

COMSTACK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1998

Company Registration Number: 2823715



COMSTACK LIMITED

DIRECTORS

Mr J R Finbow
Dr B S Hobbs
Mr A D Todd

SECRETARY

Mr A D Todd

REGISTERED OFFICE

The City Technology Centre
Walton Road, Portsmouth PO6 1SZ

AUDITORS

PricewaterhouseCoopers
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 1998

The directors present their report and accounts for the year ended 30 June 1998.

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 year were the receipt and payment of dividends, and intercompany account transfers.

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 £2,600,000 (1997: £2,703,000). During the year dividends of £2,600,000 were recommended (1997: £2,700,000). The resulting balance is £Nil and so there is no transfer to reserves (1997: £3,000).

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' INTERESTS

The directors held no interest in the shares of the company at either 30 June 1998 or 30 June 1997.

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 1998 (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:

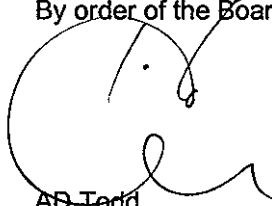
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors on 21 July 1998 and the new firm PricewaterhouseCoopers were appointed by the Board to fill the casual vacancy created by the resignation. PricewaterhouseCoopers have indicated their willingness to be reappointed and a resolution proposing their re-appointment will be proposed at the following Annual General Meeting.

By order of the Board



AD Todd
Secretary

14 September 1998

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
COMSTACK LIMITED**

PricewaterhouseCoopers
The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG
Telephone +44 (0) 1703 330077
Facsimile +44 (0) 1703 223473
DX 123120

We have audited the financial statements on pages 5 to 10 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.

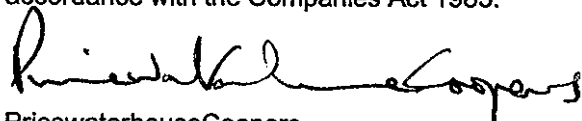
Basis of opinion

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 company's affairs as at 30 June 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors

SOUTHAMPTON

14 September 1998

COMSTACK LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1998**

	<u>1998</u> £'000	<u>1997</u> £'000
Other Income	<u>-</u>	<u>6</u>
OPERATING PROFIT	-	6
Income from shares in group undertakings	2,600	2,700
Interest payable (Note 5)	<u>-</u>	<u>(1)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,600	2,705
Tax on profit on ordinary activities (Note 6)	<u>-</u>	<u>(2)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	2,600	2,703
Dividends paid and proposed (Note 7)	<u>(2,600)</u>	<u>(2,700)</u>
RETAINED PROFIT FOR THE YEAR	<u><u>-</u></u>	<u><u>3</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 relate to the company's continuing activity as an intermediate holding company.

COMSTACK LIMITED

BALANCE SHEET - 30 JUNE 1998

	1998	1997
£'000	£'000	£'000
FIXED ASSETS		
Investment in subsidiary undertaking (Note 8)	24,396	24,396
CURRENT ASSETS		
Debtors (Note 9)	3,223	559
Cash at bank and in hand	<u>1</u>	<u>-</u>
	3,224	559
CREDITORS (amounts falling due within one year) (Note 10)	<u>(2,601)</u>	<u>(1)</u>
NET CURRENT ASSETS	<u>623</u>	<u>558</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	25,019	24,954
CREDITORS (amounts falling due after more than one year) (Note 11)	<u>(14,559)</u>	<u>(14,494)</u>
	<u>10,460</u>	<u>10,460</u>
CAPITAL AND RESERVES		
Called up share capital (Note 12)	120	120
Share premium account (Note 13)	8,192	8,192
Profit and loss account (Note 13)	<u>2,148</u>	<u>2,148</u>
SHAREHOLDERS' FUNDS (Note 14)	<u>10,460</u>	<u>10,460</u>

Approved by the Board on 14 September 1998

A D Todd
DIRECTOR

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

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. No amounts paid are deemed attributable to their services to Comstack Limited.

3 DIRECTORS' REMUNERATION

All amounts paid to directors were borne by City Technology Limited, the company's subsidiary undertaking. No amounts paid are deemed attributable to their services to Comstack Limited.

4 EMPLOYEES

	<u>1998</u>	<u>1997</u>
	Number	Number

(a) Number of employees

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

<u>-</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. No amounts paid are deemed attributable to their services to Comstack Limited.

5 INTEREST PAYABLE

	<u>1998</u>	<u>1997</u>
	£'000	£'000

Bank overdrafts

<u>-</u>	<u>1</u>
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COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (Continued)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1998</u> £'000	<u>1997</u> £'000
UK corporation taxation		
- on profits for the year at 31% (1997: 32.5%)	<u>-</u>	<u>2</u>
	<u>-</u>	<u>2</u>

7 DIVIDENDS

	<u>1998</u> £'000	<u>1997</u> £'000
Ordinary Shares of £0.01	<u>2,600</u>	<u>2,700</u>

8 FIXED ASSET INVESTMENTS

	<u>1998</u> £'000	<u>1997</u> £'000
Investment in subsidiary undertaking at cost	<u>24,396</u>	<u>24,396</u>

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

9 DEBTORS

	<u>1998</u> £'000	<u>1997</u> £'000
Amounts owed by group undertakings	623	559
Dividends owed by group undertakings	<u>2,600</u>	<u>-</u>
	<u>3,223</u>	<u>559</u>

10 CREDITORS: Amounts falling due within one year

	<u>1998</u> £'000	<u>1997</u> £'000
Dividends owed to group undertakings	2,600	-
Corporation tax	<u>1</u>	<u>1</u>
	<u>2,601</u>	<u>1</u>

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (Continued)

<u>1998</u>	<u>1997</u>
£'000	£'000

14,559	14,494
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Authorised

	1998	1997	1998	1997
	Number	Number	£'000	£'000
Ordinary Shares of £ 0.01 each	12,004,246	12,004,246	120	120

			Allotted, issued and fully paid	
	1998	1997	1998	1997
	Number	Number	£'000	£'000
Ordinary Shares of £0.01 each	12,004,246	12,004,246	120	120

<u>Profit and loss account</u>	£'000
At 1 July 1997	2,148
Result for the year	<u> </u>
At 30 June 1998	2,148

At 1 July 1997 and 30 June 1998 8,192

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.

On 5 September 1996, the 8,179,346 £0.01 Preference Shares were converted into Ordinary Shares of £0.01.

COMSTACK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (Continued)

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1998</u> £'000	<u>1997</u> £'000
Profit for the year	2,600	2,703
Dividends	<u>(2,600)</u>	<u>(2,700)</u>
Net movement in shareholders' funds	-	3
Opening shareholders' funds	<u>10,460</u>	<u>10,457</u>
Closing shareholders' funds – all equity interests	<u>10,460</u>	<u>10,460</u>

15 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 (revised 1996) whereby it is not required to publish its own cash flow statement.

16 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.

17 RELATED PARTY TRANSACTIONS

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