



COMSTACK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1994

Company Registration Number: 2823715

COMSTACK LIMITED

DIRECTORS

York Place Co Nominees Limited	(appointed 3 June 1993, resigned 11 June 1993)
S J Webb	(appointed 11 June 1993, resigned 19 July 1993)
P D Emmett	(appointed 11 June 1993, resigned 19 July 1993)
Mr J Pither (Chairman)	(appointed 16 March 1994)
Mr D T Sinker	(appointed 20 August 1993)
Mr E A Barton*	(appointed 2 August 1993)
Mr S Rowlands	(appointed 2 August 1993)
Mr J R Finbow	(appointed 19 July 1993)
Dr B S Hobbs	(appointed 19 July 1993)
Dr W J Aston	(appointed 19 July 1993)
Mr J A Imm	(appointed 19 July 1993)
Mr A D Todd	(appointed 19 July 1993)

- * Mr E A Barton acted as Chairman from his date of appointment as a director until the appointment of Mr J Pither.

SECRETARY

Mr A D Todd

REGISTERED OFFICE

The City Technology Centre
Walton Road, Portsmouth PO6 1SZ

AUDITORS

Price Waterhouse
The Quay, 30 Channel Way
Ocean Village, Southampton SO14 3QG

BANKERS

Bank of Scotland
144/148 High Street
Southampton SO9 3LX

SOLICITORS

Crossman Block
Aldwych House, Aldwych
London WC2B 4HN

Walker Morris
Kings Court, 12 King Street
Leeds LS1 2HL

Hill, Van Santen, Steadman & Simpson
25th Floor Sears Tower
Chicago, Illinois 60606
USA

COMSTACK LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 1994

The directors present their report and accounts for the period ended 30 June 1994. This period commenced on 3 June 1993, when the company was incorporated.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as the holding company of City Technology Limited, which was acquired on 2 August 1993. The only transactions undertaken by the company during the period were the receipt and payment of dividends and interest.

The principal activity of City Technology Limited is the research, development, manufacture and marketing of gas sensors.

RESULTS AND DIVIDENDS

The consolidated profit after taxation for the period was £1,983,116. During the period dividends of £882,867 were recommended. The resulting surplus of £1,100,249 has been transferred to reserves.

As this is the first accounting period of the company, there are no comparative figures included in these accounts.

FIXED ASSETS

The company invested £24,396,422 in the purchase of City Technology Limited on 2 August 1993 which was financed through a combination of short and medium term bank and convertible loans.

Details of movements in fixed assets are contained in notes 10, 11 and 12 to the accounts.

RESEARCH AND DEVELOPMENT

The group continues to invest in the important area of research and development.

DIRECTORS

The directors who held office since 3 June 1993 are detailed on page 1 of these financial statements.

DIRECTORS' INSURANCE

Insurance cover for officers of the company has been effected in accordance with S310(3) of the Companies Act 1985.

COMSTACK LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 1994 (Continued)

DIRECTORS' INTERESTS

The interests of the directors in the company's shares were as follows:

	"A" Ordinary Shares 1994 <u>Number</u>	Ordinary Shares 1994 <u>Number</u>	Preference Shares 1994 <u>Number</u>
* J Pither	-	-	-
D T Sinker	-	-	-
E A Barton	-	-	-
S Rowlands	9	-	-
J R Finbow	-	5,600	111,067
B S Hobbs	-	3,266	170,067
W J Aston	-	2,333	17,687
J A Imm	-	2,333	21,567
A D Todd	-	2,333	12,867

- * Mr J Pither subsequently acquired 475 Ordinary Shares after the year end on 27 July 1994.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

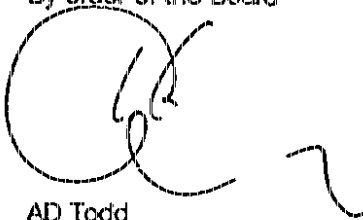
COMSTACK LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED
30 JUNE 1994 (Continued)

AUDITORS

Price Waterhouse were appointed by the directors on 2 August 1993 to fill a casual vacancy. They have indicated their willingness to be reappointed and a resolution concerning their appointment will be proposed at the next general meeting at which accounts are laid.

