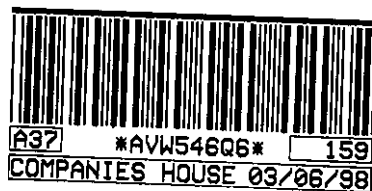


BALS ENGINEERING GROUP LIMITED
DIRECTORS' REPORT AND ACCOUNTS
YEAR ENDED 31 MARCH 1998
REGISTERED NUMBER: 2769705



BALS ENGINEERING GROUP LIMITED

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited accounts of the group and of the company for the year ended 31 March 1998.

REVIEW OF THE BUSINESS

The group's principal activity is that of electrical component manufacture and electrical engineering.

The directors are satisfied with the performance of the group during the year and believe the group to be well positioned to take advantage of future opportunities.

RESULTS AND DIVIDENDS

The profit for the group before taxation amounted to £786,679 (1997: £630,808). The directors propose to provide £67,646 for preference share dividends (1997: £94,849) and £39,334 for equity dividends (1997: £31,540) and to transfer £468,672 (1997: £267,146) to reserves.

TANGIBLE FIXED ASSETS

The changes in the tangible fixed assets of the group and the company during the period are summarised in Note 8.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period and their interests in the shares of the company were as follows:

	At 31 March 1998 <u>Ordinary 10p shares</u>	At 31 March 1997 <u>Ordinary 10p shares</u>
MJ Kelly	574,543	574,543
S Jackson	96,243	96,243
F Duffy (resigned 31 July 1997)	96,243	96,243
D Scholey	96,244	96,244
G Bals	457,520	457,520
R Begbie	-	-
R Powell	96,244	96,244
J Gibson	96,244	96,244

BALS ENGINEERING GROUP LIMITED

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial period and of the profit or loss for the financial period.

The directors confirm that appropriate accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements for the year ended 31 March 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board


S. Jackson
Secretary

19 May 1998

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF BALS ENGINEERING GROUP LIMITED

We have audited the financial statements on pages 4 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective Responsibilities of Directors and Auditors

As described on page 2 the company's directors are responsible for the preparation of the 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 circumstances of the company and are consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1998 and of the profit of the company and group and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

19 May 1998

BALS ENGINEERING GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998

	<u>1998</u>	<u>1997</u>
TURNOVER (Note 2)	13,238,328	12,722,703
Cost of sales	(10,456,661)	(10,056,176)
	<hr/>	<hr/>
GROSS PROFIT	2,781,667	2,666,527
Distribution costs	(663,738)	(551,532)
Administrative expenses	(1,274,085)	(1,331,695)
	<hr/>	<hr/>
OPERATING PROFIT	843,844	783,300
Interest payable (Note 4)	(123,533)	(172,593)
Interest receivable (Note 4)	66,368	20,101
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	786,679	630,808
Taxation on profit on ordinary activities (Note 6)	(211,027)	(237,273)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	575,652	393,535
Dividends paid and proposed (equity and non-equity) (Note 7)	(106,980)	(126,389)
	<hr/>	<hr/>
RETAINED PROFIT TRANSFERRED TO RESERVES (Note 17)	<u>£468,672</u>	<u>£267,146</u>

All results relate entirely to continuing operations.

RECOGNISED GAINS AND LOSSES

The group has no recognised gains or losses, as defined in Financial Reporting Standard 3 ("FRS3"), Reporting Financial Performance, which are not included in the above profit and loss account.

HISTORICAL COST PROFITS AND LOSSES

There is no material difference between the reported profits and the historical cost profits for the year.

BALS ENGINEERING GROUP LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998**

	<u>1998</u>	<u>1997</u>
Income from group undertakings	543,477	359,134
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	543,477	359,134
Taxation on profit on ordinary activities (Note 6)	2,962	(33,610)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	546,439	325,524
Dividends paid and proposed (equity and non-equity) (Note 7)	(106,980)	(126,389)
	<hr/>	<hr/>
RETAINED PROFIT TRANSFERRED TO RESERVES (Note 17)	<u>£439,459</u>	<u>£199,135</u>

Recognised Gains and Losses

The company has no recognised gains or losses, as defined by Financial Reporting Standard 3 ("FRS3"), Reporting Financial Performance, which are not included in the above profit and loss account.

Historical Cost Profits and Losses

There is no material difference between the reported profits and the historical cost profits for the year.

