

VideoLogic Limited
Directors' report and financial statements
31 March 1996
Registered number 1306335



Directors' report and financial statements

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Directors' report

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

Principal activities and business review

The company's principal activity, which has remained unchanged during the year, is the design, development and marketing of multimedia technology for PCs.

The results for the year are shown on page 5; amounts transferred to reserves are given in note 17 to the financial statements. The directors do not recommend payment of a dividend for the year ended 31 March 1996 (*1995:£nil*).

The directors believe VideoLogic is a world leader in the new generation of multimedia technology and is well equipped to make good progress in the future.

Fixed assets

Movements on tangible fixed assets during the year are shown in note 11 to the financial statements.

Share capital

There were no changes to Share Capital during the year.

Research and development

The company will continue to undertake research and development activities to retain its technological advantage and competitive position in the market.

Donations

During the year, the Company made donations for charitable purposes of £284.

Creditor Payment Policy

It is Company policy to agree payment terms with suppliers when negotiating contracts or transactions. The Company ensures that, subject to any necessary variations which may result from supplier related problems, the agreed payment terms are adhered to.

Directors and directors' interests

The directors who held office during the year, including changes since the end of the year, were as follows:

KR Godwin	(appointed 17 April 1995)
RM Livesley	
DAE Maclaren	(resigned 27 March 1996)
AE Maclaren	
I M Mukerjee	(resigned 7 May 1996)
J Pepper	(resigned 28 April 1995)
BLH Powell	(resigned 18 October 1995)
T Selby	(appointed 21 May 1996)
MC Walsh	
T Wing	
Dr H Yassaie	

The interests of DAE Maclaren, AE Maclaren, BLH Powell, Dr H Yassaie and T Selby in the ordinary shares of VideoLogic Group Plc are disclosed in the accounts of that company.

During the year KR Godwin was granted options over 235,000 ordinary shares of 10p each in the company's ultimate parent company VideoLogic Group Plc, which remained outstanding at 31 March 1996. Mr IM Mukerjee was granted options over 80,000 ordinary shares of 10p each in the company's ultimate parent company, VideoLogic Group Plc, which remained outstanding at 31 March 1996.

The market price of the shares at 31st March 1996 was 65 pence, and the range during the year ended on that date was 25 - 80 pence.

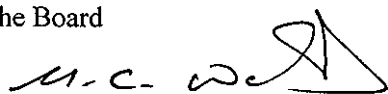
Director's share options in VideoLogic Limited are listed below:

	Balance at 31 st March 1995	Lapsed during year	Balance as at 31 st March 1996	Exercise Date
DAE Maclaren	199,500	-	199,500	April 96 - Sept 2000
RM Livesley	232,750	-	232,750	April 96 - Sept 2000
AE Maclaren	399,000	-	399,000	April 96 - Sept 2000
J Pepper	66,500	(66,500)	NIL	
MC Walsh	66,500	-	66,500	April 96 - Sept 2000
TA Wing	99,750	-	99,750	April 96 - Sept 2000
Dr H Yassaie	266,000	-	266,000	April 96 - Sept 2000

On 6 June 1994, each of the directors with options over shares in VideoLogic Limited entered into put and call agreements with VideoLogic Group Plc, under which each of the directors has the right to sell to VideoLogic Group Plc (which company also has the right to acquire) ordinary shares in VideoLogic Limited issued pursuant to those option arrangements.

By order of the Board

MC Walsh
Secretary
21 January 1997



Home Park Estate
Kings Langley
Hertfordshire, WD4 8LZ

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 or loss 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;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors' report to the members of VideoLogic Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3, 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 affairs of the company as at 31 March 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG

Chartered Accountants

Registered Auditors

22 January 1997

London

Profit and loss account
for the year ended 31 March 1996

	Note	1996 £'000	1995 £'000
Turnover - continuing operations	2	13,022	12,134
Cost of sales	3	<u>(12,110)</u>	<u>(9,987)</u>
Gross profit		912	2,147
• Research and development expenses		(3,368)	(3,026)
• Sales and administrative expenses		(2,877)	(3,515)
• Other operating income	5	<u>100</u>	<u>-</u>
Operating loss - continuing operations	4	(5,233)	(4,394)
Amount written off investments	3	(9,042)	-
Net interest receivable/(payable) and similar charges	8	<u>5</u>	<u>(133)</u>
Loss on ordinary activities before taxation		(14,270)	(4,527)
Tax on profit on ordinary activities	9	<u>-</u>	<u>-</u>
Retained loss for the financial year		<u>(14,270)</u>	<u>(4,527)</u>

A statement of the movement on reserves is set out in note 17 to these financial statements.

Balance sheet
as at 31 March 1996

	Note	1996 £'000	1995 £'000
Fixed Assets			
Intangible assets	10	154	151
Tangible assets	11	1,352	1,239
Investments	12	<u>120</u>	<u>1,778</u>
		1,626	3,168
Current assets			
Stocks	13	1,992	1,435
Debtors	14	4,914	8,555
Cash at bank and in hand		<u>5</u>	<u>15</u>
		6,911	10,005
Creditors: amounts falling due within one year	15	<u>(20,436)</u>	<u>(11,254)</u>
Net current liabilities		<u>(13,525)</u>	<u>(1,249)</u>
Net (liabilities)/assets		<u>(11,899)</u>	<u>1,919</u>
Capital and reserves			
Called up share capital	16	13,300	13,300
Profit and loss account	17	<u>(25,199)</u>	<u>(11,381)</u>
Shareholders' funds - equity		<u>(11,899)</u>	<u>1,919</u>

These financial statements were approved by the board of directors on 21 January 1997 and were signed on its behalf by:



T Selby
Director

Statement of total recognised gains and losses
for the year ended 31 March 1996.

	1996 £'000	1995 £'000
Loss for the financial year	(14,270)	(4,527)
Profit/(Loss) on currency translation	<u>452</u>	<u>(311)</u>
Total gains and losses recognised since last Annual Report	<u>(13,818)</u>	<u>(4,838)</u>

Reconciliation of movements in shareholders' funds
for the year ended 31 March 1996

	1996 £'000	1995 £'000
Loss for the financial year after currency translation	(13,818)	(4,838)
New share capital subscribed	<u>-</u>	<u>9,200</u>
Net addition to shareholders' funds	(13,818)	4,362
Opening shareholders' funds	1,919	(2,443)
Closing shareholders' funds	<u>(11,899)</u>	<u>1,919</u>

Notes

(forming part of the financial statements)

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of S.228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements represent information about the company as an individual undertaking.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of VideoLogic Group Plc, its EU parent, and its cash flows are included within the consolidated cash flow statement of that company.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Finance leases and leasehold improvements	-	Equally over the period of the lease
Plant and equipment	-	20 per cent to 33 per cent on cost
Motor vehicles	-	20 per cent on cost

Foreign exchange

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Differences on exchange arising on translation of longer term monetary assets and liabilities due to the financing of fellow group companies are taken to reserves.

Government grants

Grants are taken to the profit and loss account in the period when the relevant expenditure was incurred.

Research and development costs

Costs of basic and applied research and product development expenditure are written off in the period in which they are incurred.

Notes (continued)

Leased assets

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'.

Assets acquired under such leases are included in the balance sheet at cost less depreciation and the present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Intellectual property rights and patents

Trade marks and patents are capitalised at cost of acquisition and protection including attributable overheads and depreciated over the anticipated period of profitable exploitation.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Work in progress and finished goods include direct costs and attributable overheads based on the normal level of activity.

Deferred taxation

Provision is made for deferred taxation using the liability method on all timing differences, except for those which are not expected to reverse in the foreseeable future.

Turnover

Turnover represents the net value of goods sold and services provided by the company excluding value added tax.

2. Turnover and segmental analysis

Turnover represents the amounts derived from sales of multimedia enabling products and technology.

