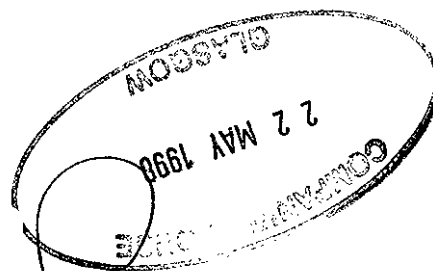




RESERVOIR RESEARCH LIMITED

Abbreviated accounts

31 December 1997



**Deloitte & Touche
39 St Vincent Place
Glasgow
G1 2QQ**



AUDITORS' REPORT TO RESERVOIR RESEARCH LIMITED PURSUANT TO SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts on pages 2 to 7 together with the financial statements of Reservoir Research Limited prepared under section 226 of the Companies Act 1985 for the year ended 31 December 1997.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with sections 246(5) and (6) of the Companies Act 1985. It is our responsibility to form an independent opinion as to the company's entitlement to deliver abbreviated accounts prepared in accordance with those sections and whether the abbreviated accounts have been properly prepared in accordance with those provisions and to report our opinion to you.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled under sections 247 and 247A of the Companies Act 1985 to deliver abbreviated accounts prepared in accordance with sections 246(5) and (6) of the Companies Act 1985, in respect of the year ended 31 December 1997, and the abbreviated accounts on pages 2 to 7 have been properly prepared in accordance with those provisions.

Other Information

On 24 April 1998 we reported as auditors to the members of the company on the financial statements prepared under section 266 of the Companies Act 1985 and our report included the following paragraph.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements regarding the company's ability to operate within its agreed borrowing facilities. In view of the significance of this situation we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Chartered Accountants and
Registered Auditors

18 May 1998

**Deloitte Touche
Tohmatsu**

Aberdeen, Bath, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available.
Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

BALANCE SHEET
31 December 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Intangible assets	2	38,160	-
Tangible assets	3	36,533	24,334
		<u>74,693</u>	<u>24,334</u>
CURRENT ASSETS			
Stocks		30,052	13,743
Debtors		237,410	47,506
Cash at bank and in hand		812	133
		<u>268,274</u>	<u>61,382</u>
CREDITORS: amounts falling due within one year	4	316,593	373,993
NET CURRENT LIABILITIES		<u>(48,319)</u>	<u>(312,611)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,374</u>	<u>(288,277)</u>
CAPITAL AND RESERVES			
Called up share capital	5	61,494	10,000
Share premium account		86,283	-
Other reserves		14,543	-
Profit and loss account		(135,946)	(298,277)
SHAREHOLDERS' FUNDS		<u>26,374</u>	<u>(288,277)</u>
Attributable to equity shareholders		(138,169)	(288,277)
Attributable to non-equity shareholders		164,543	-

Advantage is taken for the exemptions conferred by Section A of Part III of Schedule 8 of the Companies Act 1985 with respect to the delivery of individual accounts. In the opinion of the directors, the company is entitled to those exemptions on the grounds that it has met the qualifications for a small company specified in Section 246 and 247 of the Companies Act 1985.

Signed on behalf of the Board of Directors

D Macintyre

Duncan Macintyre

Director

**NOTES TO THE BALANCE SHEET
31 December 1997**

1 ACCOUNTING POLICIES

The particular accounting policies adopted are described below.

Basis of preparation of the financial statements

As disclosed in note 5, the company was refinanced in February 1997 which substantially reduced the deficiency of net assets. At present, the company meets its day to day working capital requirements through an overdraft facility which is repayable on demand.

The overdraft is subject to annual renewal, and the existing facility has been renewed until March 1999.

The director has prepared financial projections for the year to 31 December 1998, which take into account the inherent irregular nature of the contracts won by the company, and the resultant receipts. On the basis of these projections, the company expects to continue to operate within its agreed facility. On the basis of this information and the results to date of signing the accounts, the director considers it appropriate to prepare the financial statements on the going concern basis.

Accounting convention

The financial statements are prepared under the historical cost convention.

Intangible assets - Development costs

Expenditure on research is written off when incurred. Development costs on a defined project are deferred beyond the year in which they are incurred where there is a realistic anticipation of sales over the short term. Such deferred costs are classified as Intangible Assets, with appropriate amortisation against sales achieved over the ensuing three years.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are 20% pa for fixtures and fittings, and 25% pa for all other assets.

