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Directors and Advisers

Contents

Directors
Wallace C[illegible]rton* (Chairman)
Chris Brookes
(Chief Executive)
John Singer
(Group Finance Director)
Richard Swan*
David W[illegible]*
*Non executive

Secretary
Richard Swan

Registered Office
Perivale Industrial Park
Greenford
Middlesex [illegible]

Financial Advisers
J. Henry Schroder Wagg & Co Limited
120 Cheapside
London EC2V 6DS

Stockbrokers
de Zoete & Bevan
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2 Swan Lane
London EC4R 3TS

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

Solicitors
Dentál Nicholson
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199 Silbury Boulevard
Grafton Gate East
Central Milton Keynes
MK9 1LN

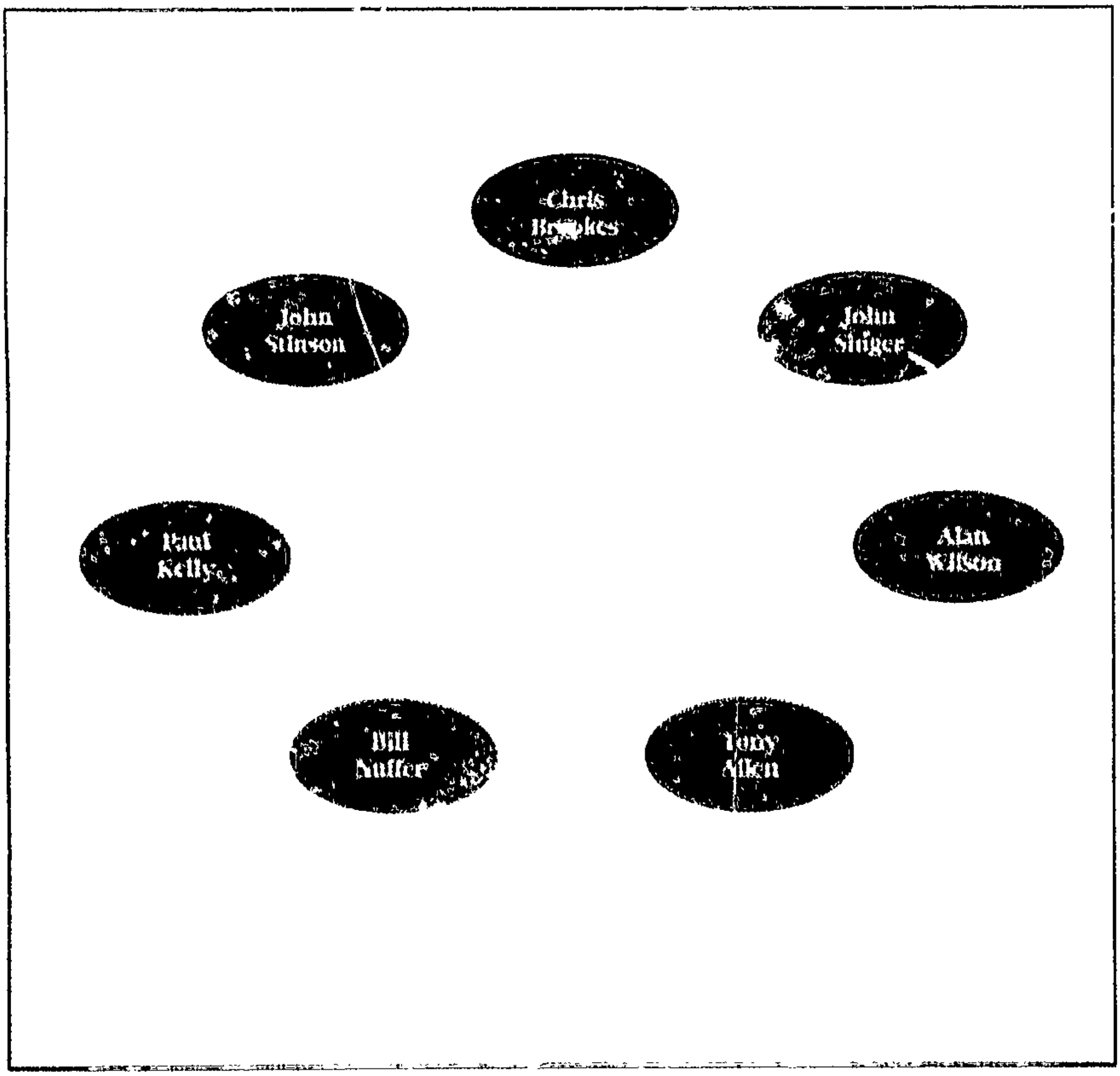
Principal Bankers
Barclays Bank PLC
1[illegible] 131 Edgware Road
London W2 2[illegible]

Registrars
Barclays Bank PLC
Octagon House
Gadbrook Park
Northwich
Cheshire
CW9 7RD

COMPANIES HOUSE 15/02/9[illegible]

Contents

Group Operational Board



Financial Highlights

	1994 £'000	1993 restated £'000
Turnover	50,158	39,078
Operating profit	2,337	1,580
Profit before taxation	1,891	1,269
Profit after taxation	693	505
Total assets	34,832	31,582
Shareholders' funds	14,090	15,990
Loss per ordinary share (pence)	(0.46p)	(0.88p)
Dividends per ordinary share (pence)	0.843p	3.121p

Chairman's Statement

Your Board has previously announced last year's expected profits and details of a major increase in the Group's borrowings. Subsequent actions taken by the Board were as follows

— the Group's Finance Director was replaced,

— arrangements to strengthen the Group's capital base were put in place through investor commitments to subscribe for new equity coupled with an increase in bank facilities,

— the Group's accounting for research and development and other expenditure was reviewed and changed

Board has also been established, its members comprise Mr Tony Allen, Mr Chris Brookes, Mr Paul Kelly, Mr Bill Nutter, Mr John Singer, Mr John Stinson, and Mr Alan Wilson

During 1993/94 the Group's operational activities were re-organised into the core areas shown by the table on page 5 in order to improve customer focus, as well as to improve management direction

Overall, a general upturn in demand for the Group's products was experienced in 1993/94 Benefits from that were marred by a mixed performance in certain overseas markets which adversely impacted on the last quarter's results Consequently, the year's outcome was disappointing

The profit on ordinary activities for the year ended 31 March 1994 was as follows:

	£000
Profit on ordinary activities as previously announced	2,788
Changes in accounting for research and development and for other expenditure	
– research and development no longer to be capitalised	(336)
– technical rights, litigation and other costs to be expensed as incurred	(361)
– provision against loan to Employees' Share Ownership Plan Trust	(200)
	1,891

The proposed capital raising, which is conditional inter alia upon shareholder approval, will be implemented through a Placing and Open Offer and will raise approximately £1 6 million of additional equity for the Group. Investors, including the executive Directors and other senior managers, have agreed to subscribe for 16,100,000 ordinary shares at 10p each. These new shares will first be offered to existing shareholders through the Open Offer As part of the arrangements for the increase in bank facilities, Mr Chris Brookes, the Group's Chief Executive, provided a guarantee to the Group's principal bankers which ranks equally with their security

Discussions on making more shares available to existing shareholders are currently taking place with the Company's advisers. Listing Particulars detailing the Placing and Open Offer will be posted to shareholders in due course

On 25 July 1994 your Board announced that it was unable to fulfil its previously stated intention to recommend the payment of a final ordinary dividend due to the need to conserve cash resources.