By order of the Board

A handwritten signature in dark ink, consisting of a large circular loop followed by a series of connected loops and a final horizontal stroke.

AD Todd
Secretary

28 September 1994

Price Waterhouse

AUDITORS' REPORT TO THE SHAREHOLDERS OF COMSTACK LIMITED



We have audited the financial statements on pages 6 to 26 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 30 June 1994 and of the profit and cash flows of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

R. Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

SOUTHAMPTON

28 September 1994

COMSTACK LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 JUNE 1994**

	<u>1994</u> £
TURNOVER (Note 3)	12,528,534
COST OF SALES	<u>(3,703,801)</u>
GROSS PROFIT	8,824,733
Distribution costs	(164,023)
Administrative expenses	<u>(3,995,175)</u>
OPERATING PROFIT (Note 4)	4,665,535
Interest receivable from bank	113,477
Amounts written off investments (Note 12)	(143,849)
Interest payable (Note 7)	<u>(1,550,206)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3,084,957
Tax on profit on ordinary activities (Note 8)	<u>(1,101,841)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	1,983,116
Dividends paid and proposed (Note 9) (including dividends on non-equity shares)	<u>(882,867)</u>
RETAINED PROFIT FOR THE PERIOD	<u>1,100,249</u>

Movements on reserves are set out in Note 22.

The group has no recognised gains or losses other than the profit for the period as shown above. Turnover and operating profit are derived exclusively from continuing operations.

This is the first statutory accounting period of Comstack Limited since its incorporation.

COMSTACK LIMITED

CONSOLIDATED BALANCE SHEET - 30 JUNE 1994

	1994
£	£
FIXED ASSETS	
Tangible assets (Note 10)	2,931,711
Investments (Note 12)	<u> </u>
	2,931,711
CURRENT ASSETS	
Stocks (Note 13)	1,041,482
Debtors (Note 14)	2,261,047
Cash at bank and in hand	<u>4,313,552</u>
	7,616,081
CREDITORS (amounts falling due within one year) (Note 15)	<u>(5,872,892)</u>
NET CURRENT ASSETS	<u>1,743,189</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	4,674,900
CREDITORS (amounts falling due after more than one year) (Note 16) (includes convertible debt)	(15,930,406)
PROVISIONS FOR LIABILITIES AND CHARGES	
Deferred tax (Note 17)	<u>(376,187)</u>
	<u>(11,631,693)</u>
CAPITAL AND RESERVES	
Called up share capital (Note 21) (including non-equity interests)	128,367
Share premium account (Note 22)	8,088,753
Goodwill reserve (Note 22)	(20,949,062)
Profit and loss account (Note 22)	<u>1,100,249</u>
SHAREHOLDERS' FUNDS (Note 23)	<u>(11,631,693)</u>

This is the first statutory accounting period of Comstack Limited since its incorporation.

Approved by the Board on 28 September 1994

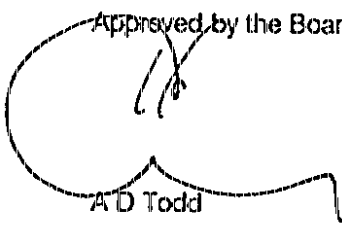
A D Todd
DIRECTOR

COMSTACK LIMITED**COMPANY BALANCE SHEET - 30 JUNE 1994**

	<u>1994</u>
	£ £
FIXED ASSETS	
Investment in subsidiary undertaking (Note 11)	24,396,422
CURRENT ASSETS	
Debtors (Note 14)	3,306,611
Cash at bank and in hand	<u>1,000,000</u>
	4,306,611
CREDITORS (amounts falling due within one year) (Note 15)	<u>(3,865,366)</u>
NET CURRENT ASSETS	<u>441,245</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	24,837,667
CREDITORS (amounts falling due after more than one year) (Note 16) (includes convertible debt)	<u>(15,930,406)</u>
	<u>8,907,261</u>
CAPITAL AND RESERVES	
Called up share capital (Note 21)	
(including non-equity interests)	128,367
Share premium account (Note 22)	8,088,753
Profit and loss account (Note 22)	<u>690,141</u>
SHAREHOLDERS' FUNDS (Note 23)	<u>8,907,261</u>

This is the first statutory accounting period of Comstack Limited since its incorporation.