BALS ENGINEERING GROUP LIMITED

BALANCE SHEETS AS AT 31 MARCH 1998

	<u>Group</u>		<u>Company</u>	
	1998	1997	1998	1997
FIXED ASSETS				
Tangible fixed assets (Note 8)	2,204,333	2,057,139	-	-
Investments (Note 9)	-	-	1,310,900	1,310,900
	<hr/>	<hr/>	<hr/>	<hr/>
	2,204,333	2,057,139	1,310,900	1,310,900
CURRENT ASSETS				
Stocks (Note 10)	1,328,306	1,042,029	-	-
Debtors (Note 11)	3,046,228	2,425,698	1,965,886	1,447,783
Cash at bank and in hand	396,627	135,600	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4,771,161	3,603,327	1,965,886	1,447,783
CREDITORS (amounts falling due within one year) (Note 12)	(4,433,003)	(3,218,862)	(1,033,505)	(549,418)
	<hr/>	<hr/>	<hr/>	<hr/>
NET CURRENT ASSETS	338,158	384,465	932,381	898,365
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES	2,542,491	2,441,604	2,243,281	2,209,265
CREDITORS (amounts falling due after more than one year) (Note 13)	(655,825)	(771,065)	(370,875)	(494,500)
PROVISIONS FOR LIABILITIES AND CHARGES (Note 15)	(138,349)	(109,076)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	£1,748,317	£1,561,463	£1,872,406	£1,714,765
	<hr/>	<hr/>	<hr/>	<hr/>
CAPITAL AND RESERVES				
Called up share capital (equity and non-equity) (Note 16)	1,019,797	1,301,615	1,019,797	1,301,615
Capital redemption reserve (Note 17)	624,455	342,637	624,455	342,637
Profit and loss account (Note 17)	550,786	363,932	228,154	70,513
Goodwill reserve (Note 17)	(446,721)	(446,721)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
SHAREHOLDERS' FUNDS (EQUITY AND NON-EQUITY) (Note 18)	£1,748,317	£1,561,463	£1,872,406	£1,714,765
	<hr/>	<hr/>	<hr/>	<hr/>

The financial statements on pages 4 to 20 were approved by the board on 19 May 1998 and are signed on their behalf by:



S Jackson
Director

BALS ENGINEERING GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 1998

	<u>1998</u>		<u>1997</u>	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 23)		1,325,284		1,321,540
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Dividends paid on non-equity shares	(40,919)		(83,885)	
Interest paid	(104,586)		(149,554)	
Interest element of finance lease repayments	(18,947)		(23,039)	
Interest received	66,368		20,101	
		(98,084)		(236,377)
CORPORATION TAX		(185,980)		(329,784)
CAPITAL EXPENDITURE				
Purchase of tangible fixed assets	(256,190)		(541,194)	
Proceeds on sale of fixed assets	4,411		191,989	
		(251,779)		(349,205)
EQUITY DIVIDENDS PAID		-		(15,892)
FINANCING				
Repayments of loans (Note 25)	(84,325)		(158,169)	
Capital element of finance lease repayments (Note 25)	(162,271)		(200,355)	
Redemption of share capital	(281,818)		(281,818)	
New loans (Note 25)	-		243,485	
		(528,414)		(396,857)
INCREASE/(DECREASE) IN CASH (Note 24)		£261,027		£(6,575)

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998

1 ACCOUNTING POLICIES

(a) Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Group consolidation

The group accounts comprise a consolidation of the holding company, Bals Engineering Group Limited, together with the accounts of its subsidiaries for the year ended 31 March 1998. The goodwill arising on acquisition of the subsidiaries is written off immediately to a goodwill reserve.

(c) Turnover

Turnover and profit are derived from the group's principal activity. Turnover comprises amounts invoiced (excluding value added tax) in respect of goods sold together with the sales value of work done on contracts on a percentage of completion basis during the year.

(d) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of tangible assets by the straight line method over their estimated useful lives as follows:

Freehold land	Not depreciated
Freehold buildings	5% per annum
Plant and equipment	10% per annum
Workshop tools	10% per annum
Machine tools	5% per annum
Motor vehicles	20% per annum
Computer equipment	33% per annum

(e) Leases

Tangible fixed assets subject to finance lease arrangements are capitalised in the balance sheet and the related lease liability is included in creditors. Any such assets are depreciated at rates described above.

Operating lease rentals are charged to the profit and loss account in the period to which the rent relates.

(f) Stock and work in progress

Stocks, being finished goods for resale, are stated at the lower of cost and net realisable value.

