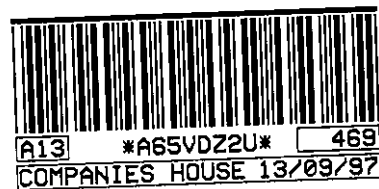


COMPSTOCK ELECTRONICS LIMITED  
(Registered Number 1208652)

DIRECTORS' REPORT AND ACCOUNTS FOR  
THE YEAR ENDED 31 DECEMBER, 1996



COMPSTOCK ELECTRONICS LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts for the year to 31 December, 1996.

ACTIVITIES

The principal activity of the company continues to be the sale and distribution of electronic components.

REVIEW OF THE BUSINESS

The company performed well increasing both turnover and profits.

RESULTS

	£
Profit on ordinary activities for the year before taxation	539,061
Taxation	(197,847)
Profit for the year	<u>341,214</u>
Dividends - paid	(100,000)
Retained profit in year	<u>241,214</u>
Retained profit brought forward	60,247
Retained profit carried forward	<u>301,461</u>

DIRECTORS

The directors who served during the year were:-

P J K Haslehurst	(Chairman)
J J Hobbs	
D B Martin	
W J McKnight	
M M Lee	(Appointed 16 January 1996)

COMPSTOCK ELECTRONICS LIMITED

REPORT OF THE DIRECTORS

(contd.)

DIRECTORS' INTERESTS

Directors' interests in the share capital of the ultimate holding company, EIS Group PLC, as recorded in the register of directors' interests were:-

	<u>Interest in 25p ordinary shares</u>		<u>Options to acquire 25p ordinary shares</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
W J McKnight	-	-	1,487	1,044
D B Martin	-	-	35,350	35,350
M Lee	-	-	1,487	1,044
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The interests of Mr P J K Haslehurst and Mr J J Hobbs in the share capital of the ultimate holding company are shown in the directors' report of that company. The directors' interests were beneficially owned.

With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31st December 1996 or 31st December 1995.

RESEARCH AND DEVELOPMENT

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on product development and improvement.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political donations were made during the year.

AUDITORS

A resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M Lee  
Secretary

17th April 1997

COMPSTOCK ELECTRONICS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgments and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF COMPSTOCK ELECTRONICS LTD.

We have audited the financial statements on pages 4 to 15 which have been prepared in accordance with the accounting policies set out in Note 1 on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, 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 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KP MG Audit PLC

KPMG AUDIT PLC

Chartered Accountants  
Registered Auditor

17th April, 1997

COMPSTOCK ELECTRONICS LIMITED

PROFIT AND LOSS ACCOUNT FOR  
THE YEAR ENDED 31 DECEMBER 1996

	<u>Notes</u>	<u>1996</u> £	<u>1995</u> £
TURNOVER	2	6,228,071	5,574,354
Cost of sales		(4,418,538)	(4,101,130)
GROSS PROFIT		<u>1,809,533</u>	<u>1,473,224</u>
Distribution & Selling costs		(199,359)	(156,055)
Administration costs		(1,040,707)	(1,141,417)
OPERATING PROFIT	3	569,467	175,752
Loss from shares in associated undertakings		-	-
Interest payable	6	(30,406)	(59,163)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>539,061</u>	<u>116,589</u>
Taxation on profit on ordinary activities	7	(197,847)	(50,225)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>341,214</u>	<u>66,364</u>
Dividend - paid		(100,000)	(21,250)
RETAINED PROFIT FOR THE YEAR	16	<u>241,214</u>	<u>45,114</u>

The notes on pages 7 to 15 form part of these accounts.

All results derive from continuing operations.

The movements on reserves are shown in note 16.