Turnover is analysed by geographical area of sales as follows:

	1996 £'000	1995 £'000
United Kingdom and Europe	6,044	4,381
North America	4,207	6,012
Rest of world	<u>2,771</u>	<u>1,741</u>
	<u>13,022</u>	<u>12,134</u>

Turnover is analysed by geographical area of origin of sale as follows:

	1996 £'000	1995 £'000
United Kingdom and Europe	<u>13,022</u>	<u>12,134</u>

3. Exceptional items

Included in cost of sales is an amount of £2,221,000 (1995 £1,183,000) for provisions needed to write down excess stocks to net realisable value.

An amount of £9,042,000 (1995 NIL) has been made as provision for diminution in value of subsidiary undertaking.

NOTE: Provision has been made against the Company's investment in (£1,658,000), and debt owed by (£7,384,000), VideoLogic Inc. its wholly owned subsidiary undertaking to the extent that they are not covered by the subsidiary's net assets.

4. Operating loss

	1996 £'000	1995 £'000
<i>Operating loss is stated after charging</i>		
Depreciation of owned tangible and intangible assets	536	546
Depreciation of leased tangible fixed assets	-	51
Auditors' remuneration:		
• Audit	35	27
• Other services	12	1
Operating lease rentals:		
• Hire of plant and machinery	18	9
• Other operating leases	263	256

Notes (continued)

5. Other operating income

Other operating income represents Government grants receivable in respect of certain research and development projects.

6. Remuneration of directors

	1996	1995
	£'000	£'000
Directors' emoluments:		
• Remuneration as executives	<u>671</u>	<u>623</u>

Remuneration includes pension contributions of £17,000 (1995 £12,000) and the monetary value of benefits in kind such as the use of company cars and health insurance.

The emoluments, including pension contributions, of the chairman were £75,000 (1995: £82,000) and those of the highest paid director were £104,000 (1995: £93,000).

The number of directors (including the chairman and the highest paid director) who received emoluments excluding pension contributions in the following ranges were:

		Number of directors		
		1996	1995	
£0	-	£ 5,000	-	2
5,001	-	£10,000	1	-
£45,001	-	£50,000	-	2
£50,001	-	£55,000	2	1
£55,001	-	£60,000	-	1
£60,001	-	£65,000	2	1
£70,001	-	£75,000	1	-
£75,001	-	£80,000	1	1
£80,001	-	£85,000	-	1
£85,001	-	£90,000	-	1
£90,001	-	£95,000	1	1
£100,001	-	£105,000	2	-

Notes (continued)

7. Staff number and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1996	1995
Research and development	50	45
Production	12	13
Administration	15	23
Marketing	<u>22</u>	<u>25</u>
	<u>99</u>	<u>106</u>

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£'000	£'000
Wages and salaries	2,882	2,736
Social security costs	306	320
Other pension costs	<u>86</u>	<u>74</u>
	<u>3,274</u>	<u>3,130</u>

8. Net interest receivable and similar charges

	1996	1995
	£'000	£'000
Interest receivable and similar income	67	85
Less interest payable:		
On loan from Avesco Group repayable within five years	-	(196)
On bank overdrafts and other loans wholly repayable within five years	(62)	(19)
Finance Lease Charges	<u>-</u>	<u>(3)</u>
	<u>(62)</u>	<u>(218)</u>
Net interest receivable/(payable)	<u>5</u>	<u>(133)</u>

9. Taxation

No charge has arisen due to trading losses incurred during the current and preceding years.