The Board has strengthened the Group's senior management with the appointment of Mr John Singer as an executive Director with responsibility for finance and Mr David Williams, formerly Chief Executive of Pillar Engineering Limited, as a non-executive Director Mr David Lancham, a non-executive Director for 10 years, retired at the year end. A new Group Operating

In the UK, a small increase in sales was achieved Following the year end, a new control panel range was successfully launched, despite a mixed market background Emphasis continues to be placed on reducing the manufacturing cost structure in order to achieve greater efficiency As part of the effort, a reorganisation took place in August 1994

European and other markets, outside the UK and North America, continued to suffer from recession but, nevertheless, provided an increasing level of business during 1993/94 The development of many of these markets shows distinct similarity to the earlier growth of the UK market The Group's market reputation and ability to offer both UK and US products are continuing to contribute to sales successes in 1994/95

The North American operation continued, during the past year, to build on the success of its OEM business. A disappointing inability to repeat this success in the distribution market caused a performance that was below expectations. Management changes, new product introductions, cost reductions, and the establishment of a relationship with Aritech (North America's second largest distributor) have all contributed to the required turnaround, with a small operating profit having been achieved in the first four months of 1994/95. Scantronic USA's future, as a niche market player, seems to be more assured.

Chairman's Statement
continued

CORE AREAS

Results for the year ended 31 March 1994 were :

	Turnover		Operating Profit (restated)	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
UK manufacturing and sales (Scantronic Limited)	25,609	23,928	2,594	3,302
International sales other than UK and North America (Scantronic International)	6,886	6,470	457	421
North American manufacturing and sales (Scantronic USA)	10,728	8,680	(400)	(199)
UK distribution sales (Alarmexpress)	6,935	—	247	—
Exceptional items	—	—	(561)	(1,944)
	50,158	39,078	2,337	1,580

Alarmexpress' branch network has almost doubled since its acquisition October 1993. The Group's strategy is to encourage Alarmexpress development in a similar manner to the partnership approach adopted with other main distributors. Initially new branches are expected to cause losses within Alarmexpress until they become more established in the second half of 1994/95.

The immense costs associated with US litigation proceedings, instituted in 1991, appear to be drawing to a close. An award is now expected following an arbitration panel's ruling that the vendor of part of the Group's US business failed to disclose certain critical product information at the time of that transaction in 1990. In addition, litigation against Tom Gardner Group PLC has been successfully resolved which is welcomed by both parties.

Results for the first half of 1994/95 will reflect substantial costs incurred with respect to the above-mentioned bank financing as well as costs with respect to this August's UK reorganisation. These costs will, together, exceed £1 million and are expected to cause a loss for the first six months of 1994/95. The need to focus on cash management rather than profitability, as well as poor trading conditions in April and May, will further increase that expected first half loss. Thereafter the Directors expect to see a steady return to normal trading. They further believe that the Group's progress will benefit considerably from its pre-eminent UK market position as well as from its strong presence in both developing and mature overseas markets.

Walter Clapperton

Financial Review

Net indebtedness increased considerably in the year ended 31 March 1994, and even more so in the following three month period. The overall increase for that fifteen month period was approximately £7.7 million, which reflected net borrowings at 31 March 1993 and 30 June 1994 of £3.5 million and £11.2 million respectively.

The need to finance increased stocks and debtors contributed to the increase in borrowing in the above period. At the same time the following major capital expenditure was financed from borrowings:

	£ million
Alarmexpress acquisition	2.5
Conversion of Alarmexpress trade debt to equity and loan capital	1.1
Other fixed asset purchases (less sales)	1.3
Investment in Arius	1.7
	6.6
Less: share placing proceeds	1.2
	5.4

Actions have since been taken to reduce the Group's borrowing requirement. They include the sale of £1 million loan stock in The Gardiner Group PLC for approximately £760,000 net. That loan stock matures in September 1995 and formed part of the sale consideration for Alarm Parts. The resulting £240,000 loss sustained from that sale will be accounted for in 1994/95.

New enlarged facilities have been agreed with the Group's principal bankers with respect to the Group's future working capital needs. An initial part of those facilities, already made available to the Group, were conditional upon the provision of a bank guarantee by Mr Chris Brookes, the Group's Chief Executive. The remainder of those facilities are conditional upon the raising of equity finance, committed to by investors who have agreed to subscribe for 16,100,000 ordinary shares in the Company. Substantial costs associated with the newly arranged bank financing, will also be accounted for in 1994/95.

Review of Operations

SCANTRONIC UK

During the year, as in previous years, considerable investment was made in promoting Scantronic's position as the principal UK security industry supplier. Recent independent market research, covering an extensive number of industry participants, showed that over 70% of installers, distributors and specifiers considered Scantronic, together with its products, to be the UK market leader. Value for money as opposed to price, together with product reliability and customer technical support, were the key issues that caused industry participants to view Scantronic as the industry leader.

Scantronic's OEM business continued to achieve greater market penetration. Scantronic's name and its reputation for innovation, quality and reliability continued to be critical to customer relationships. That is also the case for new OEM customers who have a good awareness of the company's expertise and reputation as well as being attracted to the opportunity to eliminate or reduce investment in their own specialist development functions.

Examples of OEM business gained during the year include:

— development of an advanced radio alarm system for a major European electrical manufacturer to sell throughout continental Europe.

— a "badged" package for Yale, a major security company, for sale through major UK DIY stores.

— customisation of own label products for four of the country's top specialists.

— a "badged" package for sale through a leading UK mail order catalogue.

Scantronic's partnership approach to relationships with installers and distributors continued to be an essential element of its business. Relationships were strengthened through further enhancements of existing customer services. New product introductions are also planned to extend Scantronic's industry leadership into the access market - another key area within the security products arena.

New products

Minor 1 security control panel for the professional market offers improved functionality with features that include the ability to download instructions to monitor up to 40 security zones. Another version is the *Minor Compact* control panel offering identical programming facilities to the *Minor 1* for the monitoring of up to 20 security zones.

The *Arrowhead 3* series passive infra-red detectors offer full features at low cost. This range will be extended later this year by the introduction of new 5 Series detectors. These products are intended to establish a similar market position for Scantronic's Arrowhead detectors to that already achieved by Scantronic's control panels.

