

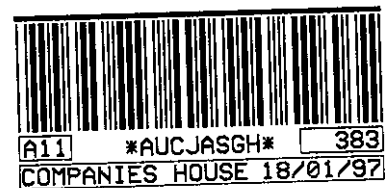
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CHELSEA INSTRUMENTS LIMITED

FINANCIAL STATEMENTS

- for the year

ended 31 MARCH, 1996



CHELSEA INSTRUMENTS LIMITED

DIRECTORS

Mr. D.J. Chatterton (Managing Director)
Dr.D. Griffiths ARCS PhD
Mr. M.B. Kershen FCA
Dr. J.P. Vessey ARCS PhD
Mr. R.J. Burt
Mr. B. A. Wardhaugh

SECRETARY

Mr. S.A. Fletcher

BUSINESS ADDRESS

2/3 Central Avenue
West Molesey
SURREY KT8 2QZ
UK

REGISTERED OFFICE

2/3 Central Avenue
West Molesey
SURREY KT8 2QZ
UK

AUDITORS

Hazlems Fenton
Chartered Accountants
Palladium House
1-4 Argyll Street
LONDON W1V 1AD

CHELSEA INSTRUMENTS LIMITED

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31 MARCH 1996

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CHELSEA INSTRUMENTS LIMITED

REPORT OF THE DIRECTORS

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

DIRECTORS' RESPONSIBILITIES

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, Company directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Company directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. Company directors 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 AND BUSINESS REVIEW

The company develops and manufactures high-specification electronic equipment and instrumentation for use in the oceanographic, scientific and medical diagnostic fields. It also provides technical research and consultancy services in those fields.

The generally difficult trading conditions in these markets experienced in recent years appear to be easing and the directors can see prospects opening up for the expansion of the company's business. Accordingly, it is hoped that an increase in trading levels will be seen for future periods.

PRODUCT DEVELOPMENT

The company has been developing and expanding its own range of standard products for sale into the oceanographic market over the last five years. The product range is well-established and the company has a strong presence in its chosen markets. In reaching this position, the company has made a considerable investment of internal resources to establish and develop the product range and it is expected that the investment will continue in the foreseeable future. This investment has not been reflected in the financial statements for past years, but the directors now feel that a change of accounting policy would more realistically reflect in those statements the company's capital investment, its net assets and ongoing profitability. Accordingly, a full review of such investment over the past five years has been carried out and the financial statements for this year have been prepared to incorporate the resultant development asset and related amortisation figures with restated comparative figures as relevant.

The bases used for capitalising and amortising the product development expenditure are described in Notes 1.1 and 1.9 to the financial statements. The treatment is fully in accordance with approved accounting standards.

CHELSEA INSTRUMENTS LIMITED

REPORT OF THE DIRECTORS

TRADING RESULTS AND DIVIDENDS

Turnover for the year totalled £2.1m against £3.2m for the previous period of 15 months. The reason for the reduced turnover level was the completion of a long-term government contract which represented turnover of £1m in 1994/95. The company instituted a plan for controlled rationalisation of costs on the completion of the contract to ensure that profitability was maintained.

The company achieved pre-tax profits of £150,861 for the year against £123,834 for the previous 15 months (restated for the accounting policy change). After tax, the distributable profit amounted to £101,954 (1994/95 - £87,344).

The directors have proposed that a dividend of £10,005 be paid for the year (1994/95 - Nil).

The retained profit of £91,949 is transferred to reserves.

FIXED ASSETS

The movements in fixed assets during the period are set out in Notes 10 & 11 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their beneficial interests in the company were as stated below:

	<u>Ordinary Shares of £1 each</u>	
	<u>31.3.96</u>	<u>31.3.95</u>
D.J. Chatterton	20,385	20,385
D. Griffiths	8,810	8,810
M.B. Kershen	10,675	10,675
J.P. Vessey	4,005	4,005
R.J. Burt	-	-
B.M. Swale (resigned 11.8.95)	-	-
B.A. Wardhaugh	-	-

The above beneficial interests are reflected through the directors' share holdings in the ultimate holding company, Chelsea Technologies Limited.

AUDITORS

The auditors, Hazlems Fenton, are willing to be re-appointed in accordance with section 385 of the Companies Act 1985.

