

Imagelinx UK Limited

Report and Financial Statements

31 December 2002



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Imagelinx UK Limited

Registered No: 03182772

Directors

A K Klein (Chairman)
A J P McHugh
U K Bange
P Williams
J M Kendall
N J Hunter
S C Tokelove
L Bale

Secretary

J M Kendall

Auditors

Ernst & Young LLP
City Gate West
Toll House Hill
Nottingham
NG1 5FY

Bankers

HSBC Bank plc
110 Grey Street
Newcastle-Upon-Tyne
Tyne & Wear
NE1 6JG

Solicitors

MacLay Murray & Spens
10 Foster Lane
London
EC2V 6HR

Registered office

42 Portman Road
Reading
Berkshire
RG30 1EA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The loss for the year amounted to £4,621,000. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be that of digital artwork and reprographic services.

Imagelinx UK Limited continues to invest in expanding its marketing and operating activities. The company now has an increased client and prospect list and is optimistic of its future prospects.

Directors

The directors who served the company during the year were as follows:

A K Klein	
A J P McHugh	
U K Bange	
P Williams	
J M Kendall	
N J Hunter	
R Krotz	(Resigned 31 January 2003)
S C Tokelove	(Appointed 31 October 2002)
L Bale	(Appointed 31 October 2002)
K A Ziegenbein	(Resigned 10 May 2002)

There are no directors' interests requiring disclosure under the Companies Act 1985.

None of the directors has any interest in the share capital of the company. Directors' interests in the share capital on the company's ultimate parent undertaking, LTG Technologies plc are as follows:

	At 31 December 2002		At 31 December 2001 or subsequent date of appointment	
	Ordinary shares £000	Options £000	Ordinary shares £000	Options £000
P Williams	1,719,048	38,850	1,719,048	38,850
A McHugh	1,569,048	38,850	1,569,048	38,850
J M Kendall	-	22,200	-	22,000
K Ziegenberin	-	-	-	93,450
S C Tokelove	-	-	-	-
L Bale	-	-	-	-
R Krotz	10,500	-	-	-
N J Hunter	97,928	175,521	26,500	175,521

The movement in options held relates to options granted during the year. None of the above directors exercised any share options during the year.

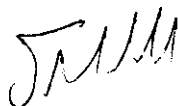
UK Bange and AK Klein are also directors of the ultimate parent company, LTG Technologies plc and, and their interests in its share capital are disclosed in the accounts of that company.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



J M Kendall
Secretary

29/4 2003

Statement of directors' responsibilities in respect of the financial statements

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 of the company for that year. 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; and
- 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.

Independent auditors' report to the members of Imagelinx UK Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Independent auditors' report
to the members of Imagelinx UK Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Nottingham

7 May 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Turnover	2	3,484	4,717
Cost of sales		1,725	2,996
Gross profit		1,759	1,721
Administrative expenses		6,214	4,060
Operating loss	3	(4,455)	(2,339)
Interest receivable and similar income	6	34	–
Interest payable	7	(200)	(210)
		(166)	(210)
Loss on ordinary activities before taxation		(4,621)	(2,549)
Tax on loss on ordinary activities	8	–	(43)
Loss for the financial year		(4,621)	(2,506)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £4,621,000 attributable to the shareholders for the year ended 31 December 2002 (2001 - loss of £2,506,000).

Balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible assets	9	5,374	4,356
Investments	10	2,081	2,081
		<u>7,455</u>	<u>6,437</u>
Current assets			
Stocks	11	298	81
Debtors	12	6,455	4,707
Cash at bank		42	2
		<u>6,795</u>	<u>4,790</u>
Creditors: amounts falling due within one year	13	20,999	13,307
Net current liabilities		<u>(14,204)</u>	<u>(8,517)</u>
Total assets less current liabilities		<u>(6,749)</u>	<u>(2,080)</u>
Creditors: amounts falling due after more than one year	14	44	92
		<u>(6,793)</u>	<u>(2,172)</u>
Capital and reserves			
Called up share capital	18	13	13
Share premium account	19	612	612
Profit and loss account	19	(7,418)	(2,797)
Equity shareholder's funds	19	<u>(6,793)</u>	<u>(2,172)</u>

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J M Kendall
Director

27 April 2003

Notes to the financial statements

at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is exempt from the obligation to prepare and deliver group accounts under s228 of Companies Act 1985. Accordingly these financial statements present information about the company as an individual undertaking and not about its group.