COMPSTOCK ELECTRONICS LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	<u>1996</u>	<u>1995</u>
	£	£
Reported profit on ordinary activities before taxation	539,061	116,589
Difference between the historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued asset	15,447	6,979
Historical cost profit on ordinary activities before taxation	554,508	123,568
Historical cost profit for the year, retained after taxation and dividends	256,661	52,093

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit or loss for the period.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	<u>1996</u>	<u>1995</u>
	£	£
Profit for the financial year	341,214	66,364
Dividends	(100,000)	(21,250)
	241,214	45,114
Opening shareholders' funds	1,038,122	993,008
Closing shareholders' funds	1,279,336	1,038,122
Attributable to:		
Equity shareholders	779,336	538,122
Non - Equity shareholders	500,000	500,000

COMPSTOCK ELECTRONICS LIMITED

BALANCE SHEET AT 31 DECEMBER, 1996

	<u>Note</u>	<u>1996</u> £	<u>1995</u> £
<b>FIXED ASSETS</b>			
Tangible assets	8	561,015	560,534
Investments	9	26,793	26,793
		<hr/>	<hr/>
		587,808	587,327
<b>CURRENT ASSETS</b>			
Stocks	10	1,047,316	1,075,461
Debtors	11	1,451,365	1,485,861
Cash at bank and in hand		30,191	11,500
		<hr/>	<hr/>
		2,528,872	2,572,822
CREDITORS: amounts falling due within one year	12	(1,631,665)	(1,810,500)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		897,207	762,322
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,485,015	1,349,649
<b>CREDITORS: amounts falling due after one year</b>			
	13	(198,000)	(306,002)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	14	(7,679)	(5,525)
		<hr/>	<hr/>
		1,279,336	1,038,122
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	640,000	640,000
Revaluation reserve	16	337,875	337,875
Profit and loss account	16	301,461	60,247
		<hr/>	<hr/>
		1,279,336	1,038,122
		<hr/>	<hr/>

The accounts were approved by the board of directors on 17th April, 1997.



W McKnight - Director

The notes on pages 7 to 15 form part of these accounts.

# COMPSTOCK ELECTRONICS LIMITED

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

#### a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets. In accordance with section 228 of Companies Act 1985 the company is exempt from preparing consolidated accounts.

#### b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Fixtures & Fittings	10% to 20%
Plant and machinery	10% to 25%
Buildings	2%
Leasehold land and building	2%

#### c) Stocks and work-in-progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes works overheads where applicable.

#### d) Research and development

Research and development expenditure is written off against profit in the year in which the expenditure arises.

#### e) Deferred taxation

Deferred taxation is provided at the future rate of taxation using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

#### f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the profit and loss account and unrealised differences on forward contracts are taken to the balance sheet.



COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

g) Grants

Government and other similar grants are recognised in the profit and loss account so as to match them with the expenditure to which they are intended to contribute.

h) Cash flow statement

The company has not produced a Cash Flow Statement as it is a wholly owned subsidiary of EIS Group P.L.C., whose accounts include a consolidated Cash Flow Statement.

i) Operating Leases

All leases are accounted for as operating leases and the rental charges are charged to the profit and loss account in the period in which these are incurred.

2. TURNOVER

Turnover represents invoiced sales during the year exclusive of value added tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

The geographic analysis of turnover is as follows:

	<u>1996</u>	<u>1995</u>
	£	£
United Kingdom	5,833,531	5,181,872
Asia, Far East and Australia	333,711	306,462
North, South & Central America	21,516	37,785
Europe	20,936	35,844
Africa	—	7,265
Middle East	18,377	5,126
	<hr/>	<hr/>
	6,228,071	5,574,354
	<hr/>	<hr/>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

	<u>1996</u>	<u>1995</u>
	£	£
Auditors' remuneration - Audit	10,000	12,750
- Other fees	—	34,406
Depreciation	36,668	44,136
Operating lease charges - Other	16,500	16,502
- Plant	47,436	54,750
	<hr/>	<hr/>

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

4. DIRECTORS' EMOLUMENTS

	<u>1996</u>	<u>1995</u>
	£	£
For services as directors	90,411	19,752

The amounts (excluding pension contributions) paid to the chairman and highest paid director were as follows:

	<u>1996</u>	<u>1995</u>
	£	£
Chairman & Highest paid director	55,947	19,752

The emoluments of the directors fell within the following bands:

	<u>1996</u>	<u>1995</u>
	£	£
£ Nil - £ 5,000	3	5
£ 15,001 - £ 20,000	-	1
£ 30,001 - £ 35,000	1	-
£ 55,001 - £ 60,000	1	-

5. STAFF COSTS

The average weekly number of employees, including directors, during the year was as follows:

