

VideoLogic Limited

Directors' report and financial statements

31 March 1995

Registered number 1306335



VideoLogic Limited

Directors' report and financial statements

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VideoLogic Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 1995.

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 PCs.

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 1995 (1994: £nil).

The directors believe VideoLogic is a world leader in the new generation of multimedia technology and is well equipped to make good progress in the future.

Fixed assets

Movements on tangible fixed assets during the year are shown in note 11 to the financial statements.

Share capital

By a Special Resolution passed on 6 June 1994, each of the cumulative redeemable preference shares of £1 each in the company were converted into and re-designated as ordinary shares of £1 each.

By Special Resolutions passed on 5 July 1994, the authorised share capital was increased to £13,300,000 divided into 13,300,000 ordinary shares of £1 each.

On 6 July 1994, 4,677,642 ordinary shares were issued and allotted to Avesco Plc at £1 each, and 4,522,358 ordinary shares were issued and allotted to VideoLogic Group Plc at £1 each.

Parent company

On 6 July 1994, VideoLogic Limited was demerged from Avesco Plc and sold to VideoLogic Group Plc, the consideration being the issue to Avesco Plc shareholders of 87,175,835 ordinary shares of 10p each in VideoLogic Group Plc.

On the same day, VideoLogic Group Plc was admitted to the official list of the London Stock Exchange and raised £21.2m, of which £6.7m was used to repay Avesco Group loans and the balance retained to finance the future development of the VideoLogic business.

VideoLogic Limited

Directors' report (*continued*)

Research and development

The company will continue to undertake research and development activities to retain its technological advantage and competitive position in the market.

Directors and directors' interests

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

DAE Maclaren	
KR Godwin	(appointed 17 April 1995)
RM Livesley	
AE Maclaren	
CA Maxwell	(resigned 6 July 1994)
I M Mukerjee	(appointed 1 September 1994)
RA Murray	(resigned 6 July 1994)
J Pepper	(resigned 28 April 1995)
BLH Powell	(resigned 18 October 1995)
MC Walsh	
T Wing	
Dr H Yassaie	

The interests of DAE Maclaren, AE Maclaren, BLH Powell and Dr H Yassaie in the ordinary shares of VideoLogic Group Plc are disclosed in the accounts of that company.

During the year IM Mukerjee was granted options over 360,000 ordinary shares of 10p each in the company's ultimate holding company VideoLogic Group Plc, which remained outstanding at 31 March 1995.

The directors who held office at the end of the financial year had interests only as follows in the ordinary shares of the company:

	Options to subscribe for ordinary shares of £1 each	
	At 31 March 1995	At 31 March 1994
DAE Maclaren	199,500	1,500
RM Livesley	232,750	1,750
AE Maclaren	399,000	3,000
J Pepper	66,500	500
MC Walsh	66,500	500
T Wing	99,750	750
Dr H Yassaie	266,000	2,000

VideoLogic Limited

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.

Auditors

On 6 February 1995, our auditors KPMG Peat Marwick changed the name in which they practise to KPMG and accordingly have signed their audit report in their new name.

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG 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.

MC Walsh
Secretary

12 December 1995

Home Park Estate
Kings Langley
Hertfordshire
WD4 8LZ

VideoLogic Limited

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 responsibility 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.

VideoLogic Limited

Auditors' report to the members of VideoLogic Limited

We have audited the financial statements on pages 6 to 17.

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 affairs of the company at 31 March 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

12 December 1995

London

VideoLogic Limited

Profit and loss account

for the year ended 31 March 1995

	Note	1995 £'000	1994 £'000
Turnover	2	12,134	6,700
Cost of sales	3	<u>(9,987)</u>	<u>(4,442)</u>
Gross profit		2,147	2,258
• Research and development expenses		(3,026)	(2,740)
• Sales and administrative expenses		(3,515)	(3,632)
• Other operating income	5	<u>-</u>	<u>103</u>
Operating loss	4	(4,394)	(4,011)
Net interest payable and similar charges	8	<u>(133)</u>	<u>(536)</u>
Loss on ordinary activities before taxation		(4,527)	(4,547)
Tax on profit on ordinary activities	9	<u>-</u>	<u>-</u>
Retained loss for the financial year		<u>(4,527)</u>	<u>(4,547)</u>

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

In both years, the company made no material acquisitions and had no discontinued operations.

VideoLogic Limited

Balance sheet

at 31 March 1995

	Note	1995 £'000	1994 £'000
Fixed Assets			
Intangible assets	10	151	163
Tangible assets	11	1,239	1,301
Investments	12	<u>1,778</u>	<u>1,778</u>
		3,168	3,242
Current assets			
Stocks	13	1,435	2,156
Debtors	14	8,555	3,956
Cash at bank and in hand		<u>15</u>	<u>39</u>
		10,005	6,151
Creditors: amounts falling due within one year	15	<u>(11,254)</u>	<u>(11,836)</u>
Net current liabilities		<u>(1,249)</u>	<u>(5,685)</u>
Net assets/(liabilities)		<u>1,919</u>	<u>(2,443)</u>
Capital and reserves			
Called up share capital	16	13,300	4,100
Profit and loss account	17	<u>(11,381)</u>	<u>(6,543)</u>
		<u>1,919</u>	<u>(2,443)</u>
Analysis of shareholders' funds:			
Equity		1,919	(6,443)
Non equity		<u>-</u>	<u>4,000</u>
		<u>1,919</u>	<u>(2,443)</u>

These financial statements were approved by the board of directors on 12 December 1995 and were signed on its behalf by:



DAE Maclaren

Director

VideoLogic Limited

Statement of total recognised gains and losses for the year ended 31 March 1995.

