

Wolfson Microelectronics Limited

**Directors' report and financial
statements**

Registered number: SC89839

31 December 2000

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Directors' report

The directors have pleasure in submitting their report and financial statements for the year ended 31 December 2000.

Principal activities

The company is principally engaged in the design, manufacture and supply of high performance mixed-signal integrated circuits.

Financial

The directors recommend that no dividend be paid. The loss of £1,413,000 (1999 - £2,062,000 loss) has been transferred to reserves.

Review of development and future prospects

During the year the company continued to focus on developing products for the digital imaging, audio and communications markets.

Research and development

Research and development costs of £1,753,000 (1999: £1,791,000) were incurred on new product development and were written off as incurred during the year.

Directors

The directors who held office at the end of the year and their interests in the shares of the company at the year end were as follows:

	Ordinary shares of 10p	
	At 31 December 2000	At 31 December 1999 / date of appointment
J Carey	35,288	9,908
AD Milne	26,750	26,750
JRC Reid	9,453	9,453
JM Urwin	242	242
GR Elliott	-	-
K Smith	-	-

Mr GR Elliott was appointed to the Board on 3 January 2000. Mr JA Allcott retired from the Board on 14 January 2000 and Mr J Carey was appointed as Chairman on that date. Mr K Smith was appointed to the Board on 21 July 2000.

Mr J Carey retires by rotation and, being eligible, offers himself for re-election.

Directors' report *(continued)*

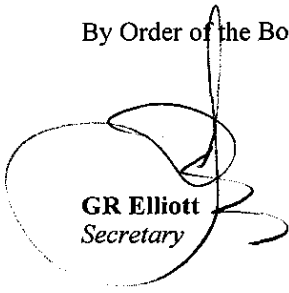
The directors had the following rights to subscribe for shares in the company:

	Number of options			Exercise price	Date from which exercisable	Expiry date
	At 01.01.00	Granted During year	At 31.12.00			
J Carey	2,000	-	2,000	£20.00	20.11.01	20.11.05
	2,000	-	2,000	£15.14	19.11.02	19.11.06
AD Milne	2,000	-	2,000	£3.00	15.12.98	15.12.02
	1,800	-	1,800	£25.00	18.08.00	18.08.04
	80	-	80	£29.02	05.09.00	05.09.04
	1,900	-	1,900	£15.14	17.12.02	17.12.09
	4,600	-	4,600	£15.14	17.12.02	17.12.06
JRC Reid	3,500	-	3,500	£3.00	15.12.98	15.12.05
	1,800	-	1,800	£25.00	18.08.00	18.08.04
	1,200	-	1,200	£15.14	17.12.02	17.12.09
	4,300	-	4,300	£15.14	17.12.02	17.12.06
JM Urwin	1,986	-	1,986	£3.00	15.12.98	15.12.05
	1,800	-	1,800	£25.00	18.08.00	18.08.04
	1,500	-	1,500	£15.14	17.12.02	17.12.09
	1,500	-	1,500	£15.14	17.12.02	17.12.06
G R Elliott	-	2,000	2,000	£15.14	03.01.03	03.01.10
K Smith	-	-	-	-	-	-

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board


GR Elliott
Secretary

10 May 2001

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.



Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Report of the auditors to the members of Wolfson Microelectronics Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements regarding the uncertainty over the availability of additional funds when they become necessary in the future. In view of the significance of this matter we consider it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 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

25 May 2001

Profit and loss account

for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Turnover	2	8,653	8,951
Cost of sales		(6,307)	(6,634)
Gross profit		2,346	2,317
Distribution and selling costs		(1,216)	(1,194)
Research and development expenses		(1,753)	(1,791)
Administrative expenses		(842)	(1,390)
Other operating income		77	45
Operating loss	3	(1,388)	(2,013)
Interest receivable and similar income	6	42	46
Interest payable and similar charges	7	(67)	(95)
Loss on ordinary activities before taxation		(1,413)	(2,062)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year	16	(1,413)	(2,062)

The above results relate wholly to continuing activities.

