Directors and Advisers

Contents

Directors
Wallace Clapperton* (Chairman)
Chris Brookes
(Chief Executive)
John Singer
(Group Finance Director)
Richard Swan*
David Willans*
*Non-executive

Secretary
Richard Swan

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Chairman's Statement

During the past year the Group faced many difficult challenges that needed to be overcome. First half results had to bear many high non-recurring costs. Urgent action had to be taken by the strengthened Board to replenish the Group's finances. Bid speculation, that caused great uncertainty, had to be contended with throughout much of the second half. Nonetheless, in the latter part of the year, the Group's manufacturing based activities made progress. Unfortunately, that progress was overshadowed by distribution losses, caused by previous over-expansion in an increasingly competitive marketplace. The year's results also had to absorb full provision of the Arius trade investment, necessitated by Arius' failure.

Rebuilding the Group's business, in the second half, was made possible through the success of the Open Offer, the support of the Group's bankers, and the considerable efforts and support of employees, customers and suppliers.

Convertible Preference share were paid, but no dividends on any class of Convertible Preference share have been paid since; unpaid and accrued cumulative Preference dividends are reserved for in the accounts of the Company.

OPERATIONS

As a result of the challenges Scantronic Limited had to meet, many structural changes were made to improve organisational effectiveness, as well as to reduce that company's cost base. Difficult decisions were taken to postpone the marketing of new products to ensure they met customer needs. The second half turnaround, from loss to just above break-even, justified those decisions. Notwithstanding current difficult market conditions, Scantronic Limited is now successfully re-establishing its market leadership through product offerings that include new Mosaic hard wire control panels, new 5 series radio panels, as well as a range of high quality PIR and Twintec detectors.

	Operating Profit/(Loss) First half £000	Second half £000	Year £000
UK manufacturing and sales (Scantronic Limited)	(405)	39	(366)
International sales other than UK and North America (Scantronic International)	337	353	690
North American manufacturing and sales (Scantronic USA)	24	151	175
Manufacturing based activities	(44)	543	499
UK distribution sales (Alarmexpress)	(325)	(539)	(864)
Exceptional items (Note)	(1,368)	(456)	(1,824)
Operating (loss)	(1,737)	(452)	(2,189)

Note: Previously published first half exceptional losses of £298,000 and £120,000 are now shown [illegible] fixed asset investment loss and [illegible] adjustment arising from the settlement of arbitration proceedings concerning [illegible] Technologies Inc and [illegible] AG.

The operating loss for the financial year of £2.189 million reflected the many problems the Group encountered. High exceptional charges had to be borne in the first half; further exceptional charges, in the second half, primarily related to additional provision against an ESOP loan and to advice in connection with 1994's possible bid approaches.

After provision for Arius' investment cost and interest costs, the loss on ordinary activities before and after taxation was £4.873 million (1993/4: £1.891 million profit) and £5.181 million (1993/4: £693,000 profit) respectively, and the loss per ordinary share was 14.12p (1993/4: 0.46p).

No interim dividend was paid on the ordinary shares for 1994/5, nor is any final dividend proposed (1993/4 total dividend per individual share: 0.843p). Dividends due within the first half year for each class of

Scantronic International again achieved record sales through exploiting growth opportunities from within its varied marketplace. Management efforts were linked closely to those of Scantronic Limited due to their shared need for finite development and manufacturing resource. Overall, Scantronic International's sales rose by 24 per cent. Its profit margins remained reasonably constant and included, as in previous years, a substantial element of manufacturing margin.

Scantronic USA built on its first half progress. A significant sales increase was achieved as a result of the strength of its OEM customer base. However, distribution sales were disappointing, which, in part, reflected the failure of the Group's investment in Arius. Scantronic USA's OEM product technology provides considerable potential for future sales growth.

Chairman's Statement
continued

Alarmexpress suffered badly during the year. It was ill prepared to meet the enormous pressures that resulted from a changing and more competitive UK marketplace. Problems were many and included:

— the sudden curtailment of an ambitious branch expansion plan;

— new branches not being sufficiently established to sustain difficult market conditions; and

— the extent of the time taken for critical management information systems to be fully implemented.

Alarmexpress' problems became increasingly apparent in early 1995, and actions were then taken to refocus the network towards large branch operations. Maximum effort was also made to complete full implementation of the new information systems. An effective business core now exists, backed by fully implemented information systems. Potential exists for profitability, given investment or the return of normal market conditions.

OUTLOOK

In the first part of the current year, progress, in the UK, slowed considerably due to a general industry downturn. This has caused performance to suffer, although it is being mitigated to some extent by the success of new products, Scantronic Limited's broad customer base, and further cost reductions. Signs of a market upturn are gathering but whether any upturn can be sustained will be dependent upon the direction of the UK economy.

In Europe, performance generally continues to exceed expectations. In the USA operating profitability is continuing.

Overall, the Group has been finding it difficult to trade near to a break-even level. In order to move forward strongly there needs to be an improvement within its primary UK marketplace.

	Turnover		Operating Profit/(Loss)	
	1995 £000	1994 £000	1995 £000	1994 £000
UK manufacturing and sales (Scantronic Limited)	21,458	25,609	(366)	2,294
International sales other than UK and North America (Scantronic International)	8,542	6,886	690	457
North American manufacturing and sales (Scantronic USA)	11,722	10,728	175	(400)
UK distribution sales (Alarmexpress)	17,468	6,935	(864)	267
Exceptional items	—	—	(1,824)	(260)
	59,190	50,158	(2,189)	2,357

OTHER MATTERS

All claims arising from the arbitration proceedings in the United States with Cerberus Technologies Inc and Cerberus AG, concerning a prior acquisition, have been resolved. This enabled the original investment cost to be reduced by £500,000, net of legal expenses, through a direct increase in Balance Sheet reserves.

On 26th September 1995, the Boards of your Company and Menvier-Swain Group plc announced that they had agreed on the terms of recommended Offers to be made by UBS Limited on behalf of Menvier-Swain Group plc for the whole of the issued ordinary and preference share capital of the Company not already owned by Menvier-Swain Group plc. The formal Offer Document, setting out details of the Offers together with their conditions, is intended to be despatched to shareholders, by UBS Limited, as soon as possible.

Wallace Clapperton

Wallace Clapperton
CHAIRMAN

Financial Review

The Group's second half progress was made possible through the success of the Open Offer and the continued close support of the Group's bankers. Combined, those factors enabled the Group to work well within its facilities.

At the year end net borrowings were at a similar level to last year's, at around £7 million; equally importantly, the high borrowing problems of June 1994 did not re-occur. Since the year end the Group has continued to operate well within its facilities, although lower than expected sales activity has led to a borrowing increase.

A high priority is to reduce the Group's dependence on bank finance as well as to remedy past balance sheet damage. For this purpose, income requires to be generated from sales. In addition, action has been taken to advance the sale of non-core assets.

Information systems have been improved throughout the Group to provide all necessary budgeting and cash flow information. In addition, statistical techniques have been introduced to facilitate sales forecasting.