Scanalert domestic smoke detector whose simple installation and operating features offer a unique solution to the marketplace. Fitting is quick and easy through replacement of any room ceiling rose. Testing is equally straightforward through operation of an existing light switch. Interest from local authorities, housing associations and hotel groups has reached high levels for this recently introduced product.

Scantronic's stated aim continues to be to set the standard for world class security products.

SCANTRONIC INTERNATIONAL

An important part of the Group's business is in Continental Europe as well as in other territories outside the UK and North America. These other markets have been consistently recognised, over many years, as offering major sales potential. This has led to the creation of a dedicated sales company, Scantronic International, which also provides marketing services and technical support.

Efforts to increase the scale of business during the period were successful despite difficult economic conditions persisting in many countries. However, in the fourth quarter the timing of sales expectations, complicated by product approval delays, led to production planning difficulties for the Group's UK manufacturing facilities.

Increasing sales focus was achieved through a planned expansion of technical and marketing support in key market areas such as France, Benelux and Spain. Scantronic's reputation for innovation, quality, and reliability proved to be an advantage in gaining new business, coupled with the Group's ability to offer both UK and US products to meet differing national preferences.

A particular feature of last year's trading was the greater regulation of many of these markets; this was part of a general movement towards the increasing use of electronic security equipment, as previously experienced within the UK market's development. Consequently, effort was expended to keep the company at the forefront of these market changes.

Review of Operations continued

The Group's approach to working in partnership with its customers is also being replicated in international markets. This includes eastern Europe, where we have developed important strategic alliances. The benefit flowing from such relationships offers the company the ability to design products meeting both customer and regulatory requirements.

Past year's sales highlights include:

- an advanced radio alarm system, produced for Le Grand in France, which incorporates new technology that can be exploited by the Group in other world markets,
- a customised version of the *Maxim* control system, produced for ADT Security Systems, which ADT will launch in Europe as its standard control panel,
- control panels for several Telecom companies and major installers,
- medical alert systems for government departments, charities and other service providers.

SCANTRONIC USA

Scantronic USA's performance ... is a strong OEM customer base, the benefits from which were negated through an inability to achieve a significant distribution market presence. Management changes and an investment in Arius, North America's second largest security product distributor, were effected following the year end to correct this imbalance. New products are also increasingly expected to help achieve the necessary improvements in performance.

The investment in Arius was \$2.5 million and comprises a 19.6 per cent equity interest. Arius has annual sales in excess of \$100 million.

OEM successes reflect the considerable effort made in that area over the last few years. Scantronic USA has built a strong reputation in this important sector of the security market. In January, a new two year multi-million dollar agreement was signed with Brinks Home Security for the supply of control panels. First shipments of that product commenced in July.

Co-operation with the UK R&D team enabled the Group's existing technology to be exploited successfully in the US marketplace. In turn, US products were used to support the Group's marketing efforts in certain Continental European countries that favour such products.

Twintec and other Sensor products are selling particularly well to our OEM clients and, through Arius, are now available to the distribution market.

Our Homelink product is being marketed by Custom House Security in Washington State, and recently that customer placed an order worth \$2.5 million for delivery over the next three years.

Besides a reduction in sales and marketing costs, made possible through the investment in Arius, costs have been further reduced through replacing the Canadian distribution centre in Toronto with a smaller facility dedicated solely to providing technical support to customers.

Improvements in manufacturing efficiency increasingly benefited margins in the past year. Stringent quality management systems have now been installed as part of the company's plan to achieve ISO 9000 certification by the end of this present financial year.

ALARMEXPRESS

Alarmexpress is a UK based multi-franchise security products distributor which joined the Group in October last year.

Since then it has been independently developed to achieve its current geographical base, with the number of branches having been increased from 11 to 20.

In expanding the Alarmexpress branch network, special effort has been made to build on Alarmexpress' market reputation for cost effective local support and for comprehensive technical back up. National coverage now enables Alarmexpress to meet a larger part of its customers' needs. Customers totalled six thousand at the year end and have increased since then.

Mr Paul Kelly joined Alarmexpress in January this year as Managing Director. Paul, who was previously Managing Director of Gardiner Security, brings with him considerable experience within the UK distribution market.

We have opened a new Northern Head Office in Heywood, Lancashire, where our new information technology system is located. This system is planned to become fully operational for all main branches, by the end of this current year.

A vital part of Alarmexpress' business is the ability to offer a choice of products to customers that most suit their needs. Great importance continues to be placed on relationships with suppliers. During the current year it is planned to broaden the product base with the introduction of a range of closed circuit television products. This is expected to enhance sales in this growth market area.

Corporate Governance

Board of Directors

The Board of Directors which met regularly throughout the year comprised two executive and three non-executive Directors. The Board is responsible for overall strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes.

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. The minutes of their meetings are circulated to and reviewed by the Board 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 19 and 20 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 with the Company that requires 4 years 11 months' notice of termination by the Company. The Remuneration Committee is negotiating with Mr Brookes a new contract with a three year notice period.

Audit Committee

During the year ended 31 March 1994 the Audit Committee comprised the Chairman and two non-executive Directors. The Code of Best Practice of the Cadbury Committee recommends that the audit committee should comprise at least three non-executive directors. David Willans has now joined the Audit Committee.

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.

Other than the matters referred to above in respect of Directors' service contracts, the Audit Committee, and the two aspects of the Code (internal control and going concern) which cannot be implemented until necessary guidance has been issued, the Company has complied with the Code throughout the year ended 31 March 1994.

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 was formerly the Chief Executive of Pillar Engineering Limited.

Report of the Directors

The Directors present their report and audited financial statements for the year ended 31 March 1996

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, Review of Operations and Financial Review on pages 4 to 8

Changes in presentation of the financial statements

Following the introduction of Financial Reporting Standard No. 3 (FRS 3), the following changes in the presentation of the financial statements have been made to conform with the new requirements

- turnover and operating profit have been analysed with results from the acquisition during the year shown separately to those from continuing operations,
- items previously treated as extraordinary have been reclassified as exceptional, and
- a statement of total recognised gains and losses has been presented together with a reconciliation of movements in shareholders' funds

Results and dividends

The Group profit on ordinary activities before taxation amounted to £1,891,000. After taxation and minority interest, the balance [illegible], after a transfer from reserves of £[illegible], was dealt with as follows

	£'000	£'000
Preference dividends		
5.75% Preference shares	76	
7.25p (net) Preference shares	711	
		787
Ordinary dividends		
Interim dividend paid 0.84p per share (1995 — 0.79p)		293
		1,080

The Directors do not recommend the payment of a final dividend (1995–2.33p)

Acquisition

In October 1995, the Group acquired the entire issued share capital of [illegible] Holdings Limited for a cash consideration and costs of £875,000, plus deferred consideration of £525,000, and the assumption of a bank overdraft of £1,778,000. Further details of the acquisition are disclosed in note 17 to the financial statements

Post balance sheet event

Post balance sheet events are disclosed in note 24 to the financial statements

Report of the Directors
continued

Research and development

The Group pursues a continuing programme of research and development to maintain its position as market leader in the design and manufacture of control, data and associated communication equipment, principally for use in the intruder alarm industry and medical alert systems market. Total expenditure on research and development in the year ended 31 March 1994 amounted to approximately £2,267,000 (1993 — £2,247,000) inclusive of attributable overheads and salaries. The Directors have reviewed the Group's accounting policy for research and development expenditure and have concluded that it would be more appropriate to write off all such expenditure as it is incurred. The effect of this change in accounting policy is shown on page 18.

