

FOCUSRITE AUDIO ENGINEERING LIMITED
CN 2357989

ABBREVIATED FINANCIAL STATEMENTS FOR THE
YEAR TO 31 AUGUST, 1997



FOCUSRITE AUDIO ENGINEERING LIMITED
AUDITORS REPORT TO THE DIRECTORS
PURSUANT TO SECTION 247B OF THE COMPANIES ACT 1985

Report of the auditors to the members of Focusrite Audio Engineering Limited pursuant to Section 247B of the Companies Act 1985.

We have examined the abbreviated accounts set out on pages 3 to 7 together with the financial statements of Focusrite Audio Engineering Limited prepared under section 226 of the Companies Act 1985 for the year ended 31st August 1997.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with section 246 of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with sections 246(5) and (6) of the Act to the registrar of companies and whether the accounts to be delivered are properly prepared in accordance with those provisions and report our opinion to you.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to the exemptions and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled to deliver abbreviated accounts in accordance with section 246(5) and (6) of the Companies Act 1985 and the abbreviated accounts are properly prepared in accordance with those provisions.

KPMG
Chartered Accountants
Registered Auditors

KPMG
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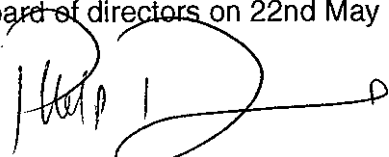
3 June 1998

FOCUSRITE AUDIO ENGINEERING LIMITED
ABBREVIATED BALANCE SHEET AT 31 AUGUST 1997

| | Note | 1997 £ | 1996 £ |
|--|------|-------------|-------------|
| FIXED ASSETS | | | |
| Tangible assets | 2 | 133,400 | 86,549 |
| | | <hr/> | <hr/> |
| CURRENT ASSETS | | | |
| Stock and work in progress | | 336,468 | 256,599 |
| Debtors | | 349,134 | 276,548 |
| Cash | | 50 | 76,647 |
| | | <hr/> | <hr/> |
| | | 685,652 | 609,794 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 3 | (595,794) | (444,121) |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 89,858 | 165,673 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 223,258 | 252,222 |
| | | <hr/> | <hr/> |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 4 | (183,417) | (277,465) |
| | | <hr/> | <hr/> |
| NET LIABILITIES / ASSETS | | 39,841 | (25,243) |
| | | <hr/> | <hr/> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 5 | 1,150,000 | 1,150,000 |
| Profit and loss account | 7 | (1,110,159) | (1,175,243) |
| | | <hr/> | <hr/> |
| | | 39,841 | (25,243) |
| | | <hr/> | <hr/> |
| SHAREHOLDERS FUNDS | 6 | | |
| Analysed as : | | | |
| Equity Interests | | (1,434,084) | (1,430,905) |
| Non Equity Interests | | 1,473,925 | 1,405,662 |
| | | <hr/> | <hr/> |
| | | 39,841 | (25,243) |
| | | <hr/> | <hr/> |

The directors have taken advantage of the exemptions conferred by Section A of Part III of Schedule 8 to the Companies Act 1985 on the basis that the company qualifies as a small company.

Approved by the board of directors on 22nd May 1998 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 |
| Leasehold Improvements | 10% on cost |

(e) Research and development expenditure

Expenditure on research and development is written off against profits 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

| | Motor Vehicles & Plant and machinery £ | Fixtures, fittings, tools and equipment £ | Computer equipment £ | Leasehold improvements £ | Total £ |
|----------------------------------|--|---|----------------------------|--------------------------------|------------|
| Cost: @ 31st August 1996 | 112,509 | 22,840 | 92,323 | - | 227,672 |
| Additions | 33,311 | 7,282 | 20,169 | 27,500 | 88,262 |
| Disposals | (5,722) | (3,282) | (1,729) | - | (10,733) |
| At 31st August, 1997 | 140,098 | 26,840 | 110,763 | 27,500 | 305,201 |
| Depreciation: @ 31st August 1996 | 69,779 | 18,654 | 52,690 | - | 141,123 |
| Charged in period | 17,839 | 1,844 | 14,475 | 1,375 | 35,533 |
| Disposals | (2,980) | (1,551) | (324) | - | (4,855) |
| At 31st August, 1997 | 84,638 | 18,947 | 66,841 | 1,375 | 171,801 |
| Net book value: | | | | | |
| At 31st August, 1997 | 55,460 | 7,893 | 43,922 | 26,125 | 133,400 |
| At 31st August, 1996 | 42,730 | 4,186 | 39,633 | - | 86,549 |

Included in the total net book value of motor vehicles is £16,813 (1996 £16,722) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £6,224 (1996: £6,821).

3. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1997 £ | 1996 £ |
|---|----------------|----------------|
| Bank loans and overdrafts | 92,780 | 112,284 |
| Hire Purchase creditor | 6,265 | 8,215 |
| Trade creditors | 349,533 | 288,749 |
| Other creditors including taxation and social security | 123,251 | 11,323 |
| Accruals and deferred income | 23,965 | 23,550 |
| | <u>595,794</u> | <u>444,121</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

| | 1997 £ | 1996 £ |
|---------------------------|----------------|----------------|
| Bank loans and overdrafts | 109,866 | 194,857 |
| Director's loan | 70,796 | 80,019 |
| Hire purchase creditor | 2,755 | 2,589 |
| | <u>183,417</u> | <u>277,465</u> |

FOCUSRITE AUDIO ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SHARE CAPITAL

| | 1997 £ | 1996 £ |
|--|------------------|------------------|
| 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

| | 1997 £ | 1996 £ |
|-------------------------------|-----------------|-----------------|
| Profit for the financial year | 65,084 | (38,346) |
| Opening shareholders' funds | <u>(25,243)</u> | <u>13,103</u> |
| Closing shareholders' funds | <u>39,841</u> | <u>(25,243)</u> |

7. RESERVES

| | Profit & Loss Account £ |
|---|-------------------------------|
| At beginning of year | (1,175,243) |
| Loss for the year for equity shareholders | (3,179) |
| Appropriation from equity to non-equity interests | <u>68,263</u> |
| At end of year | <u>(1,110,159)</u> |

The arrears of £68,263 on the preference shares have been included within non-equity interests on the balance sheet together with prior period arrears of £300,663.

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.

At 31st August 1997 arrears of cumulative preference shares due for redemption amounted to £400,000. These shares have not been redeemed because the company has insufficient distributable reserves.

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.

| | 1997 £ | 1996 £ |
|--|-----------|-----------|
| 10% Cumulative Redeemable Preference Shares of £1 each | | |
| Amount in issue | 400,000 | 400,000 |
| Dividend for period | 68,263 | 62,031 |
| Accrued Dividend at year end | 368,926 | 300,663 |

10. COMMITMENTS

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

| | 1997 £ | 1996 £ |
|---|-----------|-----------|
| Operating leases which expire within 1 year | 8,796 | - |
| Operating leases which expire in 2 to 5 years | - | 8,796 |

11. POST BALANCE SHEET EVENT

On 11 December 1997 5,625 £1 ordinary shares were issued for a consideration of £50,000 to provide further working capital for the company. The authorised share capital was increased to £1,205,000. On 20th March 1998 a further 5,625 £1 Ordinary Shares were issued for £50,000.