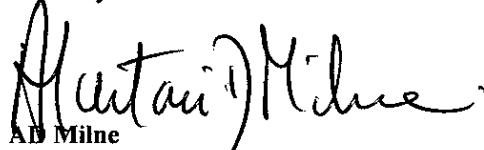
There were no recognised gains or losses other than the loss for the current and preceding financial years.

Balance sheet

as at 31 December 2000

	Note	2000 £000	1999 £000
Assets			
Fixed assets			
Tangible assets	9	399	362
Current assets			
Stocks	10	1,246	903
Debtors	11	1,218	2,317
Cash at bank and in hand		517	350
		<u>2,981</u>	<u>3,570</u>
		<u>3,380</u>	<u>3,932</u>
Liabilities			
Capital and reserves			
Called up share capital	14	366	349
Share premium account	15	9,090	6,074
Profit and loss account	16	(8,220)	(6,807)
		<u>1,236</u>	<u>(384)</u>
Shareholders' funds/(deficit)		<u>1,236</u>	<u>(384)</u>
Creditors: amounts falling due within one year	12	1,237	3,276
Creditors: amounts falling due after more than one year	12	-	6
Deferred income	13	907	1,034
		<u>3,380</u>	<u>3,932</u>
Shareholders' funds/(deficit)			
Equity		940	(680)
Non equity		296	296
		<u>1,236</u>	<u>(384)</u>

These financial statements were approved by the Board of Directors on 10 May 2001 and were signed on its behalf by:


AD Milne
Director

Cash flow statement

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Reconciliation of operating loss to net cash flow from operating activities			
Operating loss		(1,388)	(2,013)
Depreciation charges		186	205
Increase in stocks		(343)	(130)
Decrease/(increase) in debtors		1,099	(231)
(Decrease)/increase in creditors		(1,014)	521
Net cash outflow from operating activities		(1,460)	(1,648)
Cash flow statement			
Net cash outflow from operating activities		(1,460)	(1,648)
Return on investments and servicing of finance	19	(25)	(49)
Capital expenditure and financial investment	19	(223)	(121)
Cash outflow before financing		(1,708)	(1,818)
Financing	19	3,008	1,882
Increase in cash in the year		1,300	64
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year		1,300	64
Cash outflow from lease financing		25	42
Movement in net funds/(debt) in the year		1,325	106
Net debt at start of the year		(814)	(920)
Net funds/(debt) at end of the year	19	511	(814)

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company is continuing to develop its products and identify markets and customers for these products. At present its revenues are less than its costs and the company will continue to absorb cash until its revenue stream is fully established. The Directors have a reasonable expectation that the company will be able to raise adequate financial resources, either debt or equity to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Depreciation

Depreciation is provided on a straight line basis in order to write off the cost of fixed tangible assets over their estimated economic lives as follows:

Plant and machinery	3 years
Motor vehicles	4 years
Furniture and fittings	10 years

Leased assets

Fixed tangible assets which are acquired under finance leases and similar hire purchase contracts are capitalised at the market value of the assets at the start of the lease, and are depreciated over the shorter of their estimated economic lives or the term of the lease. Outstanding obligations under the leases, net of finance charges, are included as liabilities.

Operating lease costs are charged to the profit and loss account as incurred.

Government grants

Government grants receivable to assist the company with revenue costs in respect of development work are offset against these costs in the profit and loss account.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Stocks

Material stocks are valued at the lower of purchase cost and net realisable value.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Notes (continued)

1 Accounting policies (continued)

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Research and development

Expenditure on research and development is taken to the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is made only if, in the opinion of the directors, a liability will arise in the foreseeable future.

Pensions

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those in the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the anticipated average service lives of the company's employees.

2 Turnover

Turnover is attributable to the design, manufacture and supply of high performance mixed-signal integrated circuits.

