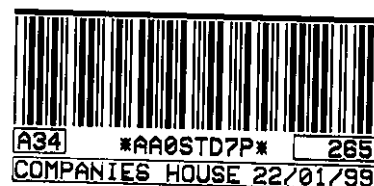


VideoLogic Limited
Directors' Report and Financial Statements
31 March 1998
Registered Number 1306335



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 1998.

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 the PC, console and arcade markets.

The results for the year are shown on page 6; 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 1998 (1997; £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 4 June 1997 49,143 Ordinary Shares of £1 each were issued and allocated fully paid, in respect of options exercised by the respective director, as detailed in the Directors and Directors' Interests section on page 2. In addition a further 79,330 Ordinary Shares of £1 each were issued and allocated fully paid on 9 December 1997, in respect of options exercised by a former director. 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 £1,116 (1997; £486).

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 report (continued)

Directors and directors' interests

Directors

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

K J Dale	(appointed 3 November 1997)
K R Godwin	(resigned 31 October 1997)
A E Maclaren	(resigned 12 December 1997)
T Selby	
M C Walsh	
T Wing	
Dr H Yassaie	

Director's share options

The following table sets out the options the directors have in the shares of VideoLogic Limited:-

	Balance as at 31 March 1997	Exercised during year	Balance as at 31 March 1998	Exercise Price	Date from which first exercisable	Expiry Date
A E Maclaren	49,143	(49,143)	Nil	10.4 p	Apr 96	Sept 2000
M C Walsh	22,665	-	22,665	10.4 p	Apr 96	Sept 2000
T A Wing	33,998	-	33,998	10.4 p	Apr 96	Sept 2000
Dr H Yassaie	90,662	-	90,662	10.4 p	Apr 96	Sept 2000

T Selby and K J Dale hold no interests in share options in VideoLogic Limited as at 31 March 1998.

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 35.5 pence.

Directors' interests in ultimate parent company

With the exception of the interests of Dr H Yassaie and T Selby in the ordinary shares of VideoLogic Group Plc which are disclosed in the financial statements of that company, the remaining directors' hold the following share options:-

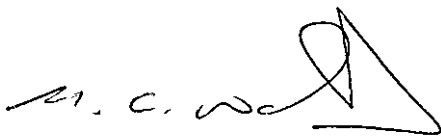
	Balance as at 31 March 1997	Granted during year	Exercised during year	Balance as at 31 March 1998
K J Dale	200,100	150,000	-	350,100
M C Walsh	-	25,000	-	25,000
T A Wing	-	100,000	-	100,000

Directors report (continued)

Auditors

Pursuant to a shareholder's elective resolution the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will, therefore, continue in office.

By order of the Board

A handwritten signature in black ink, appearing to read 'M C Walsh', with a stylized flourish at the end.

M C Walsh
Secretary
7 January 1999

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 responsibilities 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.

Report of the auditors to the members of VideoLogic Limited

We have audited the financial statements on pages 6 to 16.

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 financial 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 1998 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

7 January 1999
London

Profit and loss account
for the year ended 31 March 1998

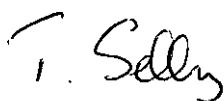
	Note	1998 £'000	1997 £'000
Turnover – continuing operations	2	11,692	14,161
Cost of sales		<u>(4,924)</u>	<u>(8,856)</u>
Gross profit		6,768	5,305
Research and development expenses		(5,041)	(4,417)
Sales and administrative expenses		(3,460)	(2,099)
Other operating income	5	<u>752</u>	<u>484</u>
Operating loss - continuing operations	4	(981)	(727)
Amount written off investments	3	(1,176)	(562)
Net interest receivable and similar income	8	<u>6</u>	<u>12</u>
Loss on ordinary activities before taxation		(2,151)	(1,277)
Tax on profit on ordinary activities	9	-	-
Retained loss for the financial year		<u>(2,151)</u>	<u>(1,277)</u>