Review of Operations

SCANTRONIC LIMITED

The problems and the adverse publicity affecting the Group in 1994/95 impacted mainly on Scantronic Limited, it being the Group's main UK operating subsidiary. Consequently, it was a critical period for the company as well as a period of major challenge and change.

Poor trading in the first two months provided a dismal start to the year. The remainder of the first half, reflected the Group's need to re-direct management efforts towards conserving cash rather than increasing sales and profits.

Any stabilisation that might have been expected from recapitalisation arrangements and the following mid-November Open Offer success did not occur due to continued bid speculation for the Group from June 1994 to January 1995. The uncertainties caused to customers, suppliers and employees over such an extensive period created a difficult trading environment.

In the second half, Scantronic Limited took action to meet the challenge forced upon it through changed direction and new circumstances. Management was re-organised and re-focused. Action was taken to reduce the company's cost base to reflect trading levels then being achieved.

Second half results were also affected by the need to postpone major product launches as a result of customer feed back gained from earlier product launches. Instead of new 8, 16, 40 and 136 zone control panels being launched in the fourth quarter of 1994/95, under the Mosaic name, their launches were postponed to follow the financial year end.

The new 8 and 16 zone panels were eventually launched in May 1995, the 40 zone panel was launched in June 1995, and the 136 zone panel, currently finishing extensive field trials, is expected to be launched this Autumn. Considerable marketing effort has been, and is being, put behind these launches, which included a successful week of customer visits to the company's Perivale facility. Many important customers have now transferred their business to these new Mosaic products.

Other main events that affected 1994/95's results were:

— Scantronic Limited took over the manufacturing of Twintec detectors from Marconi, that product range having been jointly developed by both companies;

— communicator sales benefited from April 1995's change in telephone numbers but suffered more from the loss of sales rights for previously factored product;

— Homelink gained increasing popularity in many of the Group's markets as a general care and supervisory product as well as for specialist protection applications;

— Scanalert, a patented mains powered smoke alarm, is now being distributed by a major fire alarm manufacturer and its recent Kite Mark grant will accentuate its appeal to local authorities;

— radio products began to have an increasing impact on the market assisted by Scantronic Limited's association with Yale.

In looking to the future, management believes the new Mosaic control panel range can establish an increasing market presence; that its leading radio panels, strengthened by the success of its new 5 Series product, have the potential to make large market inroads; and that the PIR and Twintec detector ranges can increasingly benefit from Scantronic Limited's control panel market leadership.

Notwithstanding the strength of Scantronic Limited's product range, 1995/6 has started disappointingly. An industry wide sales downturn of apparently some 20 per cent in April and May continued into June. As Scantronic Limited has a broad range of customers, including large national installers, distributors, OEM's and DIY suppliers, as well as overseas Group and third party customers, it has been able to mitigate some of this downturn in July and August. The company is also able to benefit from management actions, in May and June 1995, that further reduced its cost base to a level that is more appropriate to current industry demand.

Scantronic Limited's ability to exploit current and future market opportunities will reflect:

— its continuing market leadership position;

— the further potential for it to reduce its cost base; and

— future new product introductions.

SCANTRONIC INTERNATIONAL

The growth potential of overseas markets helped Scantronic International achieve further high sales growth in 1994/95. The majority of product sold was sourced from Scantronic Limited, with approximately 15 per cent sourced from Scantronic USA.

Overall the sales growth for 1994/95 was 24 per cent, ranging from 17 per cent, in countries such as France and Benelux, to 34 per cent in Spain. Margins remained reasonably firm; for UK sourced product, margins included a substantial element of manufacturing margin, as in previous years.

Sales focus continued to be on OEM, distribution and installation customers in France, Benelux, Spain and Scandinavia. 1994/95's sales growth benefited from strong working relationships with customers such as Legrand, Securiville, Systal and other non-UK members of the Gardiner Group, Dema, ADT and Falck Securitas.

Review of Operations
continued

Provision of technical and marketing support, aided by a professional approach, has remained key to Scantronic International's progress. The over-riding objective, as always, has been customer service based on attention and response to customer needs.

Greater regulation of overseas markets continued to require significant resources to be devoted to obtaining necessary PTT and insurance approvals.

Regions where additional marketing effort was made, primarily in the last part of 1994/95, were the Eastern Bloc and South America. During the last part of the year distributors were appointed for those areas, with more planned for the current year. Also, following the year end, sale arrangements were changed in Spain, following a new distributor appointment.

Scantronic International's progress will continue to reflect its investment in new products and regulatory approvals. Highlights for 1994/95 included:

- insurance and PTT approvals were gained in various European countries for PIR and Twintec product ranges that led to the successful market introduction of those products;
- Homelink product, launched at the beginning of last year, gained increasing acceptance in most of Scantronic International's markets; and
- the OEM radio product range won increased market share in France which should assist a broader marketing of this product across Europe by 1996.

SCANTRONIC USA

Scantronic USA made further sales and earnings progress in 1994/95. Its business continued to be built around strong relationships with OEMs. Control panel sales to those customers rose substantially during the year. Sales of Twintec detectors also increased, mainly as a result of a developing relationship with a major national US customer.

Direct sales to export customers continued to rise and accounted for nearly 20 per cent of 1994/95's sales. Longstanding relationships exist with these customers who include, amongst others, Lobec, Securitas Technik and Sea Hwa.

Sales to Group companies in UK, France and Spain, for onward sale by them to third party customers, accounted for some 12 per cent of 1994/95's sales. This was a lower level than achieved in 1993/94 due to Scantronic Limited now developing and manufacturing more of its own detector needs.

Efforts to improve distribution sales did not achieve the desired result. Business with national distributors decreased, although, to some extent, this was compensated for by increased business from regional distributors. The underlying reason was a failure to develop business with Arius, following the Group's investment in that company. Arius' subsequent failure, in March 1995, has since caused Scantronic USA to re-establish trading links with other distributors.

Scantronic USA's drive to increase manufacturing efficiency, as well as a reduction in its cost base, were further reasons for a better 1994/95. Sales and marketing costs were cut back with some of those savings being redirected into research and development.

In the present year, Scantronic USA is reinforcing the foundations necessary for taking its business forward. Moreover, it is well positioned to exploit the leading technologies, for cost effective products, that underlie the growing success of its OEM business.

ALARMEXPRESS

Following the acquisition of Alarmexpress' distribution activities in October 1993, an approximate doubling of its UK branch network took place. The objective was to achieve national sales coverage. By the early part of 1994/95 branches were twenty in number. That expansion was supported by the acquisition of advanced information technology systems, with full implementation being planned for around the end of 1994/95. New product areas were also planned to provide greater product throughput and profit contribution.

A forced strategy change then took place around August 1994, caused by the need to conserve Group resources. That pressure led to Alarmexpress postponing planned new product introductions as well as to the streamlining of its enlarged branch network. Increasingly difficult market conditions, in the second half, caused the need for further streamlining. Management's actions were also severely hampered because information systems had, at that time, been only partially implemented.