Approved by the Board on 28 September 1994


A.D. Todd
DIRECTOR

COMSTACK LIMITED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 1994**

	<u>1994</u>	
	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 24)		5,042,940
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	102,056	
Dividends paid	(763,427)	
Interest paid	<u>(1,434,471)</u>	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(2,095,842)
INVESTING ACTIVITIES		
Purchase of subsidiary undertaking (Note 29)	(25,351,905)	
Purchase of tangible fixed assets	(335,821)	
Purchase of participating interest	<u>(45,596)</u>	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(25,733,322)
NET CASH OUTFLOW BEFORE FINANCING		(22,786,224)
FINANCING		
Issue of share capital (Note 27)	8,217,120	
New loans (Note 27)	18,500,000	
Repayment of loans (Note 27)	<u>(1,400,000)</u>	
NET CASH INFLOW FROM FINANCING		<u>25,317,120</u>
INCREASE IN CASH AND CASH EQUIVALENTS (Note 25)		<u>2,530,896</u>

This is the first statutory accounting period of Comstack Limited since its incorporation.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994

1 ACCOUNTING POLICIES

(1) Accounting convention

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

(2) Basis of consolidation

The consolidated accounts incorporate the accounts of the company and its subsidiary undertaking, City Technology Limited. The accounts only incorporate the results of City Technology Limited from 2 August 1993 when that company was acquired. During the period from 1 July 1993, the start of its financial year, to 2 August 1993, City Technology Limited made a profit of £302,958 before taxation.

Comstack Limited has not presented its own profit and loss account, as permitted by Section 230 of the Companies Act 1985.

(3) Turnover

Turnover represents amounts receivable for the sale of goods net of VAT, fee income under contracts, and income from licensing agreements, accrued according to the terms of the licence. All turnover derives from the activities of City Technology Limited.

(4) Research and development

All expenditure on research and development is written off as incurred, and charged to administrative expenses. This write-off included £65,583 of patent maintenance fees in 1994.

(5) Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, which is reviewed annually. The estimated useful lives are as follows:-

Improvements to leasehold property	- term of the lease
Fixtures, fittings, machinery and equipment	- 4 to 8 years

Assets costing less than £1,000 are not capitalised.

(6) Participating interests

Participating interests are stated at cost less provision for permanent diminution in value.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

1 ACCOUNTING POLICIES (Continued)

(7) Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost comprises the purchase price of raw materials, plus the labour expenses incurred in bringing the stocks to their present location and condition.

(8) Pension costs

Pension costs are charged to the profit and loss account so as to spread the cost of the pensions over the estimated working lives of employees. Any shortfalls or surpluses in the pension fund are spread over the average remaining service lives of the current employees.

(9) Deferred taxation

Deferred taxation is provided on timing differences where a liability for the payment of such taxation or an asset representing the recovery of taxation is expected to arise in the foreseeable future.

(10) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where forward exchange contracts exist, at the contracted rate. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, where forward exchange contracts exist, at the contracted rate. All differences are taken to the profit and loss account.

(11) Operating leases

Rental costs in respect of operating leases are charged against profit on a straight line basis.

(12) Goodwill

Goodwill arising on consolidation is written off against reserves in the year of acquisition.

2 RESULTS

The amount of the consolidated profit after tax for the period dealt with in the accounts of the holding company was £1,573,008. The company has taken advantage of the dispensation in the Companies Act 1985 not to publish its own profit and loss account.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

3 TURNOVER

1994

£

Sales by geographical area:

United Kingdom	2,463,892
North America	5,626,302
Europe	3,688,870
Rest of the World	<u>749,470</u>
	<u>12,528,534</u>

All turnover derives from the subsidiary undertaking's principal activity of manufacturing gas sensors and originates from the United Kingdom.