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

Balance sheet
as at 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed Assets			
Intangible assets	10	117	143
Tangible assets	11	2,434	1,519
Investments	12	<u>120</u>	<u>120</u>
		2,671	1,782
Current assets			
Stocks	13	751	904
Debtors	14	1,227	3,125
Cash at bank and in hand		<u>-</u>	<u>84</u>
		1,978	4,113
Creditors: amounts falling due within one year	15	<u>(20,189)</u>	<u>(19,200)</u>
Net current liabilities		<u>(18,211)</u>	<u>(15,087)</u>
Total assets less current liabilities		<u>(15,540)</u>	<u>(13,305)</u>
Capital and reserves			
Called up share capital	16	14,014	13,885
Profit and loss account	17	<u>(29,554)</u>	<u>(27,190)</u>
Shareholders' funds - equity		<u>(15,540)</u>	<u>(13,305)</u>

These financial statements were approved by the board of directors on 7 January 1999 and were signed on its behalf by:



T Selby
Director

Statement of total recognised gains and losses
for the year ended 31 March 1998.

	1998	1997
	£'000	£'000
Loss for the financial year	(2,151)	(1,277)
Loss on currency translation	<u>(213)</u>	<u>(714)</u>
Total gains and losses recognised since last Annual Report	<u>(2,364)</u>	<u>(1,991)</u>

Reconciliation of movements in shareholders' funds
for the year ended 31 March 1998

	1998	1997
	£'000	£'000
Loss for the financial year	(2,151)	(1,277)
Other recognised gains and (losses) relating to the year	(213)	(714)
New share capital subscribed	<u>129</u>	<u>585</u>
Net addition to shareholders' funds	<u>(2,235)</u>	<u>(1,406)</u>
Opening shareholders' funds	(13,305)	(11,899)
Closing shareholders' funds	<u>(15,540)</u>	<u>(13,305)</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 present information about the company as an individual undertaking and not about its group.

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.

Fixed assets and Depreciation

Tangible fixed assets are depreciated to write down their cost to their estimated residual values over the period of their estimated useful economic lives. Periodic reviews are made of estimated remaining useful economic lives and residual values, and the depreciation rates applied are:

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. Exchange gains and losses on settled transactions and monetary items are taken to the profit and loss account.

Notes (continued)

Government grants

Revenue 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.

Intellectual property rights and patents

Trademarks 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 to the extent that a liability is expected to arise in the foreseeable future.

Turnover

Turnover represents the net value of goods sold and services provided to third parties, 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.

Notes (continued)

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:

	1998 £'000	1997 £'000
United Kingdom and Europe	5,039	7,972
North America	998	2,639
Rest of world	<u>5,655</u>	<u>3,550</u>
	<u>11,692</u>	<u>14,161</u>

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

	1998 £'000	1997 £'000
United Kingdom and Europe	<u>11,692</u>	<u>14,161</u>

3. Exceptional items

An additional amount of £1,176,000 has been charged during the year against the provision for diminution in value of subsidiary undertakings (1997: £562,000).

4. Operating loss

	1998 £'000	1997 £'000
Operating loss is stated after charging:		
Depreciation of owned tangible and intangible assets	800	620
Auditors' remuneration:		
Audit	26	26
Other fees paid to the auditors and their associates	15	28
Operating lease rentals:		
Hire of plant and machinery	2	3
Other operating leases	273	267
Other Income	(752)	(484)

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

	1998	1997
	£'000	£'000
Directors' emoluments:		
Remuneration as executives	<u>593</u>	<u>530</u>

Remuneration includes pension contributions of £13,000 (1997: £15,000) and the monetary value of benefits in kind such as the use of company cars and health insurance. Three 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 £165,000. No pension contributions were paid. In 1997 the emoluments of the highest paid director were £109,000. No pension contributions were paid.