The overall results for the year were extremely disappointing. In the UK losses mainly resulted from the need to absorb start-up costs in the first half, and then, in the second half, from the retrenchment forced upon Alarmexpress by the difficult market conditions. Overseas, the Portuguese branch performance was better than budget but poor performance caused the Dutch operation to be closed.

The present UK branch network, following 1994/95's problems and streamlining, is mainly focused on large branch operations. There are now thirteen branches which form an effective business core, supported by fully implemented advanced information systems. Whilst the UK distribution market continues to be depressed, the re-organised network possesses the potential to return to profitability given investment or the return of normal market conditions. Exports and the overseas Portuguese branch operation are expected to continue to offer increasing sales opportunities.

Corporate Governance

Board of Directors

The Board of Directors met regularly throughout the year. Mr Chris Brookes (executive), Mr Wallace Clapperton (non-executive) and Mr Richard Swan (non-executive) served as Directors throughout the year. Mr John Singer (executive) and Mr David Willans (non-executive) joined the Board on 25 July 1994 and Mr Ray Dias was removed as a Director at the Annual General Meeting held on 10 October 1994.

The Board also deals with appointments and promotions of senior management positions within the operating companies. Trading companies are managed by separate boards of directors.

Mr Richard Swan, a non-executive Director, in addition to his Director's fees receives remuneration for the provision of consultancy and professional services to the Company as set out in notes 20 and 21 to the financial statements.

Board Committees

Remuneration Committee

The Remuneration Committee reviews the terms and conditions of employment of the executive Directors. It consists of the Chairman and other non-executive Directors and meets at least once a year. The non-executive Directors are appointed for fixed terms. No Director plays any part in any discussion by the Remuneration Committee concerning his own remuneration.

Mr Chris Brookes has a service contract dated 16 September 1994 that requires not less than three years notice of termination by the Company.

Audit Committee

During the year ended 31 March 1995 the Audit Committee comprised the Chairman and initially one other non-executive Director. The Code of Best Practice of the Cadbury Committee recommends that the Audit Committee should comprise at least three non-executive directors. During the year Mr David Willans joined the Audit Committee as its third member.

The Committee, which meets at least twice a year, monitors the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external audit and finance functions report to the non-executive Directors. Terms of reference of the Committee provide that part of each meeting may be held in private between the non-executive Directors and the external auditors.

Nomination Committee

All Directors of the Company are on the Nomination Committee. This Committee is responsible for putting forward for approval candidates for appointment to the Board and meets as required.

The Directors of the Company have overall responsibility for the Group's system of internal financial control. Following the issue of guidance on Internal Control and Financial Reporting by the Cadbury Committee which is effective for accounting periods commencing on or after 1 July 1995, the Directors will formalise procedures on monitoring the effectiveness of internal control which had previously been dealt with on an informal basis.

The Directors have considered the Company's and the Group's resources, as set out in the accounting policies on page 16 to the Financial Statements, and believe that these are adequate to enable the Group to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Other than the matters referred to above in respect of Directors' service contracts, the Audit Committee and Internal Control, the Company has complied with the Code throughout the year ended 31 March 1995.

Non-executive Directors

Wallace Clapperton, a Chartered Accountant, spent over 30 years with de Zoete & Bevan and BZW, specialising in corporate finance, until his retirement in 1992, and was responsible for Scantronic's original flotation on the USM and later for its admission to the Official List.

Richard Swan is the senior partner of law firm Heald Nickinson where he has worked for over 30 years on commercial and company business.

David Willans is the Group Managing Director of Ipeco Holdings PLC.

Report of the Directors

The Directors present their report and audited financial statements for the year ended 31 March 1995.

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 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; and
- 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 maintaining 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 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.

Principal activities

Scantronic Holdings PLC is the holding company of a Group which carries on business as manufacturers and distributors of control, detection and data communication equipment, principally for use in the intruder alarm industry, and also for the care of elderly and disabled persons.

Business review

A review of the Group's progress during the year, with an indication of likely future developments is included in the Chairman's Statement, Financial Review and Review of Operations on pages 2 to 6.

Changes in presentation of the financial statements

Following the introduction of UITF Abstract 13, accounting for ESOP Trusts, the following change in the presentation of the financial statements has been made to conform with the new requirements:

Shares in the Company held by the ESOP Trust are now included in fixed assets. In previous years these were included in debtors. Comparative figures have been restated where necessary for the changes.

Results and dividends

The Group loss on ordinary activities before taxation amounted to £4,873,000. After taxation and minority interest, the balance available, after a transfer from reserves of £6,012,000, was dealt with as follows:

	£'000
Preference dividends:	
5.75% Preference shares	76
7.25p (net) Preference shares	710
	786

Preference dividends include an amount of £393,000 which remains unpaid. This amount has been transferred to a preference dividend reserve (note 6).

The Directors do not recommend the payment of a final dividend on the ordinary shares.

Acquisition

In April 1994 the Group acquired approximately 19.6 per cent. of Arius Inc. for an aggregate consideration of £1.75 million. Further details are disclosed in note 18 to the financial statements.

Post balance sheet event

Post balance sheet events are disclosed in note 25 to the financial statements.

Research and development

The Group pursues a continuing programme of research and development to maintain its position as a market leader in the design and manufacture of control, data and associated communication equipment, principally for use in the intruder alarm industry and

Report of the Directors
continued

medical alert systems market. Total expenditure on research and development in the year ended 31 March 1995 amounted to approximately £2,420,000 (1994 — £2,267,000) inclusive of attributable overheads and salaries.

Changes in fixed assets

The changes in fixed assets during the year by the Group are set out in notes 8 and 9 to the financial statements.

Share capital

In November 1994, 16,100,000 ordinary shares of 10p each were issued at par by way of an open offer.

Share option schemes

The Company has two Inland Revenue approved employee share option schemes which provide for the issue of new shares. The Savings Related Share Option Scheme, introduced in September 1992, allows all eligible UK employees to save over five years to buy shares at a price fixed at the outset. The Senior Staff Share Option Scheme provides for options to be granted to senior staff and executives selected by the Board. In addition the Company operates an Employees' Share Ownership Plan Trust. Further information on these schemes is set out in note 15 to the financial statements.

Directors' and officers' liability insurance

During the financial year, the Company and its subsidiaries have maintained liability insurance for their directors and officers as permitted by Section 310(3)(a) of the Companies Act 1985.

Directors and their interests

The present Board of Directors is shown on page 1. Mr J H Singer and Mr J R D Willans were appointed Directors on 25 July 1994. Pursuant to the power contained in Article 112 of the Company's Articles of Association, a resolution to remove Mr R Dias as a Director of the Company was passed at the Annual General Meeting held on 10 October 1994. Directors' interests, including family interests, in the capital of the Company were as follows:

	31 March 1995		31 March 1994	
	ordinary shares of 10p each	5.75% Convertible Cum. Redeemable Pref. Shares of £1 each	ordinary shares of 10p each	5.75% Convertible Cum. Redeemable Pref. Shares of £1 each
A W F Clapperton				
— beneficial	105,179	100,000	38,332	100,000
C Brookes				
— beneficial	2,941,785	—	1,879,399	—
— non beneficial	142,062	—	105,325	—
R R S Swan				
— beneficial	67,440	—	50,000	—
— non beneficial	236,916	—	175,650	—
J H Singer	81,370	—	—	—

No options over ordinary shares were granted to, or exercised by, Directors during the year. Options outstanding at 31 March 1995 were as follows:

	Outstanding at 31 March 1995 and 1994
C Brookes	301,272

All the executive Directors are interested as employees, and therefore potential beneficiaries of the Scantronic Holdings PLC Employees' Share Ownership Plan Trust, in shares held by the Trust. Of the shares under options held by the Directors, 150,000 are in respect of ordinary shares held by the Trust.