Work in progress is stated at the lower of cost and estimated net realisable value. The cost of work in progress includes an appropriate proportion of production overheads. Full provision is made for contracting losses as soon as the loss is foreseen.

Where turnover on long term contract work in progress differs from invoiced progress payments, the balance is included in debtors or creditors as appropriate.

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

1 ACCOUNTING POLICIES (continued)

(g) Deferred taxation

Provision is made for deferred taxation on the liability method to the extent that a liability is expected to arise in the foreseeable future.

(h) Government grants

Grants of a capital nature have been credited to deferred income and are amortised over the useful lives of the relevant assets. Labour related grants are taken to profit and loss account over the period of the relevant projects.

(i) Pensions

During the year the group operated an externally administered money purchase pension scheme for its directors and employees. The pension costs are charged to the profit and loss account in the period in which they are payable.

(j) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of those transactions.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

(k) Investments

Investments are carried at cost less any provision for permanent diminution in value.

2 TURNOVER

Turnover and profit are derived from the group's principal activities.

A geographical analysis of turnover by destination is as follows:

	<u>1998</u>	<u>1997</u>
United Kingdom	12,859,590	11,690,245
Mainland Europe	57,997	213,281
Rest of World	320,741	819,177
	<hr/>	<hr/>
	£13,238,328	£12,722,703
	<hr/>	<hr/>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):

	<u>1998</u> £	<u>1997</u> £
Wages and salaries	4,408,657	3,796,779
Social security costs	380,848	313,560
Other pension costs	132,251	118,340
Operating lease rentals - other (Note 22)	103,093	7,516
Auditors' remuneration - audit services (including £2,000 in respect of the company (1997: £2,000))	22,000	18,500
- other services	56,520	22,000
Depreciation on owned assets	230,461	203,231
Depreciation on assets held under finance leases	86,420	93,395
Profit on foreign exchange transactions	(41,629)	(26,294)
Redundancy costs	-	1,361
	<u> </u>	<u> </u>

The average number of persons employed by the group (including directors) during the year was 216 (1997 - 196).

4 INTEREST

	<u>1998</u>	<u>1997</u>
On amounts due within five years		
Interest payable on bank overdraft	80,659	68,637
Interest payable on bank loans	875	72,899
Interest on finance lease agreements	18,947	23,039
	<u> </u>	<u> </u>
	100,481	164,575
On amounts due after more than five years:		
Interest payable on bank loans	23,052	8,018
	<u> </u>	<u> </u>
	£123,533	£172,593
	<u> </u>	<u> </u>
Interest receivable	£66,368	£20,101
	<u> </u>	<u> </u>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

5 DIRECTORS' EMOLUMENTS

Included in staff costs (Note 3) is an amount of £234,495 (1997: £271,596) (excluding pension contributions) relating to directors' remuneration.

Total contributions to the company's pension scheme, in respect of the 6 (1997: 6) directors to whom retirement benefits are being accrued were £10,525 (1997: £10,900).

The highest paid director received emoluments of £49,206 (1997: £58,499) for the year, and in addition the company contributed £4,788 (1997: £4,433) in respect of money purchase benefits accruing to him.

In addition to the above, fees of £14,723 (1997: £8,646) were paid to the principal employer of Rod Begbie, a non-executive director, in consideration for his services.

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1998</u>	<u>1997</u>
The taxation on profit for the year comprises:		
Group		
Current year:		
Corporation tax at 31%	246,500	283,000
Deferred tax	5,234	(55,596)
Prior year:		
Corporation tax	(64,746)	9,762
Deferred tax	24,039	107
	<u>£211,027</u>	<u>£237,273</u>
Company		
Current year:		
Corporation tax at 31%	-	33,610
Prior year:		
Corporation tax	(2,962)	-
	<u>£(2,962)</u>	<u>£33,610</u>

7 DIVIDENDS PAID AND PROPOSED

Group and Company

	<u>1998</u>	<u>1997</u>
<u>Non-equity</u>		
Preference dividends - paid	-	58,330
- proposed	67,646	36,519
	<u>67,646</u>	<u>94,849</u>
<u>Equity</u>		
Proposed preferred ordinary dividend	39,334	31,540
	<u>£106,980</u>	<u>£126,389</u>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

8 TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost				
At 1 April 1997	822,500	1,221,901	912,554	2,956,955
Additions	195,917	111,901	159,130	466,948
Disposals	-	-	(173,908)	(173,908)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	1,018,417	1,333,802	897,776	3,249,995
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 1997	56,242	352,249	491,325	899,816
Charge for period	35,386	123,295	158,200	316,881
Disposals	-	-	(171,035)	(171,035)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	91,628	475,544	478,490	1,045,662
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount				
At 31 March 1998	£926,789	£858,258	£419,286	£2,204,333
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1997	£766,258	£869,652	£421,229	£2,057,139
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the cost of plant and machinery and fixtures, fittings and equipment is £426,982 (1997: £420,935) in respect of assets held under finance leases. Depreciation of £138,861 (1997: £188,240) has been charged on these assets.