	1995 £'000	1994 £'000
Loss for the financial year	(4,527)	(4,547)
Loss on currency translation	<u>(311)</u>	<u>-</u>
	(4,838)	(4,547)
Prior year adjustment (see note below)	<u>-</u>	<u>(873)</u>
Total gains and losses recognised since last annual report	<u>(4,838)</u>	<u>(5,420)</u>

Reconciliation of movements in shareholders' funds for the year ended 31 March 1995

	1995 £'000	1994 £'000
Loss for the financial year after currency translation	(4,838)	(4,547)
New share capital subscribed	<u>9,200</u>	<u>-</u>
Net addition to shareholders' funds	4,362	(4,547)
Opening shareholders' funds as previously stated	(2,443)	2,977
Prior year adjustment (see note below)	<u>-</u>	<u>(873)</u>
As restated	<u>(2,443)</u>	<u>2,104</u>
Closing shareholders' funds	<u>1,919</u>	<u>(2,443)</u>

Prior year adjustment

In 1994, the company changed its accounting policy for software development costs. Until 31 March 1993 these costs were capitalised in fixed assets and amortised over the expected period of exploitation in accordance with the accounting policies of the then ultimate parent company, Avesco Plc. Software development costs are now charged to the profit and loss account as incurred. The prior year adjustment gave rise to a cumulative debit adjustment to reserves of £873,000 in 1994.

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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 represent information about the company as an individual undertaking.

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, and its cash flows are included within the consolidated cash flow statement of that company.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Finance leases and 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 and the gains or losses on translation are included in the profit and loss account. Differences on exchange arising on translation of longer term monetary assets and liabilities due to the financing of fellow group companies are taken to reserves.

Government grants

Grants are taken to the profit and loss account in the period when the relevant expenditure was incurred.

VideoLogic Limited

Notes (continued)

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.

Leased assets

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'.

Assets acquired under such leases are included in the balance sheet at cost less depreciation and the present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Intellectual property rights and patents

Trade marks and patents are capitalised at cost of acquisition and protection including attributable overheads and depreciated over the anticipated period of profitable exploitation.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Work in progress and 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, except for those which are not expected to reverse in the foreseeable future.

Turnover

Turnover represents the net value of goods sold and services provided by the company excluding value added tax.

VideoLogic Limited

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:

	1995 £'000	1994 £'000
United Kingdom and Europe	4,381	3,302
North America	6,012	2,867
Rest of world	<u>1,741</u>	<u>531</u>
	<u>12,134</u>	<u>6,700</u>

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

	1995 £'000	1994 £'000
United Kingdom and Europe	<u>12,134</u>	<u>6,700</u>

3. Exceptional item

Included in cost of sales is an amount of £1,183,000 (1994 £nil) for provisions needed to write down excess stocks to net realisable value due to the effects of technology change.

4. Operating loss

	1995 £'000	1994 £'000
<i>Operating loss is stated after charging</i>		
Depreciation of owned tangible and intangible assets	546	644
Depreciation of leased tangible fixed assets	51	69
Loss on disposal of fixed assets	-	10
Auditors' remuneration:		
• Audit	27	25
• Other services	1	12
Operating lease rentals:		
• Hire of plant and machinery	9	22
• Other operating leases	256	212

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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

	1995 £'000	1994 £'000
Directors' emoluments:		
• Remuneration as executives	<u>623</u>	<u>451</u>

Remuneration includes pension contributions of £12,000 (1994 £1,000) and the monetary value of benefits in kind such as the use of company cars and health insurance.

The emoluments, including pension contributions, of the chairman were £82,000 (1994: £53,000) and those of the highest paid director were £93,000 (1994: £83,000).

The number of directors (including the chairman and the highest paid director) who received emoluments excluding pension contributions in the following ranges were:

		Number of directors	
		1995	1994
£0	- £ 5,000	2	2
£40,001	- £45,000	-	2
£45,001	- £50,000	2	-
£50,001	- £55,000	1	2
£55,001	- £60,000	1	3
£60,001	- £65,000	1	-
£75,001	- £80,000	1	-
£80,001	- £85,000	1	1
£85,001	- £90,000	1	-
£90,001	- £95,000	1	-

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	
	1995	1994
Research and development	45	46
Production	13	15
Administration	23	23
Marketing	<u>25</u>	<u>26</u>
	<u>106</u>	<u>110</u>

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Notes (continued)

The aggregate payroll costs of these persons were as follows:

	1995 £'000	1994 £'000
Wages and salaries	2,736	2,547
Social security costs	320	284
Other pension costs	<u>74</u>	<u>38</u>
	<u>3,130</u>	<u>2,869</u>