3 Operating loss

	2000 £000	1999 £000
<i>The operating loss is stated after charging:</i>		
Depreciation of fixed tangible assets	186	205
Provision for slow moving stocks	200	391
Operating lease costs		
- plant and machinery	9	19
- other	70	70
Auditors' remuneration		
- audit	10	10
- non audit services	18	6
<i>and after crediting:</i>		
Government grants	(77)	(45)

Notes (continued)

4 Remuneration of directors

	2000 £000	1999 £000
Directors' emoluments:		
Fees	4	26
As executives	321	341
	325	367

The emoluments of the highest paid director amounted to £93,000 (1999: £95,000). He is a member of a defined benefit pension scheme, under which his accrued pension at the year end was £50,000 (1999: £44,000).

Retirement benefits are accruing to 4 directors under the defined benefit scheme.

5 Staff costs

	2000 No	1999 No
<i>Average number of employees by activity:</i>		
Design and development	37	48
Selling and distribution	17	18
Administration	6	5
	60	71
	£000	£000
<i>Employee costs</i>		
Wages and salaries	2,088	2,133
Social security costs	186	193
Other pension costs	77	136
	2,351	2,462

6 Interest receivable and similar income

	2000 £000	1999 £000
Bank interest received	42	46

7 Interest payable and similar charges

	2000 £000	1999 £000
On bank overdraft	62	87
Finance charges payable in respect of finance leases	5	8
	67	95

Notes (continued)

8 Taxation

No provision for corporation tax is required due to the availability of tax losses. The tax losses are estimated to amount to approximately £7,200,000 at 31 December 2000 (1999 : £6,600,000) and will be carried forward for utilisation against taxable profits in future years.

9 Fixed tangible assets

	Plant and machinery £000	Leased equipment £000	Furniture and fittings £000	Motor Vehicles £000	Total £000
<i>Cost</i>					
At 1 January 2000	1,029	144	190	-	1,363
Additions	194	-	9	20	223
At 31 December 2000	1,223	144	199	20	1,586
<i>Depreciation</i>					
At 1 January 2000	809	113	79	-	1,001
Charge for the year	146	24	16	-	186
At 31 December 2000	955	137	95	-	1,187
<i>Net book value</i>					
At 31 December 2000	268	7	104	20	399
At 31 December 1999	220	31	111	-	362

10 Stocks

	2000 £000	1999 £000
Material stocks	1,246	903

11 Debtors

	2000 £000	1999 £000
Trade debtors	663	1,695
Prepayments and accrued income	132	105
Amounts recoverable on contracts	235	194
Other debtors	188	323
	1,218	2,317

Notes (continued)

12 Creditors: due within one year

	2000 £000	1999 £000
Bank overdraft (secured)	-	1,133
Trade creditors	930	1,861
Tax and social security	72	65
Finance lease creditor	6	25
Accruals and deferred income	229	192
	<u>1,237</u>	<u>3,276</u>

Creditors: due after more than one year

	2000 £000	1999 £000
<i>Due after more than one year but within five years:</i>		
Finance lease creditor	-	6
	<u>-</u>	<u>6</u>

Commitments under operating leases payable in the next year are as follows:

	Property £000	Other leases £000	Total £000	1999 £000
On leases which expire within one year	-	-	-	5
On leases which expire in two to five years	-	6	6	-
On leases which expire in over five years	70	-	70	70
	<u>70</u>	<u>6</u>	<u>76</u>	<u>75</u>

13 Deferred income

	2000 £000	1999 £000
Advance on levies	907	1,034
	<u>907</u>	<u>1,034</u>

In September 1997 the company entered into a joint product development and related service agreement. Under the terms of this agreement the company received an advance payment of \$2,000,000 against which future levies would be deducted. The advance payment is interest free and is not repayable.