Plant and machinery additions include own work capitalised on machine tools of £14,882 (1997: £49,000).

Freehold land and buildings additions include own work capitalised on buildings of £44,570 (1997: £Nil).

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

9	INVESTMENTS	1998	1997
	Company		
	Shares in subsidiary companies	£1,310,900	£1,310,900

Investments in subsidiary companies comprise:

	Principal activity
Bals Industrial Accessories Limited	Electrical components manufacture
Bals Electrical Engineering Limited	Project management and engineering
Bals Switchgear Projects Limited	Non trading
Bals Switchgear Services Limited	Non trading

The above subsidiaries are wholly owned by the company and are incorporated and operate in the United Kingdom.

10 STOCK AND WORK IN PROGRESS

Group	1998 £	1997 £
Raw materials and components	699,005	656,646
Work in progress	326,585	162,862
Finished goods	302,716	222,521
	£1,328,306	£1,042,029

11 DEBTORS

	Group		Company	
	1998	1997	1998	1997
Trade debtors	2,241,573	1,706,850	-	-
Amounts recoverable on contracts	643,234	449,569	-	-
Other debtors	80,573	144,634	3,914	14,829
Amounts owed by subsidiary companies	-	-	1,961,972	1,408,265
Prepayments and accrued income	80,848	99,956	-	-
ACT recoverable	-	24,689	-	24,689
	£3,046,228	£2,425,698	£1,965,886	£1,447,783

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

12 CREDITORS (amounts falling due within one year)

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Bank overdraft	-	-	761,130	357,950
Secured loan - British Coal Enterprise	-	59,975	-	59,975
Secured loan - ECSC (Note 14)	123,625	-	123,625	-
Obligations under finance leases (Note 14)	119,739	103,991	-	-
Mortgage (Note 14)	24,335	24,335	-	-
Payments on account in excess of work in progress	935,816	369,904	-	-
Trade creditors	1,823,750	1,129,209	-	-
Bills of exchange payable	234,688	215,313	-	-
Accruals and deferred income	171,733	431,387	-	-
ACT payable	10,230	59,034	10,230	59,034
Corporation tax	236,270	216,380	-	-
Other taxes and social security	602,256	492,323	-	-
Dividend proposed	138,520	72,459	138,520	72,459
Other creditors	12,041	44,552	-	-
	<u>£4,433,003</u>	<u>£3,218,862</u>	<u>£1,033,505</u>	<u>£549,418</u>

The group has a cross guarantee arrangement securing its bank facility by a fixed and floating charge over the group's assets. At 31 March 1998 the company's liability under the cross guarantee amounted to £Nil (1997: £Nil).

13 CREDITORS (amounts falling due after more than one year)

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Obligations under finance leases (Note 14)	104,354	71,619	-	-
Secured loan - ECSC (Note 14)	370,875	494,500	370,875	494,500
Mortgage (Note 14)	180,596	204,946	-	-
	<u>£655,825</u>	<u>£771,065</u>	<u>£370,875</u>	<u>£494,500</u>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

14 FINANCE OBLIGATIONS

Finance obligations are repayable as follows:

Group	<u>Mortgage</u>	<u>ECSC Loan</u>	<u>Finance leases</u>	<u>1998 Total</u>	<u>1997 Total</u>
Due within one year	24,335	123,625	119,739	267,699	188,301
Due within one and two years	24,335	123,625	77,906	225,866	219,579
Due within two and five years	73,005	247,250	26,448	346,703	443,880
Due after more than five years by instalments	83,256	-	-	83,256	107,606
	<u>£204,931</u>	<u>£494,500</u>	<u>£224,093</u>	<u>£923,524</u>	<u>£959,366</u>
Company					
Due within one year	-	123,625	-	123,625	59,975
Due within one and two years	-	123,625	-	123,625	123,625
Due within two and five years	-	247,250	-	247,250	370,875
	<u>£-</u>	<u>£494,500</u>	<u>£-</u>	<u>£494,500</u>	<u>£554,475</u>

The hire purchase and finance lease creditors are secured on the assets to which they relate.