Registered office:

2/3 Central Avenue
West Molesey
Surrey KT8 2QZ
UK

Date: 16 October 1996



By order of the Board

S.A. Fletcher
Secretary

CHELSEA INSTRUMENTS LIMITED

AUDITORS' REPORT TO THE MEMBERS OF CHELSEA INSTRUMENTS LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of the directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st March 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



HAZLEMS FENTON

Date: 21.10.1996

Chartered Accountants
Registered Auditors
Palladium House
1-4 Argyll Street
LONDON W1V 1AD

CHELSEA INSTRUMENTS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1996**

	Notes	1995/96 £	RESTATED 1994/95 (15 mths) £
TURNOVER	2	2,093,839	3,244,527
Cost of Sales		1,375,092	2,292,469
		-----	-----
GROSS PROFIT		718,747	952,058
Selling expenses		(307,739)	(425,544)
Administration expenses		(208,259)	(347,959)
Other operating income		-	500
		-----	-----
OPERATING PROFIT	3	202,749	179,055
Interest received	5	7,240	-
Interest payable	6	(59,128)	(55,221)
		-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		150,861	123,834
Tax on profit on ordinary activities	8	(48,907)	(36,490)
		-----	-----
PROFIT FOR THE FINANCIAL YEAR		101,954	87,344
Dividend paid	9	(10,005)	-
		-----	-----
Retained profit for the year		91,949	87,344
		-----	-----
STATEMENT OF RETAINED PROFITS			
Retained profits at beginning of year			
- as previously reported		725,059	656,437
Prior year adjustment		97,809	79,087
		-----	-----
- as restated		822,868	735,524
Retained profit for year		91,949	87,344
		-----	-----
		914,817	822,868
		=====	=====


There are no recognised gains and losses other than those passing through the profit and loss account.

The notes on pages 6 to 13 form part of these financial statements.

CHELSEA INSTRUMENTS LIMITED**BALANCE SHEET AT 31 MARCH 1996**

		<u>1996</u>		<u>Restated</u> <u>1995</u>	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	10	443,655		353,047	
Tangible assets	11	385,782	829,437	437,564	790,611
		-----		-----	
INVESTMENT IN SUBSIDIARY	12		23,373		23,373
			-----		-----
			852,810		813,984
CURRENT ASSETS					
Stocks & work in progress	13	852,870		803,725	
Debtors	14	806,414		535,988	
Investments	15	1,628		-	
Cash at bank & in hand		651		1,637	
		-----		-----	
		1,661,563		1,341,350	
CREDITORS: Amounts falling due within one year	16	(1,470,213)		(1,208,107)	
		-----		-----	
NET CURRENT ASSETS			191,350		133,243
			-----		-----
TOTAL ASSETS LESS CURRENT LIABILITIES			1,044,160		947,227
CREDITORS: Amounts falling due after more than one year	17		(7,249)		(28,874)
			-----		-----
PROVISION FOR LIABILITIES & CHARGES	18		(72,094)		(45,485)
			-----		-----
NET ASSETS			£964,817		£872,868
			=====		=====
CAPITAL AND RESERVES					
Called up share capital	19		50,000		50,000
Profit and loss account			914,817		822,868
			-----		-----
Shareholders' funds	20		£964,817		£872,868
			=====		=====

The financial statements were approved by the Board on 16.10.96 and signed on its behalf by S. S. CHATTERTON

 Director

The notes on pages 6 to 13 form part of these financial statements.

CHELSEA INSTRUMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

1. ACCOUNTING POLICIES

1.1. CHANGE IN ACCOUNTING POLICY

The Company has changed its accounting policy in respect of fixed assets to capitalise product development expenditure as an intangible asset where its future recoverability can be foreseen with reasonable assurance. Any expenditure capitalised and carried forward is amortised in line with the expected product sales. This accounting policy complies with the UK Statement of Accounting Practice 13. Comparative figures in the Profit & Loss Account and Balance Sheet have been restated for the change of accounting policy and a prior year adjustment has been shown as a separate item where relevant. This adjustment includes the elimination of certain equipment and stock asset balances which are now included in the product development expenditure capitalised.

1.2 BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention.

1.3 GROUP ACCOUNTS

The Company is entitled to the exemption under Section 228 of the Companies Act 1985 from the requirement for group accounts to be prepared as the Company is an intermediary holding company whose results are consolidated in the accounts of the ultimate parent undertaking.

