

**VideoLogic Limited**

**Directors' report and financial statements**

**31 March 1997**

**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 1997.

## **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 1997 (1996: £nil).

The directors believe VideoLogic is a world leader in the new generation of multimedia technology and is well positioned to exploit the growing market for this technology.

## **Share capital**

On 14 June 1996, 449,499 Ordinary Shares of £1 each were issued and allotted fully paid, and on 17 June 1996 a further 135,994 Ordinary Shares of £1 each were issued and allotted fully paid, in respect of options exercised by the respective Directors, as detailed in the Directors and Directors Interest section on page 2. Under the terms of the put and call agreements between the Directors and VideoLogic Group Plc, these shares were immediately acquired by VideoLogic Group Plc, the consideration being the issue of VideoLogic Group Plc Ordinary shares.

## **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 £486 (1996: £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	
RM Livesley	(resigned 4 September 1996)
AE Maclaren	
I M Mukerjee	(resigned 7 May 1996)
T Selby	(appointed 21 May 1996)
MC Walsh	
T Wing	
Dr H Yassaie	

The interests of AE Maclaren, 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 T Selby was granted options over 300,000 ordinary shares of 10p each in the company's ultimate parent company VideoLogic Group Plc, which remained outstanding at 31 March 1997.

The market price of the shares in VideoLogic Group Plc at 31 March 1997 was 52.5 pence, and the range during the year ended on that date was 39.5 - 111.5 pence.

Directors' share options in VideoLogic Limited are listed below:

	Balance as at 31 March 1996	Exercised during year	Lapsed during year	Balance as at 31 March 1997	Exercise Price	Date from which first exercisable	Expiry Date
AE Maclaren	399,000	(222,844)	(127,013)	49,143	10.4p	Apr 96	Sept 2000
MC Walsh	66,500	(22,665)	(21,170)	22,665	10.4p	Apr 96	Sept 2000
TA Wing	99,750	(33,998)	(31,754)	33,998	10.4p	Apr 96	Sept 2000
Dr H Yassaie	266,000	(90,662)	(84,676)	90,662	10.4p	Apr 96	Sept 2000

\*T Selby and K R Godwin hold no interests in share options in VideoLogic Limited as at 31 March 1997.

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.

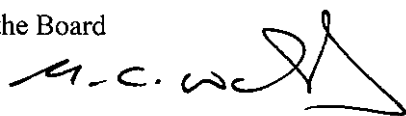
The market price of the shares in VideoLogic Group Plc at the date of exercise of the share options was 105.5 pence.

By order of the Board

MC Walsh

Secretary

26 September 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 accounts on pages 5 to 15.

### ***Respective responsibilities of directors and auditors***

As described on page 3, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

### ***Opinion***

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

26 September 1997  
London

**Profit and loss account**  
*for the year ended 31 March 1997*

	Note	1997 £'000	1996 £'000
<b>Turnover - continuing operations</b>	2	<b>14,161</b>	13,022
Cost of sales	3	<u>(8,856)</u>	<u>(12,110)</u>
<b>Gross profit</b>		<b>5,305</b>	912
• Research and development expenses		(4,417)	(3,368)
• Sales and administrative expenses		(2,099)	(2,877)
• Other operating income	5	<u>484</u>	<u>100</u>
<b>Operating loss - continuing operations</b>	4	<b>(727)</b>	(5,233)
Amount written off investments	3	(562)	(9,042)
Net interest receivable and similar income	8	<u>12</u>	<u>5</u>
<b>Loss on ordinary activities before taxation</b>		<b>(1,277)</b>	(14,270)
Tax on profit on ordinary activities	9	<u>-</u>	<u>-</u>
<b>Retained loss for the financial year</b>		<b><u>(1,277)</u></b>	<b><u>(14,270)</u></b>

