

Instem Computer Systems Limited

Registered No 953504

DIRECTORS

D Gare (Chairman and managing director)
D M Sherwin
R G Turner
D Elks
A B Bonser
J A Haine

SECRETARY

S J Morse

AUDITORS

Ernst & Young
Commercial Union House
Albert Square
Manchester
M2 6LP

BANKERS

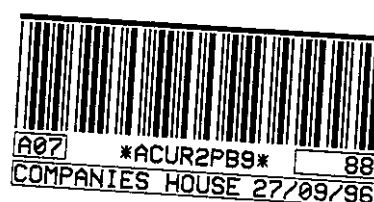
Midland Bank plc
100 King Street
Manchester
M60 2HD

SOLICITORS

Addleshaw Sons & Latham
Dennis House
Mardsen Street
Manchester
M2 1JD

REGISTERED OFFICE

Walton Industrial Estate
Stone
Staffs
ST15 0LT



Instem Computer Systems Limited

BY A RESOLUTION OF THE BOARD OF DIRECTORS, AUTHORISED BY THE SHAREHOLDERS,
DATED 27 FEBRUARY 1991, THE COMPANY HAS DISPENSED WITH THE NEED TO:

- 1 To receive and adopt the directors' report and the audited accounts.
- 2 To reappoint the auditors annually.
- 3 Hold an Annual General Meeting.

DIRECTORS' REPORT

The directors present their report and accounts for the financial year ended 31 December 1995.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £432,000 (1994 - £670,000) and is dealt with as shown in the profit and loss account. The ordinary dividend paid in the year amounted to £300,000 (1994 - £Nil).

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The company provides information systems and services for the management of operational facilities which involve direct measurement and control.

In addition the company provides an electronics manufacturing management service to a number of third party customers.

RESEARCH AND DEVELOPMENT

Research and development is an important part of the company's operations. During the year research and development continued to concentrate on the Datatox FI software, the advanced Substation Automation System and a Remote Management Unit.

EMPLOYEES

The directors consider that it is desirable that employees become and remain shareholders in the Group. In addition, employees are encouraged to participate in the success of the business through the Group's Profit Related Pay Scheme, which commenced on 1 January 1994.

The company is proceeding with a programme of employee development that will lead to the award of the Investors in People accreditation, a government initiative in employee development.

DIRECTOR'S AND OFFICERS' LIABILITY INSURANCE

As permitted by Section 310 of the Companies Act 1985, the company has during the year maintained an insurance policy providing liability cover for Directors and Officers in respect of liabilities incurred in connection with the Group.

These policies are now widely taken out by United Kingdom public companies and this statement is made in compliance with the requirements of the Companies Act 1985.

DISABLED EMPLOYEES

The Group gives every consideration to applications from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

DIRECTORS

The directors of the company during the year were those listed on page 2.

DIRECTORS' REPORT

DIRECTORS INTERESTS

No director had an interest in the shares of the company during the year. According to the register maintained, as required under Section 324 of the Companies Act 1985, the directors' interests in the ordinary shares of the holding company were as follows:

		<i>Ordinary shares of 10p each</i>		<i>Options outstanding on 10p Ordinary shares</i>	
		<i>31 December 1995</i>	<i>31 December 1994</i>	<i>31 December 1995</i>	<i>31 December 1994</i>
		<i>Number</i>		<i>Number</i>	
D Gare	- beneficial	440,164	460,255	120,000	120,000
	- non beneficial	134,704	114,843	-	-
J A Haine	- beneficial	36,480	36,480	5,000	5,000
	- non beneficial	9,000	9,000	-	-
D M Sherwin		110,778	110,778	15,000	15,000
R G Turner		-	-	40,000	40,000
D Elks		-	-	5,000	5,315
A B Bonser		6,500	6,500	34,140	34,140

By order of the board

Shurze 20/9/96
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts 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 accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Instem Computer Systems Limited