4 OPERATING PROFIT

This is stated after charging/(crediting):

1994

£

Depreciation	318,912
Auditors' remuneration - audit	11,000
- other services	15,118
Operating lease rentals - plant and machinery	92,257
- other	444,125
Foreign exchange gain	(57,308)
Research and development costs (see also note 1(4))	<u>1,280,592</u>

5 DIRECTORS' REMUNERATION

(a) Emoluments

The emoluments of the directors of the company were:

1994

£

Fees	24,348
Other emoluments (including pension contributions and benefits)	<u>336,842</u>
	<u>361,180</u>

All amounts paid to directors were paid by City Technology Limited.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

5 DIRECTORS' REMUNERATION (Continued)

Emoluments (continued)

Directors' remuneration, excluding pension contributions, is analysed as follows:

	<u>1994</u> £
The Chairmen - Mr E A Barton	7,980
- Mr J Pither	-
The highest paid director	<u>79,912</u>

Emoluments of the directors including the Chairmen and highest paid director fell in the following ranges:

	<u>Number</u>
£0 - £5,000	5
£10,001 - £15,000	2
£50,001 - £55,000	2
£55,001 - £60,000	1
£60,001 - £65,000	1
£75,001 - £80,000	1

(b) Directors' material interests in contracts

Mr D T Sinker received consideration for management consultancy services amounting to £29,424.
Mr J Pither received consideration for consultancy services amounting to £6,665.

6 EMPLOYEES 1994

(a) Number of employees

The average number of persons employed by the group during the period was

177

(b) Employee costs

£

Wages and salaries	2,441,262
Social security costs	216,052
Other pension costs	<u>153,205</u>
	<u>2,810,519</u>

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

7 INTEREST PAYABLE

	<u>1994</u>
	£
Bank loans and overdrafts repayable in less than one year	113,543
Bank loans repayable in two to five years	795,849
Convertible loans repayable in more than five years	<u>640,814</u>
	<u>1,550,206</u>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1994</u>
	£
UK Corporation taxation	
- on profits for the period at 33%	1,055,492
Deferred taxation	
- current year	<u>46,349</u>
	<u>1,101,841</u>

9 DIVIDENDS

Preference Shares of £0.01	45,606
"A" Preference Shares of £0.01	715,011
Fixed Dividend on "A" Ordinary Shares of £1	2,810
Participating Dividend on "A" Ordinary Shares of £1	<u>119,440</u>
	<u>882,867</u>

Details of share capital and the dividend rights attaching are given in note 21.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

10 TANGIBLE FIXED ASSETS

<u>Group</u>	Short leasehold properties £	Fixtures fittings, machinery and equipment £	<u>Total</u> £
<u>Cost</u>			
At 3 June 1993	-	-	-
Assets taken over on acquisition of City Technology Limited	1,502,691	2,056,060	3,558,751
Additions	<u>102,134</u>	<u>233,687</u>	<u>335,821</u>
At 30 June 1994	<u>1,604,825</u>	<u>2,289,747</u>	<u>3,894,572</u>
<u>Depreciation</u>			
At 3 June 1993	-	-	-
Depreciation assumed on acquisition of City Technology Limited	(112,242)	(531,707)	(643,949)
Charge for the period	<u>(56,634)</u>	<u>(262,278)</u>	<u>(318,912)</u>
At 30 June 1994	<u>(168,876)</u>	<u>(793,985)</u>	<u>(962,861)</u>
<u>Net book amount</u>			
At 30 June 1994	<u>1,435,949</u>	<u>1,495,762</u>	<u>2,931,711</u>
At 3 June 1993	-	-	-

11 FIXED ASSET INVESTMENTS

<u>Company</u>	<u>1994</u> £
Investment in subsidiary undertaking at cost (acquired during the period)	<u>24,396,422</u>

