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BCH Group plc
Report & Accounts 1997



Contents

	Page
Directors and Advisers	2
Chairman's Statement	3
Chief Executive's Review of Operations	4
Corporate Governance	7
Report by the Auditors to BCH Group plc on Corporate Governance Matters	9
Report of the Remuneration Committee	10
Directors' Report	13
Statement of Directors' Responsibilities in respect of the Accounts	16
Report of the Auditors to the members of BCH Group plc	17
Group Profit and Loss Account	18
Group Balance Sheet	19
Company Balance Sheet	20
Group Statement of Cash Flows	21
Reconciliation of Movement in Shareholder's Funds	22
Notes to the Accounts	23
Five Year Record	38
Shareholder Information	39
Notice of Annual General Meeting	40

Directors and Advisers

Directors

Anthony Keith Mitchard	<i>(Non-executive Chairman)</i>
Richard Michael Pepper	<i>(Chief Executive)</i>
Keith Allen	<i>(Finance Director)</i>
David Andrew Yates	<i>(Sales and Marketing Director)</i>
Richard Barwick Mead	<i>(Non-executive Director)</i>
David John Amos	<i>(Non-executive Director)</i>

all of Oakwood Park, Lodge Causeway, Fishponds, Bristol BS16 3JA

Company Secretary

Keith Allen

Registered Office

Oakwood Park, Lodge Causeway, Fishponds, Bristol BS16 3JA

Registered No.

03120091

Financial Adviser

HSBC Investment Bank plc
Vintners Place, 68 Upper Thames Street, London EC4V 3BJ

Stockbroker

Panmure Gordon & Co Limited
New Broad Street House, 35 New Broad Street, London EC2M 1NH

Auditors

KPMG
Richmond Park House, 15 Pembroke Road, Clifton, Bristol BS8 3BG

Solicitors

Clifford Chance
200 Aldersgate Street, London EC1A 4JJ

Principal Bankers

Midland Bank plc
49 Corn Street, Bristol BS99 7PP

Registrars

The Royal Bank of Scotland - Registrar's Department
PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH

Chairman's Statement

I am pleased to report the first results of BCH Group plc ("BCH"), since the Group's successful flotation on the London Stock Exchange via a placing in November last year. The year to December 1997 has seen continued growth in both turnover and profits, with the new equity significantly improving the capital base and gearing of the Company. The net cash proceeds are, as intended, being invested in capital projects which will enhance our business prospects.

The primary focus of BCH remains the provision of contract hire to corporate customers together with related vehicle management products, in particular fleet management and accident management services. Whilst the core business remains in the corporate sector the Group also recognise the importance of the personal contract purchase market and the growth potential this offers over the next few years for the Group's own branded product, AutoChoice, launched in June 1997. Additionally, in line with the Group's strategy, BCH Direct, the Group's retail outlet was launched in March this year, expanding the capacity of the Group to dispose of its own ex-contract vehicles at a re-developed six acre site at the Group's head office in Bristol.

In October, I was delighted to join the Company as chairman when, in anticipation of the flotation, we were fortunate to secure the services of Richard Mead and David Amos as our other non-executive directors. Roger Hopkins, Mel Dawson and Tim Wigg resigned from the board but continue to fulfill key roles supporting the executive directors on the board of our operating subsidiary, BCH Vehicle Management Limited.

The Group results for the year ended 31 December 1997 have produced a 47% increase in pre-tax profit to £2.99 million (£2.03 million) on turnover of £55.8 million (£46.5 million). Operating profits increased by 30% from £2.7 million to £3.5 million in line with our forecast at the time of flotation, strongly supported by a 23% growth in our fleet from 11,683 vehicles to 14,422 reflecting the continued trend by which businesses are increasingly using contract hire as a funding and management route for their vehicle fleets. Although the expansion of our fleet has been the major factor in our profit growth, crucially, we have been able to improve our margins on the disposal of vehicles at the end of contract and this aspect of our business will continue to receive constant management attention, as well as being a major focus of our investment strategy.

Adjusted earnings per share rose to 16.9p from 11.5p, an increase of 47%. The Board is recommending a final dividend of 0.8p per share for the period from 14 November to 31 December 1997. The proposed dividend will be paid on 29 May 1998 to shareholders on the register at the close of business on 14 April 1998. Of the £15.9 million raised from the flotation, £13.7 million was used to redeem the company's existing preference shares and 236,613 'B' Ordinary Shares in accordance with their terms and to repay the acquisition debt incurred at the time of the management buyout.

After costs relating to the listing, cash raised for the business totalled £1.2 million. Of this £0.7million has already been invested in our retail used car operation, now re-branded BCH Direct which was successfully opened on the 2 March 1998. The Group now has the capacity to dispose of over 60% of its own returned ex-contract vehicles thus giving the retail side of our business the potential to capitalise on the associated opportunities of increased retail finance and insurance product sales. As foreshadowed at the time of flotation, we intend to invest the remaining £0.5 million in new core business software later this year, which will strongly enhance our IT capability.

Our strategy is to continue to grow the vehicle fleet organically through the provision of quality vehicle management products and services as well as expanding our retail business, where it is anticipated that personal contract purchase schemes will grow significantly over the next few years as a funding method for retail vehicle purchases.

I should like to thank our customers and suppliers for their strong support. The Company has achieved its present position through the dedication and professionalism of its employees at all levels and I want most warmly to express the Board's appreciation to each and every one of them.

Now that BCH is fully listed, with an improved capital structure, the Board considers that the Group is well positioned to take full advantage of the growth prospects evident in our markets. These, and other matters, are covered in Richard Pepper's review.

Tony Mitchard

27 March 1998

Chief Executive's Review of Operations

Introduction

1997 was a year of distinction for the BCH Group, with our successful listing on the London Stock Exchange in November. From the time of the Group's management buyout in December 1995 a listing was the directors' preferred route both to fund the future expansion of BCH and also to provide the opportunity of further employee share participation.

Since the management buyout the BCH vehicle fleet has grown by 57% to 14,422 vehicles at 31 December 1997, with the contract hire fleet being the major contributor to that growth. The provision of fleet management services, for companies who continue to own their vehicles, also expanded significantly in 1997 whilst the contract purchase fleet has continued its anticipated slow decline following VAT changes in August 1995 which benefited the contract hire market.

Contract hire

The Group's contract hire fleet increased by 1,690 vehicles to a total fleet size of 11,826 in 1997, with 4,719 new vehicle contracts being signed and delivered in the year. With the outsourcing of non-core activities, contract hire continues to grow in popularity as a means of funding and managing a Company's fleet of vehicles. The Group supplies almost 700 customers with over 150 new accounts being gained in the 12 months to 31 December 1997. The largest ten contract hire customers accounted for 35% of the total contract hire/contract purchase fleet as at 31 December 1997.

The successful growth of BCH's contract hire fleet is due primarily to the high level of customer service the Group provides, demonstrated by its policy of delivering vehicles either in the Group's own fleet of covered transporters, having first undergone a secondary inspection at the head office site in Bristol, or on an approved suppliers' trailer, also undercover.

With the average vehicle contract being approximately 3 years in length the support given to the driver and the customer is of the highest level with a collection and delivery facility for vehicle servicing work (ProFleet), 24 hour maintenance assistance including roadside recovery, mobile quality assurance engineers and accident management facilities to help in the event of an accident.

To expand the corporate customer base further the Group has developed contract hire based products targeted specifically at small to medium sized companies with fleet sizes of up to 20 vehicles. These are sold through approved franchised dealers, initially through Mazda Vehicle Contracts ('MVC') a joint venture with MCL Finance Limited and, more recently, through the introduction of Nexus Vehicle Management ('Nexus').

MVC has been operating successfully since May 1994 and the experience gained working in partnership with the Mazda dealer network has provided a solid foundation upon which to develop the Nexus project, and widen the concept across a larger approved dealer network. The schemes currently account for 7% of the contract hire fleet with a network of over 30 approved dealerships and agents now selling contract hire products on behalf of BCH at 31 December 1997.

To maximise revenue opportunities from these partnerships, it is planned to expand the Nexus concept in 1998 to incorporate the sale of a wider range of products and services, namely Motorguard branded finance and warranty products, as well as a complete portfolio of vehicle management products.

In May 1997, the Group entered into a tyre supply agreement with ATS for the provision of tyres, exhausts and batteries at a fixed monthly cost per vehicle for a three year period. With tyres, exhausts and batteries accounting for around 24% of the maintenance spend of BCH, the agreement has had a positive contribution to the control of maintenance expenditure in 1997 and a further contribution is expected in 1998 with the first full year benefit of this scheme.

