COMSTACK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1995

Company Registration Number: 2823715

COMSTACK LIMITED

DIRECTORS

Mr J Pither (Chairman)
Mr D T Sinker
Mr E A Barton
Mr S Rowlands
Mr J R Finbow
Dr B S Hobbs
Dr W J Aston
Mr J A Imm
Mr A D Todd

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

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 YEAR ENDED 30 JUNE 1995

The directors present their report and accounts for the year ended 30 June 1995.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as the holding company of City Technology Limited. The only transactions undertaken by the company during the period were the issue of share capital and the receipt and payment of dividends, interest and loan balances.

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 year was £3,110,587 (period ended 30 June 1994: £1,983,116). During the year dividends of £1,061,396 were recommended (period ended 30 June 1994: £882,867). The resulting surplus of £2,049,191 has been transferred to reserves (period ended 30 June 1994: £1,100,249).

The comparative figures included in this report and accounts incorporate the period from the date of incorporation of the company on 3 June 1993 to its first period end on 30 June 1994.

FIXED ASSETS

Details of movements in fixed assets are contained in notes 10, 11 and 12 of these financial statements.

RESEARCH AND DEVELOPMENT

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

DIRECTORS

The directors who held office during the year 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 YEAR ENDED 30 JUNE 1995 (Continued)

DIRECTORS' INTERESTS

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

	"A" Ordinary Shares 1 July 1994 Number	Ordinary Shares 1 July 1994 Number	Preference Shares 1 July 1994 Number	"A" Ordinary Shares 30 June 1995 Number	Ordinary Shares 30 June 1995 Number	Preference Shares 30 June 1995 Number
J Pither	-	-	-	-	475	-
D T Sinker	-	-	-	-	-	-
E A Barton	-	-	-	-	-	-
S Rowlands	9	-	-	9	-	-
J R Finbow	-	5,600	111,067	-	5,600	111,067
B S Hobbs	-	3,266	170,067	-	3,266	170,067
W J Aston	-	2,333	17,687	-	2,333	17,687
J A Imm	-	2,333	21,567	-	2,333	21,567
A D Todd	-	2,333	12,867	-	2,333	12,867

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 YEAR ENDED 30 JUNE 1995 (Continued)

AUDITORS

Price Waterhouse 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

AD Todd
Secretary

17 August 1995

The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG

Telephone: 01703-330077
Telex: 884657 PRIWAT G
Fax: 01703 223473
DX: 2051

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 1995 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
and Registered Auditors

SOUTHAMPTON

17 August 1995

COMSTACK LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1995

	1995 £	Period ended 30 June 1994 £
TURNOVER (Note 3)	14,384,366	12,528,534
COST OF SALES	(4,572,947)	(3,703,801)
GROSS PROFIT	9,811,419	8,824,733
Distribution costs	(156,863)	(164,023)
Administrative expenses	(3,825,599)	(3,995,175)
OPERATING PROFIT (Note 4)	5,828,957	4,665,535
Interest receivable from bank	202,561	113,477
Amounts written off investments (Note 12)	-	(143,849)
Interest payable (Note 7)	(1,599,369)	(1,550,206)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4,432,149	3,084,957
Tax on profit on ordinary activities (Note 8)	(1,321,562)	(1,101,841)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	3,110,587	1,983,116
Dividends paid and proposed (Note 9) (including dividends on non-equity shares)	(1,061,396)	(882,867)
RETAINED PROFIT FOR THE PERIOD	2,049,191	1,100,249

Movements on reserves are set out in Note 22.

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

COMSTACK LIMITED

CONSOLIDATED BALANCE SHEET - 30 JUNE 1995

	1995		1994	
	£	£	£	£
FIXED ASSETS				
Tangible assets (Note 10)		3,116,105		2,931,711
Investments (Note 12)		-		-
		3,116,105		2,931,711
CURRENT ASSETS				
Stocks (Note 13)	1,044,856		1,041,482	
Debtors (Note 14)	2,610,896		2,261,047	
Cash at bank and in hand	4,601,205		4,313,552	
	8,256,957		7,616,081	
CREDITORS (amounts falling due within one year) (Note 15)	(6,778,896)		(5,872,892)	
NET CURRENT ASSETS		1,478,061		1,743,189
TOTAL ASSETS LESS CURRENT LIABILITIES		4,594,166		4,674,900
CREDITORS (amounts falling due after more than one year) (Note 16) (includes convertible debt)		(13,802,182)		(15,930,406)
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred tax (Note 17)		(279,486)		(376,187)
		(9,487,502)		(11,631,693)
CAPITAL AND RESERVES				
Called up share capital (Note 21) (including non-equity interests)		128,842		128,367
Share premium account (Note 22)		8,183,278		8,088,753
Goodwill reserve (Note 22)		(20,949,062)		(20,949,062)
Profit and loss account (Note 22)		3,149,440		1,100,249
SHAREHOLDERS' FUNDS (Note 23)		(9,487,502)		(11,631,693)