The subsidiary undertaking, City Technology Limited is incorporated in England. The company owns 100% of the ordinary share capital.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

12 INVESTMENTS - PARTICIPATING INTERESTS

<u>Group</u>	<u>Share capital</u>	<u>Loans</u>	<u>Total</u>
	£	£	£
<u>Cost</u>			
At 3 June 1993	-	-	-
Assets taken over on acquisition of			
City Technology Limited	84,185	87,336	171,521
Additions	<u>45,596</u>	<u>-</u>	<u>45,596</u>
At 30 June 1994	<u>129,781</u>	<u>87,336</u>	<u>217,117</u>
<u>Provisions</u>			
At 3 June 1993	-	-	-
Provision assumed on acquisition of			
City Technology Limited	(73,268)	-	(73,268)
Provided during the period	<u>(56,513)</u>	<u>(87,336)</u>	<u>(143,849)</u>
At 30 June 1994	<u>(129,781)</u>	<u>(87,336)</u>	<u>(217,117)</u>
<u>Net book amount</u>			
At 30 June 1994	<u>-</u>	<u>-</u>	<u>-</u>
At 3 June 1993	<u>-</u>	<u>-</u>	<u>-</u>

The group owns 50% of the voting share capital of 500,000 one cent shares of Wolverine Technology Limited, a company incorporated in Canada. As at its year ended 30 April 1994 the aggregate share capital and reserves of Wolverine Technology Limited amounted to a deficit of C\$140,269 and its profit for the year then ended was C\$24,072, based on unaudited financial statements.

The group also owns 50% of the voting share capital of PIMA Sensors Inc, a company incorporated in the USA. In its trading period to 31 December 1993, PIMA Sensors Inc incurred a loss of US\$143,093, and its aggregate share capital and reserves at that date amounted to US\$96,333, based on an accountant's compilation statement.

Wolverine Technology Limited and PIMA Sensors Inc are engaged in the same business as City Technology Limited. The results and assets attributable to the company's investments in the above participating interests are not material to the group's financial statements and have therefore not been accounted for using the equity method.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

13 STOCKS

Group

1994
£

Raw materials and consumables	683,932
Work in progress	199,881
Finished goods and goods for resale	<u>157,669</u>
	<u>1,041,482</u>

There is no material difference between the balance sheet amount of stocks and their replacement cost.

14 DEBTORS

Group
1994
£

Company
1994
£

Trade debtors	1,984,714	-
Dividends due from subsidiary undertaking	-	2,650,000
Amounts due from subsidiary undertaking for corporation tax group relief and advance corporation tax surrender	-	626,751
Other debtors	30,321	-
Prepayments and accrued income	216,152	-
Advance corporation tax recoverable	<u>29,860</u>	<u>29,860</u>
	<u>2,261,047</u>	<u>3,306,611</u>

The advance corporation tax recoverable is recoverable in more than one year.

15 CREDITORS: Amounts falling due within one year

Group
1994
£

Company
1994
£

Bank loans	1,318,894	1,318,894
Bank overdrafts	1,782,656	1,414,327
Trade creditors	495,530	-
Amounts payable to subsidiary undertaking	-	808,536
Other creditors	64,224	-
Corporation tax	984,887	-
Advance corporation tax	204,908	204,908
Other taxes and social security costs	149,857	115,737
Accruals and deferred income	<u>871,936</u>	<u>2,964</u>
	<u>5,872,892</u>	<u>3,865,366</u>

The overdraft is secured by fixed and floating charges on the assets of the company and its subsidiary undertaking.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

16	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Group	Company
		<u>1994</u>	<u>1994</u>
		£	£
	Convertible debt repayable in more than five years	6,500,000	6,500,000
	Bank loans repayable in two to five years	9,281,106	9,281,106
	Advance corporation tax payable	29,860	29,860
	Dividends payable	<u>119,440</u>	<u>119,440</u>
		<u>15,930,406</u>	<u>15,930,406</u>

The convertible debt is repayable in more than 5 years and can be converted into "A" Preference Shares of £0.01 each at any time at the request of the lender at a price of £1.00 per share. The debt is secured by fixed and floating charges over the assets of the company and its subsidiary undertaking and is repayable in two equal instalments on 30 June 2000 and 30 June 2001, bearing interest in the meantime at LIBOR plus 4% per annum.

