

COMSTACK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1997

Company Registration Number: 2823715



COMSTACK LIMITED

DIRECTORS

Mr J R Finbow
Dr B S Hobbs
Mr J A Imm (Resigned 30 November 1996)
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 1997

The directors present their report and accounts for the year ended 30 June 1997.

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 £2,703,272 (1996: £1,911,599). During the year dividends of £2,700,000 were recommended (1996: £1,059,640). The resulting surplus of £3,272 has been transferred to reserves (1996: £ 851,959).

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.

DIRECTORS' INTERESTS

The directors held no interest in the shares of the company at either 30 June 1997 or 30 June 1996.

The interests of the directors in the shares of City Technology Holdings plc, the ultimate parent undertaking, are shown in the financial statements of that company.

COMSTACK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1997 (Continued)

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

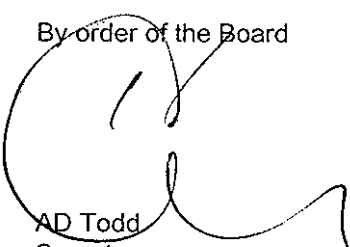
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

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



AD Todd
Secretary

12 September 1997

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF COMSTACK LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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 1997 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

12 September 1997

COMSTACK LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1997**

	<u>1997</u> £	<u>1996</u> £
Other Income	<u>6,329</u>	<u>-</u>
OPERATING PROFIT	6,329	-
Income from shares in group undertakings	2,700,000	2,700,000
Interest receivable from bank	-	90,968
Interest payable (Note 5)	<u>(1,482)</u>	<u>(1,273,311)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,704,847	1,517,657
Tax on profit on ordinary activities (Note 6)	<u>(1,575)</u>	<u>393,942</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	2,703,272	1,911,599
Dividends paid and proposed (Note 7) (including dividends on non-equity shares)	<u>(2,700,000)</u>	<u>(1,059,640)</u>
RETAINED PROFIT FOR THE YEAR	<u><u>3,272</u></u>	<u><u>851,959</u></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 1997

	1997	1996
	£	£
FIXED ASSETS		
Investment in subsidiary undertaking (Note 8)	24,396,422	24,396,422
CURRENT ASSETS		
Debtors (Note 9)	558,813	6,144,897
Cash at bank and in hand	<u>311</u>	<u>-</u>
	559,124	6,144,897
CREDITORS (amounts falling due within one year) (Note 10)	<u>(1,575)</u>	<u>(8,484,240)</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>557,549</u>	<u>(2,339,343)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	24,953,971	22,057,079
CREDITORS (amounts falling due after more than one year) (Note 11)	<u>(14,493,620)</u>	<u>(11,600,000)</u>
	<u>10,460,351</u>	<u>10,457,079</u>
CAPITAL AND RESERVES		
Called up share capital (Note 12) (including non-equity interests)	120,042	120,042
Share premium account (Note 13)	8,192,078	8,192,078
Profit and loss account (Note 13)	<u>2,148,231</u>	<u>2,144,959</u>
SHAREHOLDERS' FUNDS (Note 14)	<u>10,460,351</u>	<u>10,457,079</u>

Approved by the Board on 12 September 1997

A D Todd
DIRECTOR

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1997

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>1997</u>	<u>1996</u>
	Number	Number

(a) Number of employees

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

<u>4</u>	<u>4</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>1997</u>	<u>1996</u>
	£	£

Bank loans and overdrafts repayable in less than one year

1,482	-
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Bank loans repayable wholly within five years

-	608,504
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Convertible loans repaid during the year

-	<u>664,807</u>
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<u>1,482</u>	<u>1,273,311</u>
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COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1997 (Continued)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u> £	<u>1996</u> £
UK corporation taxation		
- on profits for the year at 32.5% (1996: 33%)	1,575	-
- group relief on tax losses for the year at 32.5% (1996: 33%)	-	(390,173)
- prior year	-	(3,769)
	<u>1,575</u>	<u>(393,942)</u>