We have audited the accounts on pages 8 to 16 which have been prepared in historical cost convention and on the basis of the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

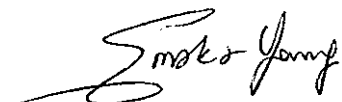
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatements, 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditor
Manchester

24 September 1996

Instem Computer Systems Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1995

	Notes	1995 £000	1994 £000
TURNOVER	2	21,324	16,812
Cost of sales		17,742	13,717
GROSS PROFIT		3,582	3,095
Administrative expenses (include development costs)		1,447	1,107
Distribution expenses		1,013	956
NET OPERATING INCOME	3	1,122	1,032
Interest payable	4	8	7
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,114	1,025
Taxation	5	382	355
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		732	670
Dividends	15	300	-
Retained profit for the year		432	670
Balance brought forward at 1 January		4,318	3,648
Balance at 31 December		4,750	4,318

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

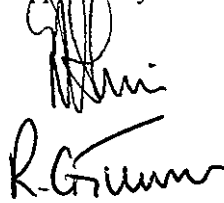
There are no other recognised gains and losses other than the profit of £432,000 for the year ended 31 December 1995 and profit of £670,000 for the year ended 31 December 1994.

Instem Computer Systems Limited

BALANCE SHEET at 31 December 1995

	Notes	1995 £000	1994 £000
FIXED ASSETS			
Tangible assets	8	1,266	1,423
CURRENT ASSETS			
Stocks and work in progress	9	4,162	4,015
Debtors	10	4,793	4,724
Cash at bank and in hand		204	192
		<u>9,159</u>	<u>8,931</u>
CREDITORS: amounts falling due within one year	11	5,291	5,613
		<u>3,868</u>	<u>3,318</u>
NET CURRENT ASSETS			
		<u>5,134</u>	<u>4,741</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>277</u>	<u>316</u>
PROVISIONS FOR LIABILITIES AND CHARGES	13		
		<u>4,857</u>	<u>4,425</u>
CAPITAL AND RESERVES			
Called up share capital	16	97	97
Capital redemption reserve		10	10
Profit and loss account		4,750	4,318
		<u>4,857</u>	<u>4,425</u>
SHAREHOLDERS' FUNDS ATTRIBUTABLE TO EQUITY INTERESTS			

Approved by the Board on


 R. Green)
 20/9/96) Directors

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS at 31 December 1995

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company is a wholly owned subsidiary of an undertaking registered in England and Wales. It has therefore not presented a cash flow statement as permitted under the provisions of Financial Reporting Standard No. 1.

Depreciation

Depreciation is provided on the cost of fixed assets on a straight line basis having regard for their expected useful lives using the following annual rates:

Leasehold improvements	-	over term of lease
Plant and equipment	-	12 1/2% - 25% per annum
Vehicles	-	25% per annum

Government grants

Grants on revenue expenditure are deducted from the relevant expense categories.

Hire purchase and lease agreements

Assets held under leasing and hire purchase arrangements that transfer substantially all the risks and rewards of ownership to the company are capitalised. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is charged to the profit and loss account having regard to the capital balance outstanding. Rentals in respect of all other leases are charged to the profit and loss account as incurred.

Stock and work in progress

Stocks are valued at the lower of cost and net realisable value, net of progress payments received, and with due allowance for any obsolete or slow moving items. In the case of work in progress, cost comprises direct materials, direct labour and the appropriate proportion of manufacturing fixed and variable overheads.

Research and development

With the exception of expenditure on research and development which is recoverable from third parties, all such expenditure is charged to revenue in the period in which it is incurred. Expenditure on the acquisition of major product lines and related know-how is capitalised and written off over the shorter of its expected useful life or five years.

Warranties and post delivery support

Creditors include the expected future costs under warranties and post delivery support in respect of products delivered.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability will crystallize.

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1995

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions; monetary assets and liabilities at the balance sheet date are translated at the year end rates of exchange. All exchange differences thus arising are reported as part of the profit for the year.