The shares held by the Trust were as follows:

	31 March 1995 and 1994
Ordinary shares of 10p each	1,085,000
7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each	100,000

Report of the Directors
continued

During the period 1 April 1995 to 29 September 1995, there were no changes in Directors' interests. The only material interests of Directors in any contracts or arrangements existing during or at the end of the financial year which were significant to the Company's business are disclosed in note 21 to the financial statements.

Substantial shareholdings

Other than the holdings of Mr Brookes set out above, the Directors have been notified, to date, of holdings of 3 per cent. or more of the share capital of the Company by the following:

	Percentage held	
	ordinary shares	5.75% Preference shares
PDFM Limited (including holding of Mars Security Limited)	15.1*	
Mars Security Limited	5.0	
Scottish Amicable Investment Managers Limited	4.6	
Co-Operative Insurance Society Limited	3.9	
Menvier-Swain Group plc	3.8	
Morgan Grenfell Unit Trust Managers Limited	3.7	
Specialist Holdings Limited		7.6

*Non-beneficial holdings

Charitable and political contributions

During the year the Group made contributions of £2,850 to charitable organisations. No contributions were made to any political organisations.

Employee involvement

The Group has continued its practice of keeping employees informed of current activities, progress and general matters of Group interest.

Employment of disabled persons

The Group policy and practice encourages the employment of disabled persons wherever practicable with training, career development and promotion commensurate with their aptitudes and abilities. Alternative employment within the Group is provided in the event of an employee becoming disabled whilst in the service of a Group company.

Close company provisions

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors

On 1 October 1994 our auditors, previously known as BDO Binder Hamlyn, joined the Arthur Andersen Worldwide Organisation and now practise in the name Binder Hamlyn. They have signed their audit report in their new name. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the Company will be put to the Annual General Meeting.

Special resolutions

There will be proposed at the Annual General Meeting, at a date to be announced, two Special Resolutions:

1. to allow a continuance of the power to allot for cash the amount of relevant securities set out in the resolution otherwise than pro rata to existing shareholders, in order to provide flexibility for any future minor acquisitions or working capital requirements;

2. to facilitate printing of share certificates in a different manner.

By Order of the Board

R R S Swan

Secretary

29 September 1995

Auditors' Report

AUDITORS' REPORT to the members of Scantronic Holdings PLC

We have audited the financial statements on pages 12 to 29 which have been prepared on the basis of the accounting policies set out page 16.

Respective responsibilities of directors and auditors

As described on page 8 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 out 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 affairs of the Company and of the Group as at 31 March 1995 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn

Binder Hamlyn
Chartered Accountants
Registered Auditors
20 Old Bailey
London EC4M 7BH

29 September 1995

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 1995

	Notes	1995 £'000	1995 £'000	1994 £'000	1994 £'000
Turnover	1		59,190		50,158
Operating costs:					
exceptional	2	1,824		561	
other	2	59,555	61,379	47,260	47,821
Operating (loss)/profit			(2,189)		2,337
Exceptional losses on fixed asset investments	3		(1,987)		—
Interest	4		(697)		(446)
(Loss)/profit on ordinary activities before taxation			(4,873)		1,891
Tax on (loss)/profit on ordinary activities	5		308		1,198
(Loss)/profit on ordinary activities after taxation			(5,181)		693
Minority interest			(45)		(68)
(Loss)/profit for the financial year			(5,226)		625
Dividends	6		786		1,080
Retained (loss) for the year			(6,012)		(455)
(Loss) per ordinary share	7		(14.12p)		(0.46p)

All income and expenditure derives from the operations of the Group.

Group Statement of Total Recognised Gains and Losses

(Loss)/profit for the financial year	(5,226)	625
Translation differences on foreign currency net investments	25	(44)
Total recognised gains and losses relating to the year	(5,201)	581

Consolidated Balance Sheet

	Notes	31 March 1995 £'000	1994 restated £'000
Fixed assets			
Tangible assets	8	3,673	4,500
Investment	9	146	1,450
		3,819	5,950
Current assets			
Stocks	10	10,522	11,539
Debtors	11	13,637	16,328
Cash at bank and in hand		1,418	1,015
		25,577	28,882
Creditors – amounts falling due within one year	12	(18,163)	(20,027)
Net current assets		7,414	8,855
Total assets less current liabilities		11,233	14,805
Creditors – amounts falling due after more than one year	13	(142)	(88)
Provision for liabilities and charges	14	(475)	(525)
Minority interest		(120)	(102)
Net assets		10,496	14,090
Capital and reserves			
Called up share capital	15	8,533	6,923
Share premium account	16	4,993	5,339
Preference dividend reserve	16	629	—
Profit and loss account	16	(3,659)	1,828
Shareholders' funds (including non-equity interests)	17	10,496	14,090

Company Balance Sheet

	Notes	31 March 1995 £'000	1994 restated £'000
Fixed assets			
Investments	9	7,287	14,817
Current assets			
Debtors	11	17,457	18,189
Creditors – amounts falling due within one year	12	(13,181)	(11,016)
Net current assets		4,276	7,173
Net assets		11,563	21,990
Capital and reserves			
Called up share capital	15	8,533	6,923
Share premium account	16	4,993	5,339
Preference dividend reserve	16	629	—
Other reserves	16	1,753	1,753
Profit and loss account	16	(4,345)	7,975
		11,563	21,990

The financial statements on pages 12 to 29 were approved by the Board on 29 September 1995.

A W F Clapperton } Directors
J H Singer

Consolidated Cash Flow Statement

YEAR ENDED 31 MARCH 1995

	Notes	1995 £'000	1995 £'000	1994 £'000	1994 £'000
Net cash inflow from operating activities	19(i)		2,249		1,583
Returns on investments and servicing of finance					
Interest received		20		9	
Interest element of finance lease rentals payments		(27)		(10)	
Interest paid		(649)		(522)	
Dividends paid		(393)		(1,884)	
Net cash outflow from returns on investments and servicing of finance			(1,049)		(2,407)
Corporation tax paid			(558)		(880)
Investing activities					
Purchase of tangible fixed assets		(1,196)		(1,525)	
Purchase of trade investment	18	(916)		—	
Purchase of subsidiary undertaking		—		(2,509)	
Sale of loan stock	9	762		—	
Sale of tangible fixed assets		530		671	
Costs in respect of acquisitions in previous years		(245)		—	
Net cash outflow from investing activities			(1,065)		(3,363)
Net cash outflow before financing			(423)		(5,067)
Financing					
Issue of ordinary shares	19(iv)	1,264		1,164	
Bank loans now repayable on demand	19(iv)	—		(4,546)	
Repayment of amounts borrowed	19(iv)	—		(1,060)	
Capital element of finance lease rental payments		(194)		(44)	
Net cash inflow/(outflow) from financing			1,070		(4,486)
Increase/(decrease) in cash and cash equivalents	19(ii)		647		(9,553)

Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

Going concern

The Directors have prepared the financial statements on the going concern basis. The Group has recently renewed its banking facilities at a level the Directors consider appropriate for the Group's needs for the next twelve months. In considering the appropriate level of facilities the Directors have had regard to the Group's trading and cash flow budgets.