All vehicles on contract hire agreements are funded using back-to-back finance agreements at fixed interest rates over the vehicles' contract period. At 31 December 1997 the Group had committed hire purchase and finance lease facilities from 15 lenders of £150 million of which £113 million had been utilised. The Group has a policy to hedge 100% against fluctuations in interest rates within vehicle finance facilities.

Chief Executive's Review of Operations

Fleet management

The number of vehicles on fleet management grew to 2,280 in the year with a number of significant customer gains which provides the Group with a solid platform for the development of this product in 1998 enhanced by the continued investment in information technology.

The benefits offered by BCH's fleet management product are both financial and operational with economies of scale and specialist support and advice offered to ensure that a customer's vehicle costs can be contained, whilst at the same time reducing fleet related administration. Outsourcing of non-core activities has provided the biggest stimulus to the market for fleet management services and BCH's established reputation in the contract hire field has ensured that it has been able to achieve significant success in this, relatively, new area for the Group.

Within the portfolio of fleet management services, the Group operates an in-house accident management department which provides a comprehensive management service from the time an accident takes place, handling both the insurance claim procedure and administering the recovery of uninsured losses. As at 31 December 1997 the Group had over 5,000 of its vehicles covered by its accident management facility.

Personal contract purchase

The Group's PCP scheme, AutoChoice, was launched in June 1997, initially being marketed through a number of corporate customers who see the product as both an alternative to the provision of company cars and also as a further benefit that can be offered to employees.

This is undoubtedly a major growth market and the AutoChoice product offers a number of advantages over its competitors. The combination of flexible contract terms and payment patterns, together with maintenance, insurance and payment protection plans provide a very competitive product in a growing market.

BCH Direct

BCH Direct (formerly Motormart), the Group's retail outlet, contributed an operating profit of £122,000 compared to a break even result in 1996, retailing 789 returned ex-contract vehicles, representing 28% of the Group's total ex contract vehicles returned in the year.

Since the year end capital investment in the Group's Bristol headquarters has created a 500 vehicle site with 400 vehicles on show for retail sale of which 100 vehicles are displayed undercover, which significantly increases the capacity of the Group to retail its ex- contract vehicles. With the operation re-located to the new site and re-branded BCH Direct, it is anticipated that the Group will have the capacity to retail around 60% of its ex-contract vehicles over the next few years.

During 1997 BCH developed a range of additional products marketed under the Motorguard brand name. These comprise a range of vehicle insurance-related products and are sold through BCH Direct and a number of main franchised dealers. These products are underwritten by third party insurers with the Group earning commission on the sales it makes. The outlets for the sale of these branded products are currently being developed through BCH Dealer Services, which will give the Group an additional income with minimal administrative requirements.

Capital investment

One of the primary reasons for the listing of BCH was to raise funds for the expansion of the Group's used vehicle retail outlet, BCH Direct, and the development of the Group's head office site in Bristol. The Company entered into a lease on the adjoining premises to the head office site in Bristol in December 1997, and also completed the acquisition of a freehold site adjacent to the leasehold premises, creating a six acre site in total. This site accommodates both the vehicle management business and BCH Direct.

Chief Executive's Review of Operations

The second major capital investment project is with respect to the Group's core business information technology systems which are in the process of being upgraded in the current year. The implementation of the systems will not commence until the latter half of 1998 and, consequently, the full benefits anticipated from the improved systems will not be enjoyed until next year. It is one of the priorities of the Group to continue to invest in information technology to deliver improved productivity, whilst maintaining the high standards of customer service which BCH provides.

Prospects

BCH is now well positioned to take advantage of the growth in the corporate and retail markets it operates in. Whilst the Group's core business remains corporate vehicle management, the growth potential of the personal market is an exciting prospect for the future.

The Group will continue to focus on the organic growth of its contract hire and fleet management customer base by maintaining high standards of customer service and providing innovative and flexible products to meet customers needs. Now that BCH Dealer Services and the Nexus network of dealers have been established, we will be able to penetrate the smaller corporate fleet market more efficiently whilst at the same time marketing the Motorguard range of insurance products through this network.

BCH Direct opened for business on the 2 March 1998 and the Group is already seeing the benefits of the increased capacity it now has to dispose of its ex contract vehicles. With BCH Direct now operating at the same premises as the Group's core contract hire business, operational benefits and additional flexibility with respect to the disposal of ex contract vehicles are already being derived. The Group now has the opportunity to increase significantly the level of income it earns from the sale of retail finance and insurance products through BCH Direct whilst also providing a retail sales outlet for the sale of PCP schemes.

The continued planned investment in information technology will enable productivity improvements to be delivered whilst maintaining the focus of the Group on providing high levels of customer service and consequently, continuing to build on the strong relationships that BCH enjoys with its customers.

Richard Pepper

27 March 1998

Corporate Governance

Statement by the directors on compliance with the Code of Best Practice

Since October 1997, (which was prior to its flotation) the Company has been in compliance with the Code of Best Practice set out in the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance.

The workings of the Board and its Committees

The Board

The Board is currently comprised of three non-executive directors and three executive directors and is responsible to the shareholders for the proper management of the Group. It meets eight times a year, setting and monitoring Group strategy, reviewing trade performance, ensuring adequate funding, examining development possibilities and formulating policy on key issues. The Board has appointed the following committees and Operating Board to deal with the specific aspects of the Group's affairs.

Operating Board

The Operating Board comprises three executive directors and three operating directors and are responsible for the operational management of the Group. The Operating Board meets on a monthly basis to monitor day to day activity and financial performance against budget of the Group and deals with executive business not specifically reserved for the Board, Audit or Remuneration Committee.

Audit Committee

The Audit Committee comprises the three non-executive directors. It receives and reviews reports from management and the Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Committee has direct access to the auditors.

Remuneration Committee

The Remuneration Committee comprises the three non-executive directors. The Remuneration Committee is responsible for determining the service contract terms, remuneration and other benefits for the executive directors.

The remuneration and terms and conditions of appointment of the non-executive directors are established by the Board. The non-executives do not participate in any of the Company's share option schemes and their service is non pensionable.

Corporate Governance

Internal financial control

The directors have reviewed the effectiveness of the system of internal financial control in operation during the year. The Board has concluded that based on this review its control procedures provide a reasonable, but not absolute assurance against material misstatement or loss.

Key procedures established which are designed to provide effective internal financial control include;

Control environment

The directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board.

Risk management

Operating company management have a clear responsibility for identifying risks facing the business and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed during the annual budgeting process and additionally the Board has carried out a risk review of the business.

Information systems

The Group has a comprehensive system of financial reporting. The annual budget and rolling three year plan of the Group is approved by the Board. Monthly actual results are reported against budget and any significant adverse variances are examined and remedial action taken.

Control procedures

There are clearly defined policies for capital expenditure including appropriate authorisation levels. Larger capital projects and company acquisitions require Board approval.

Monitoring systems

Internal financial controls are constantly reviewed by senior management and updated when appropriate. The Board has carried out a review of the control environment within the Group and is currently in the process of implementing internal audit procedures.

Going concern

The directors, after making enquiries have a reasonable expectation that the Group 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.



Report by the Auditors to BCH Group plc on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the directors' statements on pages 7 and 8 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with the Listing Rules.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform the additional work necessary to, and we do not, express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 8, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 7 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KMB
KPMG

Chartered Accountants

Bristol

27 March 1998

Annual Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee was established in October 1997 and is chaired by A K Mitchard and its other members are Messrs R B Mead and D J Amos. The Committee's composition, responsibilities and operation comply with the best practice provisions in Section A of the annexe to the Listing Rules of the London Stock Exchange since it was established. The Committee operates under terms of reference which have been approved by the Board. The Committee has the authority to seek any information from any employee and to obtain such professional advice inside and outside the Company as it may deem appropriate. In implementing its policy, the Committee has given full consideration to the provisions of Section B of the annexe to the Listing Rules.

Remuneration policy for executive directors

Executive remuneration packages are designed to attract, motivate and retain directors of the calibre needed to maintain the Group's position within the market, implement the Group's strategic plan and bring about enhanced shareholder value.

There are four main elements of the remuneration packages for executive directors:

- Basic annual salary
- Bonus
- Other benefits
- Pension contributions

The executive directors are each paid a basic annual salary which is open to review each January. In addition, bonuses are payable at the discretion of the Remuneration Committee which are subject to the attainment of specific targets and are not designed to be a significant part of executive directors remuneration. Further benefits in kind are awarded as the Committee considers appropriate. The benefits currently given comprise the provision of a company car, fuel, medical insurance and mobile telephone costs.