Pensions

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to members are evenly matched, as far as possible, to the service lives of the members concerned. Any excess or deficiency of the actuarial value of the assets over the actuarial value of the liabilities of the scheme is allocated over the average remaining service lives of current members.

2. TURNOVER

Turnover comprises the invoice value, exclusive of VAT, of equipment and software delivered to site on completed contracts or distinct stages of contracts and the proportion of maintenance contracts expired during the period. All turnover relates to continuing operations and is regarded as one class of business. Its geographical distribution was as follows:

	1995 £000	1994 £000
United Kingdom	20,232	15,955
Rest of Europe	612	857
USA	480	-
	<u>21,324</u>	<u>16,812</u>

3. NET OPERATING INCOME is arrived at after charging:

	1995 £000	1994 £000
Depreciation and amortisation	455	374
Hire of plant, machinery and equipment	221	229
Other operating lease costs	211	194
Auditors' remuneration - audit services	30	30
- non-audit services	15	7
Research and development	234	52
	<u>21,324</u>	<u>16,812</u>

Of the above depreciation charged in the year, £26,000 (1994 : £38,000) relates to assets held under finance leases and hire purchase agreements.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1995 £000	1994 £000
Bank loans and overdrafts	7	2
Finance lease and hire purchase charges	1	5
	<u>8</u>	<u>7</u>

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1995

5. TAXATION

The charge for the year comprises:

	1995 £000	1994 £000
UK Corporation tax payable at 33% (1994 - 33%)	410	350
Transfer from deferred taxation account	(21)	13
Adjustments relating to prior periods	(7)	(8)
	<u>382</u>	<u>355</u>

6. STAFF COSTS

(a)

	1995 £000	1994 £000
Salaries	6,591	6,077
Social security costs	577	538
Other pension costs	78	71
	<u>7,246</u>	<u>6,686</u>

This includes remuneration paid to directors of the company.

(b) The average number of employees in the year was 401 (1994 - 365) categorised as follows:

	1995 No.	1994 No.
Directors, administration, sales and supervision	97	88
Production, engineering and design	304	277
	<u>401</u>	<u>365</u>

7. EMOLUMENTS OF DIRECTORS

	1995 £000	1994 £000
Remuneration including pension contributions and benefits	186	149

The emoluments, excluding pension contributions, of the directors of the company are as follows:

	1995 £000	1994 £000
Chairman	-	-
Highest paid director	68	54

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 1995

7. EMOLUMENTS OF DIRECTORS (continued)

	1995 No.	1994 No.
Other directors, in scale		
£ Nil - £ 5,000	2	2
£35,001 - £40,000	-	1
£50,000 - £55,000	1	1
£60,001 - £65,000	1	-

8. FIXED ASSETS

	<i>Vehicles</i> £000	<i>Short leasehold improvements</i> £000	<i>Plant and equipment</i> £000	<i>Total</i> £000
Cost:				
At 1 January 1995	4	408	3,049	3,461
Additions	-	33	265	298
At 31 December 1995	4	441	3,314	3,759
Depreciation:				
At 1 January 1995	4	78	1,956	2,038
Charge for year	-	52	403	455
At 31 December 1995	4	130	2,359	2,493
Net book amounts:				
At 31 December 1995	-	311	955	1,266
At 31 December 1994	-	330	1,093	1,423

The net book value of fixed assets of £955,000 includes an amount of £Nil (1994 : £25,000) in respect of assets held under finance leases and hire purchase contracts.

