

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu
International



Company Registration No. 2663485

MONOTYPE TYPOGRAPHY LIMITED

Report and Financial Statements

Year ended 31 March 1997

**Deloitte & Touche
63 High Street
Crawley
West Sussex
RH10 1BQ**





REPORT AND FINANCIAL STATEMENTS 1997

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

I Mirochnick (USA)
J H McCallum
T M Fraser

SECRETARY

T M Fraser

REGISTERED OFFICE

Unit 2
Perrywood Business Park
Salfords
Redhill
Surrey
RH1 5DZ

BANKERS

Lloyds Bank plc
La Salle Bank

SOLICITORS

Stack & Filpi
Chicago, USA

Downs & Co
Dorking, Surrey

AUDITORS

Deloitte & Touche
Chartered Accountants



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 1997.

ACTIVITIES

The company's principal activity is the design, manufacture and marketing of typefaces and other type related products. There have been no changes in these activities during the year.

REVIEW OF DEVELOPMENTS

The company achieved its third consecutive profitable year. In the retail market, font prices have continued to erode but the effect of this has been offset by an increase in demand for the company's typographic solutions and trademark licensing. This is reflected by a net 7% increase in turnover.

The company completed development of its own CD ROM encryption system which it is now marketing. As well as reducing its dependence on third parties this has broadened its product range.

FUTURE PROSPECTS

The company will continue to concentrate on developing its typographic services and trademark licensing. In the retail market it will continue to add to its range of fonts and promote itself while seeking to increase its margins and monitor costs. Development expenditure is expected to continue at a similar level as the company adapts to technological changes in the marketplace.

The directors are therefore optimistic about the company's future prospects.

RESULTS AND DIVIDENDS

The results for the year are shown on page 6 and the notes thereto. The year end position is shown on page 8 and the notes thereto.

The directors do not propose any dividends in respect of the year (1996 - £nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. All directors served throughout the year.

None of the directors had any interests in the shares of the company. As the parent company is a body corporate incorporated outside Great Britain, the directors are not required to notify the company of any interests in shares of that or any other body corporate incorporated outside Great Britain.

RESEARCH AND DEVELOPMENT

The company has a programme of research and development of existing products. All research and development costs are charged through the profit and loss account as incurred. Further details can be found in note 3 to the financial statements.



DIRECTORS' REPORT (continued)

AUDITORS

A resolution for the re-appointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

T M FRASER
Secretary

29 May 1997



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 as at the end of the financial year and of the profit or loss of the company 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;
- 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 and detection of fraud and other irregularities.

Approved by the Board of Directors and
signed on behalf of the Board

J H McCallum
Director

29 May 1997



Chartered Accountants

Deloitte & Touche
63 High Street
Crawley
West Sussex RH10 1BQ

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AUDITORS' REPORT TO THE MEMBERS OF MONOTYPE TYPOGRAPHY LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on pages 9 and 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4, 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 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and
Registered Auditors

30 May 1997



MONOTYPE TYPOGRAPHY LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 March 1997

	Note	1997 £	1996 (Restated note 2) £
TURNOVER	2	2,587,978	2,418,160
Cost of sales		553,783	519,980
Gross profit		2,034,195	1,898,180
Distribution costs		670,965	591,637
Administrative expenses		1,147,399	1,046,680
OPERATING PROFIT	3	215,831	259,863
Interest receivable and similar income		33,492	3,017
Interest payable and similar charges	5	(4,979)	(2,455)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		244,344	260,425
Tax charge on profit on ordinary activities	6	76,751	81,757
PROFIT FOR THE FINANCIAL YEAR		167,593	178,668

All activities are considered to be continuing.

There are no recognised gains or losses for the current and preceding financial year other than as stated in the profit and loss account.

**COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES**
Year ended 31 March 1997

	Share capital £	Profit and loss account £	Total 1997 £	Total 1996 £
At beginning of the financial year	2	367,822	367,824	189,156
Profit for the financial year	-	167,593	167,593	178,668
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the financial year	2	535,415	535,417	367,824
	<hr/>	<hr/>	<hr/>	<hr/>


BALANCE SHEET
As at 31 March 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	7		165,928		164,922
CURRENT ASSETS					
Stocks	8	9,339		24,597	
Debtors	9	470,465		453,855	
Cash at bank and in hand		781,689		547,561	
		<u>1,261,493</u>		<u>1,026,013</u>	
CREDITORS: amounts falling due within one year	10	864,854		791,853	
		<u> </u>		<u> </u>	
NET CURRENT ASSETS			396,639		234,160
			<u> </u>		<u> </u>
TOTAL ASSETS LESS CURRENT LIABILITIES			562,567		399,082
CREDITORS: amounts falling due after more than one year	11		(27,150)		(31,258)
			<u> </u>		<u> </u>
			535,417		367,824
			<u> </u>		<u> </u>
CAPITAL AND RESERVES					
Called up share capital	12		2		2
Profit and loss account			535,415		367,822
			<u> </u>		<u> </u>
TOTAL EQUITY SHAREHOLDERS' FUNDS			535,417		367,824
			<u> </u>		<u> </u>

These financial statements were approved by the Board of Directors on 29 May 1997.