The bank loan is secured by fixed and floating charges over the assets of the company and its subsidiary undertaking.

The dividends payable relate to Participating Dividends payable to holders of the "A" Ordinary Shares of £1 for the period since acquisition of City Technology Limited (see note 21).

17 DEFERRED TAXATION

Group

The potential deferred tax liability and amounts provided are as follows:-

	Provision	Potential
	<u>1994</u>	<u>1994</u>
	£	£
Accelerated capital allowances	419,624	419,624
Short term timing differences	<u>(43,437)</u>	<u>(43,437)</u>
	<u>376,187</u>	<u>376,187</u>
Assumed on acquisition of City Technology Limited		329,838
Provided in current period		<u>46,349</u>
At 30 June 1994		<u>376,187</u>

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

18 PENSION COSTS

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group, being invested with independent fund managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent review was at 1 January 1993. The key assumptions used in costing the retirement benefits accruing over the control period and accrued at the start of the period were a rate of interest of 9% and a rate of general earnings increase of 7% to normal retirement date, with allowances for promotional salary increase, mortality and withdrawal.

The actuarial review at 1 January 1993 showed that the market value of the scheme's assets was £1,248,000 and that the actuarial value of those assets represented 93% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The deficiency is being spread over the average expected remaining service lifetime of current members. This gives rise to a company contribution rate of 12.9% of pensionable salary per annum, and employee contributions of 5% of pensionable salary per annum.

The pension cost for the year was £153,205.

19 CAPITAL COMMITMENTS

<u>Group</u>	<u>1994</u> £
Authorised and contracted, not yet provided	<u>226,603</u>
Authorised, not yet contracted	<u>—</u>

20 OPERATING LEASE COMMITMENTS

<u>Group</u>	<u>1994</u> £
Annual commitments under operating leases for the forthcoming year relate to leases which expire as follows:	
Plant and machinery:	
Within one year	17,332
Between one and five years	69,516
Buildings:	
After five years	<u>484,500</u>
	<u>571,348</u>

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

21 SHARE CAPITAL

	Authorised <u>1994</u> Number	<u>1994</u> £	Allotted, issued and fully paid <u>1994</u> Number	<u>1994</u> £
Ordinary Shares of £1.00 each	18,321	18,321	15,865	15,865
'A' Ordinary Shares of £1.00 each	30,797	30,797	30,797	30,797
Preference Shares of £0.01	333,255	3,333	333,255	3,333
'A' Preference Shares of £0.01	<u>14,337,203</u>	<u>143,372</u>	<u>7,837,203</u>	<u>78,372</u>
	<u>14,719,576</u>	<u>195,823</u>	<u>8,217,120</u>	<u>128,367</u>

A certain number of the 'A' Ordinary Shares, calculated in accordance with a formula detailed in the Memorandum and Articles of Association of the company, may be redeemed at par value on any future sale or listing date of the company, provided that such date occurs on or before 31 December 1998. Any such shares not due for redemption on that date may be converted on a one for one basis into Ordinary Shares, with any Ordinary Shares resulting from such conversion ranking pari passu with each other and all other Ordinary Shares in issue.

The 'A' Preference Shares may be redeemed for £1 (a premium of 99 pence) on the following dates:

<u>Redemption date</u>	<u>Number of shares redeemable</u>
30 June 2001	2,612,401
30 June 2002	2,612,401
30 June 2003	<u>2,612,401</u>
	<u>7,837,203</u>

In addition, any 'A' Preference Shares subscribed for pursuant to the convertible debt agreement (see note 16) shall be redeemed on 30 June 2001 for £1 per share subject to a maximum increase of 3,250,000 'A' Preference Shares, with any excess being redeemed on 30 June 2000.