The ultimate parent company, LTG Technologies plc, has agreed to provide sufficient funds to the company to enable it to continue to meet its liabilities as they fall due. The directors therefore consider that it is appropriate to prepare the financial statements on a going concern basis.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Fixed assets

All fixed assets are initially recorded at cost. The cost of fixed assets includes amounts capitalised in the course of construction of IT and production software.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold Property	-	over 50 years
Plant & Machinery	-	over 5 to 15 years

Assets under construction are not depreciated until they are available for use.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

During the year the company adopted FRS 19 Deferred Taxation for the first time. This change in accounting policy has had no significant impact on the result for the year ended 31 December 2002 or that of the previous year and so no prior year adjustment has been made.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

Notes to the financial statements

at 31 December 2002

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, the provision of digital artwork and reprographic services.

An analysis of turnover by geographical market is given below:

	2002 £000	2001 £000
UK	2,207	2,363
Rest of Europe	95	80
Asia	82	63
USA	1,078	2,100
Rest of World	22	111
	<u>3,484</u>	<u>4,717</u>

3. Operating loss

This is stated after charging:

	2002 £000	2001 £000
Auditors' remuneration - audit services	30	22
- non-audit services	-	-
	<u>30</u>	<u>22</u>
Depreciation of owned fixed assets	444	251
Depreciation of assets held under finance leases	150	144
	<u>594</u>	<u>395</u>
Operating lease rentals - land and buildings	87	19
- plant and machinery	35	46
	<u>122</u>	<u>65</u>
Exceptional items:		
Write down of property held for resale	259	-
Restructuring costs	194	-
	<u>453</u>	<u>-</u>

Notes to the financial statements

at 31 December 2002

4. Staff costs

	2002 £000	2001 £000
Wages and salaries	3,199	2,254
Social security costs	272	200
Other pension costs	144	117
Pensions paid to former employees	30	—
	<u>3,645</u>	<u>2,571</u>

The monthly average number of employees during the year was as follows:

	2002 No.	2001 No.
Production staff	31	31
Administrative staff	53	42
	<u>84</u>	<u>73</u>

5. Directors' emoluments

	2002 £000	2001 £000
Emoluments	<u>353</u>	<u>394</u>
Value of company pension contributions to money purchase schemes	<u>30</u>	<u>28</u>

	2002 No.	2001 No.
Members of money purchase pension schemes	<u>6</u>	<u>4</u>

The amounts in respect of the highest paid director are as follows:

	2002 £000	2001 £000
Emoluments	<u>97</u>	<u>114</u>
Value of company pension contributions to money purchase schemes	<u>10</u>	<u>9</u>

6. Interest receivable

	2002 £000	2001 £000
Interest from group companies	<u>34</u>	<u>—</u>

Notes to the financial statements

at 31 December 2002

7. Interest payable

	2002 £000	2001 £000
Finance charges payable under finance leases	40	42
Interest payable to group companies	160	168
	<u>200</u>	<u>210</u>

8. Tax

(a) Tax on loss on ordinary activities

	2002 £000	2001 £000
<i>Current tax:</i>		
Corporation tax	—	—
Tax under/(over) provided in previous years	—	(26)
Total current tax (note 8(b))	<u>—</u>	<u>(26)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	—	(17)
Tax on loss on ordinary activities	<u>—</u>	<u>(43)</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £000	2001 £000
Loss on ordinary activities before taxation	<u>(4,621)</u>	<u>(2,549)</u>
Loss on ordinary activities multiplied by standard rate of UK corporation tax	(1,386)	(765)
Expenses not deductible for tax purposes	376	24
Accelerated capital allowances	138	(198)
Other timing differences	3	(8)
Tax losses	869	726
Group relief	—	195
Total current tax (note 8(a))	<u>—</u>	<u>(26)</u>

Notes to the financial statements

at 31 December 2002

8. Tax (continued)

(c) Deferred tax

The deferred taxation asset not recognised in the accounts is as follows:

	2002 £000	2001 £000
Capital allowances in advance of depreciation	(180)	235
Tax losses available	(1,359)	(21)
Other timing differences	(33)	(966)
	<u>(1,572)</u>	<u>(752)</u>

Deferred tax is not provided as the company has an overall deferred tax asset, the timing of the recovery of which is not sufficiently certain to recognise the asset.