The ECSC loan is repayable in four annual instalments, the first instalment being due on 24 July 1998, accrues interest at a rate of 8.635% and is secured by a fixed and floating charge over the group's assets.

The mortgage is secured on certain freehold buildings and is repayable over 10 years. Interest is accrued at 2% above bank base rates.

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

15 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The full deferred taxation liability provided in the accounts comprises:

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Tax deferred by capital allowances	146,099	150,215	-	-
Short term timing differences	(7,750)	(41,139)	-	-
	<u>£138,349</u>	<u>£109,076</u>	<u>£-</u>	<u>£-</u>

Movement on the deferred taxation liability for the year is as follows:

At 1 April 1997	109,076	164,565	-	-
Provided during year	29,273	(55,489)	-	-
	<u>£138,349</u>	<u>£109,076</u>	<u>£-</u>	<u>£-</u>

16 CALLED UP SHARE CAPITAL

Authorised

At 31 March 1997 and 31 March 1998

<u>Equity</u>	£
5,000,000 ordinary shares 10p	500,000
53,345 5% cumulative convertible participating preferred ordinary shares £1	53,345
	<u>553,345</u>
<u>Non-equity</u>	
925,933 10% first cumulative redeemable preference shares £1	925,933
172,727 10% second cumulative redeemable preference shares £1	172,727
130,582 2% above bank rate third cumulative redeemable preference shares £1	130,582
110,000 8% fourth cumulative redeemable preference shares £1	110,000
	<u>1,339,242</u>
	<u>£1,892,587</u>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

16 CALLED UP SHARE CAPITAL (continued)

Allotted, called up and fully paid

	<u>1998</u>	<u>1997</u>
<u>Equity</u>		
2,516,651 ordinary shares 10p	251,665	251,665
53,345 5% cumulative convertible participating preferred ordinary shares £1	53,345	53,345
	<hr/>	<hr/>
	305,010	305,010
	<hr/>	<hr/>
<u>Non-equity</u>		
301,478 10% first cumulative redeemable preference shares £1	301,478	583,296
172,727 10% second cumulative redeemable preference shares £1	172,727	172,727
130,582 2% above bank rate third cumulative redeemable preference shares £1	130,582	130,582
110,000 8% fourth cumulative redeemable preference shares £1	110,000	110,000
	<hr/>	<hr/>
	714,787	996,605
	<hr/>	<hr/>
	£1,019,797	£1,301,615
	<hr/> <hr/>	<hr/> <hr/>

The £1 cumulative convertible participating preferred ordinary (CCPPO) shares are entitled to a dividend of 5% of net profit before taxation. They may be converted into ordinary shares on a one for ten basis if, upon the occurrence of a Conversion Event as defined in the Articles of Association, a holder or holders of a majority in CCPPO shares gives notice in writing to the company. The ordinary shares resulting from such a conversion shall rank pari passu in all respects with the other ordinary shares in the issue at the date of conversion.

The £1 first cumulative redeemable preference shares (FCRP) shares are now eligible to be redeemed at their par value. 281,818 FCRP shares were redeemed at par value in two equal parts on 30 April 1997 and 1 June 1997.

The £1 second cumulative redeemable preference shares (SCRIP) shares are eligible to be redeemed at par upon the company giving written notice to the holders of such shares and providing the whole of the FCRP shares have been redeemed.

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

16 CALLED UP SHARE CAPITAL (continued)

The £1 third cumulative redeemable preference shares (TCRP) shares are eligible to be redeemed at par upon the company giving written notice to the holders of such shares and providing the whole of the FCRP and SCRP shares have been redeemed.

The £1 fourth cumulative redeemable preference shares (Fourth CRP) shares are eligible to be redeemed at par upon the company giving written notice to the holders of such shares and providing the whole of the FCRP, SCRP and TCRP shares have been redeemed.

Ordinary shareholders have one vote for each share of which they are the registered holder. Holders of the CCPPO shares are entitled to 10 votes for each share of which they are the registered holder. Holders of the FCRP have no voting rights unless at the date of a general meeting the FCRP dividend is six months in arrears. In such an event holders of FCRP shares are entitled to 10 votes for each share of which they are the registered holder.