1.4 CASH FLOW STATEMENT

As a wholly-owned subsidiary of a parent company established in the UK, the Company is not required to prepare a cash flow statement in accordance with Financial Reporting Statement No.1.

1.5 TURNOVER

Turnover represents the total sales value, excluding value added tax, of goods sold and services rendered during the period.

1.6 DEPRECIATION ON TANGIBLE FIXED ASSETS

Depreciation is provided using the following rates and bases to reduce by annual instalments the cost of the tangible assets over their estimated useful lives, after taking into account residual values.

Leasehold properties	Straight line over the life of the lease
Equipment	10-20% p.a. Straight line
Fixtures and fittings	10% p.a. Straight line
Motor vehicles	20% p.a. Straight line

1.7 STOCK

Stock and work in progress are valued at the lower of cost and net realisable value. Cost includes direct materials, labour and production overheads incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further costs to completion and selling costs.

1.8 LONG-TERM CONTRACTS

Turnover on long-term contracts represents the sales value of work carried out during the period which would include amounts invoiced and yet to be invoiced at the year-end. The sales value of work carried out is determined on the basis of the applied cost of materials and the proportion of total contract labour hours expended in the period and after allowing for contingencies and provision for anticipated losses where relevant.

Operating profit includes attributable profits on long-term contracts completed and amounts recoverable on contracts uncompleted, the latter also being included under debtors due within one year where relevant.

Long-term contract work in progress is shown at net cost after deducting foreseeable losses and payments on account.

CHELSEA INSTRUMENTS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996****1.9 RESEARCH AND DEVELOPMENT**

Expenditure on research and development is written off to the profit & loss account as incurred, except that expenditure incurred on the development of an individual product is carried forward when its technological feasibility and commercial viability are established and future recoverability can be foreseen with reasonable assurance. Capitalisation of development expenditure ceases when the product concerned is fully tested and ready for commercial production. Any expenditure carried forward is amortised in line with the expected sales of the related product subject to a maximum amortisation period of four years from the completion of the development period.

1.10 DEFERRED TAXATION

Deferred taxation is provided where there is a reasonable probability of the amount becoming payable in the foreseeable future.

1.11 LEASING AND HIRE PURCHASE

Assets acquired under finance leases or hire purchase contracts are capitalised as tangible assets and depreciated over their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account in constant proportion to the net obligations outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease terms.

1.12 PENSIONS

The group operates a defined contribution pension scheme. Pension contributions are charged to the profit and loss account as paid. These contributions are invested separately from the Company's assets.

1.13 GOVERNMENT GRANTS

The Company receives Government grants of a revenue nature which are credited to Profit and Loss Accounts in the period to which they relate.

2. TURNOVER

	1996	1995
Analysis by:	£	£
Class of business		
Sale of goods	1,487,149	2,558,359
Fees for services	606,690	686,168
	-----	-----
	£2,093,839	£3,244,527
	=====	=====

3. OPERATING PROFIT

	1996	Restated 1995
	£	£
The operating profit is stated after charging:		
Amortisation of product development costs	129,157	184,263
Depreciation	122,164	149,287
Auditors' remuneration	8,000	7,500
Operating lease rentals		
Land and buildings	72,730	90,912
	=====	=====
And after crediting:-		
Government grants received	£ 219,163	£287,679
	=====	=====

CHELSEA INSTRUMENTS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996****4. GOVERNMENT GRANTS**

Grants receivable for the period totalling £219,163 have been credited against cost of sales.

5. INTEREST RECEIVED

	1996	1995
	£	£
Short-term interest received on trade deposits	7,240	-
	=====	=====

6. INTEREST PAYABLE

	1996	1995
	£	£
On bank loans & overdrafts & on loans repayable in full within five years	50,312	50,697
Hire purchase interest	8,816	4,343
Other interest	-	181
	-----	-----
	£ 59,128	£ 55,221
	=====	=====

7. DIRECTORS AND EMPLOYEES

	1996	1995
	£	£
Staff costs:		
Wages and Salaries	736,876	1,229,891
Social security costs	76,373	129,263
Other pension costs	28,109	80,831
	-----	-----
	£841,358	£ 1,439,985
	=====	=====