Approved by the Board on 17 August 1995

A D Todd
DIRECTOR

COMSTACK LIMITED

COMPANY BALANCE SHEET - 30 JUNE 1995

	1995		1994	
	£	£	£	£
FIXED ASSETS				
Investment in subsidiary undertaking (Note 11)		24,396,422		24,396,422
CURRENT ASSETS				
Debtors (Note 14)	3,498,393		3,306,611	
Cash at bank and in hand	1,000,000		1,000,000	
	4,498,393		4,306,611	
CREDITORS (amounts falling due within one year) (Note 15)	(5,487,513)		(3,865,366)	
NET CURRENT (LIABILITIES)/ASSETS		(989,120)		441,245
TOTAL ASSETS LESS CURRENT LIABILITIES		23,407,302		24,837,667
CREDITORS (amounts falling due after more than one year) (Note 16) (includes convertible debt)		(13,802,182)		(15,930,406)
		9,605,120		8,907,261
CAPITAL AND RESERVES				
Called up share capital (Note 21) (including non-equity interests)		128,842		128,367
Share premium account (Note 22)		8,183,278		8,088,753
Profit and loss account (Note 22)		1,293,000		690,141
SHAREHOLDERS' FUNDS (Note 23)		9,605,120		8,907,261

Approved by the Board on 17 August 1995

A D Todd
DIRECTOR

COMSTACK LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1995

	1995		Period ended 30 June 1994	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 24)		5,605,178		5,042,940
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	196,301		102,056	
Dividends paid	(836,788)		(763,427)	
Interest paid	(1,671,350)		(1,434,471)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(2,311,837)		(2,095,842)
TAXATION				
UK corporation tax paid	(1,245,460)		-	
UK corporation tax received	38,361		-	
		(1,207,099)		-
INVESTING ACTIVITIES				
Purchase of subsidiary undertaking (Note 29)	-		(25,351,905)	
Purchase of tangible fixed assets	(570,547)		(335,821)	
Purchase of participating interest	-		(45,596)	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(570,547)		(25,733,322)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		1,515,695		(22,786,224)
FINANCING				
Issue of share capital (Note 27)	95,000		8,217,120	
New loans	-		18,500,000	
Repayment of loans (Note 27)	(1,818,894)		(1,400,000)	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(1,723,894)		25,317,120
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (Note 25)		(208,199)		2,530,896

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995

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 comparative numbers included in these accounts incorporate the results of City Technology Limited from 2 August 1993 when the company was acquired.

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 £76,452 of patent maintenance fees in 1995 (period ended 30 June 1994: £65,583).

(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 1995 (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 year dealt with in the accounts of the holding company was £1,664,255 (period ended 30 June 1994: £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 1995 (Continued)

3 TURNOVER

	1995	Period ended 30 June 1994
	£	£
Sales by geographical area:		
United Kingdom	3,393,753	2,463,892
North America	6,217,152	5,626,302
Europe	4,159,717	3,688,870
Rest of the World	613,744	749,470
	14,384,366	12,528,534

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):

		1995	Period ended 30 June 1994
		£	£
Depreciation		386,153	318,912
Auditors' remuneration	- audit	13,000	11,000
	- other services	29,980	15,118
Operating lease rentals	- plant and machinery	96,492	92,257
	- other	484,500	444,125
Foreign exchange gain		(4,922)	(57,308)
Research and development costs (see also note 1(4))		1,370,804	1,280,592

5 DIRECTORS' REMUNERATION

(a) Emoluments

The emoluments of the directors of the company were:

	1995	Period ended 30 June 1994
	£	£
Fees	28,500	24,346
Other emoluments (including pension contributions and benefits)	370,894	336,842
	399,394	361,188