The executive directors are members of the BCH Group Pension Scheme which is a defined contribution scheme. The Company contributions are at a rate of 15% from 1 April 1998 based on the executive directors basic annual salary subject to the earnings cap, with individual contributions set at a minimum of 5%. Company contributions prior to 1 April 1998 were 7.5%. Bonuses are not pensionable.

Service agreements

All the executive directors have service agreements with the Company which are terminable by either party giving the other 12 months written notice.

The non executive directors have contracts for a fixed period of 2 years renewable by mutual agreement for further periods.

Non executive-director fees

The remuneration of the non executive directors is determined by the executive directors of the Company within the limits stipulated in the Articles of Association. The non executive directors are not involved in any discussions or decisions about their own remuneration.

Annual Report of the Remuneration Committee

Share options

The executive directors do not participate in the BCH Group Executive Share Option Scheme or the BCH Group Sharesave Scheme. K Allen holds an option which was granted on 19 August 1996 in consideration of £1 under the BCH Employee Share Option Scheme to acquire 138,799 ordinary shares. The option is exercisable between 19 August 1999 and 18 August 2005 at a price of 7.6p each and is not conditional upon any performance criteria. No other director has any interest in share options. The mid market price of ordinary shares of 2p each was 197.5p at 31 December 1997. The highest and lowest prices during the financial period since flotation were 202.5p and 190p respectively.

Director's external appointments

In principle the Board will permit the executive directors to accept appointments outside the Company. However, before approval is given, the Board will always satisfy itself, as far as possible, that such appointments will not detract from the executive director's expected contribution to the Company, nor will such appointment create any conflict of interest. Any fees earned by an executive director in such a capacity will normally be assigned to the Company.

Summary of directors' remuneration

	Fees £	Basic Salary £	Bonus £	Other Benefits £	Total 1997 £	Total 1996 £
Executive directors:						
R M Pepper	-	165,000	-	3,417	168,417	164,755
K Allen	-	60,000	20,000	7,366	87,366	59,589
D A Yates	-	60,000	-	2,874	62,874	60,436
R F Hopkins (to 6/10/97)	-	45,863	-	4,819	50,682	63,872
T J Wigg (to 6/10/97)	-	45,863	-	3,888	49,751	62,447
M W Dawson (from 31/1/97 to 6/10/97)	-	40,932	-	3,188	44,120	-
Non-executive directors:						
A K Mitchard (from 1/10/97)	5,750	-	-	-	5,750	-
R B Mead (from 1/10/97)	4,125	-	-	-	4,125	-
D J Amos (from 7/10/97)	4,125	-	-	-	4,125	-
C M Masterson (to 5/11/97)	12,698	-	-	-	12,698	15,000
C F Corby (from 1/4/97 to 5/11/97)	-	-	-	-	-	-
J A Betts (to 1/4/97)	-	-	-	-	-	-
Total	26,698	417,658	20,000	25,552	489,908	426,099

Directors fees shown against C M Masterson were payable to HSBC Private Equity. The bonus paid to K Allen was in respect of the successful flotation of the Group in November 1997.

Annual Report of the Remuneration Committee

Summary of directors' pension contributions

	1997 £	1996 £
Executive directors:		
R M Pepper	6,266	4,258
K Allen	4,500	2,638
D A Yates	4,500	3,723
R F Hopkins (to 6/10/97)	3,439	3,723
T J Wigg (to 6/10/97)	3,439	3,723
M W Dawson (from 31/1/97 to 6/10/97)	3,070	-
Total	<u>25,214</u>	<u>18,065</u>

Director's Report

The directors submit their report and Group accounts for the year ended 31 December 1997.

Change of name and re-registration as a plc

The Company was re-registered under the Companies Act as a public company limited by shares with the name BCH Group plc on 14 October 1997.

Results and dividends

The directors report a Group profit after taxation for the year ended 31 December 1997 of £2,173,000 which is detailed in the Group profit and loss account on page 18. Preference dividends of £562,000 were paid during the year. The directors recommend the payment of a final ordinary dividend of £124,000 (0.8 pence per share) for the period from the 14 November 1997 to 31 December 1997 to shareholders on the register at the close of business on 14 April 1998, payable on 29 May 1998.

Principal activities and review of the business

The principal activity of the Group during the period was the provision of vehicle management services to external customers, including the arrangement of vehicle financing, and the sale of used motor vehicles. A detailed review of the business together with future plans is included within the Chairmans' Statement and the Chief Executive's Review of Operations set out on pages 3 to 6.

Directors

The directors of the Company in office during the period and their interests in the issued ordinary share capital of the Company as defined by the Companies Act 1985 were as follows:

	At 31 December 1997 Ordinary Shares	At 31 December 1996 Ordinary Shares
Executive directors:		
R M Pepper	1,996,924	2,181,134
K Allen	19,828	-
D A Yates	350,303	350,303
Non-executive directors		
A K Mitchard (Appointed 1 October 1997)	12,000	-
R B Mead (Appointed 1 October 1997)	8,700	-
D J Amos (Appointed 7 October 1997)	8,700	-

The following directors also served during the year:

R F Hopkins	(Resigned 6 October 1997)
T J Wigg	(Resigned 6 October 1997)
M W Dawson	(Appointed 31 January 1997, resigned 6 October 1997)
C M Masterson	(Resigned 5 November 1997)
C F Corby	(Appointed 1 April 1997, resigned 5 November 1997)
J A Betts	(Resigned 1 April 1997)

Director's Report

Messrs Pepper and Yates are retiring by rotation and being eligible, offer themselves for re-election. The directors service contracts are subject to 12 months notice. The comparable shareholdings as at 31 December 1996 shown above have been adjusted to take account of the capital reorganisation undertaken in November 1997 which is detailed in note 20 to the accounts. Keith Allen has an option over 138,799 ordinary shares which were granted under the 1996 BCH Group plc Employee Share Option Scheme details of which are included in the Remuneration Committee's report. There has been no change in director's shareholdings or options since the year end and the date of this report.

Non-executive directors

Anthony Mitchard, aged 63, worked for many years for Avon Rubber plc, becoming chief executive in 1986 until his retirement in December 1994. He holds a number of non-executive appointments including UK Safety plc, Access Plus plc, Wellington Holdings plc, Automotive Precision Holdings plc, Morgan Grenfell Equity Income Trust plc and Slatebond Ltd.

David Amos BSc, ARCS, aged 47, joined Unilever PLC/NV in 1972 and specialised in human resource management. From 1993 to 1995 he was Human Resources Director at Courtaulds plc and from 1995 to 1996 he was the Senior Vice President for Human Resources and Quality at Hilton International.

Richard Mead MA, FCA, MSI, aged 50, was a partner and head of corporate finance at Ernst & Young from 1985 to 1994 prior to which he worked in the corporate finance departments of a number of City banks. He holds a number of non-executive appointments including Birch plc, Hills plc, HQ Holdings Ltd, HW Group Ltd, Inventure Holdings Ltd and TD Ridley & Sons Ltd.

Charitable and political donations

Donations made by the Group for charitable purposes in the UK amounted to £49,660. In line with established Group policy there were no contributions for political purposes.

Employment policies

It is the policy of the Group that there should be no unfair discrimination in considering applications for employment including those from disabled persons. Should any employee become disabled, every practical effort is made to provide continued employment.

The directors are committed to achieving the "Investor in People" accreditation and accordingly are committed to both maintaining and developing communication procedures with employees and the training and performance development of all employees within the Group. Employees are encouraged to become aware of and involve themselves in the performance of the Group. Additionally, the directors are committed to wide employee share ownership with the Company operating three share option schemes, details of which are shown in note 21 to the financial statements.

Creditor payment policies

It is the Group's policy to settle all of its trading transactions on the agreed settlement date. All other creditors are paid in accordance with the relevant invoice terms. The Company does not have any trade creditors. Creditor days for the Group at December 1997 were 11 days.

Director's Report

Substantial shareholding

As far as the directors are aware, the only notifiable holdings equal to or in excess of 3 per cent of the issued ordinary capital at the date of this report are:

Richard Pepper	12.61%
NatWest Asset Management Holdings Limited	10.08%
HSBC Equity Limited	7.68%
Jupiter Asset Management Limited	7.26%
B.A.T. Industries plc	6.63%
Midland Bank plc	4.23%

Purchase of own shares

On 14 November 1997 as part of a capital restructuring to enable its ordinary shares to be listed on the London Stock Exchange the following share repurchases were made:

236,613 B ordinary shares with a nominal value of 1p each (45.5% of the B ordinary share capital) were repurchased for aggregate consideration of £236,613. The shares were then cancelled.

The entire preference share capital of 9,200,000 shares with a nominal value of 1p per share were repurchased for aggregate consideration of £9,200,000. The shares were then cancelled.