The average weekly number of employees during the period was made up as follows:

	Number	Number
Research and Production	22	25
Administration and Management	10	13
Selling	2	3
	---	---
	34	41
	==	==

	£	£
Directors' emoluments for the year	208,622	311,195
	=====	=====

The division of directors' emoluments, excluding pension contributions, is as follows:

Chairman	41,192	64,005
	=====	=====
Highest paid director	41,192	64,005
	=====	=====

CHELSEA INSTRUMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

	1996 Number	1995 Number
Other directors' remuneration fell within the following ranges on an annualised basis		
£ 5,001 - £10,000 " "	-	1
£10,001 - £15,000 " "	1	-
£25,001 - £30,000 " "	2	1
£30,001 - £35,000 " "	2	2
£35,001 - £40,000 " "	1	2
£40,001 - £45,000 " "	-	1

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996 £	Restated 1995 £
The taxation charge based on the profit before tax comprises:		
UK corporation tax at 25% (1995 - 25%)	22,298	18,308
Deferred taxation provision	26,609	18,182
	-----	-----
Net charge	48,907	36,490
	=====	=====

9. DIVIDEND PAID

	1996 £	1995 £
A dividend of 20.01p per Ordinary Share has been declared for the year (1995-Nil).	10,005	-
	=====	=====

10. INTANGIBLE FIXED ASSETS

	<u>Product Development</u> <u>Expenditure</u> £
Cost	
Accounting policy change at 1.4.95	817,105
Additions	219,765
Elimination on full amortisation	(98,420)

At 31.3.96	938,450
	=====
Amortisation	
Accounting policy change at 1.4.95	464,058
Provision during year	129,157
Elimination on full amortisation	(98,420)

At 31.3.96	494,795
	=====
Net book value at 31 March 1996	443,655
	=====
Net book value at 31 March 1995 (Restated)	353,047
	=====

As stated in Note 1.1, the Company has changed its accounting policy to incorporate the capitalisation of product development expenditure as an intangible fixed asset in accordance with the accounting treatment defined in SSAP13. The development expenditure represents direct costs, salary costs and attributable overheads incurred in the relevant product development.

CHELSEA INSTRUMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

11. TANGIBLE FIXED ASSETS

	<u>Leasehold (short)</u>	<u>Equipment</u>	<u>Fixtures & Fittings</u>	<u>Motor Vehicles</u>	<u>Total</u>
Cost					
At 1 April 1995	50,652	816,015	247,524	164,426	1,278,617
Accounting policy change	-	(181,925)	-	-	(181,925)
As restated	50,652	634,090	247,524	164,426	1,096,692
Additions	-	67,317	3,067	-	70,384
Disposals	-	-	-	(29,249)	(29,249)
At 31 March 1996	50,652	701,407	250,591	135,177	1,137,827
Depreciation					
At 1 April 1995	27,733	400,776	145,632	109,769	683,910
Accounting policy change	-	(24,782)	-	-	(24,782)
As restated	27,733	375,994	145,632	109,769	659,128
Charge for year	7,640	99,931	7,040	7,553	122,164
On disposals	-	-	-	(29,247)	(29,247)
At 31 March 1996	35,373	475,925	152,672	88,075	752,045
Net book values					
At 31 March 1996	15,279	225,482	97,919	47,102	385,782
At 31 March 1995 (restated)	22,919	258,096	101,892	54,657	437,564

Included above are assets held under finance leases or hire purchase contracts as follows:

	<u>Equipment</u>	<u>Motor Vehicles</u>
Net book value at 31 March 1996	25,596	35,110
Depreciation charge	6,715	7,236

CHELSEA INSTRUMENTS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996****12. INVESTMENT IN SUBSIDIARY**

	1996 £	1995 £
Investments in Group undertakings:		
Cost and Net Book Values At 1 April 1995 and 31 March, 1996	23,373 =====	23,373 =====

In the opinion of the directors, the aggregate value of the Company's investment in group undertakings is not less than the amount included in the Balance Sheet.

