

FOCUSRITE AUDIO ENGINEERING LIMITED
CN 2357989

ABBREVIATED FINANCIAL STATEMENTS FOR THE
YEAR TO 31 AUGUST, 1995



FOCUSRITE AUDIO ENGINEERING LIMITED

Chairmans Report

The Company manufactures a range of professional audio products for use in recording studios and other applications including video post production, broadcast and sound reinforcement. Whilst the original objective of the Board was to focus on sales of Studio Mixing Systems (Consoles), the decline of this market in 1993 prompted a change of policy leading to the development of the Red Range of signal processing products. This policy has proved vital and successful in replacing a reliance on mixing systems and continues to be built upon with the development of additional Red Range and the addition of the Blue Range Mastering Products.

Whereas 1994 sales included one Console which made a significant contribution to net profit, 1995 saw no console sales. Considerable investment in product development and marketing, which has paid off in the current year, restricted profit though margins remained firm. A write-off of console-related stock created a bottom line loss.

The year commencing September 1995 started well with a strong first quarter. The second quarter was lacklustre but demand has since improved markedly and a Console order was secured in February and delivered in May 1996.

The 1995/6 Business Plan envisaged the development of a new Green Range which was announced in March to the international Distributor Network and the Trade Press. The resulting public launch in May has enjoyed considerable acclaim and attention in the press internationally bringing additional Focusrite brand awareness and sales of Red and Blue Ranges. Advance orders of Green Range are considerably in excess of expectations.

Green Range is a "high value" range offering high performance and functionality criteria at about half the unit cost of the Red Range. Whilst this will give Focusrite access to a much larger market including private recording (project studios) and sound reinforcement (P.A.), it is not anticipated that demand for the more exclusive Red and Blue ranges will be adversely affected.

In June 1995 the Company entered into a development agreement with Digidesign Inc. (a division of Avid, Inc.) to develop a software product known as an EQ Plug-in for use with Digidesign Pro-Tools systems which are computer-based audio recording, mixing and editing systems. The resulting product, which is branded the Focusrite d2, is manufactured and distributed world-wide by Digidesign. Initial deliveries commenced in August 1996. The Company anticipates significant royalty income from this agreement in 1996/7. A second Plug-in product is in development for release in 1997.

The Company has reorganised its manufacturing agreements with its existing suppliers and sub-contractors and added two new assembly subcontractors for the Green Range. Under its new assembly agreements, subcontractors will be responsible for purchasing all components and will deliver finished, tested product. This will end the practice of the company purchasing and free-issuing components to assemblers and will consequently release working capital presently tied up in stock and work in progress. Although this incurs additional cost from the assembler there will be savings internally which will compensate. These new agreements will be fully in place by September 1996.

The Directors expect 1995/6 to be profitable notwithstanding the large investment in the product development and marketing launch of Green Range. 1996/7 is expected to see sales growth in excess of 100% with further additions to the Green Range planned for the second quarter. An emphasis on profit retention plus royalties (payable quarterly) should ensure an exceptional profit performance in 1997.

P.S.Dudderidge
Chairman & Managing Director

FOCUSRITE AUDIO ENGINEERING LIMITED

**AUDITORS REPORT TO THE DIRECTORS
PURSUANT TO PARAGRAPH 8 OF
SCHEDULE 8 OF THE COMPANIES ACT 1985**

We have examined the abbreviated financial statements on pages 3 to 7 together with the full financial statements of Focusrite Audio Engineering Limited for the year ended 31 August 1995. The scope of our work for the purpose of this report was limited to confirming that the company is entitled to the exemptions claimed in the directors' statement on page 3 and that the abbreviated financial statements have been properly prepared from the full financial statements.

In our opinion the company is entitled under section 246 and section 247 of the Companies Act 1985 to the exemptions conferred by Part 1 to that Act in respect of the year ended 31 August 1995 and the abbreviated accounts on pages 3 to 7 have been properly prepared in accordance with that schedule.