Changes in fixed assets

The changes in fixed assets during the year by the Group are set out in notes 7 and 8 to the financial statements.

Share capital

In December 1993 1,725,000 ordinary shares of 10p each were issued at 69p by way of a placing. Other changes in share capital during the year are set out in note 11 to the financial statements.

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 13 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, excluding Mr R Dua, is shown on page 1. Mr J [illegible] Singer and Mr J R D Williams were appointed Directors on 25 July 1994. Mr D C Lanham resigned as a Director of the Company on 31 March 1994. Pursuant to the power contained in Article 112 of the Company's Articles of Association, a resolution to remove Mr R Dua as a Director of the Company will be put to the Annual General Meeting. Directors' interests, including family interests, in the capital of the Company were as follows:

	31 March 1994		31 March 1993	
	Ordinary shares of 10p each	[illegible] Convertible Cum Redeemable Pref Shares of £1 each	Ordinary shares of 10p each	[illegible] Convertible Cum Redeemable Pref Shares of £1 each
A W P Chipperton				
— beneficial	58,332	100,000		125,000
C Brooker				
— beneficial	1,579,399	—	2,029,399	—
— non beneficial	105,325	—	105,325	—
R Dua				
— beneficial	61,666	—	61,666	—
D C Lanham				
— beneficial	1,100,736	—	1,116,736	—
— non beneficial	70,325	—	70,325	—
R R S Swan				
— beneficial	50,000	—	50,000	—
— non beneficial	175,690	—	175,690	—

Report of the Directors
continued

No options over ordinary shares were granted to, or exercised by, Directors during the year. Options outstanding at 31 March 1994 were as follows

	Outstanding at 31 March 1994 and 1993
C Brookes	301,271
R Dias	429,062

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, 300,000 are in respect of ordinary shares held by the Trust.

The shares held by the Trust were as follows

	31 March 1994	31 March 1993
Ordinary shares of 10p each	1,085,000	835,000
7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each	100,000	300,000

During the period 1 April 1994 to 30 August 1994, 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 20.

Substantial shareholdings

Other than the holdings of Mr Brookes set out above, the Directors have been notified, to date, of holdings of 5 per cent or more of the ordinary shares of the Company by the following

	Percentage held
Scottish Amicable Investment Managers Limited	11.6
Gartmore Investment Management Limited	8.4
Co-Operative Insurance Society Limited	5.8
Morgan Grenfell Unit Trust Managers Limited	5.2

Charitable and political contributions

During the year the Group made contributions of [illegible] to charitable organisations. No contributions were made to any political organisations.

Employee involvement

The Group has continued its practice of keeping employees fully informed on a regular basis 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

A resolution proposing the re-appointment of BDO Binder Hamlyn as auditors to the Company will be put to the Annual General Meeting.

Notice of Annual General Meeting

The notice of the eleventh Annual General Meeting of the Company will be issued shortly.

By Order of the Board

R. R. S. Swan

Secretary

12 September 1994

Auditors' Report

AUDITORS' REPORT to the members of Scantronic Holdings PLC

We have audited the financial statements on pages 14 to 33 which have been prepared on the basis of the accounting policies set out pages 18 and 19

Respective responsibilities of directors and auditors

As described on page 10 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

Fundamental uncertainty: going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of the following matter As explained under the Basis of Accounting on page 18, the Directors have recently completed negotiations with the Company's principal bankers for additional finance Such increased facility is conditional upon the Company raising at least £1 million by means of a share issue Proposals to authorise the allotment of shares and disapply pre-emption rights in connection [illegible] the Placing and Open Offer will be put to shareholders by the Directors The Directors have obtained [illegible] undertakings, which expire by 15 November 1994, from certain persons (including the executive Directors) to [illegible] for 16,100,000 ordinary shares at 10p each if not taken up by existing shareholders.

The Directors expect that the increase in share capital will be approved by existing ordinary shareholders, allowing the Placing and Open Offer to proceed by 15 November 1994 and thus resulting in the Group being granted the agreed facilities by its principal bankers If that shareholder approval is not duly obtained and the Placing and Open Offer is not completed by 15 November 1994 the going concern basis on which the financial statements have been prepared may not be appropriate Our opinion is not qualified in this respect

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 1994 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985

BDO Binder Hamlyn

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

12 September 1994

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 1994

	Note	1994 £'000	1993 restated £'000
Turnover	1		
Continuing operations		43,223	39,078
Acquisitions		6,935	—
		50,158	39,078
Operating costs	2	47,821	37,498
Operating profit			
Continuing operations		2,110	1,580
Acquisitions		227	–
Operating profit		2,337	1,580
Interest	3	(446)	(311)
Profit on ordinary activities before taxation		1,891	1,269
Tax on profit on ordinary activities	4	1,198	764
Profit on ordinary activities after taxation		693	505
Minority interest		(68)	(14)
Profit for the financial year		625	491
Dividends	5	1,080	1,873
Retained (loss) for the year		(4[illegible])	(1,382)
(Loss) per ordinary share	6	(0.46p)	(0.88p)

Group Statement of Total Recognised Gains and Losses

	1994 £'000	1993 restated £'000
Profit for the financial year	625	491
Translation differences on foreign currency net investments	(44)	83
Total recognised gains and losses relating to the year	581	574

The cumulative effect of the prior year adjustment, relating to research and development, has been to decrease Group reserves by £2,470,000 at 31 March 1994

Consolidated Balance Sheet

		31 March	
		1994	1993 restated
	Note	£'000	£'000
Fixed assets			
Tangible assets	7	4,500	4,719
Investment	8	1,000	1,000
		5,500	5,719
Current assets			
Stocks	9	11,539	9,220
Debtors	10	16,778	13,757
Cash at bank and in hand		1,015	2,886
		29,332	25,863
Creditors - amounts falling due within one year	11	(20,027)	(10,683)
Net current assets		9,305	15,180
Total assets less current liabilities		14,805	20,899
Creditors - amounts falling due after more than one year	12	(88)	(4,427)
Provisions for liabilities and charges	13	(525)	(448)
Minority interest		(102)	(34)
Net assets		14,090	15,990
Capital and reserves			
Called up share capital	14	6,923	6,889
Share premium account	15	5,339	4,209
Profit and loss account	15	1,828	4,892
		14,090	15,990