9. STOCKS AND WORK IN PROGRESS

	1995 £000	1994 £000
Materials	1,628	1,544
Work in progress	2,895	3,217
Less: progress payments	(361)	(746)
	2,534	2,471
	4,162	4,015

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS at 31 December 1995

10. DEBTORS

	1995 £000	1994 £000
Due within one year:		
Trade debtors		
Other debtors	4,575	4,499
Prepayments and accrued income	9	7
	209	218
	<u>4,793</u>	<u>4,724</u>

11. CREDITORS: amounts falling due within one year

	1995 £000	1994 £000
Trade creditors		
Amount owed to parent undertaking	2,149	3,161
Corporation tax	524	573
Other taxes and social security	397	342
Other creditors	280	273
Accruals	1,112	662
Proposed final dividend due to parent undertaking	529	602
	300	-
	<u>5,291</u>	<u>5,613</u>

12. COMMITMENTS

(a) Capital

The directors have authorised future capital expenditure which amounts to:

	1995 £000	1994 £000
Contracted		
Not contracted	110	22
	23	74
(b) Financial	<u></u>	<u></u>

The aggregate capital amounts due under finance leases and hire purchase obligations are as follows:

	1995 £000	1994 £000
Within one year		
Within two to five years	-	11
	-	-
	<u>-</u>	<u>11</u>

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS at 31 December 1995

12. COMMITMENTS (continued)

The annual commitment under non-cancellable operating leases was as follows:

	<i>Land and buildings</i>		<i>Plant and equipment</i>	
	<i>1995</i>	<i>1994</i>	<i>1995</i>	<i>1994</i>
	£000	£000	£000	£000
Leases expiring:				
Within one year	-	-	117	36
Within two to five years	20	20	59	134
Thereafter	191	191	-	-
	<u>211</u>	<u>211</u>	<u>176</u>	<u>170</u>

13. PROVISION FOR LIABILITIES AND CHARGES

	<i>1995</i>
	£000
Pension scheme provision	
As at 31 December 1994	
Reductions	393
	(18)
Balance as at 31 December 1995	<u>375</u>
Deferred taxation (note 14)	
As at 31 December 1994	
Reductions	(77)
	(21)
Balance as at 31 December 1995	<u>(98)</u>
Net book amounts:	
At 31 December 1995	<u>277</u>
At 31 December 1994	<u>316</u>

14. DEFERRED TAXATION

			<i>£000</i>
Balance at 31 December 1994			
Transfer for the year			(77)
			(21)
Balance at 31 December 1995			<u>(98)</u>
	<i>Provided</i>	<i>Not provided</i>	
	<i>1995</i>	<i>1994</i>	<i>1995</i>
	£000	£000	£000
Pension scheme provision	(123)	(130)	-
Accelerated capital allowances	25	53	6
	<u>(98)</u>	<u>(77)</u>	<u>6</u>
			<u>3</u>

Instem Computer Systems Limited

NOTES TO THE ACCOUNTS at 31 December 1995

15. DIVIDENDS

	1995 £000	1994 £000
On 100,000 ordinary shares of 1p each		
Final proposed £3 (1994 : £Nil) per share	300	-

16. CALLED UP SHARE CAPITAL

	Authorised		Issued and fully paid	
	1995 £000	1994 £000	1995 £000	1994 £000
Ordinary shares of 1p each	10	10	1	1
Deferred shares of £1 each	96	96	96	96
	<u>106</u>	<u>106</u>	<u>97</u>	<u>97</u>

17. PROVISION FOR PENSION COSTS

The Company operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. 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 valuation was at 6 April 1993. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% per annum, and salary increases would average 7% per annum.

The actuarial valuation at 6 April 1993 showed that the market value of the scheme's assets was £1,734,000 and that the actuarial value of those assets represented 111% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following a holiday in its contributions for 1993, the Company recommenced its contributions to the scheme in 1994. The next valuation will be made as at 6 April 1996.

The pension charge for the year including related insurance premiums was £78,000 (1994 - £71,000).

18. HOLDING COMPANY

The company's ultimate holding company is Instem plc, a company incorporated in Great Britain, and registered in England and Wales. A copy of the accounts of Instem plc can be obtained at Walton Industrial Estate, Stone, Staffordshire ST15 0LT.