Holdings of more than 10%

The Company holds more than 10% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares Held Class %
Chelsea Environmental Instruments Ltd	England and Wales	Ordinary 100%

The aggregate amount of capital and reserves and the results of this undertaking for the last financial period were as follows:

	Capital and reserves £	Profit/(Loss) for period £
Chelsea Environmental Instruments Ltd	51,851 =====	- =====

13. STOCKS AND WORK IN PROGRESS

	1996 £	Restated 1995 £
Raw materials & consumables, less provisions	438,271	323,423
Work in progress	196,997	145,966
Finished goods & goods for resale, less provisions	217,602	334,336
	852,870 =====	803,725 =====

14. DEBTORS

	1996 £	1995 £
Trade debtors	644,559	347,295
Amounts recoverable on long-term contracts	-	68,665
Prepayments	83,145	45,702
Trade deposits repayable after more than one year	34,250	65,250
Other debtors	3,090	181
Amounts owed by group companies	41,370	8,895
	£ 806,414 =====	£535,988 =====

15. INVESTMENTS

	1996 £	1995 £
Stock Exchange Securities (Market Value £1,440)	1,628 =====	- =====

CHELSEA INSTRUMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996	1995
	£	£
Bank loans & overdrafts	529,997	546,603
Trade creditors	461,999	237,271
Payments on account - Long-term contracts	14,525	-
Amounts owed to group companies	332,987	301,748
Corporation tax	34,427	20,108
Other taxes & social security costs	61,742	69,090
Net obligation under finance lease and hire purchase contracts	23,412	32,250
Dividend payable	10,005	-
Accruals	1,119	1,037
	-----	-----
	£ 1,470,213	£ 1,208,107
	=====	=====

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1996	1995
	£	£
Net obligations under finance leases and hire purchase contracts	£ 7,249	£ 28,874
	=====	=====
<u>Net obligations under finance leases and hire purchase contracts</u>		
Repayable within one year	26,924	35,615
Repayable between one and five years	8,387	34,911
	-----	-----
	35,311	70,526
Finance charges and interest allocated to future accounting periods	(4,650)	(9,402)
	-----	-----
	30,661	61,124
Included in current liabilities	(23,412)	(32,250)
	-----	-----
	£ 7,249	£ 28,874
	=====	=====

18. PROVISION FOR LIABILITIES AND CHARGES

Deferred tax is calculated at 25% (1995 - 25%) analysed over the following timing differences:

	Provided		Not Provided	
	1996	1995	1996	1995
	£	£	£	£
		Restated		
On Capital gain rollover	10,500	10,500	-	-
On accelerated capital allowances	3,910	-	40,743	45,265
On product development expenditure	57,684	34,985	37,500	37,500
	-----	-----	-----	-----
	72,094	45,485	78,243	82,765
	=====	=====	=====	=====

Deferred taxation on capitalised development expenditure and accelerated capital allowances on tangible fixed assets has only been provided where a liability is expected to crystallise in the foreseeable future.

CHelsea INSTRUMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1996

19. SHARE CAPITAL

	1996	1995
	£	£
<u>Authorised</u>		
100,000 Ordinary Shares of £1 each	100,000	100,000
	=====	=====
<u>Allotted, called up and fully paid</u>		
50,000 Ordinary Shares of £1 each	50,000	50,000
	=====	=====

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996	Restated 1995
	£	£
Profit for the financial period	101,954	87,344
Dividends	(10,005)	-
	-----	-----
Net addition to shareholders' funds	91,949	87,344
Opening shareholders' funds	872,868	785,524
	-----	-----
Closing shareholders' funds	964,817	872,868
	=====	=====

21. CAPITAL COMMITMENTS

Capital commitments at 31st March, 1996 totalled £25,000 (1995 - £20,000)

22. GUARANTEES

The Company has guaranteed bank borrowings of its subsidiary company and a fellow subsidiary under cross-guarantee arrangements. The guarantees are secured by fixed and floating charges on the Group's assets and a legal mortgage over the company's leasehold property.

The Company has guaranteed an equipment finance loan agreement for an associated company, the outstanding balance on which stood at £70,132 at 31 March 1996.

23. FINANCIAL COMMITMENTS

At 31 March 1996, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings	
	1996	1995
	£	£
Expiry date:		
25th March, 1998	72,730	72,730
	=====	=====

24. ULTIMATE HOLDING COMPANY

The ultimate holding company is Chelsea Technologies Limited, a company incorporated in England and Wales.