The remainder of the B ordinary shares, together with the A ordinary shares have now been redesignated as a single class of ordinary shares, consolidated 2 for 1 to give a nominal value of 2p.

Power to allot shares

The present authority of the directors under section 80 of the Companies Act 1985 to allot unissued shares conferred by Article 4B of the Articles of Association of the Company expires on 6 May 1998. A resolution to renew the authority for the period ending on the date of the Annual General Meeting in 1999 or 5 August 1999, whichever is the earlier, to allot upto £104,557 aggregate nominal amount of share capital, which represents all the unissued authorised share capital will be proposed at the Annual General Meeting. This amount is within the limits approved by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

The directors have no present intention of issuing further shares, other than pursuant to the exercise of options under the Company's share option schemes and no issue of shares which would effectively alter the control of the Company will be made without the prior approval of shareholders in general meeting.

In addition a special resolution, pursuant to Section 95 of the Companies Act 1985, will be proposed to renew the authority of the directors to allot ordinary shares for cash other than to existing shareholders on a proportionate basis. This authority will be limited to an aggregate nominal amount of £15,842 representing approximately 5% of the current issued ordinary share capital, and will expire on the date of the Annual General Meeting in 1999 or 5 August 1999, whichever is the earlier.

Director's Report

Authority for the company to purchase its own shares

The directors propose to renew the general authority of the Company to make market purchases of its own shares up to a total of 792,100 ordinary shares (representing approximately 5% of the issued ordinary share capital) and within the price constraints set out in the special resolution to be proposed at the Annual General Meeting.

There is no present intention to make any purchase of own shares, and if granted, the authority would only be exercised if to do so would result in an improvement in earnings per share for remaining shareholders.

Auditors

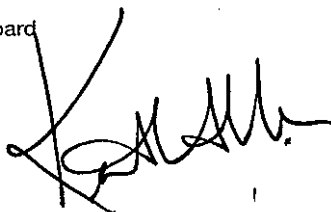
Our auditors KPMG have indicated to the directors that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Audit Plc as auditors of the Company.

By order of the Board

K Allen

Secretary

27 March 1998



Statement of Directors' Responsibilities with respect to the Accounts

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

Report of the Auditors to the members of BCH Group plc

We have audited the financial statements on pages 18 to 37. We have also examined the amounts disclosed relating to emoluments, share options, long-term incentive scheme interests and directors' pension entitlements which form part of the Remuneration Committee report on pages 10 to 11.

Respective responsibilities of directors and auditors

As described on page 16 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 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.



KPMG
Chartered Accountants
Registered Auditors
Bristol

27 March 1998



Group Profit and Loss Account Year ended 31 December 1997

	Notes	1997 £'000	14 months to 31 December 1996 £'000
TURNOVER	2	55,812	46,482
Cost of sales		<u>47,197</u>	<u>39,445</u>
GROSS PROFIT		<u>8,615</u>	<u>7,037</u>
Distribution costs		574	544
Administrative expenses		4,647	3,905
Other operating income		<u>(132)</u>	<u>(111)</u>
		<u>5,089</u>	<u>4,338</u>
OPERATING PROFIT	3,4 & 5	3,526	2,699
Interest receivable	6	20	12
Interest payable	7	<u>(556)</u>	<u>(680)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,990	2,031
Tax on profit on ordinary activities	8	<u>817</u>	<u>673</u>
PROFIT FOR THE PERIOD	22	2,173	1,358
Dividends paid and proposed on equity and non equity shares	9	686	584
Additional finance costs of non equity shares	9	<u>117</u>	<u>29</u>
PROFIT RETAINED FOR EQUITY SHAREHOLDERS		<u>1,370</u>	<u>745</u>
BASIC EARNINGS PER SHARE	10	18.2p	10.9p
FULLY DILUTED EARNINGS PER SHARE	10	16.6p	10.3p
ADJUSTED EARNINGS PER SHARE	10	16.9p	11.5p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no gains or losses other than the profit for the period. All operations are continuing.

Group Balance Sheet at 31 December 1997

	Notes	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	11	<u>101,488</u>	<u>86,398</u>
CURRENT ASSETS			
Stocks	13	1,585	1,093
Debtors	14	9,365	7,704
Cash at bank		<u>1,639</u>	<u>170</u>
		12,589	8,967
CREDITORS: amounts falling due within one year	15	<u>(56,923)</u>	<u>(48,542)</u>
NET CURRENT LIABILITIES		<u>(44,334)</u>	<u>(39,575)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		57,154	46,823
CREDITORS: amounts falling due after more than one year	16	(57,446)	(54,710)
PROVISION FOR LIABILITIES AND CHARGES	19	<u>(3,184)</u>	<u>(2,423)</u>
		<u>(3,476)</u>	<u>(10,310)</u>
CAPITAL AND RESERVES			
Called up equity share capital	20	317	8
Called up non-equity share capital	20	—	92
Share premium account	22	14,913	9,783
Goodwill reserve	22	(20,938)	(20,938)
Profit and loss account	22	<u>2,232</u>	<u>745</u>
TOTAL EQUITY AND NON EQUITY SHAREHOLDERS' FUNDS		<u>(3,476)</u>	<u>(10,310)</u>
Equity shareholders' funds		(3,476)	(19,393)
Non equity shareholders' funds		<u>—</u>	<u>9,083</u>
		<u>(3,476)</u>	<u>(10,310)</u>

R M Pepper

Directors

K Allen

27 March 1998

Company Balance Sheet at 31 Decmber 1997

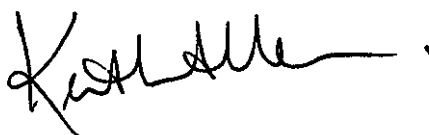
	Notes	1997 £'000	1996 £'000
FIXED ASSETS			
Investments	12	<u>20,682</u>	<u>20,682</u>
CURRENT ASSETS			
Debtors	14	39	178
Cash at bank		<u>290</u>	<u>-</u>
		329	178
CREDITORS: amounts falling due within one year	15	<u>(5,226)</u>	<u>(7,049)</u>
NET CURRENT LIABILITIES		<u>(4,897)</u>	<u>(6,871)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,785	13,811
CREDITORS: amounts falling due after more than one year	16	<u>-</u>	<u>(3,915)</u>
		<u>15,785</u>	<u>9,896</u>
CAPITAL AND RESERVES			
Called up equity share capital	20	317	8
Called up non-equity share capital	20	-	92
Share premium account	22	14,913	9,783
Profit and loss account	22	<u>555</u>	<u>13</u>
TOTAL EQUITY AND NON EQUITY SHAREHOLDERS' FUNDS		<u>15,785</u>	<u>9,896</u>
Equity shareholders' funds		15,785	813
Non equity shareholders' funds		<u>-</u>	<u>9,083</u>
		<u>15,785</u>	<u>9,896</u>

R M Pepper


Directors

K Allen

27 March 1998



Group Cash Flow Statement for the year ended 31 December 1997

	Notes	1997 £'000	14 months to 31 December 1996 £'000
CASH FLOW FROM OPERATING ACTIVITIES	23a	26,455	23,430
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	23b	(893)	(1,498)
TAXATION		(146)	(320)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS	23b	(39,611)	(31,631)
ACQUISITIONS	23b	-	(15,729)
EQUITY DIVIDENDS PAID		(81)	(30)
Cash outflow before use of liquid resources and financing		(14,276)	(25,778)
FINANCING:			
Issue of shares	23b	14,783	10,000
Redemption of shares	23b	(9,436)	-
Additional debt finance received	23b	10,420	15,926
INCREASE IN CASH IN THE PERIOD		<u>1,491</u>	<u>148</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (note 23c)

	1997 £'000	14 months to 31 December 1996 £'000
INCREASE IN CASH IN THE PERIOD	1,491	148
Cash inflow from increase in debt, hire purchase and lease financing.	(10,420)	(15,926)
Changes in net debt resulting from cash flows	(8,929)	(15,778)
Loans, hire purchase and finance lease agreements acquired with subsidiary	-	(75,081)
MOVEMENT IN NET DEBT IN THE PERIOD	<u>(8,929)</u>	<u>(90,859)</u>
OPENING NET DEBT	<u>(90,859)</u>	-
CLOSING NET DEBT	<u>(99,788)</u>	<u>(90,859)</u>