Company Balance Sheet

	Note	31 March 1994 £'000	1993 £'000
Fixed assets			
Investments	8	14,367	15,995
Current assets			
Debtors	10	18,639	20,349
Creditors - amounts falling due within one year	11	(11,016)	(9,332)
Net current assets		7,623	11,017
Total assets less current liabilities		21,990	27,012
Creditors - amounts falling due after more than one year	12	—	(1,250)
Net assets		21,990	25,762
Capital and reserves			
Called up share capital	14	6,923	6,889
Share premium account	15	5,339	4,209
Other reserves	15	1,753	13,785
Profit and loss account	15	7,975	879
		21,990	25,762

The financial statements on pages 14 to 30 were approved by the Board on 12 September 1994

A W F Clapperton }
C Brookes } Directors

Consolidated Cash Flow Statement

YEAR ENDED 31 MARCH 1994

	Note	1994 £'000	1994 £'000	1993 restated £'000	1993 restated £'000
Net cash inflow from operating activities	18(i)		1,583		3,299
Returns on investments and servicing of finance					
Interest received		9		54	
Interest element of finance lease rentals payments		(10)		—	
Interest paid		(522)		(291)	
Dividends paid		(1,884)		(1,823)	
Net cash outflow from returns on investments and servicing of finance			(2,407)		(2,060)
Corporation tax paid			(880)		(802)
Investing activities					
Purchase of tangible fixed assets		(1,525)		(1,245)	
Purchase of subsidiary undertaking	17	(2,509)		—	
Sale of tangible fixed assets		671		50	
Costs in respect of acquisitions and disposals in previous years		—		(346)	
Net cash outflow from investing activities			(3,[illegible]3)		(1,541)
Net cash outflow before financing			(5,06[illegible])		(1,104)
Financing					
Issue of ordinary shares	18(iv)	1,164		1	
New short term loans	18(iv)	—		2,959	
Bank loans now repayable on demand	18(iv)	(4,546)		—	
Repayment of amounts borrowed	18(iv)	(1,060)		(1,000)	
Capital element of finance lease rental payments		(44)		—	
Net cash (outflow)/inflow from financing			(4,486)		1,960
(Decrease)/Increase in cash and cash equivalents	18(iii)		(9,553)		856

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 Company meets its day to day working capital requirements through bank overdraft facilities which, in common with all such facilities, are repayable on demand. At the year end the overdraft amounted to £3,975,000 which lies within the agreed facilities at that date. The principal facility was due for renewal in July 1994 and the Directors have negotiated to obtain an increased facility which is conditional upon the matters referred to below

In addition the Company has not complied with covenants relating to certain borrowings amounting to £4,546,000 at 31 March 1994. The borrowings therefore become repayable on demand and have been reclassified as amounts falling due within one year

The Company's principal bankers' agreement to provide an increased overdraft facility is conditional upon the Company raising at least £[illegible]m by way of share issue. Proposals to meet this condition through a Placing and Open Offer to raise £1 41 million will be put to shareholders as soon as possible

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

Changes in accounting policies

In previous years development expenditure on specific projects was written off over a period of three years from the date the project was put into commercial production. Such expenditure is now written off in the year in which it is incurred. A prior year adjustment has been made to reflect this change and the effect on the profit for the year ended 31 March 1993 is as follows

	£000
Profit after tax for the year ended 31 March 1993	
as previously reported	694
Change in accounting policy	
—Research and development expenditure written off	(322)
—Deferred Tax	119
Profit after tax for the year as restated	491

Financial Reporting Standard No. 3

The new accounting standard, Financial Reporting Standard No. 3, requires the adoption of accounting disclosures which differ from those previously adopted by the Company. Accordingly, the following changes have been made

(a) In previous years certain profits and losses were treated as extraordinary items in accordance with standard accounting practice at that time. Such profits or losses are now treated as exceptional items and are included as part of operating costs

(b) In previous years earnings per ordinary share have been calculated on the figure for profit after taxation, minority interests and preference dividends, but before extraordinary items. Under the new accounting standard earnings per ordinary share are based on profit after taxation, minority interests, and preference dividends

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 1994. 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%

Accounting Policies
continued

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
1994					
UK	42,357	6,309	36,048	2,545	18,045
Rest of Europe	3,317	—	3,317	95	(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
1993 (restated)					
UK	30,545	410	30,135	3,455	16,091
Rest of Europe	738	475	263	(174)	522
North America	10,477	1,797	8,680	(267)	4,059
Other	1,333	1,333		66	(282)
Less Unattributable exceptional costs	—	—		(1,580)	—
Total	[illegible]	4,015	[illegible]	1,500	20,398

Business activity

	Total sales £'000	Inter segment sales £'000	Sales to third parties £'000	Operating profit (loss) £'000	Net assets £'000
1994					
Manufacturing	53,598	10,375	43,223	2,110	18,156
Distribution (acquisitions in 1993/94)	6,935	—	6,935	227	3,753
Total	60,533	10,375	50,158	2,337	21,909
1993 (restated)					
Manufacturing	[illegible]	4,015	[illegible]	1,500	20,398

(ii) Reconciliation of net assets

	1994 £'000	1993 restated £'000
Net assets per consolidated balance sheet	14,090	15,990
Cash at bank	(1,045)	(2,880)
Bank loans and overdrafts	8,521	6,433
Other non-operating items	343	855
Segmental net assets	21,909	20,398

Notes to the Financial Statements *continued*

(ii) Turnover by destination

	1994 £'000	1993 £'000
United Kingdom and Eire	32,580	24,543
North America	8,064	6,821
France	2,393	2,384
Benelux	2,042	1,672
Scandinavia	1,847	1,534
Spain	971	568
Other European countries	1,455	1,248
Other countries	806	308
	50,158	39,078

2. Operating costs

	Continuing activities £'000	Acquisition £'000	1994 Total £'000	1993 restated £'000
(Increase)/decrease in stocks of finished goods and work in progress	(2,160)	[illegible]	(2,622)	680
Raw materials and consumables	21,060	6,053	27,113	15,968
Staff costs				
- wages and salaries	9,521	516	10,037	8,401
- social security costs	1,592	50	1,642	1,220
- other pension costs	272	25	297	157
Depreciation of tangible fixed assets				
- leased	—	30	30	—
- other	1,512	33	1,545	1,362
Loss on disposal of tangible fixed assets	45	1	46	27
Auditors' remuneration	148	10	158	125
Foreign exchange losses/(gains)	63	12	75	(451)
Charges under operating leases	791	15	807	831
Other operating charges	8,266	427	8,693	9,176
	[illegible]	6,708	47,821	37,498

Included in other operating charges are the following exceptional items:				
- Provision against loan to Employee Share Option Plan Trust	300	—	300	—
- Write off of technical rights and other costs	176	—	176	—
- US litigation costs	185	—	185	1,500
- Provision for doubtful debts	—	—	—	444
	561	—	561	1,944

Other operating charges include £108,000 (1993: £81,000) 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 £2,26[illegible],000 (1993: £2,24[illegible],000).

