

COMPANY NUMBER: 2357989

FOCUSRITE AUDIO ENGINEERING LTD

**DIRECTOR'S REPORT AND ABBREVIATED
FINANCIAL STATEMENTS
YEAR TO 31 AUGUST 2003**



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Directors' Report for the Year ending 31 AUGUST 2003

The directors present their report and the abbreviated financial statements for the year ended 31 August 2003.

1 Principal Activities and Business Review

The company continues to develop, manufacture and market professional audio equipment and also licences its intellectual property.

2 Results

The profit for the year amounted to £616,453 (2002: £467,067).

3 Dividends

During the year and after the year end dividends of £455,034 were paid in respect of arrears relating to the 10% Cumulative Redeemable Preference Shares.

The directors do not recommend the payment of a dividend in respect of Ordinary Shares.

4. Directors

The Directors who served during the year were as follows:

P S Dudderidge
J A Dudderidge
S Blackwood
M J Johnson
R D Jenkins
C J Gooddie

Directors' Interests

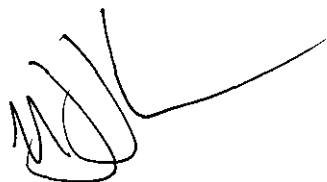
The beneficial interests of the directors in the shares of the company at 31 August 2003 were:

	2003 (No)	2002 (No)
Ordinary Shares		
P S Dudderidge	44,999	44,999
J A Dudderidge	1	1
S Blackwood	11,250	11,250
M Johnson	957	957
0% Redeemable Preference Shares of £1 each:		
P S Dudderidge	535,000	535,000
S Blackwood	120,000	120,000
M Johnson	50,000	50,000
10% Cumulative Redeemable Preference Shares of £1 each		
P S Dudderidge	400,000	400,000

5 Auditors

KPMG LLP were re-appointed auditors during the year.

By Order of the Board

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

M J Johnson

Secretary

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 company's state of affairs at the end of the year and of its profit 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 assume 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.

Report of the Auditors KPMG LLP to the Shareholders of Focusrite Audio Engineering Ltd

Independent auditors' report to Focusrite Audio Engineering Limited

Pursuant to Section 247B of the Companies Act 1985

We have examined the abbreviated accounts set out on pages 6 to 13 together with the financial statements of Focusrite Audio Engineering Limited for the year ended 31 August 2003 prepared under section 226 of the Companies Act 1985.

This report is made solely to the company in accordance with section 247B of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company those matters we are required to state to them in such 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated financial statements prepared in accordance with sections 246A of the Act to the Registrar of Companies and whether the abbreviated financial statements have been properly prepared in accordance with that section and to 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 financial statements have been properly prepared. 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 prepared in accordance with section 246A of the Companies Act 1985 and the abbreviated financial statements have been properly prepared in accordance with that section.

KPMG LLP

KPMG LLP
Chartered Accountants and Registered Auditors
Arlington Business Park
Theale
Reading
RG7 4SD

23 March 2004

Abbreviated Profit and Loss Account for the year ending 31 August 2003

Note:	2003 £	2002 £
Gross Profit	2,355,063	1,885,213
3-4 Administrative Expenses	(1,631,135)	(1,411,578)
Other operating income	25,909	16,703
2 Operating Profit	749,837	490,338
Interest Receivable and Similar Income	10,903	6,386
Profit on ordinary activities before taxation	760,740	496,724
5 Tax on Profit on ordinary activities	(144,287)	(29,657)
Profit on ordinary activities after taxation	616,453	467,067
16 Dividends	(445,034)	0
Profit for the financial year	171,419	467,067

There are no gains or losses other than those reported above and as a result no separate statement of total recognised gains and losses is presented.

All operating results reported above are derived from continuing operations.

The notes on pages 8 to 13 form part of these financial statements.