One 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	
	1998	1997
Research and development	79	63
Production	11	12
Administration	14	12
Marketing	<u>16</u>	<u>11</u>
	<u>120</u>	<u>98</u>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£'000	£'000
Wages and salaries	3,781	3,107
Social security costs	381	322
Other pension costs	<u>112</u>	<u>89</u>
	<u>4,274</u>	<u>3,518</u>

Notes (continued)

8. Net interest receivable and similar income

	1998	1997
	£'000	£'000
Interest receivable and similar income - group	14	33
- other	<u>3</u>	<u>5</u>
	17	38
Less interest payable:		
Amounts payable on bank loans and overdrafts	<u>(11)</u>	<u>(26)</u>
Net interest receivable	<u>6</u>	<u>12</u>

9. Taxation

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

10. Intangible fixed assets

	Patents & Trademarks	
	1998	1997
	£'000	£'000
Cost		
At 1 April	414	374
Additions	35	51
Disposals	<u>-</u>	<u>(11)</u>
At 31 March	<u>449</u>	<u>414</u>
Amortisation		
At 1 April	271	220
Charged in year	61	62
Disposals	<u>-</u>	<u>(11)</u>
At 31 March	<u>332</u>	<u>271</u>
Net Book Value		
At 31 March	<u>117</u>	<u>143</u>

Notes (continued)

11. Tangible fixed assets

	Leasehold improvements	Plant and equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 1997	231	3,851	64	4,146
Additions	177	1,479	-	1,656
Disposals	-	(270)	(55)	(325)
At 31 March 1998	<u>408</u>	<u>5,060</u>	<u>9</u>	<u>5,477</u>
Depreciation				
At 1 April 1997	75	2,488	64	2,627
Charge for year	14	725	-	739
On disposals	-	(268)	(55)	(323)
At 31 March 1998	<u>89</u>	<u>2,945</u>	<u>9</u>	<u>3,043</u>
Net book value				
At 31 March 1998	<u>319</u>	<u>2,115</u>	<u>0</u>	<u>2,434</u>
At 31 March 1997	<u>156</u>	<u>1,363</u>	<u>0</u>	<u>1,519</u>

12. Fixed asset investments

Shares in subsidiary undertakings

	£'000
Cost	
At 1 April 1997 and 31 March 1998	1,778
Provision for diminution in value	
At 1 April 1997 and 31 March 1998	(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

Notes (continued)

13. Stocks

	1998 £'000	1997 £'000
Raw materials	109	176
Finished goods	<u>642</u>	<u>728</u>
	<u>751</u>	<u>904</u>

14. Debtors

	1998 £'000	1997 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	636	1,195
Amounts owed by subsidiary undertakings	40	1,081
Other debtors	28	30
Prepayments and accrued income	<u>523</u>	<u>819</u>
	<u>1,227</u>	<u>3,125</u>

15. Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts	488	-
Trade creditors	414	1,888
Amounts owed to parent company	18,601	16,449
Amounts owed to subsidiary undertakings	150	100
Taxation and social security	149	124
Other creditors	5	6
Accruals and deferred income	<u>382</u>	<u>633</u>
	<u>20,189</u>	<u>19,200</u>

16. Called up share capital

	1998 £'000	1997 £'000
<i>Authorised, allotted, called up and fully paid</i>		
14,013,996 ordinary shares of £1 each - equity	<u>£14,014</u>	<u>13,885</u>

128,473 ordinary shares were issued during the year with a nominal value of £128,473. The consideration received was £128,473.

Notes (continued)

17. Profit and loss account

	1998 £'000	1997 £'000
At 1 April	(27,190)	(25,199)
Retained loss for the year	(2,151)	(1,277)
(Loss) on currency translation	(213)	(714)
At 31 March	<u>(29,554)</u>	<u>(27,190)</u>

18. Contingent liabilities

No contingent liabilities were outstanding at 31 March 1998 (1997: £Nil).

19. Commitments

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

	1998 £'000	1997 £'000
Authorised and contracted	<u>32</u>	<u>37</u>

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

	1998		1997	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
• Within one year	-	-	-	-
• In two to five years	-	66	-	56
• Over five years	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>200</u>	<u>66</u>	<u>200</u>	<u>56</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 £112,000 (1997: £89,000) 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. Related party transactions

The company is taking advantage of the FRS 8 exemption not to disclose related party transactions with entities that are part of the group as more than 90% of the voting rights are controlled within the group.

22. 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, in whose financial statements the results of VideoLogic Limited is consolidated. 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.