Notes (continued)

14 Share capital

	At 31 December 2000		At 31 December 1999	
	No.	£000	No.	£000
<i>Authorised</i>				
<i>Equity shares</i>				
Ordinary shares of 10p	798,273	80	633,273	63
'B' Ordinary shares of 10p	18,607	2	18,607	2
<i>Non equity shares</i>				
Deferred shares of £1 each	296,312	296	296,312	296
		<u>378</u>		<u>361</u>
<i>Allotted, called up and fully paid</i>				
<i>Equity shares</i>				
Ordinary shares of 10p	676,264	68	510,164	51
'B' Ordinary shares of 10p	18,607	2	18,607	2
<i>Non equity shares</i>				
Deferred shares of £1 each	296,312	296	296,312	296
		<u>366</u>		<u>349</u>

During the year 165,000 ordinary shares of 10p each were issued for a total consideration of £3,250,500 to provide working capital for the continued growth of the company.

Shareholders' rights

Deferred shares have no rights to dividends. 'B' ordinary shares rank *pari passu* with the ordinary shares in respect of dividends.

The 'B' ordinary shares shall be converted into ordinary shares at the rate of one ordinary share for each one 'B' ordinary share in the event of a listing. The directors may however determine to effect conversion, on a similar basis, by redeeming the 'B' ordinary shares at a price equal to the subscription price paid or they can convert by means of consolidating the 'B' ordinary shareholding and then subdividing into ordinary shares at the applicable conversion rate. Any balance shall be re-designated as 'A' deferred shares.

On a return of assets on liquidation or otherwise, deferred shareholders as a class have a right to 114p per share. 'B' ordinary shares are entitled to the same capital rights as the ordinary shareholders.

Options

The company's directors and employees have been granted options over ordinary shares under employee share option schemes as follows:

	At 1 January 2000	Cancelled	Exercised	Granted	Lapsed	At 31 December 2000
First scheme	22,286	-	(1,100)	34,720	(7,220)	48,686
Second scheme	51,580	(19,280)	-	15,170	(1,450)	46,020

The above options are held under executive share option schemes and are exercisable between 15 December 1998 and 6 September 2010 at prices ranging between £3.00 and £29.02. The directors' interests in share options are set out on page 2.

Notes *(continued)*

15 Share premium account

	2000 £000	1999 £000
Balance at 1 January	6,074	4,163
Premium on new shares issued	3,237	1,992
Issue costs	(221)	(81)
Balance at 31 December	9,090	6,074

16 Profit and loss account

	2000 £000	1999 £000
At 1 January	(6,807)	(4,745)
Loss for the financial year	(1,413)	(2,062)
At 31 December	(8,220)	(6,807)

17 Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Loss for the financial year	(1,413)	(2,062)
New share issue, net of issue costs	3,033	1,925
Opening shareholders' deficit	(384)	(247)
Closing shareholders' funds/(deficit)	1,236	(384)

18 Pensions

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 2 January 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 8.5% per annum and that salary increases would average 7% per annum.

The most recent valuation showed that the market value of the scheme's assets was £1,644,000 and that the actuarial value of those assets represented 105% of the benefits that had accrued to members after allowing for expected future increases in earnings. The surplus is being accounted for over a period of 13 years by a reduction in the contribution rate of 0.4% of earnings. The current contribution rate (including the reduction from the amortisation of the surplus) is 13.6% of earnings of which 6% is contributed by employees.

The pension charge for the year was £77,000 (1999 : £136,000).

Notes *(continued)*

19 Notes to cash flow statement

Analysis of cash flows

	2000 £000	1999 £000
Returns on investments and servicing of finance		
Interest received	42	46
Interest paid	(62)	(87)
Interest element of finance lease payments	(5)	(8)
	(25)	(49)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(223)	(121)
Financing		
Proceeds of ordinary share capital issue	3,254	2,005
Expenses paid in connection with share issue	(221)	(81)
Capital element of finance lease payments	(25)	(42)
	3,008	1,882

Analysis of changes in net funds/ (debt)

	At 1 January 2000 £000	Cash flows 2000 £000	At 31 December 2000 £000
Cash in bank	350	167	517
Bank overdraft	(1,133)	1,133	-
	(783)	1,300	517
Finance leases	(31)	25	(6)
	(814)	1,325	511