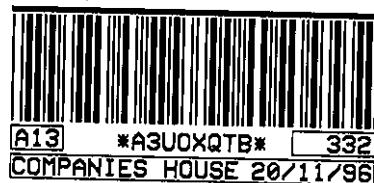


COMSTACK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1996

Company Registration Number: 2823715



COMSTACK LIMITED

DIRECTORS

Mr J Pither (Chairman) (resigned 12 June 1996)
Mr D T Sinker (resigned 13 March 1996)
Mr E A Barton (resigned 12 June 1996)
Mr S Rowlands (resigned 12 June 1996)
Mr J R Finbow
Dr B S Hobbs
Dr W J Aston (resigned 2 October 1995)
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 1996

The directors present their report and accounts for the year ended 30 June 1996.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as the intermediate holding company of City Technology Limited. The only transactions undertaken by the company during the period were the issue and redemption 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 profit after taxation for the year was £1,911,599 (1995: £1,664,255). During the year dividends of £1,059,640 were recommended (1995: £1,061,396). The resulting surplus of £851,959 has been transferred to reserves (1995: £602,859).

FIXED ASSETS

Details of movements in fixed assets are contained in Note 8 of these financial statements.

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.

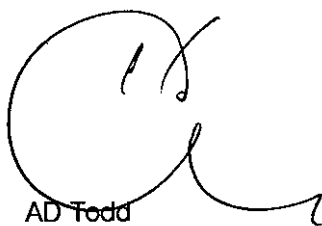
COMSTACK LIMITED

**DIRECTORS' REPORT FOR THE YEAR ENDED
30 JUNE 1996 (Continued)**

AUDITORS

Price Waterhouse have indicated their willingness to be reappointed and the 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 black ink, appearing to be 'AD Todd', written over a large, faint circular stamp or watermark.

AD Todd
Secretary

11 September 1996

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF COMSTACK LIMITED

We have audited the financial statements on pages 6 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

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 as at 30 June 1996 and of its profit 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

11 September 1996

COMSTACK LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1996**

	<u>1996</u> £	<u>1995</u> £
Income from shares in group undertakings	2,700,000	2,700,000
Interest receivable from bank	90,968	60,195
Interest payable (Note 5)	<u>(1,273,311)</u>	<u>(1,599,124)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,517,657	1,161,071
Tax on profit on ordinary activities (Note 6)	<u>393,942</u>	<u>503,184</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	1,911,599	1,664,255
Dividends paid and proposed (Note 7) (including dividends on non-equity shares)	<u>(1,059,640)</u>	<u>(1,061,396)</u>
RETAINED PROFIT FOR THE PERIOD	<u>851,959</u>	<u>602,859</u>

Movements on reserves are set out in Note 13.

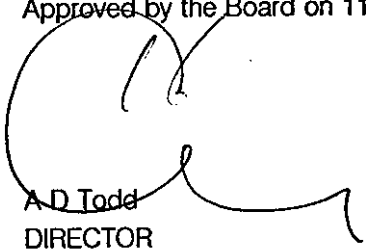
The company has no recognised gains or losses other than the profit for the year as shown above.
All the above profits and losses relate to the company's continuing activity as an intermediate holding company.

COMSTACK LIMITED

BALANCE SHEET - 30 JUNE 1996

	<u>1996</u>		<u>1995</u>	
	£	£	£	£
FIXED ASSETS				
Investment in subsidiary undertaking (Note 8)		24,396,422		24,396,422
CURRENT ASSETS				
Debtors (Note 9)	6,144,897		3,498,393	
Cash at bank and in hand	-		<u>1,000,000</u>	
	6,144,897		4,498,393	
CREDITORS (amounts falling due within one year) (Note 10)	<u>(8,484,240)</u>		<u>(5,487,513)</u>	
NET CURRENT LIABILITIES		<u>(2,339,343)</u>		<u>(989,120)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		22,057,079		23,407,302
CREDITORS (amounts falling due after more than one year) (Note 11)				
(includes convertible debt)		<u>(11,600,000)</u>		<u>(13,802,182)</u>
		<u>10,457,079</u>		<u>9,605,120</u>
CAPITAL AND RESERVES				
Called up share capital (Note 12)				
(including non-equity interests)		120,042		128,842
Share premium account (Note 13)		8,192,078		8,183,278
Profit and loss account (Note 13)		<u>2,144,959</u>		<u>1,293,000</u>
SHAREHOLDERS' FUNDS (Note 14)		<u>10,457,079</u>		<u>9,605,120</u>

Approved by the Board on 11 September 1996


A.D. Todd
DIRECTOR

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996

1 ACCOUNTING POLICIES

(1) Accounting convention

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

(2) Investments

Investments in subsidiary undertakings are stated at cost less provision for permanent diminution in value.