Abbreviated Balance Sheet at 31 August 2003

Note	2003		2002	
	£	£	£	£
	Fixed Assets			
6	Tangible assets	115,421		130,484
	Current Assets			
7	Stocks	434,121		268,496
8	Debtors	989,122		791,288
	Cash at bank and in hand	862,940		422,548
		<u>2,286,183</u>		<u>1,482,332</u>
9	Creditors			
	Amounts falling due within one year	<u>(1,028,257)</u>		<u>(410,888)</u>
	Net Current assets	1,257,926		1,071,444
	Net Assets	<u>1,373,347</u> =====		<u>1,201,928</u> =====
	Capital and Reserves			
10	Called Up Share Capital	1,162,207		1,162,207
13	Share Premium	88,750		88,750
13	Profit and Loss Account	122,390		(49,029)
		<u>1,373,347</u> =====		<u>1,201,928</u> =====
13	Shareholders' funds			
	Analysed as:			
	Equity Interests	(264,552)		(726,403)
	Non Equity Interests	1,637,899		1,928,331
		<u>1,373,347</u> =====		<u>1,201,928</u> =====

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium - sized companies.

These financial statements were approved by the board of directors on 16 March 2004 and were signed on its behalf by:



P S Dudderidge
Chairman

The notes on pages 8 to 13 form part of these financial statements.

Notes to the Abbreviated Financial Statements for the year ending**31 August 2003****1 Accounting Policies****1.1 Basis of Accounting**

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

1.2 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.

1.3 Depreciation

Depreciation is provided on all tangible fixed assets in use at rates calculated to write off the cost of each asset over its expected useful life as follows:-

Plant, equipment & tooling	Over 2-4 years
Computer equipment	Over 2-4 years
Motor vehicles	Over 4 years
Fixtures & fittings	Over 5 years
Leasehold improvements	Over 10 years

1.4 Stocks

Stock is stated at the lower of cost, replacement cost and net realisable value.

1.5 Leases

Assets used by the company which have been funded by finance leases are capitalised and the resulting lease obligations are included in creditors net of finance charges. Operating lease rentals are charged to the profit and loss account in the period in which they fall due.

1.6 Deferred taxation

Deferred taxation is accounted for using the liability method on all material timing differences to the extent that it is probable that liabilities or assets will arise.

1.7 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 and liabilities are translated at the rate of exchange ruling at the Balance Sheet date.

1.8 Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

1.9 Research and development expenditure

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

2 Operating Profit

Operating profit is stated after charging:-	2003	2002
	£	£
Depreciation - of owned assets	95,309	91,132
Profit on disposal of fixed assets	998	0
Auditors remuneration and expenses	7,000	7,000
Amounts paid in respect of operating leases	57,504	57,504
Exchange (Loss) / Gain	(18,413)	(34,080)
R & D Expenditure	243,588	167,045

3 Staff Costs (Including Directors)

	2003	2002
	£	£
Wages and salaries	727,718	701,459
Social security costs	80,892	71,070
Other pension costs	43,033	42,997
	<hr/>	<hr/>
	851,643	815,526
	=====	=====

The average number of employees during the year (excluding directors) was 11(2002: 8)

4 Directors' Emoluments

	2003	2002
	£	£
Management remuneration and fees	478,983	532,152
Pension contributions	43,033	42,997
Benefits	14,217	14,359
	<hr/>	<hr/>
	536,233	589,508
	=====	=====

The aggregate of emoluments of the highest paid director was £185,014 (2002: £182,392), and company pension contributions of £24,697 (2002: £ 14,590) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to two directors under money purchase pension schemes.

5 Taxation**Analysis of charge in period**

	2003	2002
	£	£
UK corporation tax		
Current tax on income for the period	133,509	0
Adjustments in respect of prior periods	10,778	29,657
	<hr/>	<hr/>
Tax on profit on ordinary activities	144,287	29,657
	=====	=====

5 (contd)

Factors affecting the tax charge for the period

The current tax charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK 30% (2002: 30%). The differences are explained below.

	2003 £	2002 £
Current tax reconciliation		
Profit on ordinary activities before tax	<u>760,740</u>	<u>496,724</u>
Current tax at 30% (2002: 30%)	228,222	149,017
Effects of:		
Expenses not deductible for tax purposes (primarily entertaining costs)	1,509	1,019
Depreciation in excess of capital allowances for period	5,015	4,032
Utilisation of tax losses	(24,598)	(154,068)
Marginal Relief	(27,500)	0
Research and development credit	(49,139)	-
Adjustments in respect of prior periods	10,778	29,657
	<hr/>	<hr/>
Total current tax charge (see above)	144,287	29,657
	=====	=====