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

**Balance sheet**  
as at 31 March 1997

	Note	1997 £'000	1996 £'000
<b>Fixed Assets</b>			
Intangible assets	10	143	154
Tangible assets	11	1,519	1,352
Investments	12	<u>120</u>	<u>120</u>
		1,782	1,626
<b>Current assets</b>			
Stocks	13	904	1,992
Debtors	14	3,125	4,914
Cash at bank and in hand		<u>84</u>	<u>5</u>
		4,113	6,911
<b>Creditors: amounts falling due within one year</b>	15	<u>(19,200)</u>	<u>(20,436)</u>
<b>Net current liabilities</b>		<u>(15,087)</u>	<u>(13,525)</u>
<b>Total assets less current liabilities</b>		<u>(13,305)</u>	<u>(11,899)</u>
<b>Capital and reserves</b>			
Called up share capital	16	13,885	13,300
Profit and loss account	17	<u>(27,190)</u>	<u>(25,199)</u>
Shareholders' funds - equity		<u>(13,305)</u>	<u>(11,899)</u>

These accounts were approved by the board of directors on 25 September 1997 and were signed on its behalf by:



**T Selby**  
Director

**Statement of total recognised gains and losses**  
*for the year ended 31 March 1997.*

	1997 £'000	1996 £'000
Loss for the financial year	(1,277)	(14,270)
(Loss) /Gain on currency translation	<u>(714)</u>	<u>452</u>
Total gains and losses recognised since last Annual Report	<u><b>(1,991)</b></u>	<u><b>(13,818)</b></u>

**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 March 1997*

	1997 £'000	1996 £'000
Loss for the financial year	(1,277)	(14,270)
Other recognised gains and losses relating to the year	(714)	452
New share capital subscribed	<u>585</u>	<u>-</u>
<b>Net addition to shareholders' funds</b>	<b>(1,406)</b>	<b>(13,818)</b>
Opening shareholders' funds	(11,899)	1,919
<b>Closing shareholders' funds</b>	<u><b>(13,305)</b></u>	<u><b>(11,899)</b></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 and amortised over the anticipated period of profitable exploitation.

### ***Stocks***

Stocks are valued at the lower of cost and net realisable value. 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.

### ***Pension Scheme***

The company contributes to a defined contribution pension plan. Payments are charged to the profit and loss account in the period to which they relate.

## 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:

	1997 £'000	1996 £'000
United Kingdom and Europe	7,972	6,044
North America	2,639	4,207
Rest of world	<u>3,550</u>	<u>2,771</u>
	<u>14,161</u>	<u>13,022</u>

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

	1997 £'000	1996 £'000
United Kingdom and Europe	<u>14,161</u>	<u>13,022</u>

## 3. Exceptional items

Exceptional items of £2,221,000 were included in the cost of sales in 1996 relating to provisions needed to write down excess stocks to net realisable value.

An additional amount of £562,000 has been charged during the year against the provision for diminution in value of subsidiary undertaking (1996: £9,042,000).

## 4. Operating loss

	1997 £'000	1996 £'000
<i>Operating loss is stated after charging</i>		
Depreciation of owned tangible and intangible assets	620	536
Auditors' remuneration:		
• Audit	26	35
• Other services	28	12
Operating lease rentals:		
• Hire of plant and machinery	3	18
• Other operating leases	267	263
Other Income	(484)	(100)

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**

	1997 £'000	1996 £'000
Directors' emoluments:		
• Remuneration as executives	<u>530</u>	<u>671</u>

Remuneration includes pension contributions of £15,000 (1996: £17,000) and the monetary value of benefits in kind such as the use of company cars and health insurance. Four of the directors have retirement benefits accruing to them under a defined contribution pension scheme.

The emoluments of the chairman, who was also the highest paid director, were £109,000. No pension contributions were paid. In 1996 the emoluments of the highest paid director were £104,000. No pension contributions were paid.

Five of the directors exercised share options during the year.