Reconciliation of Movements in Shareholders' Funds

	Group	Group	Company	Company
	1997	14 months to	1997	14 months to
	£'000	31 December	£'000	31 December
		1996		1996
		£'000		£'000
Profit for the period	2,173	1,358	1,228	626
Dividends	(803)	(613)	(803)	(613)
	<u>1,370</u>	<u>745</u>	<u>425</u>	<u>13</u>
Shares issued:				
- on 14 November 1997	15,950	-	15,950	-
- in respect of acquisition of BCH Vehicle Management Ltd.	-	9,967	-	9,967
- in respect of Employee Benefit Trust	-	33	-	33
- share issue expenses	(1,167)	(146)	(1,167)	(146)
Redemption of B ordinary shares on 14 November 1997	(236)	-	(236)	-
Redemption of preference shares on 14 November 1997	(9,200)	-	(9,200)	-
Write back of issue costs previously charged to share premium	117	29	117	29
Goodwill on acquisition	-	(20,938)	-	-
Net additions to shareholders' funds	<u>6,834</u>	<u>(10,310)</u>	<u>5,889</u>	<u>9,896</u>
Shareholders' funds at beginning of period	<u>(10,310)</u>	<u>-</u>	<u>9,896</u>	<u>-</u>
Shareholders' funds at end of period	<u><u>(3,476)</u></u>	<u><u>(10,310)</u></u>	<u><u>15,785</u></u>	<u><u>9,896</u></u>

Notes to the Accounts at 31 December 1997

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of preparation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 31 December 1997. As permitted by section 230 of the Companies Act 1985, no profit and loss account for the Company is presented. The profit of the Company for the year ended 31 December 1997 was £1,228,000.

Comparatives

BCH Group plc was incorporated on 31 October 1995 and acquired BCH Vehicle Management Ltd on 14 December 1995. Accordingly the comparative results are for the 14 month period to 31 December 1996. These include the results of BCH Group plc since incorporation and for practical reasons, the results of BCH Vehicle Management Ltd for the year to 31 December 1996.

Interest receivable on vehicle contract purchase agreements is included in turnover and interest payable on vehicle hire purchase and leasing arrangements is included within cost of sales. This represents a change in disclosure in the current year and has been made in order that operating profit takes into account all direct income and costs relating to the contract hire fleet. The comparatives have been restated accordingly and have had no effect on profit before taxation.

Goodwill

Goodwill arises on the acquisition of subsidiary undertakings where the purchase consideration exceeds the fair values attributed to the net assets at acquisition, and is charged against reserves as it arises.

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of contract hire and fleet management services, interest receivable on contract purchase contracts, the profit on the sale of used motor vehicles and fleet bonuses received from manufactures which are credited to the profit and loss account on a straight line basis over the life of the contract to which the bonus relates.

Depreciation

Depreciation is provided at rates calculated to write off the costs, less estimated residual value, of each asset evenly over its estimated useful life, as follows:

Freehold property	-	over 25 years
Short leasehold property	-	over length of lease
Plant & equipment	-	over 5 to 10 years
Computer equipment	-	over 3 to 5 years
Motor vehicles	-	over the life of the individual hire contract

Freehold land is not depreciated by the Group.



Notes to the Accounts at 31 December 1997

Fixed assets provided by the Group under leases

Where assets are provided by the Group under lease purchase or lease rental agreements that give rights to the lessee approximating to ownership the assets are treated as if they had been sold outright and the corresponding asset to the Company is included as a lease debtor.

Receipts from lease debtors are treated as consisting of capital and interest elements and the interest is credited to the profit and loss account using the pre-tax actuarial method.

All other assets provided under leases are provided under operating leases ("contract hire") and the relevant annual lease rentals are credited to profit and loss account on a straight line basis over the lease term.

Maintenance of contract hire vehicles

Vehicle maintenance costs are charged to the profit and loss account on a straight line basis over the individual lease term.

Stocks

Stocks are stated at the lower of cost or net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Lease commitments

Assets held under hire purchase contracts or finance leases are capitalised in the balance sheet. The capital elements of future obligations under the hire purchase contracts and leases are included in liabilities in the balance sheet.

The interest element of the rental obligation is calculated to represent a constant proportion of the balance of capital repayments outstanding and is charged to cost of sales in the profit and loss account for the period of the lease or hire purchase contract.

All other leases are accounted for as operating leases and costs are charged to the profit and loss account on a straight line basis over the life of the lease.

Deferred taxation

Provision is made on a liability basis for tax deferred by timing differences to the extent that there is a reasonable probability that the tax deferral will crystallise in the foreseeable future.

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Notes to the Accounts at 31 December 1997

2. TURNOVER

Turnover arises wholly in the United Kingdom and is attributable to the Groups's continuing principal activity of the provision of vehicle management services. Turnover in respect of vehicle purchases and maintenance recharges for third party fleet management services is included in both turnover and cost of sales and totalled £4,686,000 in 1997 (1996: £2,341,000).

3. OPERATING PROFIT

This is stated after charging/(crediting):

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Operating lease rentals receivable	(44,207)	(37,367)
Contract purchase rentals receivable	(1,106)	(847)
Contract purchase interest	(359)	(306)
	<u>(45,672)</u>	<u>(38,520)</u>
Depreciation - assets on hire purchase or finance leases	25,100	21,780
Depreciation - owned assets	172	127
Finance charges - hire purchase contracts and finance leases	7,863	6,760
Operating lease rentals - land and buildings	180	170
Profit on disposal of vehicles	(1,296)	(689)
Auditors remuneration - audit services	35	35
- non-audit services	<u>23</u>	<u>28</u>

In addition to the amounts given above, in 1997 non-audit services totalling £165,000 in respect of the flotation were charged to the share premium account. In the 14 month period ended 31 December 1996, the Company paid fees to the auditors of £242,000 in respect of work on the management buyout. These fees were treated as a cost of investment and charged against goodwill. Auditors fees in respect of the Company were £5,000 (1996: £5,000) and is included in the above.

Notes to the Accounts at 31 December 1997

4. DIRECTORS EMOLUMENTS

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Aggregate emoluments	477	411
Company contributions to money purchase scheme	25	18
Sums paid to third parties for directors' services	13	15
	<u>515</u>	<u>444</u>

No directors exercised share options during the year (1996 : none) or received shares under long term incentive schemes (1996 : none). Retirement benefits are accruing to 3 directors under a money purchase scheme (1996 : 5). As stated in note 25, the group operates a defined contribution scheme only. Further details of the directors' remuneration are given in the report of the Remuneration Committee on pages 10 to 11.

5. STAFF COSTS

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Wages and salaries	2,883	2,424
Social security costs	275	229
Other pension costs	193	158
	<u>3,351</u>	<u>2,811</u>

The average number of employees during the year was as follows:

	Year ended 31 December 1997 No	14 months to 31 December 1996 No
Operations	52	41
Sales and marketing	48	43
Finance, IT and administration	34	26
Retail	20	18
	<u>154</u>	<u>128</u>

Notes to the Accounts at 31 December 1997

6. OTHER INTEREST RECEIVABLE

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Bank interest	<u>20</u>	<u>12</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Bank loans and overdrafts repayable within five years	<u>556</u>	<u>680</u>

8. TAXATION

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Based on the results for the year:		
Corporation tax @ 31.5% - current year	56	-
Deferred taxation	<u>883</u>	<u>673</u>
	<u>939</u>	<u>673</u>
Adjustments in respect of previous periods:		
Deferred taxation	<u>(122)</u>	<u>-</u>
	<u>817</u>	<u>673</u>

Deferred tax at 31 December 1997 has been provided at a rate of 30% as this is the Groups best estimate of the rate of tax which will apply when the underlying timing differences reverse. The opening deferred tax balance was calculated at a rate of 33% and the effect of the reduction in rate to 30% is to reduce the tax charge for the year by £269,000. Of this figure, £220,000 relates to the opening deferred tax balance.

Notes to the Accounts at 31 December 1997

9. DIVIDENDS

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Preferred ordinary dividends paid on equity shares	81	30
Preference dividends paid on non-equity shares	481	554
Amortisation of issue costs on non-equity shares	117	29
Final dividend proposed on ordinary shares of 0.8 pence per share	127	-
Dividends waived on ordinary shares held by the Employee Benefit Trust (note 21)	(3)	-
	<u>803</u>	<u>613</u>

10. EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 1997 is calculated by dividing the profit on ordinary activities after taxation and preference dividends of 1,494,000 (1996: £745,000) by the weighted average number of shares in issue during the year of 8,224,468 (1996: 6,825,383) after adjustment to reflect the bonus issue and consolidation of shares referred to in note 20 and excluding the shares held by the BCH Employee Benefit Trust.

Fully diluted earnings per share for the year ended 31 December 1997 is calculated by dividing the profit on ordinary activities after taxation and preference dividends of £1,494,000 (1996: £745,000) by 8,995,132 (1996: 7,243,305) being the weighted average number of shares in issue during the year adjusted to reflect the position if all share options as at 31 December 1997 had been exercised on 1 January 1997. It has been assumed that any extra income generated from the proceeds of the exercise of these options would not be material.