Signed on behalf of the Board of Directors

J.H. McCallum
Director



NOTES TO THE ACCOUNTS
Year ended 31 March 1997

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less depreciation. Depreciation is provided at rates calculated to write down the cost of the assets to their estimated residual values over their estimated useful economic lives. The rates of depreciation are as follows:

Leasehold improvements	- 33 1/3% straight line or over the life of the lease if shorter
Office equipment & fittings	- 25% straight line or over the life of the lease if shorter
Computer hardware	- 33 1/3% straight line
Motor vehicles	- 25% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost represents invoiced value of goods supplied to the company.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is expected that tax will arise.

Foreign exchange

Normal trading activities denominated in foreign currency are recorded in sterling at the actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are reported at the rates of exchange prevailing at that date. All exchange differences are dealt with in the profit and loss account.

Royalties

Royalties receivable are accounted for on an accruals basis and are included in other operating income.

Research and development

Research and development expenditure is written off in the period in which it is incurred.

NOTES TO THE ACCOUNTS
Year ended 31 March 1997

1. ACCOUNTING POLICIES (continued)

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rental payments under operating leases are charged to the profit and loss account as incurred.

Reclassification of comparatives

Some comparative figures have been reclassified to give a fairer presentation.

Pension costs

The company operates a money purchase scheme (defined contribution scheme). Pension costs for employees are charged to the profit and loss account in the year in which they become payable.

2. TURNOVER

Turnover is wholly attributable to the principal activity of the company and represents the invoiced value of goods and services supplied to customers, including amounts received by way of royalty, excluding value added tax.

This constitutes a change in presentation whereby royalties received were included in other operating income in prior periods. The effect of this change is to increase turnover for the year ended 31 March 1997 by £823,285 with a corresponding reduction in other operating income. In terms of the comparative financial year the increase in turnover amounts to £556,183 with a corresponding reduction in other operating income. This change in presentation has no effect on profit on ordinary activities before taxation for either year. Comparative figures in respect of the year ended 31 March 1996 have been restated accordingly.

The geographical analysis of turnover by destination is as follows:

	1997 £	1996 £
United Kingdom	1,027,681	1,003,992
Europe	730,500	626,204
North America	767,018	713,955
Other	62,779	74,009
	<u>2,587,978</u>	<u>2,418,160</u>


NOTES TO THE ACCOUNTS
Year ended 31 March 1997
3. OPERATING PROFIT

	1997 £	1996 £
This is stated after charging/(crediting):		
Rentals under operating leases:		
Other operating leases	46,175	76,494
Staff costs (see note 4)	934,364	853,039
Auditors' remuneration	13,275	12,625
Depreciation:		
Own assets	69,363	56,710
Assets held under finance leases and hire purchase agreements	7,980	11,982
Foreign exchange loss/(gain)	37,833	(30,522)
Research and development expenditure (including wages costs of £123,000 (1996 - £122,400))	190,576	230,690
	<u> </u>	<u> </u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 £	1996 £
a) Directors:		
Remuneration: Salaries and taxable benefits	120,563	111,141
Pension contributions	17,323	16,143
	<u>137,886</u>	<u>127,284</u>
	<u> </u>	<u> </u>
Remuneration of the highest paid director (excl. pension)	68,423	59,498
	<u> </u>	<u> </u>
	No.	No.
Scale of other directors' remuneration:		
£0 - £5,000	1	1
£50,001 - £55,000	1	1
	<u> </u>	<u> </u>
b) Employees:		
	No.	No.
Average weekly number of persons employed:		
Administration	9	9
Sales	8	9
Production and development	14	14
	<u>31</u>	<u>32</u>
	<u> </u>	<u> </u>
	£	£
Staff costs during the year comprise:		
Wages and salaries	778,612	705,791
Social security costs	85,657	77,022
Pension costs	70,095	70,226
	<u>934,364</u>	<u>853,039</u>
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS
Year ended 31 March 1997

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £	1996 £
Charges in respect of finance leases	4,979	2,455
	<u>4,979</u>	<u>2,455</u>

**6. TAX CHARGE ON PROFIT
ON ORDINARY ACTIVITIES**

	1997 £	1996 £
The tax charge on the profit on ordinary activities for the year was as follows:		
UK corporation tax charge at 28.7% (1996 - 29.5%)	76,775	80,911
Adjustment in respect of prior years	(24)	846
Overseas tax	154	791
Relief for overseas tax	(154)	(791)
	<u>76,751</u>	<u>81,757</u>

There is no provided or unprovided deferred taxation for the current or preceding year.