Accounting policies

A summary of the more important Group accounting policies, which, except as indicated below, have been applied consistently, is as follows.

UITF Abstract 13

Following the introduction of UITF Abstract 13, accounting for ESOP Trusts, shares held by ESOP Trusts are now required to be shown as fixed assets. In previous years these were included in debtors.

Comparative figures have been restated where necessary for the changes.

Basis of consolidation

The Group financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 March 1995. The Group result for the year includes, for subsidiaries acquired or sold during the year, the proportion of the results arising during their ownership. The results and net assets of associated undertakings are dealt with on an equity accounting basis. As permitted by S.230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements.

Goodwill

The excess of the purchase price over the fair value of attributable net assets acquired is taken directly to reserves in the year of acquisition.

Turnover

Turnover, which excludes value added tax and sales between Group companies, represents the invoiced value of goods and services supplied.

Pension costs

The Group operates defined contribution pension schemes in the UK and USA, the costs of which are recognised in the year in which payments are made.

Operating leases

Rentals paid under operating leases are recognised in the year in which payments are made.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost and are depreciated on a straight line basis over their expected useful lives mainly at the following annual rates:

Short leasehold improvements	Over unexpired period of lease
Freehold buildings	2%
Plant and equipment	20%
Tooling	$33^1/_3$%
Fixtures and fittings	15%
Computers	$33^1/_3$%
Motor vehicles	25%
Freehold land	0%

Research and development

Research and development expenditure is written off during the year in which the cost is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value, on the first in, first out basis, after making due allowances for any obsolete or slow moving items. In the case of finished goods and work in progress, cost comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Deferred taxation

Deferred taxation is provided on the liability method to the extent that there is a reasonable probability that a liability will crystallise in the foreseeable future.

Foreign exchange

The trading results of overseas subsidiaries are translated into sterling using average rates of exchange ruling during the financial year. The balance sheets of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising between the retranslation into sterling of the opening net assets of these subsidiaries at rates ruling at the beginning and end of the year are dealt with through reserves. Exchange differences arising from the translation of foreign currency loans used to finance the Group's foreign currency investments are also dealt with through reserves. All other exchange differences are taken directly to the profit and loss account.

Notes to the Financial Statements

1. Segmental information

(i) The analysis of the Group's turnover, operating profit and net assets is as follows:

Geographical area

	Total sales £'000	*Inter segment sales £'000*	*Sales to third parties £'000*	*Operating profit/ (loss) £'000*	*Net assets £'000*
1995					
UK	50,891	7,665	43,226	(2,283)	14,579
Rest of Europe	4,144	—	4,144	327	(726)
North America	13,434	1,712	11,722	(104)	3,753
Other	1,905	1,807	98	(129)	(184)
Total	70,374	11,184	59,190	(2,189)	17,422
1994					
UK	42,357	6,309	36,048	2,545	18,045
Rest of Europe	3,317	—	3,317	93	(381)
North America	12,886	2,158	10,728	(414)	4,480
Other	1,973	1,908	65	113	(235)
Total	60,533	10,375	50,158	2,337	21,909

Business activity

	Total sales £'000	*Inter segment sales £'000*	*Sales to third parties £'000*	*Operating profit/ (loss) £'000*	*Net assets £'000*
1995					
Manufacturing	52,856	11,134	41,722	(1,325)	13,783
Distribution	17,518	50	17,468	(864)	3,639
Total	70,374	11,184	59,190	(2,189)	17,422
1994					
Manufacturing	53,598	10,375	43,223	2,110	18,156
Distribution	6,935	—	6,935	227	3,753
Total	60,533	10,375	50,158	2,337	21,909

(ii) Reconciliation of net assets

	1995 £'000	*1994 £'000*
Net assets per consolidated balance sheet	10,496	14,090
Cash at bank	(1,418)	(1,015)
Bank loans and overdrafts	8,277	8,521
Other non-operating items	67	313
Segmental net assets	17,422	21,909

Notes to the Financial Statements *continued*

(iii) Turnover by destination

	1995 £'000	1994 £'000
United Kingdom and Eire	36,733	32,580
North America	9,125	8,064
France	3,362	2,393
Benelux	2,557	2,042
Scandinavia	1,885	1,847
Spain	1,253	971
Other European countries	2,460	1,455
Other countries	1,815	806
	59,190	50,158

2. Operating costs

	1995 £'000	1994 £'000
Decrease/(increase) in stocks of finished goods and work in progress	871	(2,622)
Raw materials and consumables	33,681	27,113
Staff costs:		
– wages and salaries	10,507	10,037
– social security costs	1,563	1,642
– other pension costs	320	297
Depreciation of tangible fixed assets:		
– leased	143	30
– other	1,538	1,545
Loss on disposal of tangible fixed assets	9	46
Auditors' remuneration	171	158
Foreign exchange losses	22	75
Share of results of associated undertaking	(11)	61
Charges under operating leases	1,152	807
Other operating charges	11,413	8,632
	61,379	47,821

Included in other operating charges are the following exceptional items:		
– Re-organisation and re-financing costs	1,271	—
– Advice relating to possible offers for the issued share capital of the Company	100	—
– Provision against loan to Employee Share Option Plan Trust	304	200
– Provision for doubtful debts	149	—
– Write off of technical rights and other costs	—	176
– US litigation costs	—	185
	1,824	561

Other operating charges include £146,000 (1994: £108,000) paid in the UK to the Company's auditors in respect of non-audit services.

Research and Development expenditure included in the above operating costs amounted to £2,420,000 (1994: £2,267,000).

3. Exceptional losses on fixed asset investments

	1995 £'000	1994 £'000
Loss on disposal of loan stock (note 9(ii))	238	—
Provision against trade investment (note 9(iii))	1,749	—
	1,987	—

Notes to the Financial Statements *continued*

4. Interest

	1995 £'000	1994 £'000
Interest payable:		
Loans wholly repayable within five years	665	399
On finance leases	27	10
Other indebtedness	18	46
	710	455
Interest receivable	(13)	(9)
	697	446

5. Tax on profit on ordinary activities

	1995 £'000	1994 £'000
UK taxation		
Corporation tax at 33% (1994: 33%)	(202)	822
Advance corporation tax written off	401	—
Deferred tax	—	136
Prior year items:		
– corporation tax	(43)	114
– deferred tax	—	(21)
Overseas taxation	152	147
	308	1,198

The Group has estimated tax losses of £1,295,000 and surplus advance corporation tax of £161,000 arising in the UK, and tax losses of £6,406,000 arising in the U.S.A. which could be utilised against future income.