(3) 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.

2 AUDITORS' REMUNERATION

All amounts paid to the auditors were borne by City Technology Limited, the company's subsidiary undertaking.

3 DIRECTORS' REMUNERATION

All amounts paid to directors were borne by City Technology Limited, the company's subsidiary undertaking.

4 EMPLOYEES

<u>1996</u>	<u>1995</u>
Number	Number

(a) Number of employees

The average number of persons employed by the company during the year was

<u>4</u>	<u>5</u>
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(b) Employee costs

All employee costs are borne by City Technology Limited, the company's subsidiary undertaking.

5 INTEREST PAYABLE

<u>1996</u>	<u>1995</u>
£	£

Bank loans and overdrafts repayable in less than one year

-	96,886
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Bank loans repayable wholly within five years

608,504	797,531
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Convertible loans repaid during the year

<u>664,807</u>	<u>704,707</u>
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<u>1,273,311</u>	<u>1,599,124</u>
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COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u>	<u>1995</u>
	£	£
UK corporation taxation		
- group relief on tax losses for the year at 33% (1995: 33%)	(390,173)	(503,184)
- prior year	<u>(3,769)</u>	<u>-</u>
Total tax credit	<u><u>(393,942)</u></u>	<u><u>(503,184)</u></u>

7 DIVIDENDS

	<u>1996</u>	<u>1995</u>
	£	£
Preference Shares of £0.01	48,619	49,989
A Preference Shares of £0.01	762,245	783,719
Fixed Dividend on *A* Ordinary Shares of £1	2,996	3,080
Participating Dividend on *A* Ordinary Shares of £1	<u>245,780</u>	<u>224,608</u>
	<u><u>1,059,640</u></u>	<u><u>1,061,396</u></u>

Details of share capital and the dividend rights attaching are given in Note 12 of these financial statements.

8 FIXED ASSET INVESTMENTS

<u>Company</u>	<u>1996</u>	<u>1995</u>
	£	£
Investment in subsidiary undertaking at cost	<u><u>24,396,422</u></u>	<u><u>24,396,422</u></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 ACCOUNTS - 30 JUNE 1996 (Continued)

9 DEBTORS

	<u>1996</u>	<u>1995</u>
	£	£
Dividends due from subsidiary undertaking	5,400,000	2,700,000
Amounts due from subsidiary undertaking for corporation tax group relief and advance corporation tax surrender	744,864	712,381
Other debtors	33	-
Advance corporation tax recoverable	<u>-</u>	<u>86,012</u>
	<u>6,144,897</u>	<u>3,498,393</u>

10 CREDITORS: Amounts falling due within one year

	<u>1996</u>	<u>1995</u>
	£	£
Bank loans	-	1,478,924
Bank overdrafts	3,538	1,875,434
Amounts payable to subsidiary undertaking	8,243,757	1,552,636
Dividends payable	-	344,048
Advance corporation tax	159,452	189,751
Other taxes and social security costs	74,527	43,756
Accruals and deferred income	<u>2,966</u>	<u>2,964</u>
	<u>8,484,240</u>	<u>5,487,513</u>

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

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)

11 CREDITORS: Amounts falling due after more than one year

	<u>1996</u>	<u>1995</u>
	£	£
Convertible debt repayable in more than five years	-	6,500,000
Bank loans repayable in two to five years	1,000,000	7,302,182
Amounts due to parent undertaking	<u>10,600,000</u>	<u>-</u>
	<u>11,600,000</u>	<u>13,802,182</u>

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

12 SHARE CAPITAL

			Authorised	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	Number	Number	£	£
Ordinary Shares of £1.00 each	38,249	18,321	38,249	18,321
"A" Ordinary Shares of £1.00 each	-	30,797	-	30,797
Preference Shares of £0.01	23,936,704	333,255	239,367	3,333
"A" Preference Shares of £0.01	<u>-</u>	<u>14,337,203</u>	<u>-</u>	<u>143,372</u>
	<u>23,974,953</u>	<u>14,719,576</u>	<u>277,616</u>	<u>195,823</u>
			Allotted, issued and fully paid	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	Number	Number	£	£
Ordinary Shares of £1.00 each	38,249	16,340	38,249	16,340
"A" Ordinary Shares of £1.00 each	-	30,797	-	30,797
Preference Shares of £0.01	8,179,346	333,255	81,793	3,333
"A" Preference Shares of £0.01	<u>-</u>	<u>7,837,203</u>	<u>-</u>	<u>78,372</u>
	<u>8,217,595</u>	<u>8,217,595</u>	<u>120,042</u>	<u>128,842</u>