The adjusted earnings per share figures have been calculated in line with those disclosed in the listing particulars and take account of the capital reorganisation referred to in note 20, also adjusting the weighted average number of shares in issue to take account of the redemption of the 236,613 B ordinary shares and the new shares issued to redeem the Company's preference shares and remaining B ordinary shares. Consequently in calculating the adjusted earnings per share, the preference dividends have been added back in calculating the profits available to ordinary shareholders. The following table reconciles both the earnings and weighted average number of shares in issue between the basic earnings per share and the adjusted earnings per share.

	Earnings attributable to ordinary shareholders		Weighted average No of shares in issue	
	1997 £'000	1996 £'000	1997 No.	1996 No.
Basic earnings per share basis:	1,494	745	8,224,468	6,825,383
Earnings adjusted for preference dividends and related share issue costs:	679	613		
Shares in issue adjusted for redemption of 236,613 B ordinary shares (adjusted for consolidation of shares) detailed in note 20:			(102,748)	(118,307)
Shares in issue adjusted for redemption of preference and B ordinary shares detailed in note 20:			4,313,490	4,966,638
Weighted average number of shares held by the BCH Employee Benefit Trust (as adjusted for bonus issue and consolidation)			429,615	151,827
Adjusted earnings per share basis:	<u>2,173</u>	<u>1,358</u>	<u>12,864,825</u>	<u>11,825,541</u>

Notes to the Accounts at 31 December 1997

11. TANGIBLE FIXED ASSETS

Group	Freehold property £'000	Short leasehold property £'000	Plant and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 1997	-	148	712	122,726	123,586
Additions	537	18	170	56,958	57,683
Disposals	-	-	(2)	(38,530)	(38,532)
At 31 December 1997	<u>537</u>	<u>166</u>	<u>880</u>	<u>141,154</u>	<u>142,737</u>
Depreciation:					
At 1 January 1997	-	17	307	36,864	37,188
Charge for period	-	11	161	25,100	25,272
Disposals	-	-	(2)	(21,209)	(21,211)
At 31 December 1997	<u>-</u>	<u>28</u>	<u>466</u>	<u>40,755</u>	<u>41,249</u>
Net book values:					
At 31 December 1997	<u>537</u>	<u>138</u>	<u>414</u>	<u>100,399</u>	<u>101,488</u>
At 31 December 1996	<u>-</u>	<u>131</u>	<u>405</u>	<u>85,862</u>	<u>86,398</u>

£97,150,000 of the net book value of the motor vehicles included above (1996 : £82,715,000) are held under hire purchase or finance leases to generate operating lease rental income. Depreciation on vehicles held under hire purchase or finance lease included above was £25,100,000 (1996: £21,780,000).

12. INVESTMENTS

Company	Shares in subsidiary undertakings £'000
Cost:	
At 1 January 1997 and 31 December 1997	<u>20,682</u>

Subsidiary undertakings held directly are shown below. These are all incorporated in Great Britain. BCH Vehicle Management Ltd has been included within the consolidated accounts of the Group.

NAME OF COMPANY	HOLDING & PROPORTION HELD	NATURE OF BUSINESS
BCH Vehicle Management Limited	Ordinary shares - 100%	Vehicle management services
Motor Guard (UK) Limited	Ordinary shares - 100%	Dormant
Motormart (Bristol) Limited	Ordinary shares - 100%	Dormant

Notes to the Accounts at 31 December 1997

13. STOCKS

	Group	
	1997 £'000	1996 £'000
Used Vehicles	1,573	1,084
Parts	12	9
	<u>1,585</u>	<u>1,093</u>

14. DEBTORS

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Amounts falling due within one year:				
Trade debtors	3,317	2,003	-	-
Contract purchase receivables	1,225	1,155	-	-
Advance corporation tax recoverable	141	146	-	146
Other debtors	40	49	32	32
Prepayments & accrued income	2,636	2,633	7	-
	<u>7,359</u>	<u>5,986</u>	<u>39</u>	<u>178</u>
Amounts falling due after more than one year:				
Advance corporation tax recoverable	134	-	-	-
Contract purchase receivables	1,872	1,718	-	-
	<u>9,365</u>	<u>7,704</u>	<u>39</u>	<u>178</u>

The costs of vehicles acquired for the purpose of leasing under contract purchase agreements for the year ended 31 December 1997 was £1,655,000 (1996 - £1,357,000).

15. CREDITORS: amounts falling due within one year

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Bank overdraft	-	22	-	22
Bank loans (see note 17)	-	954	-	954
Hire purchase and finance leases (see note 18)	43,981	35,212	-	-
Trade creditors	2,683	3,459	-	-
Owed to group undertakings	-	-	5,102	5,995
Corporation tax	18	85	-	78
Advance corporation tax payable:				
• January 1998	68	-	-	-
• On proposed dividend	33	-	-	-
Other taxes and social security	389	219	-	-
Accruals and deferred income	9,627	8,591	-	-
Proposed dividends	124	-	124	-
	<u>56,924</u>	<u>48,542</u>	<u>5,226</u>	<u>7,049</u>

Notes to the Accounts at 31 December 1997

16. CREDITORS: amounts falling due after one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank loan (see note 17)	-	3,915	-	3,915
Hire purchase and finance leases (see note 18)	57,446	50,795	-	-
	<u>57,446</u>	<u>54,710</u>	<u>-</u>	<u>3,915</u>

17. BANK LOAN

	Group and Company 1997 £'000	Group and Company 1996 £'000
Amounts falling due wholly within five years	-	5,000
Less: unamortised issue expenses	-	(131)
	<u>-</u>	<u>4,869</u>
The bank loan is repayable as follows:		
In one year or less	-	1,000
Between one and two years	-	1,000
Between two and five years	-	3,000
	<u>-</u>	<u>5,000</u>
Less unamortised issue expenses	-	(131)
	<u>-</u>	<u>4,869</u>
Amortisation of issue expenses are as follows:		
In one year or less	-	46
Between one and two years	-	36
Between two and five years	-	49
	<u>-</u>	<u>131</u>

The bank loan was a medium term loan from Midland Bank plc. with interest charged at LIBOR plus 2% and an additional regulatory cost of 0.0322%. The bank loan was drawn down on the 14 December 1995 and was repayable by quarterly instalments of £250,000 with the exception of the first instalment which was paid on the 30 June 1996 totalling £500,000. On the 14 November 1997 the balance outstanding on the bank loan of £4,250,000 was repaid in full from monies raised on the listing of the company on the London Stock Exchange.

Notes to the Accounts at 31 December 1997

18. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES

	Hire purchase Group		Finance leases Group		Total Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Payable:						
in two to five years	26,390	23,035	351	1,027	26,741	24,062
in one to two years	30,046	25,280	659	1,453	30,705	26,733
	<u>56,436</u>	<u>48,315</u>	<u>1,010</u>	<u>2,480</u>	<u>57,446</u>	<u>50,795</u>
within one year	42,233	33,255	1,748	1,957	43,981	35,212
	<u>98,669</u>	<u>81,570</u>	<u>2,758</u>	<u>4,437</u>	<u>101,427</u>	<u>86,007</u>

All borrowings under hire purchase and finance lease contracts are secured by fixed charges over the contract hire or contract purchase agreement and the underlying vehicles.