6. Dividends

	1995 £'000	1994 £'000
Preference:		
5.75% Preference shares	76	76
7.25p (net) Preference shares	710	711
Non-equity dividends	786	787
Ordinary:		
Interim dividend	—	293
Final dividend	—	—
Equity dividends	—	293
Total dividends for the year	786	1,080

The dividends on the 7.25p (net) Preference shares due on 30 November 1994 and the 5.75% Preference shares due on 31 March 1995 have not yet been paid and will not be paid until further notice. The dividends do however continue to be reserved for on a monthly basis in the accounts of the Company. At 31 March 1995 the unpaid and accrued preference dividends have been transferred to a separate preference dividend reserve (note 16).

7. Loss per ordinary share

Loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders for the year ended 31 March 1995 amounting to £6,012,000 (1994: loss £162,000) by the weighted average of 42,580,840 ordinary shares in issue during the year (1994: 35,133,527).

Notes to the Financial Statements *continued*

8. Tangible fixed assets

	Freehold land and buildings £'000	*Short leasehold improvements £'000*	*Plant and equipment £'000*	*Fixtures and fittings £'000*	*Motor vehicles £'000*	*Total £'000*
Group						
Cost:						
At 1 April 1994	767	1,078	6,907	1,837	1,343	11,932
Exchange movements	(67)	1	(155)	(103)	(3)	(327)
Additions	—	91	872	160	374	1,497
Disposals	—	(1)	(56)	(66)	(1,021)	(1,144)
At 31 March 1995	700	1,169	7,568	1,828	693	11,958
Depreciation:						
At 1 April 1994	93	460	5,207	1,179	493	7,432
Exchange movements	(9)	(1)	(123)	(77)	(1)	(211)
Charge for the year	17	120	915	230	387	1,669
Disposals	—	—	(54)	(58)	(493)	(605)
At 31 March 1995	101	579	5,945	1,274	386	8,285
Net book amounts:						
At 31 March 1995	599	590	1,623	554	307	3,673
At 31 March 1994	674	618	1,700	658	850	4,500

Freehold land and buildings includes approximately £360,000 (1994: £360,000) in respect of freehold land. Included in fixed assets are motor vehicles and plant and equipment with a net book value of £376,994 (1994: £218,735) held under finance leases.

Notes to the Financial Statements *continued*

9. Fixed asset investments

	Shares in Group companies £'000	Loans to Group companies £'000	Quoted investments (own shares) £'000	Unquoted investments £'000	Total £'000
Company					
Cost					
At 1 April 1994 – restated	11,502	5,929	650	—	18,081
Additions	—	25	—	1,749	1,774
At 31 March 1995	11,502	5,954	650	1,749	19,855
Provisions					
At 1 April 1994 – restated	3,064	—	200	—	3,264
Additions	6,466	785	304	1,749	9,304
At 31 March 1995	9,530	785	504	1,749	12,568
Net book amount 31 March 1995	1,972	5,169	146	—	7,287
Net book amount 31 March 1994	8,438	5,929	450	—	14,817
Group					
Cost					
At 1 April 1994 – restated			650	1,000	1,650
Additions			—	1,749	1,749
Disposals			—	(1,000)	(1,000)
At 31 March 1995			650	1,749	2,399
Provisions					
At 1 April 1994 – restated			200	—	200
Additions			304	1,749	2,053
At 31 March 1995			504	1,749	2,253
Net book amount 31 March 1995			146	—	146
Net book amount 31 March 1994			450	1,000	1,450

(i) The quoted investment relates to shares in the Company held by the ESOP Trust (note 15d). This investment was previously included in debtors. UITF Abstract 13 requires that the investment is now included in fixed assets. The 31 March 1994 figures have been restated.

(ii) The Group's unquoted investment at 1 April 1994 comprised £1 million of non-interest bearing unsecured loan stock 1995 in the Gardiner Group Plc. In July 1994 it was necessary to dispose of this investment as part of the refinancing for £762,000 net of expenses. The loss on disposal is disclosed as an exceptional loss (note 3).

(iii) The addition in unquoted investments in the year relates to the acquisition in April 1994 of approximately 19.6% of Arius Inc. for an aggregate consideration of US$2.5 million (note 18). Full provision has been made during the year against the cost of this investment resulting from Arius Inc. filing under Chapter 7 pursuant to which it will be liquidated on an orderly basis. This provision is disclosed as an exceptional loss (note 3).

Notes to the Financial Statements *continued*

Principal subsidiary and associated undertakings

	Country of incorporation and operation	*Nature of business*	*Proportion of equity share capital held by* *The Company*	*Subsidiaries*
Subsidiary undertakings				
Scantronic Limited	England	Manufacturers of electronic security equipment	100%	
Scantronic (USA) Inc.	USA	Manufacturers of electronic security equipment	100%	
Alarmexpress Limited	England	Distributors of security equipment		100%
Scantronic International Limited	England	Selling agent	100%	
Scantronic France S.A.	France	Selling agent		100%
Scantronic Spain S.A.	Spain	Selling agent		100%
Scantronic International Holdings B.V.	Netherlands	Holding company	100%	
Radiometrix Limited	England	Development and marketing of radio systems	60%	
Associated undertaking				
Si-tronic Srl.	Italy	Selling agent		49%

10. Stocks

	1995 *£'000*	*1994* *£'000*
Raw materials	3,982	4,128
Work in progress	219	221
Finished goods	6,321	7,190
	10,522	11,539

If stocks were stated at replacement cost the amounts above would not be materially different for either year.

11. Debtors

	Group *1995* *£'000*	*Group* *1994 restated* *£'000*	*Company* *1995* *£'000*	*Company* *1994 restated* *£'000*
Trade debtors	12,244	14,261	—	—
Amounts owed by subsidiary undertakings	—	—	17,450	18,099
Amounts owed by associated undertakings	197	446	—	41
Other debtors	458	705	7	49
Prepayments and accrued income	738	916	—	—
	13,637	16,328	17,457	18,189

Included in other debtors is an amount of £ nil (1994 £244,000) in respect of advanced corporation tax recoverable.

Notes to the Financial Statements *continued*

12. Creditors:

Amounts falling due within one year:

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Bank loans	3,902	4,546	1,500	1,750
Bank overdrafts	4,375	3,975	1,486	1,898
Trade creditors	7,450	8,062	—	—
Amounts owed to subsidiary undertakings	—	—	9,525	6,874
Corporation tax	165	680	132	248
Other taxes and social security	655	1,037	—	—
Finance lease obligations	158	105	—	—
Other creditors	164	1,120	—	—
Accruals and deferred income	1,294	502	538	246
	18,163	20,027	13,181	11,016

Bank borrowings are secured by a fixed charge over the debtors of a subsidiary undertaking and a fixed and floating charge over the assets of the Group.