Voting rights on the above shares are in proportion to one vote for every £1.00 in nominal value of share capital, excluding 'A' Preference Shares for which no voting rights exist.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

21 SHARE CAPITAL (Continued)

Dividend rights attaching to the above shares and their order of preference are as follows:

"A" Preference Shares

A fixed cumulative preferential net cash dividend (the "A" Preference Dividend") of 10 pence (or in the case of any "A" Preference Shares which have been subscribed for pursuant to the convertible debt arrangements, 7 pence) per annum on each share payable half yearly on 30 June and 31 December.

Preference Shares

A fixed cumulative preferential net cash dividend (the "Preference Dividend") of 15 pence per annum on each share payable half yearly on 30 June and 31 December.

"A" Ordinary Shares

- i) A fixed cumulative preferential net cash dividend (the "Fixed Dividend") of 10 pence per annum on each share payable half yearly on 30 June and 31 December.
- ii) A cumulative preferential net cash dividend (the "Participating Dividend") of a sum equal to (a) 10 per cent of the consolidated profit after taxation, Preference and "A" Preference Dividends ("Net Profit") for the relevant financial year less (b) a sum equal to the total of any Fixed Dividend payable in that financial year provided that if 10 per cent of the "Net Profit" for the relevant financial year is less than the Fixed Dividend payable in that financial year, no Participating Dividend shall be due for that financial year.

The Participating Dividends (if any) shall be paid not later than the earlier of:

- 1) the date four months after the end of each successive accounting reference period of the company; and
- 2) 14 days after the audit report on the accounts of the company for such period is signed by the auditors to the company.

Provided that the Participating Dividend in respect of the financial year of the company ended 30 June 1994 shall be paid on the due date for payment of the Participating Dividend in respect of the financial year of the company ending on 30 June 1995.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

21 SHARE CAPITAL (Continued)

Ordinary Shares

A cumulative net dividend is payable on each Ordinary Share equal to the amount of dividend paid in respect of the same financial year on each "A" Ordinary Share. This dividend is only payable once all arrears on the "A" Preference Dividend, the Preference Dividend, the Fixed Dividend and the Participating Dividend have been paid, all the "A" Preference Shares have been redeemed and all borrowings have been repaid in full by the company.

Any remaining profits which the company determines to distribute in any financial year shall be applied in distributing the balance of such profits amongst the holders of the "A" Ordinary Shares and Ordinary Shares *pari passu*.

On a return of assets on liquidation or otherwise (except upon the redemption of shares of any class or the purchase by the company of its own shares) the assets of the company remaining after the payment of its liabilities shall be applied as follows:

- (i) first, in paying to the holders of the "A" Preference Shares £1 per share together with a sum equal to any arrears, deficiency or accruals of the "A" Preference Dividend calculated down to the date of the return of capital whether such dividend has been declared or earned or not;
- (ii) second, in paying to the holders of the Preference Shares £1 per share together with a sum equal to any arrears, deficiency or accruals of the Preference Dividend calculated down to the date of the return of capital whether such dividend has been declared or earned or not; and

the balance of such assets shall be distributed amongst the holders of the "A" Ordinary Shares and Ordinary Shares (*pari passu* as if the same constituted one class of share) in proportion to the amounts paid up or credited as paid up on the "A" Ordinary Shares and Ordinary Shares held by them respectively.