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

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

5 **DIRECTORS' REMUNERATION (Continued)**

Emoluments (continued)

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

	1995	Period ended 30 June 1994
	£	£
The Chairmen - Mr E A Barton	-	7,980
- Mr J Pither	-	-
The highest paid director	90,855	79,912

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

	Number	Number
£0 - £5,000	2	5
£10,001 - £15,000	2	2
£50,001 - £55,000	-	2
£55,001 - £60,000	2	1
£60,001 - £65,000	1	1
£65,001 - £70,000	1	-
£75,001 - £80,000	-	1
£90,001 - £95,000	1	-

(b) **Directors' material interests in contracts**

In addition to the amounts noted above, Mr D T Sinker received consideration for management consultancy services amounting to £8,356 (period ended 30 June 1994: £29,424). Mr J Pither received consideration for consultancy services amounting to £20,000 (period ended 30 June 1994: £6,665).

6 **EMPLOYEES**

	1995	Period ended 30 June 1994
(a) Number of employees		
The average number of persons employed by the group during the period was	183	177
(b) Employee costs		£
Wages and salaries	2,905,457	2,441,262
Social security costs	244,240	216,052
Other pension costs	192,509	153,205
	3,342,206	2,810,519

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

7 INTEREST PAYABLE

	1995	Period ended 30 June 1994
	£	£
Bank loans and overdrafts repayable in less than one year	97,131	113,543
Bank loans repayable in two to five years	797,531	795,849
Convertible loans repayable in more than five years	704,707	640,814
	1,599,369	1,550,206

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1995	Period ended 30 June 1994
	£	£
UK Corporation taxation		
- on profits for the period at 33% (1994: 33%)	1,506,250	1,055,492
- prior year adjustment	(87,987)	-
Deferred taxation		
- current year	(34,193)	46,349
- prior year adjustment	(62,508)	-
	1,321,562	1,101,841

9 DIVIDENDS

	1995	Period ended 30 June 1994
	£	£
Preference Shares of £0.01	49,989	45,606
"A" Preference Shares of £0.01	783,719	715,011
Fixed Dividend on "A" Ordinary Shares of £1	3,080	2,810
Participating Dividend on "A" Ordinary Shares of £1	224,608	119,440
	1,061,396	882,867

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

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

10 TANGIBLE FIXED ASSETS

Group	Short leasehold properties	Fixtures fittings, machinery and equipment	Total
	£	£	£
Cost			
At 1 July 1994	1,604,825	2,289,747	3,894,572
Additions	24,808	545,739	570,547
Disposals	-	(76,720)	(76,720)
Reclassifications	18,337	(18,337)	-
At 30 June 1995	1,647,970	2,740,429	4,388,399
Depreciation			
At 1 July 1994	(168,876)	(793,985)	(962,861)
Charge for the period	(70,761)	(315,392)	(386,153)
Disposals	-	76,720	76,720
Reclassifications	(1,630)	1,630	-
At 30 June 1995	(241,267)	(1,031,027)	(1,272,294)
Net book amount			
At 30 June 1995	1,406,703	1,709,402	3,116,105
At 30 June 1994	1,435,949	1,495,762	2,931,711

11 FIXED ASSET INVESTMENTS

Company	1995	1994
	£	£
Investment in subsidiary undertaking at cost	24,396,422	24,396,422

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

12 **INVESTMENTS - PARTICIPATING INTERESTS**

Group	Share capital	Loans	Total
	£	£	£
Cost			
At 1 July 1994 and 30 June 1995	129,781	87,336	217,117
Provisions			
At 1 July 1994 and 30 June 1995	(129,781)	(87,336)	(217,117)
Net book amount			
At 30 June 1995	-	-	-
At 3 June 1994	-	-	-

The group owns 50% (1994: 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 1995 the aggregate share capital and reserves of Wolverine Technology Limited amounted to a deficit of C$91,277 and its profit for the year then ended was C$48,994, based on unaudited financial statements.