13. Creditors:

Amounts falling due after more than one year:

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Finance lease obligations	142	88	—	—
	142	88	—	—

The loans and borrowings mature within 5 years and are repayable as follows:				
Within 1 year	8,435	8,626	2,986	3,648
Between 1 and 2 years	142	88	—	—
Between 2 and 5 years	—	—	—	—
After 5 years	—	—	—	—
	8,577	8,714	2,986	3,648

14. Provisions for liabilities and charges

	Deferred Consideration £'000
Group:	
At 1 April 1994	525
Utilised during the year	(50)
At 31 March 1995	475

The deferred consideration relates to the acquisition of Alarmexpress Holdings Limited in the previous year.

	1995 £'000	1994 £'000
Deferred taxation		
Potential and fully provided:		
Accelerated capital allowances	—	(153)
Short term timing differences	—	69
Advance corporation tax recoverable	—	84
	—	—

Notes to the Financial Statements *continued*

15. Called up share capital

	1995 £'000	1994 £'000
Authorised		
81,500,000 ordinary shares of 10p each (1994: 54,000,000 shares)	8,150	5,400
4,000,000 5.75% Convertible Cumulative Redeemable Preference shares of £1 each	4,000	4,000
13,000,000 7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each	2,600	2,600
	14,750	12,000
Allotted and fully paid		
52,593,717 ordinary shares of 10p each (1994: 36,493,717 shares)	5,259	3,649
1,311,348 5.75% Convertible Cumulative Redeemable Preference shares of £1 each (1994: 1,311,348 shares)	1,312	1,312
9,808,084 7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each (1994: 9,808,084 shares)	1,962	1,962
	8,533	6,923

On 14 November 1994, 16,100,000 ordinary shares of 10p each were issued at par by way of an open offer, raising net proceeds of £1,264,000; the purpose was to provide additional working capital for the Group.

Share capital—rights and options:

(a) The rights attached to the 5.75% Convertible Cumulative Redeemable Preference shares of £1 each ("5.75% Convertibles") are summarised as follows:

(i) The right to the cumulative preference dividend of 5.75% per annum, payable half-yearly on 31 March and 30 September in each year.

(ii) The 5.75% Convertibles do not carry the right to vote unless the fixed dividend is six months in arrears (which is now the case) or in certain other limited circumstances.

(iii) The right, on 31 August (or if later, the date five weeks after the date of despatch to the holders of the 5.75% Convertibles of the audited consolidated accounts of the Company and its subsidiaries for the financial period ending in the relevant year) in any of the years 1989 to 2000 inclusive ("Conversion Date"), to convert 100 5.75% Convertibles into 153.3333 ordinary shares of the Company.

(iv) Redemption at the option of the Company (a) if a conversion notice has been served or (b) by not less than four weeks notice, expiring before 30 September 2005, at any time after the Conversion Date falling in, or in respect of the year 2000, and redemption in any event on 30 September 2005.

(v) There is no premium payable on redemption.

(vi) The 5.75% Convertibles have priority over the ordinary shares and the 7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p as to the payment of dividends and repayment of capital.

(b) The rights attached to the 7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each ("7.25p Convertibles") are summarised as follows:

(i) The right to the cumulative dividend of 7.25p (net) per annum, payable half-yearly on 31 May and 30 November in each year.

(ii) The 7.25p Convertibles do not carry the right to vote, unless the fixed dividend is six months in arrears (which is now the case) or in certain other limited circumstances.

(iii) The right, on 31 August (or if later, the date five weeks after the date of despatch to the holders of the 7.25p Convertibles of the audited consolidated accounts of the Company and its subsidiaries for the financial period ending in the relevant year) in any of the years 1990 to 2003 inclusive ("Conversion Date"), to convert 100 7.25p Convertibles into 78 ordinary shares of the Company.

(iv) Redemption at the option of the Company (a) if a conversion notice has been served or (b) by not less than four weeks notice, expiring before 30 September 2008, at any time after the Conversion Date falling in, or in respect of the year 2003, and redemption in any event on 30 September 2008.

(v) Redemption is at 100p per 7.25p Convertible.

(vi) The 7.25p Convertibles have priority over the ordinary shares as to the payment of dividends and repayment of capital but are postponed and subject to the rights of the holders of the 5.75% Convertibles.

Notes to the Financial Statements *continued*

(c) At 31 March 1995 the Company had outstanding options in respect of the following ordinary shares of 10p each granted under the rules of the following employee Share Option Schemes:

	Date of Grant	*Number of shares*	*Period of Option*	*Exercise Price*
Senior Staff Share Option Scheme	April 1986	92,865	3 to 10 years	56.27p
	July 1987	172,250	3 to 10 years	133p
	August 1988	39,669	3 to 10 years	113p
	December 1988	105,360	3 to 10 years	105p
	August 1989	140,779	3 to 10 years	143p
	August 1991	307,500	3 to 10 years	43p
	January 1994	75,000	3 to 10 years	76p
		933,423		
Savings Related Share Option Scheme	September 1992	721,075	5 to 7½ years	48p
		1,654,498		

During the year options over 283,459 ordinary shares of 10p each lapsed as a result of employees leaving.

(d) The Company has made a loan of £650,000 to the Employees' Share Ownership Plan Trust ("ESOP Trust") (note 9). At 31 March 1995 the ESOP Trust held 1,085,000 ordinary shares of 10p each and 100,000 7.25p (net) Convertible Cumulative Redeemable Preference Shares of 20p each, with an aggregate market value of £144,500 (1994: £922,750). At 31 March 1995 options over 425,000 (1994: 625,000) ordinary shares of 10p each had been granted under the rules of the ESOP Trust.

16. Reserves

	Share premium account £'000	*Preference dividend reserve £'000*	*Other reserves £'000*	*Profit and loss account £'000*
Group				
At 1 April 1994	5,339	—	—	1,828
Expenses of share issue	(346)	—	—	—
Loss for the year	—	—	—	(6,012)
Foreign exchange movements	—	—	—	25
Adjustment to prior year acquisition costs net of related legal costs (note 25)	—	—	—	500
Unpaid and accrued preference dividends	—	629	—	—
At 31 March 1995	4,993	629	—	(3,659)
Company				
At 1 April 1994	5,339	—	1,753	7,975
Expenses of share issue	(346)	—	—	—
Loss for the year	—	—	—	(12,320)
Unpaid and accrued preference dividends	—	629	—	—
At 31 March 1995	4,993	629	1,753	(4,345)

The cumulative amount of goodwill resulting from acquisitions which has been written off directly to Group reserves to 31 March 1995 is £18,040,000 (1994: £18,540,000).

Of the loss on ordinary activities after taxation a loss of £11,534,000 (after a provision against investments of £9,304,000) before dividends of £786,000 has been dealt with in the accounts of the Company.