Share Issues

All the above shares were issued during the year to acquire the whole of the share capital of City Technology Limited. See also note 16 for details of loans which are convertible into preference shares at the request of the lender.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

22 RESERVES

	<u>Group</u> £	<u>Company</u> £
<u>Profit and loss account</u>		
At 3 June 1993	-	-
Retained profit for the period	<u>1,100,249</u>	<u>690,141</u>
At 30 June 1994	<u>1,100,249</u>	<u>690,141</u>
<u>Goodwill</u>		
At 3 June 1993	-	-
Goodwill written off during the period	<u>(20,949,062)</u>	-
At 30 June 1994	<u>(20,949,062)</u>	-
<u>Share premium</u>		
At 3 June 1993	-	-
Premium on issue of shares	<u>8,088,753</u>	<u>8,088,753</u>
At 30 June 1994	<u>8,088,753</u>	<u>8,088,753</u>

The share premium account arose on the issue of the £0.01 Preference Shares and £0.01 "A" Preference Shares at a premium of 99 pence as follows:

	£
Preference Shares of £0.01	329,922
"A" Preference Share of £0.01	<u>7,758,831</u>
	<u>8,088,753</u>

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group <u>1994</u> £	Company <u>1994</u> £
Profit for the financial period	1,983,116	1,573,008
Dividends	(882,867)	(882,867)
New share capital subscribed - equity interests	15,865	15,865
- non-equity interests	112,502	112,502
Premium on issue of shares	8,088,753	8,088,753
Goodwill written off to reserves	(20,949,062)	-----
Net addition to shareholders' funds	(11,631,693)	8,907,261
Opening shareholders' funds	-----	-----
Closing shareholders' funds	(11,631,693)	8,907,261

Closing shareholders' funds in aggregate are summarised as follows:

	Group <u>1994</u> £	Company <u>1994</u> £
Equity interests	(9,908,541)	360,935
Non-equity interests	(1,723,152)	8,546,326
	(11,631,693)	8,907,261

24 RECONCILIATION OF CONSOLIDATED OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1994</u> £
Operating profit	4,645,535
Depreciation	318,912
Increase in stocks	(140,759)
Decrease in debtors	229,857
Decrease in creditors	(30,605)
Net cash inflow from operating activities	5,042,940

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

25	INCREASE IN CASH AND CASH EQUIVALENTS		1994 £
	At 3 June 1993		-
	Net cash inflow for the period		<u>2,530,896</u>
	At 30 June 1994		<u>2,530,896</u>
26	ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET		1994 £
	Cash at bank and in hand		4,313,552
	Bank overdraft		<u>(1,782,656)</u>
			<u>2,530,896</u>
27	ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD		1994
		Share capital (including premium) £	Bank and other loans £
	At 3 June 1993	-	-
	Cash inflow from financing	<u>8,217,120</u>	<u>17,100,000</u>
	At 30 June 1994	<u>8,217,120</u>	<u>17,100,000</u>
28	PURCHASE OF SUBSIDIARY UNDERTAKING		
	Net assets acquired:		£
	Tangible fixed assets		2,914,802
	Investments		98,253
	Stocks		900,723
	Debtors		2,449,621
	Creditors		<u>(1,496,416)</u>
	Bank overdraft		<u>(955,483)</u>
	Deferred tax		<u>(329,838)</u>
	Corporation tax		<u>(134,302)</u>
			3,447,360
	* Goodwill		<u>20,949,062</u>
			<u>24,396,422</u>
	Satisfied by:		
	Cash		<u>24,396,422</u>

The subsidiary undertaking acquired during the period contributed £5,042,940 to the group's net operating cash flows, received £48,579 in respect of net returns on investment and servicing of finance, paid £NIL in respect of taxation and utilised £397,955 for investing activities.

- * Goodwill includes £106,875 of capitalised fees paid to the company's auditors in respect of non-audit services relating to the purchase of City Technology Limited.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1994 (Continued)

29 ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS

	£
Cash consideration	(24,396,422)
Bank overdrafts of subsidiary undertaking	<u>(955,483)</u>
Net outflow of cash and cash equivalents in respect of purchase of subsidiary undertaking	<u>(25,351,905)</u>

30 FORWARD EXCHANGE CONTRACTS

At 30 June 1994 the group had entered into forward exchange contracts to sell US dollars to the value of £2,194,861 at an average rate of 1.4944.

31 CONTINGENCIES

As at 30 June 1994 the company had made guarantees in respect of certain borrowings amounting to £1,331,675.