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)

12 SHARE CAPITAL (Continued)

Changes in share capital

Conditional upon listing of the ultimate parent undertaking, the authorised share capital of the company was changed by special resolution on 12 June 1996.

On 20 June 1996, 8,888 "A" Ordinary Shares of £1.00 each were redeemed at par, whilst 333,255 £0.01 Preference Shares each and 7,837,203 £0.01 "A" Preference Shares were both redeemed at a premium of 99 pence. On the same date, the remaining 21,909 "A" Ordinary Shares of £1.00 each were reclassified as Ordinary Shares of £1.00 each. Also on 20 June 1996, 8,179,346 £0.01 Preference Shares were issued at a premium of 99 pence.

Share rights

The Preference Shares have no dividend or voting rights. 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 will be distributed first by the payment to the Preference Shareholders of £1.00 for every Preference Share held.

On a date to be decided upon by the holders of a majority in nominal value of the Preference Shares in issue, all the Preference Shares in issue will be redeemed at a price of £1.00 per share.

Subsequent to 30 June 1996, by special resolution of the company dated 5 September 1996, the 38,249 £1.00 Ordinary Shares of the company were subdivided into 3,824,900 Ordinary Shares of £0.01, the 8,179,346 redeemable Preference Shares were converted into Ordinary Shares of £0.01 and the 15,757,358 unissued redeemable Preference Shares of the company were cancelled.

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)

13 RESERVES

<u>Profit and loss account</u>	£
At 30 June 1995	1,293,000
Retained profit for the period	<u>851,959</u>
At 30 June 1996	<u>2,144,959</u>
<u>Share premium</u>	
At 30 June 1995	8,183,278
Premium on issue of shares	8,097,553
Redemption of shares	<u>(8,088,753)</u>
At 30 June 1996	<u>8,192,078</u>

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, 475 £1 Ordinary Shares at a premium of £199.00 in 1994/95 and 8,179,346 £0.01 Preference Shares at a premium of 99 pence on 20 June 1996. Also on 20 June 1996, the 333,255 £0.01 Preference Shares and 7,837,203 £0.01 "A" Preference Shares were redeemed at a premium of 99 pence.

COMSTACK LIMITED**NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)****14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>1996</u> £	<u>1995</u> £
Profit for the financial period	1,911,599	1,664,255
Dividends	(1,059,640)	(1,061,396)
New share capital subscribed		
- equity interests	-	475
- non-equity interests	81,793	-
Premium on issue of shares	8,097,553	94,525
Redemption of shares	<u>(8,179,346)</u>	<u>-</u>
Net movement in shareholders' funds	851,959	697,859
Opening shareholders' funds	<u>9,605,120</u>	<u>8,907,261</u>
Closing shareholders' funds	<u>10,457,079</u>	<u>9,605,120</u>

Closing shareholders' funds in aggregate are summarised as follows:

	<u>1996</u> £	<u>1995</u> £
Equity interests	2,277,733	559,082
Non-equity interests	<u>8,179,346</u>	<u>9,046,038</u>
	<u>10,457,079</u>	<u>9,605,120</u>

15 CONTINGENCIES

As at 30 June 1996 the company had made guarantees in respect of certain borrowings amounting to £1,250,000 (1995: £1,250,000).

16 CASH FLOW STATEMENT

The financial statements of City Technology Holdings plc, the ultimate parent undertaking, include a consolidated statement of cash flows. The company has taken advantage of the exemption granted by Financial Reporting Standard 1 whereby it is not required to publish its own cash flow statement.

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1996 (Continued)

17 ULTIMATE PARENT UNDERTAKING

The company's immediate and ultimate parent undertaking is City Technology Holdings plc which is registered in England. The smallest and largest group for which group financial statements are prepared is City Technology Holdings plc and copies of its financial statements may be obtained from the City Technology Centre, Walton Road, Portsmouth, PO6 1SZ.