Notes to the Financial Statements *continued*

17. Reconciliation of movement in shareholders' funds

	£'000	£'000
Retained loss for the year		(6,012)
Other recognised gains and losses relating to the year (net)		25
New share capital issued		1,610
Expenses of share issue		(346)
Adjustment to prior year acquisition costs net of related legal costs (note 25)		500
Unpaid and accrued preference dividend reserve		629
Net (reduction) to shareholders' funds		(3,594)
Opening shareholders' funds: equity	2,734	
non-equity	11,356	14,090
Closing shareholders' funds: equity	(1,253)	
non-equity	11,749	10,496

18. Acquisition

In April 1994, the Group acquired approximately 19.6 per cent of Arius Inc. ("Arius") for an aggregate consideration of $2.5 million plus expenses of £85,000. The consideration was satisfied by:

	£'000
Cash	831
Expenses	85
	916
Capitalised debt	833
	1,749

During the year full provision was made against the cost of this investment (note 9(iii)).

19. Consolidated cash flow statement analysis

(i) Reconciliation of operating profit to net cash inflow from operating activities

	1995 £'000	1994 £'000
Operating (loss)/profit	(2,189)	2,337
Depreciation charges	1,669	1,575
Loss on disposal of fixed assets	9	46
Decrease in stocks	1,017	33
Decrease/(increase) in debtors	1,897	(2,148)
(Decrease) in creditors	(154)	(260)
Net cash inflow from operating activities	2,249	1,583

(ii) Analysis of the balances of cash and cash equivalents as shown in the balance sheets

	1995 £'000	Change in year £'000	1994 £'000	Change in year £'000
Cash at bank and in hand	1,418	403	1,015	(1,871)
Bank overdrafts and loans	(8,277)	244	(8,521)	(7,682)
	(6,859)	647	(7,506)	(9,553)

Notes to the Financial Statements *continued*

(iii) Analysis of changes in cash and cash equivalents during the year

	1995 £'000	1994 £'000
Balance at 1 April	(7,506)	2,047
Net cash inflow/(outflow) before adjustments for the effect of foreign exchange movements	347	(9,550)
Foreign exchange movements	300	(3)
Balance at 31 March	(6,859)	(7,506)

(iv) Analysis of changes in financing during the year

	1995		1994	
	Share capital (including premium) £'000	*Bank loans and finance lease obligations £'000*	*Share capital (including premium) £'000*	*Bank loans and finance lease obligations £'000*
Balances at 1 April	12,262	193	11,098	5,594
Issue of shares net of expenses	1,264	—	1,164	—
Repayment of bank loans	—	—	—	(1,060)
Finance lease obligations acquired during the year	—	301	—	237
Capital element of finance lease payments	—	(194)	—	(44)
Bank loans now repayable on demand	—	—	—	(4,546)
Foreign exchange movements	—	—	—	12
Balances at 31 March	13,526	300	12,262	193

20. Information relating to Directors

	1995 £'000	1994 £'000
Emoluments:		
Fees	73	55
Remuneration	416	461
Pension contributions	46	64
	535	580

Included in emoluments is the amount of £51,485 (1994: £114,000) paid to Swan Associates a firm of which Mr Richard Swan, a Director of Scantronic Holdings PLC, has a controlling interest.

The emoluments, excluding pension contributions, of Directors of the Company are detailed as follows:

	1995		1994	
	Remuneration	*Pension*	*Remuneration*	*Pension*
Chairman	£35,000	£—	£25,000	£—
Highest paid Director	£228,668	£30,000	£212,841	£27,563

Directors' emoluments were in the following bands:

Number of directors	1995	1994
£10,001 – £15,000	1	—
£20,001 – £25,000	—	1
£30,001 – £35,000	1	—
£35,001 – £40,000	—	1
£40,001 – £45,000	1	—
£75,001 – £80,000	1	—
£90,001 – £95,000	1	—
£110,001 - £115,000	—	2
£210,001 – £215,000	—	1
£225,001 – £230,000	1	—

Notes to the Financial Statements *continued*

21. Financial transactions with Directors

During the year the following transactions with Directors took place:

(i) The Group paid fees of £164,785 (1994: £182,217) to their solicitors Heald Nickinson of which Mr Richard Swan, a Director of Scantronic Holdings PLC, is a partner.

(ii) The Group agreed to pay Mr Christopher Brookes, a Director of Scantronic Holdings PLC, a fee of £25,000 for the provision by him of a guarantee of the Company's indebtedness to the Company's principal bankers, limited to the sum of £300,000.

22. Information relating to employees

Staff numbers

The average number of persons employed by the Group, including Directors, during the year was as follows:

	1995	*1994*
Management	26	30
Administration	57	64
Manufacturing	462	471
Sales and distribution	161	154
	706	719

Pension Schemes

The Group operates defined contribution pension schemes in the UK and the US. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and in the year ended 31 March 1995 amounted to £320,000 (1994: £297,000).

23. Financial commitments

	1995 *£'000*	*1994* *£'000*
Group:		
Capital expenditure:		
Commitments for capital expenditure not provided for in the financial statements were as follows:		
Contracts placed	478	697
Expenditure authorised but not contracted for	—	862
	478	1,559

Commitments under operating leases:

At 31 March annual commitments under non-cancellable operating leases were as follows:

	1995		*1994*	
	Land and buildings	*Other*	*Land and buildings*	*Other*
Group:	*£'000*	*£'000*	*£'000*	*£'000*
Leases expiring:				
Within 1 year	192	134	189	27
Between 1 year and 5 years	161	461	97	284
After more than 5 years	425	—	479	—
	778	595	765	311

Notes to the Financial Statements *continued*

24. Contingent liabilities

(i) The Company has guaranteed the bank borrowings of its subsidiaries; the balances outstanding at 31 March 1995 totalled £5,291,000 (1994: £3,943,000.

(ii) Mr Dias, replaced as Group Financial Director in July 1994, has issued proceedings in the High Court claiming damages for wrongful dismissal and has issued proceedings for unfair dismissal. The Directors have obtained legal advice, following which these proceedings are being defended. The Directors are also satisfied that appropriate provision has been made with respect to these claims.

25. Post balance sheet events

(i) The Group has been engaged in arbitration proceedings in the United States with Cerberus Technologies Inc and Cerberus AG arising from an Asset Purchase and Sale Agreement dated 6 March 1990 under which Scantronic (USA) Inc purchased substantially all the assets and business of Arrowhead Technologies Division. Since the year end all claims have been resolved. The effect of the settlement has been reflected in the Financial Statements (note 16).

(ii) Preference dividends continue to remain unpaid and, as such, will continue to be accrued.

Five Year Record

	1995 £'000	1994 £'000	1993 restated £'000	1992 restated £'000	1991 restated £'000
Turnover	59,190	50,158	39,078	36,053	42,895
(Loss)/profit before taxation	(4,873)	1,891	1,269	2,899	4,440
Taxation	(308)	1,198	764	761	529
(Loss)/profit after taxation	(5,181)	693	505	2,138	3,911
Minority interest	(45)	(68)	(14)	—	—
Shareholders' funds	10,496	14,090	15,990	17,288	16,796
(Loss)/earnings per ordinary share	(14.12p)	(0.46p)	(0.88p)	3.89p	9.18p
Dividends per ordinary share	—	0.843p	3.121p	2.975p	2.975p

Notes to the Financial Statements *continued*

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