20 September 1996
On we reported, as auditors of Focusrite Audio Engineering Limited, to the members on the full financial statements prepared under section 226 of the Companies Act 1985 for the year ended 31 August 1995, and our audit opinion was as follows:

"We have audited the financial statements on pages 5 to 12.

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 the company's affairs at 31 August 1995 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

20 September

1996

FOCUSRITE AUDIO ENGINEERING LIMITED
ABBREVIATED BALANCE SHEET AT 31 AUGUST 1995

	Note	1995 £	1994 £
FIXED ASSETS			
Tangible assets	2	40,299	7,644
		<u>40,299</u>	<u>7,644</u>
CURRENT ASSETS			
Stock and work in progress		317,071	265,020
Debtors		172,229	158,847
		<u>489,300</u>	<u>423,867</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	3	(378,853)	(396,822)
NET CURRENT (LIABILITIES)/ASSETS		<u>110,447</u>	<u>27,045</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		150,746	34,689
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	4	(137,643)	- 0 -
NET ASSETS		<u>13,103</u>	<u>34,689</u>
CAPITAL AND RESERVES			
Called up share capital	5	1,150,000	1,150,000
Profit and loss account		(1,136,897)	(1,115,311)
		<u>13,103</u>	<u>34,689</u>
SHAREHOLDERS FUNDS			
Analysed as :			
Equity Interests		(1,330,528)	(1,252,524)
Non Equity Interests		1,343,631	1,287,213
		<u>13,103</u>	<u>34,689</u>

We have relied on Section 246 and Section 247 of the Companies Act 1985 as entitling us to deliver abbreviated financial statements on the grounds that the company is entitled to the benefit from the exceptions conferred in Part 1 of Schedule 8 to the Companies Act 1985 as a small company.

Approved by the board of directors on 11th September 1996 and signed on its behalf by:

P.S.Dudderidge



Director

FOCUSRITE AUDIO ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable Accounting Standards.

(b) Turnover

Turnover represents the value of work invoiced during the period excluding value added tax and long-term contract work-in-progress where the amount taken as turnover is attributable to the amount of work carried out to date.

(c) Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost or net realisable value. Cost, where appropriate, includes expenses incidental to acquisition, direct production and engineering costs and attributable overheads. Provision is made for future losses as soon as they are foreseen.

(d) Depreciation

Depreciation is provided at the following annual rates to write off the fixed assets over their expected useful lives:

Plant and machinery	25% on cost
Fixtures, fittings etc.	20% on cost
Computer equipment	25% on cost
Motor vehicles	25% on cost
Purchased goodwill	20% on cost

(e) Research & development expenditure

Expenditure on research and development is written off against profit in the year in which it is incurred.

(f) Operating lease contracts

Expenditure on operating lease contracts is charged to the profit and loss account as incurred over the lease period.

(g) Foreign Currencies

Transactions during the period are translated at the rates of exchange in effect on the dates of the transaction. Translation differences are included in the results for the year. Foreign currency assets & liabilities are translated at the rate of exchange ruling at the Balance Sheet date.

(h) Cash Flow Statement

The company qualifies as a small company as defined by sections 246 to 249 of the Companies Act 1985 and is accordingly exempt from preparing a cash flow statement as required by Financial Reporting Standard No.1.

FOCUSRITE AUDIO ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures, fittings, tools and equipment £	Computer equipment £	Motor vehicles £	Total £
Cost: @ 31st August 1994	57,591	19,538	47,604	15,300	140,033
Additions	4,342	773	8,735	27,284	41,134
Disposals	(229)	—	—	(15,300)	(15,529)
At 31st August, 1995	61,704	20,311	56,339	27,284	165,638
Depreciation: @ 31st August 1994	56,613	16,719	44,394	14,663	132,389
Charged in period	777	900	2,253	4,377	8,307
Disposals	(57)	—	—	(15,300)	(15,357)
At 31st August, 1995	57,333	17,619	46,647	3,740	125,339
Net book value:					
At 31st August, 1995	4,371	2,692	9,692	23,544	40,299
At 31st August, 1994	978	2,819	3,210	637	7,644

Included in the total net book value of motor vehicles is £23,543 (1994: £nil) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £3,740 (1994: £nil).

3. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995 £	1994 £
Bank loans and overdrafts	64,499	174,116
Hire Purchase creditor	9,215	- 0 -
Trade creditors	279,782	200,100
Other creditors including taxation and social security:	552	552
PAYE and NI	8,142	6,573
Accruals and deferred income	16,663	15,481
	<u>378,853</u>	<u>396,822</u>

The bank overdraft is secured by a fixed and floating charge on the assets of the company.

4. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1995 £	1994 £
Bank loans and overdrafts	50,000	- 0 -
Director's loan	76,839	- 0 -
Hire purchase creditor	10,804	- 0 -
	<u>137,643</u>	<u>- 0 -</u>

FOCUSRITE AUDIO ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SHARE CAPITAL

	1995 £	1994 £
Authorised:		
Equity share capital -		
Ordinary Shares of £1 each	50,000	50,000
Non-equity share capital -		
0% Redeemable Preference Shares of £1 each	705,000	705,000
10% Cumulative Redeemable Preference Shares of £1 each	400,000	400,000
	<u>1,155,000</u>	<u>1,155,000</u>
Issued and fully paid up:		
Equity share capital -		
Ordinary Shares of £1 each	45,000	45,000
Non-equity share capital -		
0% Redeemable Preference Shares of £1 each	705,000	705,000
10% Cumulative Redeemable Preference Shares of £1 each	400,000	400,000
	<u>1,150,000</u>	<u>1,150,000</u>

6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1995 £	1994 £
Profit/(loss) for the financial year	(21,586)	73,009
Opening shareholders' funds	<u>34,689</u>	<u>(38,320)</u>
Closing shareholders' funds	<u>13,103</u>	<u>34,689</u>

7. RESERVES

	Profit & Loss Account £
At beginning of year	(1,115,311)
Profit for the year for equity shareholders	(78,004)
Appropriation from equity to non-equity interests	<u>56,418</u>
At end of year	<u>(1,136,897)</u>

The arrears of £56,418 on the preference shares have been included within non-equity interests on the balance sheet together with prior period arrears of £182,213.

8. REDEMPTION OF PREFERENCE SHARES

The Company may at any time redeem for cash at par the whole or any multiple of 10,000 of both classes of preference share by serving notice upon the holders specifying a date upon which redemption is to take place being not less than 14 days nor more than 30 days from the date of such notice. The Company shall redeem the whole of the Preference Shares for cash at par, immediately prior to a listing or a sale.

The Company shall redeem for cash at par on the following dates, the following nominal amounts of the Cumulative Preference Shares then outstanding namely (or otherwise as may be agreed between the Company and the shareholders in the Company):-

31st October, 1994	£133,334
31st October, 1995	£133,333
31st October, 1996	£133,333

FOCUSRITE AUDIO ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. PREFERENCE DIVIDENDS

Dividends have accrued on the Redeemable Preference Shares but have not been charged to the Profit and Loss Account as there are not sufficient distributable reserves.

	1995 £	1994 £
10% Cumulative Redeemable Preference Shares of £1 each		
Amount in issue	400,000	400,000
Dividend for period	56,418	51,289
Accrued Dividend at year end	238,632	182,213

10. COMMITMENTS

The company has annual commitments under non-cancellable operating leases as follows:

	1995 £	1994 £
Operating leases which expire between 2 and 5 years	8,796	- 0 -

At the end of the Financial Year the company had entered into commitments amounting to £20,019 (1994: £nil) in respect of Hire purchase contracts.