9. Tangible fixed assets

	<i>Freehold Property £000</i>	<i>Plant & Machinery £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
Cost:				
At 1 January 2002	524	1,624	2,676	4,824
Additions	926	416	836	2,178
Disposals	(543)	(116)	–	(659)
At 31 December 2002	<u>907</u>	<u>1,924</u>	<u>3,512</u>	<u>6,343</u>
Depreciation:				
At 1 January 2002	12	456	–	468
Provided during the year	37	557	–	594
Disposals	(34)	(59)	–	(93)
At 31 December 2002	<u>15</u>	<u>954</u>	<u>–</u>	<u>969</u>
Net book value:				
At 31 December 2002	<u>892</u>	<u>970</u>	<u>3,512</u>	<u>5,374</u>
At 1 January 2002	<u>512</u>	<u>1,168</u>	<u>2,676</u>	<u>4,356</u>

The net book value of assets above includes an amount of £265,000 (2001 - £364,000) in respect of assets held under finance leases.

10. Investments

	<i>Shares in group companies brought forward £000</i>
Cost:	
At 1 January 2002 & 31 December 2002	<u>2,081</u>

Notes to the financial statements

at 31 December 2002

10. Investments (continued)

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
DRP Studios Limited	Ordinary shares	100%	Dormant
Image Linx USA Inc (incorporated in USA)	Ordinary shares	100%	Digital artwork and reprographic services
Imagelinx Italia SRL (incorporated in Italy)	Ordinary shares	100%	Digital artwork and Reprographic services
Imagelinx Japan Co Limited (incorporated in Japan)	Ordinary shares	100%	Digital artwork and Reprographic services

11. Stocks

	<i>2002 £000</i>	<i>2001 £000</i>
Raw materials	7	81
Work in progress	41	—
Property held for resale	250	—
	<u>298</u>	<u>81</u>

12. Debtors

	<i>2002 £000</i>	<i>2001 £000</i>
Trade debtors	646	1,076
Amounts owed by group undertakings	5,537	2,337
Other debtors	272	109
Prepayments and accrued income	—	1,185
	<u>6,455</u>	<u>4,707</u>

Notes to the financial statements

at 31 December 2002

13. Creditors: amounts falling due within one year

	2002 £000	2001 £000
Current instalment due on bank loan	–	391
Obligations under finance leases (note 15)	88	179
Trade creditors	697	485
Amounts owed to group undertakings	19,387	11,820
Other taxation and social security	147	57
Other creditors	680	375
	<u>20,999</u>	<u>13,307</u>

The bank loan is secured on the property and assets of the company.

14. Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Obligations under finance leases (note 15)	<u>44</u>	<u>92</u>

15. Obligations under finance leases

The maturity of these amounts is as follows:

	2002 £000	2001 £000
Amounts payable:		
Within one year	102	220
In two to five years	50	101
	<u>152</u>	<u>321</u>
Less: finance charges allocated to future periods	(20)	(50)
	<u>132</u>	<u>271</u>
Finance leases are analysed as follows:		
Current obligations (note 13)	88	179
Non-current obligations (note 14)	44	92
	<u>132</u>	<u>271</u>

Notes to the financial statements

at 31 December 2002

16. Other financial commitments

Operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	2002		2001	
	<i>Land and buildings £000</i>	<i>Other £000</i>	<i>Land and buildings £000</i>	<i>Other £000</i>
Operating leases which expire:				
Within one year	–	15	–	27
In two to five years	–	98	–	12
In over five years	117	–	113	–
	<u>117</u>	<u>113</u>	<u>113</u>	<u>39</u>

Pension commitments

At the year end outstanding contributions to the company's money purchase pension scheme were £12,000 (2001: nil).

17. Related party transactions

The company is a wholly owned subsidiary of LTG Technologies plc, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the LTG Technologies plc group.

18. Share capital

	2002		Authorised 2001	
	£000		£000	
Ordinary shares shares of £1 each		87		87
A Shares shares of £1 each		9		9
B Shares shares of £1 each		4		4
		<u>100</u>		<u>100</u>
	<i>Allotted, called up and fully paid</i>			
	No.	2002 £000	No.	2001 £000
A Shares shares of £1 each	8,937	9	8,937	9
B Shares shares of £1 each	4,000	4	4,000	4
		<u>13</u>		<u>13</u>

Notes to the financial statements

at 31 December 2002

19. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i> £000	<i>Share premium account</i> £000	<i>Profit and loss account</i> £000	<i>Total share- holders' funds</i> £000
At 1 January 2001	13	612	(291)	334
Loss for the year	—	—	(2,506)	(2,506)
At 31 December 2001	13	612	(2,797)	(2,172)
Loss for the year	—	—	(4,621)	(4,621)
At 31 December 2002	13	612	(7,418)	(6,793)

20. Ultimate parent company

The company's immediate and ultimate parent undertaking and, in the opinion of the directors, ultimate controlling party is LTG Technologies plc. Copies of its group accounts, which include the company, are available from the Company Secretary, LTG Technologies plc, 42 Portman Road, Reading RG30 1EA.