**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	
	1997	1996
Research and development	63	50
Production	12	12
Administration	12	15
Marketing	<u>11</u>	<u>22</u>
	<u>98</u>	<u>99</u>

The aggregate payroll costs of these persons were as follows:

	1997 £'000	1996 £'000
Wages and salaries	3,107	2,882
Social security costs	322	306
Other pension costs	<u>89</u>	<u>86</u>
	<u>3,518</u>	<u>3,274</u>

**Notes (continued)**

**8. Net interest receivable and similar income**

	1997 £'000	1996 £'000
Interest receivable and similar income - group	33	65
- other	<u>5</u>	<u>2</u>
Less interest payable:	38	67
On bank overdrafts and other loans	(26)	(62)
Net interest receivable	<u>12</u>	<u>5</u>

**9. Taxation**

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

**Notes (continued)**

**10. Intangible fixed assets**

	<b>Patents &amp; Trademarks</b>	
	1997 £'000	1996 £'000
<i>Cost</i>		
At 1 April	374	319
Additions	51	55
Disposals	(11)	-
At 31 March	<u>414</u>	<u>374</u>
<i>Amortisation</i>		
At 1 April	220	168
Charged in year	62	52
Disposals	(11)	-
At 31 March	<u>271</u>	<u>220</u>
<i>Net Book Value</i>		
At 31 March	<u>143</u>	<u>154</u>

Notes (continued)

11. Tangible fixed assets

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
<i>Cost</i>				
At 1 April 1996	230	3,610	146	3,986
Additions	1	736	9	746
Disposals	-	(495)	(91)	(586)
At 31 March 1997	<u>231</u>	<u>3,851</u>	<u>64</u>	<u>4,146</u>
<i>Depreciation</i>				
At 1 April 1996	61	2,445	128	2,634
Charge for year	14	535	9	558
On disposals	-	(492)	(73)	(565)
At 31 March 1997	<u>75</u>	<u>2,488</u>	<u>64</u>	<u>2,627</u>
<i>Net book value</i>				
At 31 March 1997	<u>156</u>	<u>1,363</u>	<u>0</u>	<u>1,519</u>
At 31 March 1996	<u>169</u>	<u>1,165</u>	<u>18</u>	<u>1,352</u>

12. Fixed asset investments

Shares in subsidiary undertakings

	£'000
<i>Cost</i>	
At 1 April 1996 and 31 March 1997	1,778
<i>Provision for diminution in value</i>	
At 1 April 1996 and 31 March 1997	(1,658)
Net book value	<u>120</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

	1997 £'000	1996 £'000
Raw materials	176	616
Finished goods	<u>728</u>	<u>1,376</u>
	<u>904</u>	<u>1,992</u>

Notes (continued)

14. Debtors

	1997 £'000	1996 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	1,195	1,841
Amounts owed by subsidiary undertakings	1,081	2,592
Other debtors	30	80
Prepayments and accrued income	819	401
	<u>3,125</u>	<u>4,914</u>

15. Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Bank loans and overdrafts	-	1,689
Trade creditors	1,888	2,213
Amounts owed to parent company	16,449	15,761
Amounts owed to subsidiary undertakings	100	100
Taxation and social security	124	113
Other creditors	6	5
Accruals and deferred income	633	555
	<u>19,200</u>	<u>20,436</u>

16. Called up share capital

	1997 £'000	1996 £'000
<i>Authorised, allotted, called up and fully paid</i>		
13,885,493 ordinary shares of £1 each - equity	<u>13,885</u>	<u>13,300</u>

585,493 ordinary shares were issued during the year with a nominal value of £585,493. The consideration received was £585,493.

17. Profit and loss account

	1997 £'000	1996 £'000
At 1 April	(25,199)	(11,381)
Retained loss for the year	(1,277)	(14,270)
(Loss)/Gain on currency translation	(714)	452
At 31 March	<u>(27,190)</u>	<u>(25,199)</u>

18. Contingent liabilities

No contingent liabilities were outstanding at 31 March 1997 (1996: £Nil).

**Notes (continued)**

**19. Commitments**

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

	1997 £'000	1996 £'000
Authorised and contracted	<u>37</u>	<u>25</u>

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

	1997		1996	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
• Within one year	-	-	-	19
• In two to five years	-	56	-	40
• Over five years	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>200</u>	<u>56</u>	<u>200</u>	<u>59</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 £89,000 (1996:£86,000) 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 accounts may be obtained from Home Park Estate, Kings Langley, Hertfordshire WD4 8LZ.