NOTES TO THE ACCOUNTS
Year ended 31 March 1997

7. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Office equipment & fittings £	Computer hardware £	Motor vehicles £	Total £
Cost:					
At 1 April 1996	45,538	45,965	127,693	91,058	310,254
Additions	1,641	31,352	22,243	28,663	83,899
Disposals	-	-	(7,199)	(14,170)	(21,369)
At 31 March 1997	47,179	77,317	142,737	105,551	372,784
Depreciation:					
At 1 April 1996	15,922	21,388	87,101	20,921	145,332
Charge for the year	15,206	12,965	22,426	26,746	77,343
Disposals	-	-	(6,488)	(9,331)	(15,819)
At 31 March 1997	31,128	34,353	103,039	38,336	206,856
Net book value:					
At 31 March 1997	16,051	42,964	39,698	67,215	165,928
At 31 March 1996	29,616	24,577	40,592	70,137	164,922

The net book value includes the following in respect of assets held under finance leases:

	1997 £	1996 £
Office equipment & fittings	7,992	-
Motor vehicles	67,215	70,137
	<u>75,207</u>	<u>70,137</u>
8. STOCKS	1997	1996
	£	£
Components for assembly	9,339	24,597
	<u>9,339</u>	<u>24,597</u>
9. DEBTORS	1997	1996
	£	£
Trade debtors	243,267	267,940
Amounts owed by parent company	-	25,523
Other debtors	650	1,249
Prepayments and accrued income	226,548	159,143
	<u>470,465</u>	<u>453,855</u>

All debtors are due within one year. Included in prepayments is £18,750 (1996 - £18,750) secured by a rent deposit deed in favour of the landlord in the event of default by the company.



NOTES TO THE ACCOUNTS
Year ended 31 March 1997

10. CREDITORS: AMOUNTS FALLING DUE

WITHIN ONE YEAR

	1997	1996
	£	£
Obligations under finance leases and hire purchase contracts (note 13(ii))	27,279	19,000
Trade creditors	178,484	182,335
Amounts owed to parent company	847	-
Corporation tax	76,673	80,120
Other taxes and social security	47,543	24,921
Other creditors	15,701	9,990
Accruals	366,407	350,529
Deferred income	151,920	124,958
	<u>864,854</u>	<u>791,853</u>

Included within other creditors is £9,987 (1996 - £5,708) of pension contributions payable as at the balance sheet date.

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE

THAN ONE YEAR

	1997	1996
	£	£
Obligations under finance leases and hire purchase contracts (note 13 (ii))	27,150	31,258
	<u>27,150</u>	<u>31,258</u>

12. CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised:		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
Called up, allotted and fully paid:		
2 ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 1997

13. LEASE COMMITMENTS

(i) Operating leases

At 31 March 1997, the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £
Leases which expire within one year	42,500
	<u> </u>

(ii) Finance leases

Obligations under finance leases and hire purchase contracts comprise:

	1997 £	1996 £
Minimum lease payments payable:		
Within one year	31,425	22,105
Between one and two years	29,847	18,910
Between two and five years	1,415	17,334
	<u> </u>	<u> </u>
	62,687	58,349
Finance charges allocated to future periods	(8,258)	(8,091)
	<u> </u>	<u> </u>
	54,429	50,258
	<u> </u>	<u> </u>

	£	£
The above amounts are dealt with in the balance sheet as follows:		
Creditors: amounts falling due within one year (note 10)	27,279	19,000
Creditors: amounts falling due after more than one year (note 11)	27,150	31,258
	<u> </u>	<u> </u>
	54,429	50,258
	<u> </u>	<u> </u>

14. PARENT COMPANY AND CONTROLLING ENTITY

The company is a wholly owned subsidiary of Monotype Typography Inc., a company registered in the State of Illinois, USA. The accounts of the parent company are not available to the public. Monotype Typography Inc. is the controlling entity of the company.

**NOTES TO THE ACCOUNTS**
Year ended 31 March 1997**15. RELATED PARTY TRANSACTIONS**

Details of the transactions with Monotype Typography Inc. required by FRS 8 "Related Party Disclosures" are as follows:

Sales in the normal course of business	£3,041
Purchases in the normal course of business	£86,074

At 31 March 1997 there was £847 due to Monotype Typography Inc.