3. Interest

	1994 £'000	1993 £'000
Interest payable		
Loans wholly repayable within five years	399	310
On finance leases	10	—
All other borrowings	46	55
	455	365
Interest receivable	(9)	(54)
	446	311

Notes to the Financial Statements *continued*

4 Tax on profit on ordinary activities

	1994 £'000	1993 restated £'000
UK taxation		
Corporation tax at 33% (1993: 33%)	822	925
Deferred taxation	136	(97)
Prior year items		
- corporation tax	114	—
- deferred tax	(21)	(44)
Overseas taxation	147	(18)
	1,198	764

5. Dividends

	1994 £'000	1993 £'000
Preference		
5.75% Preference shares	76	84
7.25p (net) Preference shares	711	712
	787	796
Ordinary		
Interim dividend of 0.843p per ordinary share paid 24 January 1994	293	273
Final dividend	—	804
	293	1,077
Total dividends for the year	1,080	1,873

6. Loss *per* ordinary share

Loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders for the year ended 31 March 1994 amounting to £162,000 (1993: loss £985,000 restated) by the weighted average of 35,133,527 ordinary shares in issue during the year (1993: 34,704,185).

Notes to the Financial Statements *continued*

7. Tangible fixed assets

Group	*Freehold land and buildings* £'000	*Short leasehold improvements* £'000	*Plant and equipment* £'000	*Fixtures and fittings* £'000	*Motor vehicles* £'000	*Total* £'000
Cost:						
At 1 April 1993	1,231	990	6,298	1,530	754	10,803
Exchange movement	4	(4)	(11)	(3)	—	(14)
On acquisition	—	14	—	135	287	436
Additions	—	147	892	192	531	1,762
Disposals	(468)	(69)	(272)	(17)	(229)	(1,055)
At 31 March 1994	767	1,078	6,907	1,857	1,343	11,932
Depreciation:						
At 1 April 1993	144	403	4,381	942	224	6,084
Exchange movements	1	(1)	(7)	(4)	(1)	(12)
On acquisition	—	1	—	47	75	123
Charge for the year	22	102	934	218	309	1,575
Disposals	(74)	(45)	(91)	(14)	(114)	(338)
At 31 March 1994	93	460	5,207	1,179	493	7,432
Net book amounts						
At 31 March 1994	674	618	1,700	678	850	4,500
At 31 March 1993	1,087	587	1,917	598	530	4,719

Freehold land and buildings includes approximately £500,000 (1993: £500,000) in respect of freehold land. Included in motor vehicles are assets with a net book value of £218,735 (1993: £nil) held under finance leases.

Notes to the Financial Statements *continued*

8. Fixed asset investment

	1994 £'000	1993 £'000
Group		
Unquoted investment	1,000	1,000

The Group's investment comprises £1 million of non-interest bearing unsecured loan stock 1995 in The Gardner Group PLC. The loan stock is convertible into approximately 2.72 million ordinary shares of 5p each in The Gardner Group PLC and is otherwise redeemable at par in September 1995. The Directors' valuation of this unlisted investment at 31 March 1994 was £1 million. In July 1994 it was necessary to dispose of this investment, as part of the refinancing, for approximately £760,000 net. The resulting loss will be accounted for in the year ending 31 March 1995 as part of the refinancing costs.

	Shares in Group companies £'000	Loans to Group companies £'000	Total £'000
Company			
Cost			
At 1 April 1993	11,502	4,493	15,995
Foreign exchange movements	—	7	7
Additions	—	1,635	1,635
Disposals	—	(206)	(206)
At 31 March 1994	11,502	5,929	17,431
Provisions			
At 1 April 1993	—	—	—
Provided during the year	3,064	—	3,064
At 31 March 1994	3,064	—	3,064
Net book amount at 31 March 1994	8,438	5,929	14,367
Net book amount at 31 March 1993	11,502	4,493	15,995

Principal subsidiary and associated undertakings

	Country of incorporation and operation	Nature of business	Proportion of equity share capital held by The Company	Proportion of equity share capital held by Subsidiaries
Subsidiary undertakings				
Scantronic Limited	England	Manufacturers of electronic security equipment	100%	
Scantronic (USA) Inc	USA	Manufacturers of electronic security equipment	[illegible]	
Alarmequip Limited	England	Distribution 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 undertakings				
Scantronic Srl	Italy	Selling agent		49%
Transcrypt Europe Limited	England	Selling agent	50%	

Notes to the Financial Statements *continued*

9. Stocks

	1994 £'000	1993 £'000
Raw materials	4,128	4,431
Work in progress	221	153
Finished goods	7,190	4,636
	11,539	9,220

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

10. Debtors

	Group		Company	
	1994 £'000	1993 restated £'000	1994 £'000	1993 £'000
Trade debtors	14,261	10,513	—	—
Amounts owed by subsidiary undertakings	—	—	18,099	19,051
Amounts owed by associated undertakings	446	575	41	—
Other debtors	1,155	2,308	499	1,298
Prepayments and accrued income	916	561	—	—
	16,778	13,757	18,639	20,349
Other debtors include amounts falling due after more than one year	450	925	450	925

Included in other debtors is an amount of £214,000 (1993 £504,000) in respect of advanced corporation tax recoverable

11. Creditors

Amounts falling due within one year

	Group		Company	
	1994 £'000	£'000	1994 £'000	1993 £'000
Bank loans	4,506	1,167	1,750	1,400
Bank overdrafts	5,975	830	1,898	197
Trade creditors	8,062	4,976	—	—
Amounts owed to subsidiary undertakings	—	-	[illegible]	[illegible]
Corporation tax	[illegible]	445	248	411
Other taxes and social security	[illegible]	852	—	—
Finance lease obligations	105	—	—	—
Other creditors	1,120	1,015	—	—
Accruals and deferred income	982	575	210	251
Proposed dividends	—	[illegible]	—	204
	[illegible]	[illegible]	[illegible]	9,332

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

Notes to the Financial Statements *continued*

14. Called up share capital

	1994 £'000	1993 £'000
Authorised		
54,000,000 Ordinary shares of 10p each	5,400	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
	12,000	12,000
Allotted and fully paid		
36,493,717 Ordinary shares of 10p each (1993: 34,508,560 shares)	49	3,450
1,311,348 5.75% Convertible Cumulative Redeemable Preference shares of £1 each (1993: 1,476,575 shares)	1.[illegible]	1,477
9,908,084 7.25p (net) Convertible Cumulative Redeemable Preference shares of 20p each (1993: 9,808,084 shares)	1,9[illegible]2	1,962
	6,923	6,889

Shares issued during the year

(i) On 31 August 1994 holders of 1[illegible],227 5.75% Convertible Cumulative Preference shares of £1 each, exercised their conversion rights and were duly allotted 255,315 ordinary shares of 10p each on the basis of 153.3333 ordinary shares for every 100 Preference shares held.