Stock

Stocks and work-in-progress are stated at lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

NOTES TO THE BALANCE SHEET
31 December 1997

1 ACCOUNTING POLICIES (continued)

Deferred income

Sales are recognised only when the contracted service has been provided to the company's clients. To the extent that payments on account are billed before completion of the service, such amounts are regarded as Deferred Income, and not recognised in the Profit and Loss account.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease rentals in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal amounts over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

2 INTANGIBLE FIXED ASSETS

	£
Cost	
At 1 January 1997	-
Expenditure incurred and deferred	38,160
	<hr/>
At 31 December 1997	38,160
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**NOTES TO THE BALANCE SHEET
31 December 1997**

3 TANGIBLE FIXED ASSETS

	£
Cost	
At 1 January 1997	106,565
Additions in year	27,546
	<hr/>
At 31 December 1997	134,111
	<hr/>
Accumulated depreciation	
At 1 January 1997	82,231
Charge in year	15,347
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At 31 December 1997	97,578
	<hr/>
Net book value	
At 31 December 1997	36,533
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4 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Creditors, amounts falling due within one year includes:		
Bank loans and overdrafts	77,869	95,367
Directors' current accounts	671	671
	<hr/>	<hr/>

The bank overdraft is secured by a bond and floating charge over the whole of the assets of the company.



**NOTES TO THE BALANCE SHEET
31 December 1997**

5 CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised		
50,000 ordinary shares of £1.00 each	50,000	50,000
50,000 cumulative redeemable preference shares of £1.00 each	50,000	-
1,494 cumulative participating preferred ordinary shares of £1.00 each	1,494	-
	<u>101,494</u>	<u>50,000</u>
Called up, allotted and fully paid		
10,000 ordinary shares of £1.00 each	10,000	10,000
50,000 cumulative redeemable preference shares of £1.00 each	50,000	-
1,494 cumulative participating preferred ordinary shares of £1.00 each	1,494	-
	<u>61,494</u>	<u>10,000</u>
Cumulative redeemable preference shares		
New issue	<u>50,000</u>	
Cumulative participating preferred ordinary shares		
New issue	<u>1,494</u>	

NOTES TO THE BALANCE SHEET
31 December 1997

5 CALLED UP SHARE CAPITAL (continued)

Principal terms of non-equity shares

In February 1997, in order to refinance the company, the above issues of shares were made for cash. The principal terms of these new share are:-

1. Cumulative Redeemable Preference Share - fixed dividend of 8%. These shares are redeemable at par plus an amount equal to all arrears and accruals of the fixed preference dividend calculated to date of redemption. One third will be redeemed no later than the expiry of the 24th month of the date of issue: one third will be redeemed not later than the expiry of the 36th month of the date of issue and one third will be redeemed not later than the expiry of the 48th month of the date of issue. The company shall be entitled, on giving 30 days notice to the holders to redeem all or some of the shares, and any redemption shall be effected on the expiry of a Company Redemption Notice.
2. Cumulative Participating Preferred Ordinary Shares - fixed dividend of 5% plus participating dividends of 8% of net profit up to £150,000 after adding back directors' remuneration in excess of £160,000.

On the event of a liquidation the cumulative redeemable preference shares rank first, the cumulative participating preferred ordinary shares rank second and the ordinary shares rank third. Any surplus funds after the shareholders have been repaid and the accrued dividends paid will be distributed between the preferred ordinary shareholders and the ordinary shareholders *pari passu*.

Dividends

Given the profits earned in the year, dividends on the above noted basis are due to the non-equity shareholders, totalling £14,543. However, given the continuing deficit on distributable reserves, such dividends cannot be declared and paid at the current time, but are transferred to an Other Reserve.

6 RELATED PARTIES

The premises occupied by the company are owned by the pension fund of, amongst others, D Macintyre. D Macintyre served as a director during the year. The company paid rent of £25,000 (1996 - £24,839) to the pension fund in the year.

The balance on the directors' current account at 31 December 1997 of £671 relates to amounts due to D Macintyre (1996 - £671).