The group also owns 50% (1994: 50%) of the voting share capital of PIMA Sensors Inc, a company incorporated in the USA. In its trading period to 31 December 1994, PIMA Sensors Inc incurred a loss of US$10,352, and its aggregate share capital and reserves at that date amounted to US$85,981, 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 1995 (Continued)

13 STOCKS

Group	1995 £	1994 £
Raw materials and consumables	839,079	860,712
Work in progress	53,986	23,101
Finished goods and goods for resale	151,791	157,669
	1,044,856	1,041,482

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

14 DEBTORS

	Group		Company	
	1995 £	1994 £	1995 £	1994 £
Trade debtors	2,254,938	1,984,714	-	-
Dividends due from subsidiary undertaking	-	-	2,700,000	2,650,000
Amounts due from subsidiary undertaking for corporation tax group relief and advance corporation tax surrender	-	-	712,381	626,751
Other debtors	9,171	30,321	-	-
Prepayments and accrued income	260,775	216,152	-	-
Advance corporation tax recoverable	86,012	29,860	86,012	29,860
	2,610,896	2,261,047	3,498,393	3,306,611

15 CREDITORS: Amounts falling due within one year

	Group		Company	
	1995 £	1994 £	1995 £	1994 £
Bank loans	1,478,924	1,318,894	1,478,924	1,318,894
Bank overdrafts	2,278,508	1,782,656	1,875,434	1,414,327
Trade creditors	622,451	495,530	-	-
Amounts payable to subsidiary undertaking	-	-	1,552,636	808,536
Dividends payable	344,048	-	344,048	-
Other creditors	4,525	64,224	-	-
Corporation tax	1,297,220	984,887	-	-
Advance corporation tax	189,751	204,908	189,751	204,908
Other taxes and social security costs	66,806	149,857	43,756	115,737
Accruals and deferred income	496,663	871,936	2,964	2,964
	6,778,896	5,872,892	5,487,513	3,865,366

The overdraft is secured by fixed and floating charges on 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 (see note 21).

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1995	1994	1995	1994
	£	£	£	£
Convertible debt repayable in more than five years	6,500,000	6,500,000	6,500,000	6,500,000
Bank loans repayable in two to five years	7,302,182	9,281,106	7,302,182	9,281,106
Advance corporation tax payable	-	29,860	-	29,860
Dividends payable	-	119,440	-	119,440
	13,802,182	15,930,406	13,802,182	15,930,406

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.

17 DEFERRED TAXATION

Group

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

	Provision		Potential	
	1995	1994	1995	1994
	£	£	£	£
Accelerated capital allowances	345,357	419,624	345,357	419,624
Short term timing differences	(65,871)	(43,437)	(65,871)	(43,437)
	279,486	376,187	279,486	376,187

At 1 July 1994	376,187
Provided in year - current	(34,193)
- prior year adjustments	(62,508)
At 30 June 1995	279,486

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (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% (including 0.9% allowance for deficit amortisation) of pensionable salary per annum, and employee contributions of 5% of pensionable salary per annum.

The pension cost for the year was £192,509 (period ended 30 June 1994: £153,205) including £13,431 (period ended 30 June 1994: £11,660) in respect of experience deficits.

19 CAPITAL COMMITMENTS

Group	1995 £	1994 £
Authorised and contracted, not yet provided	149,384	226,603
Authorised, not yet contracted	12,865	-

20 OPERATING LEASE COMMITMENTS

Group	1995 £	1994 £
Annual commitments under operating leases for the forthcoming year relate to leases which expire as follows:		
Plant and machinery:		
Within one year	52,172	17,332
Between one and five years	2,036	69,516
Buildings:		
After five years	484,500	484,500
	538,708	571,348

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

21 **SHARE CAPITAL**

	Authorised			
	1995 Number	1994 Number	1995 £	1994 £
Ordinary Shares of £1.00 each	18,321	18,321	18,321	18,321
"A" Ordinary Shares of £1.00 each	30,797	30,797	30,797	30,797
Preference Shares of £0.01	333,255	333,255	3,333	3,333
"A" Preference Shares of £0.01	14,337,203	14,337,203	143,372	143,372
	14,719,576	14,719,576	195,823	195,823

	Allotted, issued and fully paid			
	1995 Number	1994 Number	1995 £	1994 £
Ordinary Shares of £1.00 each	16,340	15,865	16,340	15,865
"A" Ordinary Shares of £1.00 each	30,797	30,797	30,797	30,797
Preference Shares of £0.01	333,255	333,255	3,333	3,333
"A" Preference Shares of £0.01	7,837,203	7,837,203	78,372	78,372
	8,217,595	8,217,120	128,842	128,367

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:

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

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.