7 DIVIDENDS

	<u>1997</u> £	<u>1996</u> £
Ordinary Shares of £0.01	2,700,000	-
Preference Shares of £0.01	-	48,619
"A" Preference Shares of £0.01	-	762,245
Fixed Dividend on "A" Ordinary Shares of £1	-	2,996
Participating Dividend on "A" Ordinary Shares of £1	-	245,780
	<u>2,700,000</u>	<u>1,059,640</u>

8 FIXED ASSET INVESTMENTS

	<u>1997</u> £	<u>1996</u> £
Investment in subsidiary undertaking at cost	<u>24,396,422</u>	<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 ACCOUNTS - 30 JUNE 1997 (Continued)

9 DEBTORS

	<u>1997</u>	<u>1996</u>
	£	£
Amounts due from subsidiary undertaking	558,778	-
Dividends due from subsidiary undertaking	-	5,400,000
Amounts due from subsidiary undertaking for corporation tax group relief and advance corporation tax surrender	-	744,864
Other debtors	<u>35</u>	<u>33</u>
	<u>558,813</u>	<u>6,144,897</u>

10 CREDITORS: Amounts falling due within one year

	<u>1997</u>	<u>1996</u>
	£	£
Bank overdrafts	-	3,538
Amounts payable to subsidiary undertaking	-	8,243,757
Corporation tax	1,575	-
Advance corporation tax	-	159,452
Accruals and deferred income	<u>-</u>	<u>77,493</u>
	<u>1,575</u>	<u>8,484,240</u>

11 CREDITORS: Amounts falling due after more than one year

	<u>1997</u>	<u>1996</u>
	£	£
Bank loans repayable in two to five years	-	1,000,000
Amounts due to parent undertaking	<u>14,493,620</u>	<u>10,600,000</u>
	<u>14,493,620</u>	<u>11,600,000</u>

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1997 (Continued)

12 SHARE CAPITAL

			Authorised	
	1997 Number	1996 Number	1997 £	1996 £
Ordinary Shares of £ 0.01 each	12,004,246	-	120,042	-
Ordinary Shares of £1.00 each	-	38,249	-	38,249
Preference Shares of £0.01	-	<u>23,936,704</u>	-	<u>239,367</u>
	<u>12,004,246</u>	<u>23,974,953</u>	<u>120,042</u>	<u>277,616</u>

			Allotted, issued and fully paid	
	1997 Number	1996 Number	1997 £	1996 £
Ordinary Shares of £0.01 each	12,004,246	-	120,042	-
Ordinary Shares of £1.00 each	-	38,249	-	38,249
Preference Shares of £0.01	-	<u>8,179,346</u>	-	<u>81,793</u>
	<u>12,004,246</u>	<u>8,217,595</u>	<u>120,042</u>	<u>120,042</u>

Changes in share capital

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.

13 RESERVES

<u>Profit and loss account</u>	£
At 1 July 1996	2,144,959
Retained profit for the year	<u>3,272</u>
At 30 June 1997	<u>2,148,231</u>
<u>Share premium</u>	
At 1 July 1996 and 30 June 1997	<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 1997 (Continued)

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1997</u> £	<u>1996</u> £
Profit for the financial period	2,703,272	1,911,599
Dividends	(2,700,000)	(1,059,640)
New share capital subscribed		
- equity interests	-	-
- non-equity interests	-	81,793
Premium on issue of shares	-	8,097,553
Redemption of shares	<u>-</u>	<u>(8,179,346)</u>
Net movement in shareholders' funds	3,272	851,959
Opening shareholders' funds	<u>10,457,079</u>	<u>9,605,120</u>
Closing shareholders' funds	<u>10,460,351</u>	<u>10,457,079</u>

Closing shareholders' funds in aggregate are summarised as follows:

	<u>1997</u> £	<u>1996</u> £
Equity interests	10,460,351	2,277,733
Non-equity interests	<u>-</u>	<u>8,179,346</u>
	<u>10,460,351</u>	<u>10,457,079</u>

15 CONTINGENCIES

As at 30 June 1997 the company had made guarantees in respect of certain borrowings amounting to £nil (1996: £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 1997 (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.

18 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption provided by Paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the City Technology Holdings plc group.