Notes (continued)

10. Intangible fixed assets

	Patents & Trademarks	
	1996	1995
	£'000	£'000
<i>Cost</i>		
At 1 April	319	257
Additions	<u>55</u>	<u>62</u>
At 31 March	<u>374</u>	<u>319</u>
<i>Amortisation</i>		
At 1 April	168	94
Charged in year	<u>52</u>	<u>74</u>
At 31 March	<u>220</u>	<u>168</u>
<i>Net Book Value</i>		
At 31 March	<u>154</u>	<u>151</u>

11. Tangible fixed assets

	Leasehold improvements	Plant and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000
<i>Cost</i>				
At 1 April 1995	191	3,050	234	3,475
Additions	39	560	-	599
Disposals	<u>-</u>	<u>-</u>	<u>(88)</u>	<u>(88)</u>
At 31 March 1996	<u>230</u>	<u>3,610</u>	<u>146</u>	<u>3,986</u>
<i>Depreciation</i>				
At 1 April 1995	49	1,999	188	2,236
Charge for year	12	446	26	484
On disposals	<u>-</u>	<u>-</u>	<u>(86)</u>	<u>(86)</u>
At 31 March 1996	<u>61</u>	<u>2,445</u>	<u>128</u>	<u>2,634</u>
<i>Net book value</i>				
At 31 March 1996	<u>169</u>	<u>1,165</u>	<u>18</u>	<u>1,352</u>
At 31 March 1995	<u>142</u>	<u>1,051</u>	<u>46</u>	<u>1,239</u>

Notes (continued)

12. Fixed asset investments

Shares in subsidiary undertakings	1996 £'000	1995 £'000
<i>Cost</i>		
At 1 April	1,778	1,778
Provision for diminution in value	(1,658)	-
At 31 March	<u>120</u>	<u>1,778</u>

The company owns 100% of the ordinary share capital of the following subsidiary undertakings:

Subsidiary undertakings	Country of registration	Principal activity
VideoLogic Inc	USA	Supply of multimedia enabling products
VideoLogic GmbH	Germany	Supply of multimedia enabling products
VideoLogic Laboratories Limited (incorporated in Great Britain)	England and Wales	Dormant

13. Stocks

	1996 £'000	1995 £'000
Raw materials	616	217
Finished goods	<u>1,376</u>	<u>1,218</u>
	<u>1,992</u>	<u>1,435</u>

14. Debtors

	1996 £'000	1995 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	1,841	947
Amounts owed by subsidiary undertakings	2,592	7,117
Other debtors	80	252
Prepayments and accrued income	<u>401</u>	<u>239</u>
	<u>4,914</u>	<u>8,555</u>

Notes (continued)

15. Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Bank loans and overdrafts	1,689	543
Trade creditors	2,213	1,648
Amounts owed to parent company	15,761	8,578
Amounts owed to subsidiary undertakings	100	100
Taxation and social security	113	102
Other creditors	5	24
Accruals and deferred income	555	259
	<u>20,436</u>	<u>11,254</u>

16. Called up share capital

	1996 £'000	1995 £'000
<i>Authorised, allotted, called up and fully paid</i>		
13,300,000 ordinary shares of £1 each - equity	<u>13,300</u>	<u>13,300</u>

17. Profit and loss account

	1996 £'000	1995 £'000
At 1 April	(11,381)	(6,543)
Retained loss for the year	(14,270)	(4,527)
Gain/(Loss) on currency translation	452	(311)
At 31 March	<u>(25,199)</u>	<u>(11,381)</u>

18. Contingent liabilities

At 31 March 1995, the Company had contingent liabilities under indemnities given on behalf of the Company in the normal course of business amounting to £1,000. No such contingent liabilities were outstanding at 31 March 1996.

Notes (continued)

19. Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made are as follows.

	1996 £'000	1995 £'000
Authorised and contracted	<u>25</u>	<u>64</u>

- (ii) Annual commitments under non-cancellable operating leases are as follows:

	1996		1995	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
• Within one year	-	19	5	-
• In two to five years	-	40	-	48
• Over five years	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>200</u>	<u>59</u>	<u>205</u>	<u>48</u>

20. Pension scheme

VideoLogic Limited is a member of the VideoLogic Group Plc defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost of £86,000 (1995:£74,000) represents contributions paid by the company to the fund. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

21. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of VideoLogic Group Plc which is the ultimate parent company. VideoLogic Group Plc is incorporated and registered in England and Wales. Copies of its financial statements may be obtained from Home Park Estate, Kings Langley, Hertfordshire WD4 8LZ.