Holders of the SCRP, TCRP and Fourth CRP shares do not have voting rights.

In the event of winding up of the company, priority for repayment of capital plus all arrears of dividend ranks firstly with FCRP shares, then CCPPO shares, then SCRP shares, then TCRP shares and then Fourth CRP shares. The CCPPO shares then rank pari passu with ordinary shareholders for distribution of any surplus assets after repayment of the ordinary share capital at par.

17 RESERVES

	<u>Capital redemption reserve</u>	<u>Goodwill reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
Group				
At 1 April 1997	342,637	(446,721)	363,932	259,848
Retained profit for the year	-	-	468,672	468,672
Redemption of first cumulative redeemable preference shares	281,818	-	(281,818)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1998	£624,455	£(446,721)	£550,786	£758,520
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Company				
	<u>Capital redemption reserve</u>	<u>Profit and loss account</u>	<u>Total</u>	
At 1 April 1997	342,637	70,513	413,150	
Retained profit for the year	-	439,459	439,459	
Redemption of first cumulative redeemable preference shares	281,818	(281,818)	-	
	<u> </u>	<u> </u>	<u> </u>	
At 31 March 1998	£624,455	£228,154	£852,609	
	<u> </u>	<u> </u>	<u> </u>	

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

18 RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	<u>1998</u>	<u>1997</u>
Opening shareholders' funds	1,561,463	1,576,135
Profit for the year	575,652	393,535
Dividends	(106,980)	(126,389)
Redemption of shares	(281,818)	(281,818)
	<hr/>	<hr/>
Closing shareholders' funds	£1,748,317	£1,561,463
	<hr/>	<hr/>
Equity	1,033,530	564,858
Non-equity	714,787	996,605
	<hr/>	<hr/>
	£1,748,317	£1,561,463
	<hr/>	<hr/>

19 CAPITAL COMMITMENTS

There were no capital commitments at 31 March 1998 (1997: £Nil)

20 CONTINGENT LIABILITIES

At 31 March 1998 the group had issued retention bonds of £34,769, tender bonds of £25,874, a duty deferment bond of £20,000 and performance guarantee bonds of £513,784 in the ordinary course of business.

21 RELATED PARTY TRANSACTIONS

During the year electrical components to the value of £353,651 (1997: £348,200) were purchased by group companies from Bals Elektrotechnik GmbH, a related company. At 31 March 1998 the group had bills of exchange payable to Bals Elektrotechnik GmbH of £234,688 (1997: £215,313).

The Fourth CRP shares are held by the Bals Engineering Group Limited Pension Scheme.

22 OPERATING LEASES

The minimum annual rentals under operating leases, all of which relate to plant and equipment, computers and motor vehicles are as follows:

Operating leases which expire

	<u>1998</u>	<u>1997</u>
Within two to five years	£103,093	£7,516
	<hr/>	<hr/>

BALS ENGINEERING GROUP LIMITED

NOTES TO THE ACCOUNTS - AS AT 31 MARCH 1998 (continued)

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1998</u>	<u>1997</u>
Operating profit	843,844	783,300
(Profit)/loss on sale of tangible fixed assets	(1,538)	15,911
Depreciation of tangible fixed assets	316,881	296,626
(Increase)/decrease in stocks	(286,277)	27,471
(Increase)/decrease in debtors	(645,222)	138,697
Increase in creditors and provisions	1,097,596	59,535
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>£1,325,284</u>	<u>£1,321,540</u>

24 RECONCILIATION TO NET DEBT

	<u>1998</u>	<u>1997</u>
Increase/(decrease) in cash in the year	261,027	(6,575)
Decrease in debt and lease financing	246,596	115,039
	<hr/>	<hr/>
Change in net debt from cash flows	507,623	108,464
New finance leases	(210,754)	(152,445)
Net debt at beginning of year	(823,766)	(779,785)
	<hr/>	<hr/>
Net debt at end of year	<u>£(526,897)</u>	<u>£(823,766)</u>

25 ANALYSIS OF NET DEBT

	<u>1 April 1997</u>	<u>Cash flow</u>	<u>Other non-cash</u>	<u>31 March 1998</u>
	£	£	£	£
Cash	135,600	261,027	-	396,627
Loans	(783,756)	84,325	-	(699,431)
Finance leases	(175,610)	162,271	(210,754)	(224,093)
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>£(823,766)</u>	<u>£507,623</u>	<u>£(210,754)</u>	<u>£(526,897)</u>