Expiring within one year	1,500	1,500
Expiring within two and five years	27,810	27,810
Expiring over five years	10,750	10,750
	<u>40,060</u>	<u>40,060</u>

26) PENSION OBLIGATIONS

The company operates a pension scheme for eligible employees providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by an insurance company acting as investment managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on the investments and the rate of increase in salaries and pensions. It was assumed that the investment returns would be 8.5% per annum, that salary increases would average 6.5% per annum and that present and future pensions would increase at the rate of 4% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £7,169,000 and that the actuarial value of those assets represented 104% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will continue at 10.25% and 6% of earnings respectively. The charge for the year was £159,234 (1996: £146,350).

	GROUP		COMPANY	
27) DEFERRED TAXATION	1997	1996	1997	1996
	£	£	£	£
The full potential liability at 20% (1996: 21%) is as follows:				
Development costs	20,000	0	20,000	0
Accelerated capital allowances	159,139	150,855	147,216	134,264
Short term timing differences	0	1,493	0	1,493
	<u>179,139</u>	<u>152,348</u>	<u>167,216</u>	<u>135,757</u>

The group's medium term plans show that there will be no reversals of timing differences so as to crystallise a tax liability, and no deferred tax has been provided in the accounts.

28) CONTROL RELATIONSHIP

BHR Group Limited is under the control of the directors who have the following percentage holdings in the issued 'A' ordinary share capital of that company:

	1997
	%
I Cooper	23.0
JAR Muir	18.4
R King	18.4
M Papworth	18.4
D Turley	18.4
R Walsgrove	3.4

Auditors Report to the Members of**BHR Group Limited**

We have audited the financial statements on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective Responsibilities of Directors and Auditors

As described on Page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, reading "Howard Watson Smith". The signature is written in a cursive, flowing style with a large, stylized 'H' and 'W'.

Howard Watson Smith & Co
Chartered Accountants
Registered Auditors
Milton Keynes

9 July 1998