19. PROVISIONS FOR LIABILITIES AND CHARGES

Potential deferred taxation, for which full provision has been made in the accounts is as follows:

Group	£'000
1 January 1997	2,423
Charged to the profit and loss account	<u>761</u>
31 December 1997	<u>3,184</u>

Deferred taxation is made up as follows;

	1997 £'000	1996 £'000
Accelerated capital allowances	3,228	2,589
Other timing differences	<u>(44)</u>	<u>(166)</u>
At 31 December 1997	<u>3,184</u>	<u>2,423</u>

Notes to the Accounts at 31 December 1997

20. SHARE CAPITAL

	1997 No.	1996 No.
Authorised:		
Equity share capital:		
Ordinary shares of 2p each	21,070,000	-
Ordinary A shares of 1p each	-	280,000
Ordinary B shares of 1p each	-	520,000
Non-equity share capital:		
6% cumulative redeemable	-	9,200,000
	<u>21,070,000</u>	<u>10,000,000</u>

	1997 No.	1997 £'000	1996 No.	1996 £'000
Allotted, called up and fully paid:				
Equity share capital:				
Ordinary shares of 2p each	15,842,105	317	-	-
Ordinary A shares of 1p each	-	-	280,000	3
Ordinary B shares of 1p each	-	-	520,000	5
Non-equity share capital:				
6% cumulative redeemable	-	-	9,200,000	92
	<u>15,842,105</u>	<u>317</u>	<u>10,000,000</u>	<u>100</u>

On 14 November 1997, upon admission of the Company via a placing to the London Stock Exchange, the Company by special resolution passed on 5 November 1997:

- Re-designated all the A ordinary shares and B ordinary shares as a single class of ordinary shares of 1p each;
- Increased the authorised share capital of the Company to £421,000 by the creation of 32,140,000 additional ordinary shares of 1p each;
- Authorised the directors to capitalise £71,226 of the Company's share premium account in paying up in full at par 7,122,636 ordinary shares of 1p each and allotting them credited as fully paid to existing holders of A ordinary shares as at 5 November 1997;
- Authorised the directors to capitalise £72,087 of the Company's share premium account in paying up in full at par 7,208,716 ordinary shares of 1p each and allotting them credited as fully paid, in proportion to the number of B ordinary shares held by holders of B ordinary shares following the redemption of 236,613 B ordinary shares;
- Consolidated every two ordinary shares of 1p each into one ordinary shares of 2p each;

On the 14 November 1997 upon admission of the Company to the London Stock Exchange, 8,394,737 ordinary shares of 2 p each with an aggregate value of £167,895 were issued fully paid for cash of £15,950,000 as part of the placing. Following the placing on the same date the 9,200,000 6% cumulative preference shares were redeemed at par value with 236,613 B ordinary shares also being redeemed at issue cost.

Notes to the Accounts at 31 December 1997

21. SHARE OPTIONS

The Company has three share option schemes under which options to subscribe for the Company's shares have been granted, the BCH Group plc Share Option Scheme (The 1996 Scheme), the BCH Group Executive Share Option Scheme (the Executive Scheme) and the BCH Group Sharesave Scheme (The Sharesave Scheme).

Under the terms of the 1996 Scheme options were granted to certain employees at a cost of £1 on the 19 August 1996, entitling the holder of the option to subscribe for ordinary shares at a price of 7.6p each as agreed with the Inland Revenue having been adjusted for the capital reorganisation detailed in note 20 above. As at 31 December 1997 options under the scheme were outstanding over 420,364 ordinary shares, exercisable between 19 August 1999 and 18 August 2007. Under the terms of the 1996 Scheme and following the capital reorganisation of the Company prior to its admission to the London Stock Exchange, 429,617 ordinary shares are held by the BCH Employee Benefit Trust in respect of the options granted under the Scheme. The market value of the BCH Employee Benefit Trust at 31 December 1997 was £848,493.

The Executive Scheme has two parts, part A being an approved scheme and part B being unapproved. As at 31 December 1997, (a) options under part A of the Scheme were outstanding over 74,068 ordinary shares at 202.5p each exercisable between 14 November 2000 and 13 November 2007, (b) options under part B of the Scheme were outstanding over 108,642 ordinary shares at 202.5p each exercisable between 14 November 2000 and 13 November 2007. All options outstanding with respect to the Executive Scheme were granted on the 14 November 1997. The Executive Scheme incorporates performance targets which are set by the Board which must be achieved before exercise of the share option is permitted. The current performance target requires that the increase in the Group's earnings per share over a consecutive three year period prior to any exercise to exceed the retail price index by a minimum of 3% per annum.

As at 31 December 1997 options under the Company's approved Sharesave Scheme were outstanding over 163,590 ordinary shares at 162p each exercisable at various dates between 1 February 2001 and 1 August 2003.

22. RESERVES

	Goodwill reserve £'000	Group share premium £'000	Profit & loss £'000	Share premium £'000	Company Profit & loss £'000
At 1 January 1997	(20,938)	9,783	745	9,783	13
Share issue costs charged					
to profit & loss account for the year	-	-	117	-	117
Redemption of B ordinary shares	-	(234)	-	(234)	-
Redemption of preference shares	-	(9,108)	-	(9,108)	-
Share bonus issue	-	(143)	-	(143)	-
Share issue	-	15,782	-	15,782	-
Share issue costs	-	(1,167)	-	(1,167)	-
Profit for the period	-	-	2,173	-	1,228
Dividends	-	-	(803)	-	(803)
At 31 December 1997	<u>20,938</u>	<u>14,913</u>	<u>2,232</u>	<u>14,913</u>	<u>555</u>

The goodwill reserve totalling £20,938,000 derives solely from the acquisition of BCH Vehicle Management Limited.

Notes to the Accounts at 31 December 1997

23. NOTES TO THE CASH FLOW STATEMENT

23a. Reconciliation of operating profit to net cash inflow from operating activities.

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
Operating profit	3,526	2,699
Depreciation	25,272	21,907
Increase in stocks	(492)	(152)
Increase in debtors	(1,532)	(1,026)
Increase in creditors	977	691
Profit on disposal of tangible fixed assets	(1,296)	(689)
Net cash inflow from operating activities	<u>26,455</u>	<u>23,430</u>

23b. Analysis of cash flows for headings netted in the cash flow statement

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	20	12
Interest paid	(432)	(624)
Issue costs relating to loans and non-equity shares	-	(332)
Preference dividend paid	(481)	(554)
Net cash outflow for returns on investments and servicing of finance	<u>(893)</u>	<u>(1,498)</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(58,228)	(45,611)
Sale of tangible fixed assets	18,617	13,980
Net cash outflow for capital expenditure and financial investment	<u>(39,611)</u>	<u>(31,631)</u>

Notes to the Accounts at 31 December 1997

	Year ended 31 December 1997 £'000	14 months to 31 December 1996 £'000
ACQUISITIONS		
Purchase of subsidiary undertaking	-	(19,955)
Costs arising on acquisition	-	(727)
Net cash acquired with subsidiary	-	4,953
Net cash outflow for acquisitions	-	(15,729)
FINANCING		
Issue of ordinary share capital	15,950	800
Redemption of B ordinary share capital	(236)	-
Issue of non-equity share capital	-	9,200
Redemption of preference share capital	(9,200)	-
Share issue costs	(1,167)	-
	5,347	10,000
Debt due within a year:		
increase in short term borrowing/new secured term loan	-	2,000
repayment of short term borrowings	-	(1,000)
secured term loan repayments	(5,000)	(1,000)
Debt due beyond a year:		
new secured term loan	-	5,000
	347	5,000
Inception of finance lease and hire purchase agreements		
in respect of additions to motor vehicles	60,816	48,688
in respect of contract purchase debtors	1,655	1,357
Capital element of hire purchase and finance lease rental payments	(47,051)	(39,119)
Net cash inflow from financing	15,767	25,926

23c. Analysis of net debt

	At 1 January 1997 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 1997 £'000
Cash in hand, at bank	170	1,469	-	1,639
Overdrafts	(22)	22	-	-
Debt due after 1 year	(4,000)	4,000	-	-
Debt due within 1 year	(1,000)	1,000	-	-
HP contracts and finance leases	(86,007)	(15,420)	-	(101,427)
Total	(90,859)	(8,929)	-	(99,788)

Notes to the Accounts at 31 December 1997

24. CAPITAL COMMITMENTS

At the balance sheet date the Group had placed orders for motor vehicles to the value of £13.9M in respect of new lease rental agreements commencing post 31 December 1997 (1996: £10.7M). At 31 December 1997, the Company had capital commitments in respect of leasehold improvements to Oakwood Park of £500,000 (1996: £nil).

25. PENSION COMMITMENTS

The Group operates a defined contribution pension scheme, The BCH Pension Scheme, for its directors and employees. The assets of the scheme, are held separately from those of the Group in independently administered funds. Contributions made to the scheme, including administration costs for the year to 31 December 1997 totalled £193,000 (1996: £158,000). There were no outstanding unpaid contributions at 31 December 1997.

26. OTHER FINANCIAL COMMITMENTS

At 31 December 1997 the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	1997	Land and buildings	1996
	£'000		£'000
Operating leases which expire:			
In two to five years	12		46
In over five years	407		165
	<u>419</u>		<u>211</u>

The Group has an interest in the residual value of certain vehicles, where the lease is directly written by a third party. The Group may be required to purchase these vehicles in future years on the expiry of the relevant contracts. The value at which these vehicles would be purchased is set by the Group on a prudent basis to ensure that under normal circumstances the market value of these vehicles is as high or higher than this value. The directors have reviewed the repurchase values and have concluded that there are no material foreseeable losses for which provision is required. The total commitment at 31 December 1997 was £5,981,000 (1996: £4,807,000).

27. CONTINGENT LIABILITIES

At 31 December 1997 the Company had cross guarantees with BCH Vehicle Management Limited for £101,427,000 (1996: £86,007,000) owed to finance companies in respect of loans for vehicle purchases and the bank overdraft to the extent of £3,000,000 (1996: £4,000,000) of which none was utilised at 31 December 1997.