(ii) In December 1993, 1,725,000 ordinary shares of 10p each were issued at 69p by way of a placing.

(iii) During the year 6,812 ordinary shares of 10p each were allotted pursuant to the exercise of options under the Savings Related Share Option Scheme for a consideration of £[illegible].

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 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, to convert 100 5.75% Convertibles into 153.3333 ordinary shares of the Company.

(iv) Redemption at the option of the Company by not later than 30 September in the years 2000 to 2005 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 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 except in 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 1993 to 2003 inclusive, to convert 100 7.25p Convertibles into [illegible]8 ordinary shares of the Company.

(iv) Redemption at the option of the Company on 30 September 2003, but not later than 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.

(c) At 31 March 1994 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	192,003	3 to 10 years	133p
	August 1988	53,503	3 to 10 years	113p
	December 1988	107,862	3 to 10 years	105p
	August 1989	151,279	3 to 10 years	143p
	August 1991	323,259	3 to 10 years	43p
	January 1994	150,000	3 to 10 years	76p
		1,070,771		
Savings Related Share Option Scheme	September 1992	867,186	5 to 7 years	48p
		1,937,957		

(d) The Company has made a loan of £650,000 to the Employees' Share Ownership Plan Trust ("ESOP Trust"). At 31 March 1994 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 £922,750. At 2 September 1994 the market value was £536,100. At 31 March 1994 options over 625,000 (1993: 650,000) ordinary shares of 10p each had been granted under the rules of the ESOP Trust. A provision of £200,000 has been made against this loan in the year ended 31 March 1994.

15. Reserves

	Share Premium account £'000	*Other reserves £'000*	*Profit and loss account £'000*
Group			
As reported at 31 March 1993	4,209	—	7,362
Prior year adjustment	—	—	(2,470)
As restated at 1 April 1993	4,209	—	4,892
Issue of shares net of expenses	1,130	—	—
Loss for the year	—	—	(455)
Foreign exchange movements	—	—	(44)
Goodwill written off during the year		—	(2,565)
As at 31 March 1994	5,339	—	1,828
Company			
At 1 April 1993	4,209	13,785	879
Issue of shares net of expenses	1,130	—	—
Transfer from other reserves		(12,032)	12,032
Loss for the year		—	(4,956)
At 31 March 1994	5,339	1,753	7,955

As disclosed in last year's financial statements, consent was received during the year to recharge as distributable reserves £12,032,000 of the total amount standing to the credit of other reserves in the Company's balance sheet.

The cumulative amount of goodwill resulting from acquisitions which has been written off directly to Group reserves at 31 March 1994 is £18,540,000 (1993: £15,975,000).

Of the profit on ordinary activities after taxation a loss of £3,856,000 (after a provision against investments of £3,064,000 and before dividends of £1,100,000) has been dealt with in the accounts of the Company.

A prior year adjustment has been made to reflect the change in accounting policy in respect of research and development. The effect has been to decrease Group reserves by £2,470,000 at 31 March 1993 and to increase the loss attributable to ordinary shareholders by £203,000 for the year then ended.

Notes to the Financial Statements *continued*

16. Reconciliation of movement in shareholders' funds

	1994 £'000	1993 restated £'000
Profit for the financial year	625	491
Dividends	(1,080)	(1,873)
	(455)	(1,382)
Other recognised gains and losses relating to the year (net)	(44)	83
New share capital issued	1,193	1
Expenses of share issue	(29)	—
Goodwill [illegible] during the year	(2,565)	—
Net (reduction) to shareholders' funds	(1,900)	(1,298)
Opening shareholders' funds (after the prior year adjustment of £2,470,000 in 1993)	15,990	17,288
Closing shareholders' funds	14,090	15,990

17. Acquisition

In October 1993, the Group acquired the entire issued share capital of Alarmexpress Holdings Limited for a cash consideration of £370,000, plus deferred consideration of £525,000.

Following the acquisition turnover was £6,935,000, and operating profit was £227,000.

The assets and liabilities of Alarmexpress Holdings Limited at the date of acquisition are set out below

	Note	Book value £'000	Fair value adjustment £'000	Fair value to the Group £'000
Tangible fixed assets		313		313
Current assets				
Stock	(1)	2,484	(132)	2,352
Debtors		3,484		3,484
Current liabilities				
Creditors				
- third party		(3,171)		(3,171)
- Stantronic Group		(2,365)		(2,365)
Bank overdraft		(1,778)		(1,778)
Net liabilities		(1,033)	(132)	(1,165)
Goodwill				2,565
Consideration				1,400
Satisfied by				
Cash consideration				370
Deferred consideration				525
Acquisition costs				505
				1,400

Note (1) [illegible]

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of Alarmexpress Holdings Limited

Cash consideration	370
Acquisition costs paid in year	361
Bank overdraft acquired	1,778
	2,509

Notes to the Financial Statements *continued*

18. Consolidated cash flow statement analysis

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

	1994 £'000	1993 restated £'000
Operating profit	2,337	[illegible]580
Depreciation charges	1,575	1,562
Loss on disposal of fixed assets	46	27
Decrease in stocks	33	404
(Increase)/decrease in debtors	(2,148)	33
(Decrease) in creditors	(260)	(107)
Net cash inflow from continuing operating activities	1,583	5,299

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

	1994 £'000	Change in year £'000	1993 £'000	Change in year £'000
Cash at bank and in hand	1,015	(1,871)	2,886	(2,227)
Bank overdrafts and loans	(8,521)	(7,682)	(839)	3,083
	(7,506)	(9,553)	2,047	856

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

	1994 £'000	1993 £'000
Balance at 1 April	2,047	1,191
Net cash (outflow)/inflow before adjustments for the effect of foreign exchange movements	(9,550)	982
Foreign exchange movements	(3)	(126)
Balance at 31 March	(7,506)	2,047

(iv) Analysis of changes in financing during the year

	1994		1993	
	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	11,098	5,594	11,097	5,250
Issue of shares net of expenses	1,164	—	1	—
Repayment of bank loans	—	(1,000)	—	(1,000)
New bank loans	—	—	—	2,959
Finance lease obligations of subsidiary undertaking acquired during the year	—	257	—	—
Capital element of finance lease payments	—	(441)	—	—
Bank loans now repayable on demand	—	(4,546)	—	—
Foreign exchange movements	—	12	—	385
Balances at 31 March	12,262	193	11,098	5,594

Notes to the Financial Statements *continued*

19. Information relating to Directors

	1994 £'000	1993 £'000
Emoluments		
Fees	55	57
Remuneration	461	431
Pension contributions	64	40
	580	528

Included in emoluments is the amount of £114,000 (1993: £99,000) 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.