8. Net interest payable and similar charges

	1995 £'000	1994 £'000
On loan from Avesco Group repayable within five years	196	481
On bank overdrafts and other loans wholly repayable within five years	19	47
Finance lease charges	<u>3</u>	<u>12</u>
	218	540
Less: interest receivable and similar income	<u>(85)</u>	<u>(4)</u>
	<u>133</u>	<u>536</u>

9. Taxation

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

10. Intangible fixed assets

	Patents & Trademarks	
	1995 £'000	1994 £'000
Cost		
At 1 April	257	209
Additions	<u>62</u>	<u>48</u>
At 31 March	<u>319</u>	<u>257</u>
Amortisation		
At 1 April	94	49
Charged in year	<u>74</u>	<u>45</u>
At 31 March	<u>168</u>	<u>94</u>
Net Book Value		
At 31 March	<u>151</u>	<u>163</u>

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Notes (continued)

11. Tangible fixed assets

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 1994	182	2,587	328	3,097
Additions	9	463	11	483
Disposals	<u>-</u>	<u>-</u>	<u>(105)</u>	<u>(105)</u>
At 31 March 1995	<u>191</u>	<u>3,050</u>	<u>234</u>	<u>3,475</u>
Depreciation				
At 1 April 1994	39	1,538	219	1,796
Charge for year	10	461	52	523
On disposals	<u>-</u>	<u>-</u>	<u>(83)</u>	<u>(83)</u>
At 31 March 1995	<u>49</u>	<u>1,999</u>	<u>188</u>	<u>2,236</u>
Net book value				
At 31 March 1995	<u>142</u>	<u>1,051</u>	<u>46</u>	<u>1,239</u>
At 31 March 1994	<u>143</u>	<u>1,049</u>	<u>109</u>	<u>1,301</u>
Net book value of assets held under finance leases (included above):				
At 31 March 1995		<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 1994		<u>50</u>	<u>6</u>	<u>56</u>

12. Fixed asset investments

Shares in subsidiary undertakings	1995 £'000	1994 £'000
Cost		
At 1 April	1,778	1,658
Additions	<u>-</u>	<u>120</u>
At 31 March	<u>1,778</u>	<u>1,778</u>

VideoLogic Limited

Notes (continued)

The company owns 100% of the ordinary share capital of the following subsidiary undertakings:

Subsidiary undertakings	Country of registration or incorporation	Principal activity
VideoLogic Inc	USA	Supply of multimedia enabling products
VideoLogic GmbH	Germany	Supply of multimedia enabling products
VideoLogic Laboratories Limited	England and Wales	Dormant

13. Stocks

	1995 £'000	1994 £'000
Raw materials	217	102
Finished goods	<u>1,218</u>	<u>2,054</u>
	<u>1,435</u>	<u>2,156</u>

14. Debtors

	1995 £'000	1994 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	947	629
Amounts owed by subsidiary undertakings	7,117	2,753
Other debtors	252	243
Prepayments and accrued income	<u>239</u>	<u>331</u>
	<u>8,555</u>	<u>3,956</u>

VideoLogic Limited

Notes (continued)

15. Creditors: amounts falling due within one year

	1995 £'000	1994 £'000
Bank loans and overdrafts	543	972
Obligations under finance leases	-	39
Trade creditors	1,648	1,263
Amount owed to Avesco Group	-	9,156
Amounts owed to parent company	8,578	-
Amounts owed to subsidiary undertakings	100	100
Taxation and social security	102	78
Other creditors	24	6
Accruals and deferred income	<u>259</u>	<u>222</u>
	<u>11,254</u>	<u>11,836</u>

At 31 March 1994, amounts of £9,156,000 owed to Avesco Group were secured by an unlimited debenture over the assets of the company.

16. Called up share capital

	1995 £'000	1994 £'000
<i>Authorised, allotted, called up and fully paid</i>		
13,300,000 ordinary shares of £1 each	13,300	100
4,000,000 5% cumulative preference shares of £1 each redeemable at any time at par at the option of either party	<u>-</u>	<u>4,000</u>
	<u>13,300</u>	<u>4,100</u>

Note: Changes to Share Capital during the year are detailed on Page 1 of the Directors' Report.

17. Profit and loss account

	1995 £'000	1994 £'000
At 1 April	(6,543)	(1,996)
Retained loss for the year	(4,527)	(4,547)
Loss on currency translation	<u>(311)</u>	<u>-</u>
At 31 March	<u>(11,381)</u>	<u>(6,543)</u>

VideoLogic Limited

Notes (continued)

18. Contingent liabilities

The company has contingent liabilities under indemnities given on behalf of the company in the normal course of business amounting to £1,000 at 31 March 1995 (1994:£158,000).

19. Commitments

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

	1995 £'000	1994 £'000
Authorised and contracted	<u>64</u>	<u>15</u>

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

	1995		1994	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
• Within one year	5	-	-	3
• In two to five years	-	48	-	20
• Over five years	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>205</u>	<u>48</u>	<u>200</u>	<u>23</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 £74,000 (1994:£39,000) 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. 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. 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.