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.

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (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 consistituted 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 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 1995 (Continued)

22 **RESERVES**

	Group	Company
Profit and loss account	£	£
At 1 July 1994	1,100,249	690,141
Retained profit for the period	2,049,191	602,859
At 30 June 1995	3,149,440	1,293,000
Goodwill		
At 1 July 1994 and 30 June 1995	(20,949,062)	-
Share premium		
At 1 July 1994	8,088,753	8,088,753
Premium on issue of shares	94,525	94,525
At 30 June 1995	8,183,278	8,183,278

The share premium account arose on the issue of 333,255 £0.01 Preference Shares and 7,837,203 £0.01 "A" Preference Shares at a premium of 99 pence in 1993/94 and 475 £1 Ordinary Shares at a premium of £199.00 in 1994/95 as follows:

	£
Ordinary Shares of £1.00	94,525
Preference Shares of £0.01	329,922
"A" Preference Share of £0.01	7,758,831
	8,183,278

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1995	1994	1995	1994
			£	£
Profit for the financial period	3,110,587	1,983,116	1,664,255	1,573,008
Dividends	(1,061,396)	(882,867)	(1,061,396)	(882,867)
New share capital subscribed				
- equity interests	475	15,865	475	15,865
- non-equity interests	-	112,502	-	112,502
Premium on issue of shares	94,525	8,088,753	94,525	8,088,753
Goodwill written off to reserves	-	(20,949,062)	-	-
Net movement in shareholders' funds	2,144,191	(11,631,693)	697,859	8,907,261
Opening shareholders' funds	(11,631,693)	-	8,907,261	-
Closing shareholders' funds	(9,487,502)	(11,631,693)	9,605,120	8,907,261

Closing shareholders' funds in aggregate are summarised as follows:

	Group		Company	
	1995	1994	1995	1994
	£	£	£	£
Equity interests	(6,059,358)	(6,732,697)	559,082	250,512
Non-equity interests	(3,428,144)	(4,898,996)	9,046,038	8,656,749
	(9,487,502)	(11,631,693)	9,605,120	8,907,261

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

	1995	1994
	£	£
Operating profit	5,828,957	4,665,535
Depreciation	386,153	318,912
Increase in stocks	(3,374)	(140,759)
(Increase)/decrease in debtors	(287,437)	229,857
Decrease in creditors	(319,121)	(30,605)
Net cash inflow from operating activities	5,605,178	5,042,940

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

25 INCREASE IN CASH AND CASH EQUIVALENTS

	£
At 1 July 1994	2,530,896
Net cash outflow for the period	(208,199)
At 30 June 1995	2,322,697

26 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1995 £	1994 £
Cash at bank and in hand	4,601,205	4,313,552
Bank overdraft	(2,278,508)	(1,782,656)
	2,322,697	2,530,896

27 ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD

	Share capital (Including premium) £	Bank and other loans £
At 1 July 1994	8,217,120	17,100,000
Cash inflow/(outflow) from financing	95,000	(1,818,894)
At 30 June 1995	8,312,120	15,281,106

COMSTACK LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS - 30 JUNE 1995 (Continued)

28 PURCHASE OF SUBSIDIARY UNDERTAKING

	1995	1994
	£	£
Net assets acquired:		
Tangible fixed assets	-	2,914,802
Investments	-	98,253
Stocks	-	900,723
Debtors	-	2,449,621
Creditors	-	(1,496,416)
Bank overdraft	-	(955,483)
Deferred tax	-	(329,838)
Corporation tax	-	(134,302)
	-	3,447,360
* Goodwill	-	20,949,062
	-	24,396,422
Satisfied by:		
Cash	-	24,396,422

* 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.

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

	1995	1994
	£	£
Cash consideration	-	(24,396,422)
Bank overdrafts of subsidiary undertaking	-	(955,483)
Net outflow of cash and cash equivalents in respect of purchase of subsidiary undertaking	-	(25,351,905)

30 FORWARD EXCHANGE CONTRACTS

At 30 June 1995 the group had entered into forward exchange contracts to sell US dollars to the value of £4,112,809 at an average rate of 1.5759 (1994: £2,194,861 at an average rate of 1.4944).

31 CONTINGENCIES

As at 30 June 1995 the company had made guarantees in respect of certain borrowings amounting to £1,250,000 (1994: £1,331,675).