	1994 Remuneration	1994 Pension	1993 Remuneration	1993 Pension
Chairman (1993: Chairmen)	£25,000	£—	£181,421	£21,000
Highest paid Director	£212,841	£27,563	£225,899	£26,250

Directors' emoluments were in the following bands:

Number of directors	1994	1993
£0 - £5,000	—	1
£10,001 - £15,000	—	1
£20,001 - £25,000	1	—
£35,001 - £40,000	1	1
£100,001 - £105,000	—	1
£105,001 - £110,000	—	1
£110,001 - £115,000	2	—
£210,001 - £215,000	1	—
£220,001 - £225,000	—	1

20. Financial transactions with Directors

During the year the Group paid fees of £182,217 (1993: £157,410) to their solicitors [illegible] of which Mr Richard Swan, a Director of the Company, is a partner.

Included in other debtors is £944 (1993: £1,165) owed by Mr [illegible], a Director of the Company. The highest balance reached during the year was £1,165.

21. Information relating to employees

Staff numbers

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

	1994	1993
Management	30	25
Administration	64	57
Manufacturing	471	458
Sales and distribution	154	[illegible]
	719	648

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 1994 amounted to £297,000 (1993: £231,000).

Notes to the Financial Statements *continued*

22. Financial commitments

	1994 £'000	*1993* £'000
Group		
Capital expenditure		
Commitments for capital expenditure not provided for in the financial statements were as follows		
Contracts placed	697	173
Expenditure authorised but not contracted for	862	1,460
	1,559	1,633

Commitments under operating leases

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

	1994 *Land and buildings*	*1994* *Other*	*1993* *Land and buildings*	*1993* *Other*
Group	£'000	£'000	£'000	£'000
Leases expiring:				
Within one year	189	27	127	40
Between 2 and 5 years	97	284	197	77
After more than 5 years	479	—	328	—
	765	311	652	117

23. Contingent liabilities

(i) The Company has guaranteed the bank borrowings of its subsidiaries, the balances outstanding at 31 March 1994 totalled £5,943,000 (1993 £15,000).

(ii) The Inland Revenue has suggested that taxation relief previously given for development expenditure may no longer be available. This view has been challenged and tax Counsel has confirmed that tax relief should continue to be due. However, should the Inland Revenue view prevail, a further tax liability in the region of £1.2 million would arise for which no provision has been made.

Notes to the Financial Statements *continued*

24. Post balance sheet events

(i) In March 1994 the Company entered into a conditional agreement to acquire 19.6 per cent of Arius Inc ("Arius") for an aggregate consideration of $2.5 million. The agreement became unconditional on 28 April 1994. Arius is the second largest distributor for security and related products in North America with annual sales in excess of $100 million and a customer base of over 10,000.

(ii) In July 1994 the Company disposed of its investment of £1 million loan stock in The Gardiner Group PLC for £760,000 (net of expenses). This disposal was undertaken as part of the Company's refinancing plans.

(iii) On 9 August 1994 the Group announced its intention to strengthen its capital base through investor commitments to subscribe for new equity and through enlarged banking facilities.

Investor commitments for the new equity are conditional *inter alia* upon shareholders' approval. The capital raising will be implemented through a Placing and Open Offer which will raise £1.61 million of additional equity for the Group. Investors, including the executive [illegible]ectors and other senior managers, have agreed [illegible]ribe for 16,100,000 ordinary shares at 10p each [illegible] those new shares will be offered first to e[illegible]ng shareholders through the Open Of[illegible]

New enlarged facilities have been agreed with th[illegible]oup's principal bankers with respect to the Group's future working capital needs. An initial part of these facilities already made available to the Group, was conditional upon the provision of a bank guarantee by Mr Chris Brookes, the Group's Chief Executive. The guarantee, which ranks equally with the bank's security, is for the the sum of £500,000 and required Mr Brookes to place £500,000 cash on deposit with the Group's principal banker. The Company has agreed to pay Mr Brookes a fee of £25,00[illegible] (plus interest on such figure at 2% over the bank's base rate from time to time) to cover his legal and other costs in respect of the giving of the guarantee and in recognition of his financial risk in providing such guarantee; such fee is payable by 30 April 1995. The remainder of these facilities are conditional upon raising a minimum of £1 million equity finance. This is being satisfied through the investor commitments to subscribe for 16,100,000 ordinary shares in the Company. Substantial costs associated with the newly arranged bank financing will also be accounted for in 1994/95.

Discussions on making more shares available to existing shareholders are currently taking place with the Company's advisors. Listing Particulars detailing the Placing and Open Offer will be posted to shareholders in due course.

(iv) The Group is engaged in arbitration proceedings in the United States against Cerberus Technologies Inc ("CTI") and Cerberus AG ("Cerberus") 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 ("Division"). Scantronic (USA) Inc is claiming damages for various breaches of contract and product claims. CTI and Cerberus are claiming from Scantronic (USA) Inc the unpaid balance of the purchase price and various pre-completion apportionments of expenditure. None of these claims has yet been fully determined. The arbitrators determined in June 1994 that the Group is entitled to an award of damages for Cerberus' failure to disclose crucial information concerning a major customer of the Division; the arbitrators have not yet awarded the damages that will arise from these determinations and efforts to date to reach a settlement with Cerberus have not been successful.

(v) Mr R. Dass, employed as Group Finance Director to July 1994, has issued proceedings in the High Court claiming damages for wrongful dismissal and has issued proceedings for unfair dismissal. These proceedings will be defended.

(vi) Mr M Kennedy, until June 1994 President and Chief Executive Officer of Scantronic (USA) Inc, has threatened proceedings in California for wrongful termination of employment. Any proceedings will be defended.

Five Year Record

	1994 £'000	1993 restated £'000	1992 restated £'000	1991 restated £'000	1990 restated £'000
Turnover	50,158	39,078	36,053	42,895	44,602
Profit before taxation	1,891	1,269	2,809	4,440	5,674
Taxation	1,198	764	761	529	1,780
Profit after taxation	693	505	2,138	3,911	3,894
Minority interest	(68)	(14)	—	—	—
Shareholders' funds	14,090	15,990	17,288	16,796	15,554
(Loss)/Earnings per ordinary share	(0.46p)	(0.88p)	3.89p	9.18p	9.78p
Dividends per ordinary share	0.843	3.121p	2.975p	2.975p	2.90p