6 Tangible Assets

	Motor vehicles, plant & equipment £	Fixtures, fittings & leasehold improvements £	Computer equipment £	Total £
Cost				
1 September 2002	372,141	82,399	143,031	597,571
Additions	61,361	6,270	12,822	80,453
Disposals	(382)	0	(1,492)	(1,874)
	<hr/>	<hr/>	<hr/>	<hr/>
31 August 2003	433,120	88,669	154,361	676,150
	=====	=====	=====	=====
Depreciation				
1 September 2002	282,378	56,059	128,650	467,087
Charge for the year	77,343	7,061	10,905	95,309
Disposals	(175)	0	(1,492)	(1,667)
	<hr/>	<hr/>	<hr/>	<hr/>
31 August 2003	359,546	63,120	138,063	560,729
	=====	=====	=====	=====
Net Book Value				
31 August 2003	73,574	25,549	16,298	115,421
31 August 2002	89,763	26,340	14,381	130,484

7 Stocks

	2003	2002
	£	£
Raw Materials	83,942	26,630
Finished Goods	350,179	241,866
	<u>434,121</u>	<u>268,496</u>
	=====	=====

8 Debtors

	2003	2002
	£	£
Trade Debtors	801,486	703,534
Other	22,772	13,741
Prepayments and accrued income	164,864	74,013
	<u>989,122</u>	<u>791,288</u>
	=====	=====

9 Creditors: Amounts falling due within one year

	2003	2002
	£	£
Trade creditors	371,569	221,266
Preference Dividends	263,367	0
Corporation Tax	133,509	0
Other taxes and social security costs	37,153	52,157
Accruals and deferred income	222,659	137,465
	<u>1,028,257</u>	<u>410,888</u>
	=====	=====

10 Share Capital

	2003	2002
	£	£
Authorised:		
Equity		
Ordinary shares of £1 each	100,000	100,000
Non equity share capital		
0% Red. Pref. Shares of £1 each	705,000	705,000
10% Cum. Pref. Shares of £1 each	400,000	400,000
	<u>1,205,000</u>	<u>1,205,000</u>
	=====	=====
Allotted, called-up and fully-paid:		
Equity		
Ordinary shares of £1 each	57,207	57,207
Non equity share capital		
0% Red. Pref. Shares of £1 each	705,000	705,000
10% Cum. Pref. Shares of £1 each	400,000	400,000
	<u>1,162,207</u>	<u>1,162,207</u>
	=====	=====

11 Operating Lease Commitments

The company is committed to making annual payments in respect of operating leases:

	2003	2002
	£	£
Land and buildings leases which expire:		
Over 5 years	57,500	57,500
	=====	=====

12 Reconciliation of movements in Shareholders' Funds

	2003	2002
	£	£
Profit for the financial year	171,419	467,067
Opening shareholders' funds	1,201,928	734,861
	<u>1,373,347</u>	<u>1,201,928</u>
	=====	=====

13 Shareholders' Funds

	Called up share capital	Profit and loss account	Share Premium	Total
	£	£	£	£
At 1 September 2002	1,162,207	(49,029)	88,750	1,201,928
Retained profit for the year	0	171,419	0	171,419
At 31 August 2003	<u>1,162,207</u>	<u>122,390</u>	<u>88,750</u>	<u>1,373,347</u>
	=====	=====	=====	=====

14 Capital Commitments

There were no capital commitments authorised or contracted for as at 31 August 2003

15 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.

16 Preference Dividends

Dividends have accrued on the Redeemable Preference Shares and £445,034 has been charged to the Profit and Loss Account.

10% Cumulative Redeemable Preference Shares of £1 each	2003	2002
	£	£
Amount in issue	400,000	400,000
Dividend for period	154,602	105,915
Dividends payable in period	445,034	0
Accrued Dividend at year end	532,900	823,332

17 Directors' Transactions

The business premises of the company at 19 Lincoln Road, Cressex, High Wycombe, Buckinghamshire, are owned by Mr. P S Dudderidge and M H Trustees Limited and leased to the company at an annual rent of £57,500 (2002: £57,500).

18 Pension Scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £43,033 (2002: £42,997). Amounts outstanding at the year end totalled £12,673 (2002: £13,054).