	<u>1996</u>	<u>1995</u>
	No.	No.
Sales, administration and distribution	40	34
Stores	-	5
	<u>40</u>	<u>39</u>

The aggregate payroll costs of these persons were as follows:

	<u>1996</u>	<u>1995</u>
	£	£
Wages and salaries	515,778	539,476
Social security costs	41,941	42,059
Other pension costs	24,704	23,509
	<u>582,423</u>	<u>605,044</u>

6. INTEREST

	<u>1996</u>	<u>1995</u>
	£	£
Interest Payable:		
Bank loans and overdrafts	(30,406)	(59,163)

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> £	<u>1995</u> £
Based on the profit for the year:		
Corporation tax at 33% (1995:33%)	197,000	50,000
Deferred taxation credit	2,154	(3,130)
	<hr/>	<hr/>
	199,154	46,870
Taxation relating to prior years:		
UK taxation	(1,307)	—
Deferred taxation	—	3,355
	<hr/>	<hr/>
	197,847	50,225
	<hr/>	<hr/>

8. TANGIBLE FIXED ASSETS

	<u>Land and buildings</u> £	<u>Plant and machinery</u> £	<u>Total</u> £
COST OR VALUATION			
At 1 January, 1996	590,287	457,238	1,047,525
Additions	—	37,149	37,149
	<hr/>	<hr/>	<hr/>
At 31 December, 1996	590,287	494,387	1,084,674
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January, 1996	124,003	362,988	486,991
Charge for the year	15,447	21,221	36,668
	<hr/>	<hr/>	<hr/>
At 31 December, 1996	139,450	384,209	523,659
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31 December, 1996	450,837	110,178	561,015
	<hr/>	<hr/>	<hr/>
At 31 December, 1995	466,284	94,250	560,534
	<hr/>	<hr/>	<hr/>

The land and buildings, which were revalued in 1991 on an existing use basis, are freehold except for a part of the land which is long leasehold. The value of this long leasehold is not separately identifiable.

If stated under the historical cost convention the comparable amounts for the land and buildings would be:-

	<u>1996</u> £	<u>1995</u> £
Cost	233,150	233,150
Depreciation	(92,965)	(88,302)
	<hr/>	<hr/>
Net value	140,185	144,848
	<hr/>	<hr/>

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

9. INVESTMENTS

	<u>Total</u>
	£
At 1 January & 31 December	26,793

The company has the following wholly owned subsidiaries which are all dormant and incorporated in England and Wales.

Stewart Electronics Limited

G W Stewart Holdings Limited

10. STOCKS

	<u>1996</u>	<u>1995</u>
	£	£
Finished goods	1,047,316	1,075,461

11. DEBTORS

	<u>1996</u>	<u>1995</u>
	£	£
Amounts falling due within one year:		
Trade debtors	1,135,794	1,178,589
Amounts owed by group undertakings	285,933	274,170
Other debtors	—	2,379
Prepayments and accrued income	29,638	30,723
	<u>1,451,365</u>	<u>1,485,861</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1996</u>	<u>1995</u>
	£	£
Corporation tax	197,000	50,000
Trade creditors	910,793	1,234,818
Other creditors	30,648	38,181
Other taxation and social security	46,220	52,176
Amounts owed to group undertakings	363,467	351,681
Amounts owed to associated undertakings	3,956	17,357
Accruals and deferred income	79,581	66,287
	<u>1,631,665</u>	<u>1,810,500</u>

Lloyds Bank holds a floating charge over all assets of Compstock Electronics Limited. There are no cross-guarantees in place.

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

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

	<u>1996</u>	<u>1995</u>
	£	£
Bank loans between 1 and 2 years	—	—
between 2 and 5 years	198,000	220,000
Amounts owed to group undertakings	—	86,002
	<u>198,000</u>	<u>306,002</u>

14. PROVISION FOR LIABILITIES AND CHARGES

	<u>Amount not Provided</u>		<u>Amount Provided</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£	£	£	£
Deferred taxation:				
Accelerated capital allowances	—	—	7,679	225
Other timing differences	—	—	—	5,300
Surplus on revaluation of property	21,000	21,000	—	—
	<u>21,000</u>	<u>21,000</u>	<u>7,679</u>	<u>5,525</u>
<u>Movement in year</u>				
Balance at 1 January 1996				5,525
Amount credited to profit and loss account for the year				2,154
Balance at 31 December 1996				<u>7,679</u>