28. RELATED PARTY TRANSACTIONS

The Group has supplied two vehicles under contract purchase agreements to Richard Pepper on normal commercial terms. At 1 January 1997 the value of the associated loans totalled £28,777 which was the maximum outstanding during the year. At 31 December 1997 the amount outstanding was £26,912.

Five Year Record

Profit and Loss Account

	Year ending 31 December				
	1997	1996	1995	1994	1993
	£'000	£'000	£'000	£'000	£'000
TURNOVER	55,812	46,482	40,723	33,744	24,355
Cost of sales	47,197	39,445	34,809	29,519	21,148
GROSS PROFIT	8,615	7,037	5,914	4,225	3,207
Distribution Costs	574	544	617	561	252
Administrative expenses	4,647	3,905	3,545	2,516	1,811
Other operating income	(132)	(111)	(129)	-	-
	5,089	4,338	4,033	3,077	2,063
OPERATING PROFIT	3,526	2,699	1,881	1,148	1,144
Interest receivable	20	12	821	642	349
Interest payable	(556)	(680)	(87)	(54)	(17)
PROFIT ON ORDINARY ACTIVITIES					
BEFORE TAXATION	2,990	2,031	2,615	1,736	1,476
Taxation on profit on ordinary activities	817	673	966	673	425
PROFIT FOR THE PERIOD	2,173	1,358	1,649	1,063	1,051
Dividends paid and proposed on equity and non equity shares	686	584	7,500	-	-
Additional finance costs of non equity shares	117	29	-	-	-
PROFIT RETAINED FOR EQUITY SHAREHOLDERS	1,370	745	(5,851)	1,063	1,051
ADJUSTED EARNINGS PER SHARE	16.9p	11.5p	14.6p	9.4p	9.3p
BASIC EARNINGS PER SHARE	18.2p	10.9p			
FULLY DILUTED EARNINGS PER SHARE	16.6p	10.3p			

Basis of preparation

BCH Group plc was incorporated on 31 October 1995 and acquired Bryan Contract Hire Limited on 14 December 1995 by way of a management buy-out. On 18 March 1996 Bryan Contract Hire Limited changed its name to BCH Vehicle Management Limited.

The five year record shown above has been prepared on the following basis. The financial information for the years to 31 December 1993 and 1994 is that of Bryan Contract Hire Limited. The financial information presented for the year to 31 December 1995 aggregates the results of BCH Group plc since incorporation, and BCH Vehicle Management Limited since 1 January 1995. The financial information presented for the years to 31 December 1996 and 1997 is based on the consolidated financial statements of the Company.

The adjusted earnings per share in the years ended 31 December 1993, 1994 and 1995 have been calculated by dividing the profit on ordinary activities after taxation shown above by the number of ordinary shares in issue of 11,277,201 immediately following the management buyout on the 14 December 1995, as adjusted for the capital reorganisation detailed in note 20 to the accounts.

Shareholder Information

Market makers

Panmure Gordon
Peel Hunt
Winterflood Securities

Announcement of results

Interim results September
Final results March

Annual report & AGM

Report and Accounts published April 1998
Annual General Meeting 6 May 1998

Payment of dividends

Final: Ex dividend date 6 April 1998
 Record date 14 April 1998
 Payment date 29 May 1998
Interim: October 1998



Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of BCH Group plc, (the 'Company') will be held at Oakwood Park, Fishponds, Bristol, BS16 3JA on Wednesday 6 May 1998 at 10.00am for the following purposes:

Ordinary Business

Accounts

1. To receive and adopt the report of the directors and the audited accounts for the year ended 31 December 1997.

Dividend

2. To declare a final dividend for the year ended 31 December 1997 of 0.8 pence per ordinary share payable to shareholders on the register at the close of business on 14 April 1998.

Re-election of directors retiring by rotation under the terms of the Articles of Association

3. To re-elect Mr R M Pepper
4. To re-elect Mr D A Yates

Special business

To consider and, if thought fit, to pass the following resolutions, of which resolutions 5 and 6 will be proposed as ordinary resolutions and resolutions 7 and 8 as special resolutions.:

Auditors

5. To appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the Company at a remuneration to be fixed by the directors.

Directors' authority to issue shares

6. That the authority conferred on the directors by Article 4B of the Articles of Association of the Company be renewed for the period ending on the date of the Annual General Meeting in 1999 or on 5 August 1999, whichever is the earlier, and that for such period the Section 80 amount shall be £104,557.

Partial exclusion of pre-emption rights

7. That the authority conferred on the directors by Article 4C of the Articles of Association of the Company be renewed for the period ending on the date of the Annual General Meeting in 1999 or on 5 August 1999, whichever is the earlier, and that for such period the Section 89 amount shall be £15,842.

Notice of Annual General Meeting

Purchase of Own Shares

8. That in accordance with Article 39 of the Company's Articles of Association and the Companies Act 1985, the Company is generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 2p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the directors of the Company may from time to time determine PROVIDED THAT:
- a) the maximum number of ordinary shares that may be purchased pursuant to this authority is 792,100 representing approximately 5% of the current issued share capital;
 - b) the maximum price which may be paid for an ordinary share purchased pursuant to this authority is an amount equal to 105% of the average of the middle market quotation of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which that share is purchased and the minimum price which may be paid is 2p per ordinary share: and
 - c) this authority will expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless renewed before that time, but the Company may make a contract to purchase its ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

Keith Allen

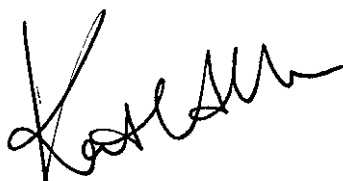
Secretary

Oakwood Park

Fishponds

BRISTOL

BS16 3JA



27 March 1998

Notes:

- 1. All members who hold ordinary shares are entitled to attend and vote at the meeting. A member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him, and a proxy need not also be a member. A form of proxy is enclosed. If you do not intend being present at the meeting, please sign and return it so as to reach the Company's registrar at least 48 hours before the meeting. The return by a member of a duly completed form of proxy will not preclude any such member from attending in person and voting at the meeting.
- 2. The register of directors' interests in the shares of the Company and copies of the directors' service contracts are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday and public holidays excluded) from the date of this notice until the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- 3. Only those members entered in the register of members of the Company as at 6pm on 4 May 1998 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6pm on 4 May 1998 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Explanatory Notes on Certain Business of the Annual General Meeting

Directors' authority to issue shares

(Resolution 6)

This resolution authorises the directors to issue shares without further reference to the shareholders up to an aggregate nominal amount of £104,557 which is the current authorised but un-issued share capital of the Company during the period to the conclusion of the Annual General Meeting in 1999. It complies with the Association of British Insurers' guidelines and renews a similar authority previously given when the Articles of Association were adopted.

Partial exclusion of pre-emption rights

(Resolution 7)

It is proposed to renew for a further year the authority of the directors to issue shares for cash without first being required to offer them to existing shareholders. This authority relates to shares with an aggregate nominal value of £15,842 (approximately 5% of the current issued ordinary share capital) in line with the Association of British Insurers' guidelines. It renews a similar authority previously given when the Articles of Association were adopted.

The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied the dis-application will expire on the earlier of the date of the conclusion of the next Annual General Meeting of the Company or 5 August 1999.

Purchase of own shares

(Resolution 8)

Under Article 39 of the Company's Articles of Association and section 163 of the Companies Act 1985, the Company is empowered to purchase its own shares. Resolution 8 is proposed to enable the Company to purchase, for cancellation, ordinary shares in the market for the period until the earlier of the conclusion of the Company's Annual General Meeting in 1999 upon the terms set out in the Resolution up to a maximum number of 792,100 ordinary shares (representing approximately 5% of the present issued ordinary share capital). A purchase of the proposed maximum of 792,100 ordinary shares at the share price of 211 pence on 16 March 1998 would involve the Company in the expenditure of approximately £1.7 million before stamp duty and commissions, and at the minimum permitted price would involve the expenditure on the same basis of £15,842.

The directors would use the share purchase authority with discretion and purchases would be made from funds not required for other purposes and in the light of market conditions prevailing at the time. In reaching a decision to purchase the ordinary shares, your directors would take account of the Company's business, any impact on earnings per ordinary shares or on a net tangible assets per ordinary share. No announcement will be made by the Company in advance of the market purchases but any purchases made by the Company would be announced by 8.30am on the business day next following the transaction. Unless previously renewed, this authority will expire on the conclusion of the 1999 Annual General Meeting of the Company.