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

15. SHARE CAPITAL

	<u>1996 and 1995</u>			
	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>No.</u>	<u>£</u>	<u>No.</u>	<u>£</u>
Ordinary shares of £1 each	140,000	140,000	140,000	140,000
8.5% Cumulative convertible preference shares of £1 each	300,000	300,000	300,000	300,000
8.5% Cumulative redeemable preference shares of £1 each	200,000	200,000	200,000	200,000
		<u>640,000</u>		<u>640,000</u>

The cumulative redeemable preference shares are redeemable by the company at par value in five annual instalments, commencing in 1992 or immediately in the event of a sale of the business or a financing. The company may also voluntarily redeem the shares at any time. Where the company is unable to redeem the preference shares on the stipulated date, it must do so as soon thereafter as it is able. In the meantime it must not make any distribution of distributable profits except for the fixed preference dividend.

The cumulative convertible preference shares have conversion rights in the event of the sale or refinancing of the business. The conversion rate is to be determined in accordance with a formula detailed in the Articles of Association. Following conversion the ordinary shares will rank pari passu in all respect with the other ordinary shares in the company.

All preference shareholders are entitled to receive a fixed cumulative dividend at the rate of 8.5 percent per annum (exclusive of any associated tax credit) on the nominal amount.

The redeemable preference shares rank ahead of the convertible preference shares as regards return of capital and payment of dividends. After repayment of their nominal value and any accrued unpaid dividend the convertible preference shares have a right of participation in the assets of the company as though they had been converted into ordinary shares. The preference shares do not carry voting rights unless the preference dividends are in arrears or, in the case of the redeemable preference shares, any redemption instalments due have not been paid.

Dividends on ordinary shares are only payable after dividends on preference shares. In the event of any distributions as a result of a winding up of the company or other return of capital, the ordinary shareholders will be entitled, alongside the convertible preference shareholders, to the balance of any amounts after payments to the preference shareholders.

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

15. SHARE CAPITAL (Contd.)

Ordinary shares carry the right to one vote per £1 in nominal value.

Further particulars of the rights of each class of share are contained in the Articles of Association of the company.

16. RESERVES

	Revaluation <u>reserve</u>	Profit and <u>loss account</u>	<u>Total</u>
	£	£	£
At 1 January, 1996	337,875	60,247	398,122
Retained profit for year	—	241,214	241,214
	<hr/>	<hr/>	<hr/>
At 31 December, 1996	337,875	301,461	639,336
	<hr/>	<hr/>	<hr/>

17. CONTINGENT LIABILITIES

	<u>1996</u>	<u>1995</u>
	£	£
Guarantees in respect of indebtedness of third parties	30,000	30,000
	<hr/>	<hr/>

18. OPERATING LEASES

The commitments which fall to be paid in the following year under non-cancellable operating leases are:

	<u>1996</u>		<u>1995</u>	
	<u>Land and Buildings</u>	<u>Other</u>	<u>Land and Buildings</u>	<u>Other</u>
	£	£	£	£
Operating leases which expire:				
Within one year	16,500	41,308	—	39,189
Between 1 year and 5 years	—	35,217	16,500	16,128
Over 5 years	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	16,500	76,525	16,500	55,317
	<hr/>	<hr/>	<hr/>	<hr/>

COMPSTOCK ELECTRONICS LIMITED

NOTES TO THE ACCOUNTS

(contd.)

19. PENSIONS

With effect from 5 April 1992, the group operated a defined contribution scheme for certain employees. Prior to that date the group operated target benefit schemes which were funded in accordance with actuarial advice.

All the assets of the defined contribution scheme are held in a separate fund administered by London and Manchester Pensions for the benefit of the members of the scheme, and employers' contributions are charged to profit and loss account as they are incurred.

The pension charge for the period was £24,704 (1995: £23,509) and has been determined over the average remaining service lives of the employees. There may be some increase in pension costs in future years as a consequence of the recent Pensions Act.

20. ULTIMATE HOLDING COMPANY

The ultimate holding company is EIS Group P.L.C., a company incorporated in England. Copies of the group accounts are available from:

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF4 3HZ