1435584

MICROVITEC PLC

Contents

Directors, Registered Office and Advisers

James M. Bailey	Executive Chairman
Barry J. Brooks	Finance Director
Anthony B. Sampson	Divisional Managing Director
Peter J. Barron	Non-executive Director
James K. Roe	Non-executive Director
Dr Alan Aitken	Non-executive Director
Registered Office	Futures Way, Bolling Road, Bradford West Yorkshire BD4 7TU
Registered Number	1435584
Registrars and Transfer Office	Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA
Auditors	KPMG
Solicitors	Pinsent Curtis Hammond Suddards
Principal Bankers	Midland Bank plc
Merchant Bankers	HSBC Samuel Montagu
Stockbrokers	HSBC James Capel

Chairman's Statement

1995 was a further year of notable achievement being the third consecutive year of high growth in sales and profit. Profit before tax of £3.4 million was 33% higher than in 1994. Sales of £55.1 million compares with £44.1 million in 1994, an increase of 25%. At the pre-tax level, profit per share improved by 16%, but this increase was offset by an increase in the effective tax rate from 23% to 32%, resulting in an increase in earnings per share from 3.0p to 3.1p.

The board is committed to a progressive dividend policy and has increased the final dividend by 12.5% to 0.45p per ordinary share, giving 0.85p for the year. This will be paid on the 1st July, 1996 to shareholders on the register at 11th June, 1996.

The group continues to invest heavily in tangible fixed assets spending £3.5 million in 1995, an increase of £0.9 million over 1994. The need to meet world class manufacturing standards and comply with increasingly stringent quality requirements led to a significant investment in equipment and systems to increase manufacturing effectiveness and improve our design capability. Major items included surface mount equipment for both SilCom Manufacturing Technology Inc (SilCom) and the Display Division and the establishment of an ASIC (Application Specific Integrated Circuit) laboratory at SilCom. This expenditure will enable substantial reductions in costs and ensure we remain cost competitive in a market sector we dominate. Computer and network systems continued to be upgraded throughout the group.

Research and development expenditure written off to the profit and loss account increased by 12% to £2.1 million and this together with 1994's spend has led to a raft of new products providing a strong platform for major growth in 1996 and beyond.

Gearing increased from 28% to 57%, reflecting the increased capital investment, and also the increased working capital needs in the final quarter required to meet our contract with Amiga Technologies.

Sales in our Networking Division increased by 54% to £15.8 million and operating profit increased by 66% to £1.9 million compared to 1994.

A number of successes were recorded in 1995 in the Networking Division. Freespace, a wireless LAN product which transmits voice and data between buildings by way of a laser beam, won the "Best of Show" award at the Interop convention in Atlanta, USA the premier world show for networking products. The Freespace product range is being expanded and is currently experiencing rapid sales growth on both sides of the Atlantic. We believe that the wireless communications market offers particularly attractive growth potential for the group.

SilCom, our network product manufacturer, continues to dominate the transceiver marketplace, but in addition, has added new products, both hardware and software, to its range.

MV Multimedia has continued its penetration of the "networked video" market through its relationship with BT's Video On Demand trials. This credibility gained has enabled the formation of a partnership between the British Film Institute, MV Multimedia and other leading IT suppliers in support of a proposed heritage project currently seeking sponsorship from the Millennium Commission. This project would enable the widespread distribution of archive film and TV materials in museums, libraries and universities.

Chairman's Statement

continued

Within the Software Division, CSM Ltd maintained its dominant position in the professional accountancy sector recording its highest level of sales and profit for many years and during 1996 will progressively introduce a range of products based on the Windows '95 operating system.

The Display Division experienced a reduction in demand in the financial markets partly offset by strong growth in the industrial OEM and medical markets. Microvitec GmbH continued to expand and was responsible for obtaining a contract to supply Amiga Technologies with a range of monitors through 1996.

The start of 1996 has been very encouraging with the return of customers in the financial sector, and new orders for the recently established Custom Application Group which designs and manufactures low volume, high value displays.

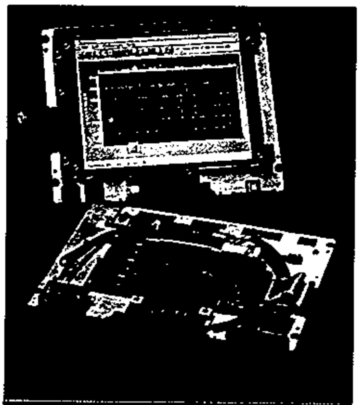
A separate business unit has been established to further our expertise in Flat Panel Displays. Recent reductions in the price of LCD's indicate that this market will develop quickly during 1996. The level and quality of enquiries currently being handled bode well for this new business.

Microvitec increased its commitment to networking through the acquisition of SCI Network Intelligence plc (SCI) in the year and See-Phone video networking technology after the year end. Layer One and SCI are well positioned to meet the growing corporate market for sophisticated wired and wireless networks. The See-Phone technology provides integrated telephone and video services to the desktop and positions Microvitec to add multimedia services to networks. Microvitec is now able to offer cost effective access to Business TV channels, Video On Demand, video training material, remote surveillance cameras and video conferencing. The technology is patented and is available now at the start of the boom in video communications. With our nationwide support structure Microvitec can offer a full 'turn key' solution, adapted to meet the growing communication needs of the most demanding corporate environment.

I would like to thank all of our employees and management for their continued dedication and contribution to the achievement of the 1995 results.

The board is encouraged by the promising start in 1996 and is confident of the potential for the group.

James Bailey
Executive Chairman
6th March, 1996



An LCD monitor for flexible integration into a wide range of systems.

The Division has the skills and flexibility to be able to produce customised monitors to order and also meet large OEM contracts. Its design and manufacturing resources enable differentiation from volume driven competitors, resulting in a significant presence in specialist markets such as financial dealing rooms, process control, medical, aeronautical and point of information/point of sale.

ch technology is receiving growing market recognition as wn here at the new Museum of Rugby at Twickenham.

New products released in 1995 included 15" and 17" CRT monitors and the first of a range of LCD flat panel displays. Flat panels represent an exciting new market opportunity which, due to the continued reduction in component costs, is expected to grow by up to 30% per annum for the next five years.

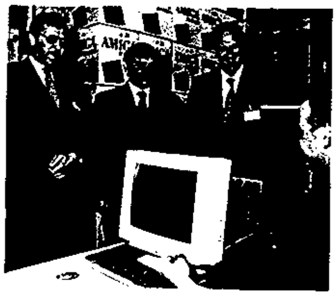
During the year, major contracts for display monitors were secured with Amiga Technologies, the specialist computer manufacturer, Bloomberg, the financial services integrator, and ING Bank operations worldwide.

With access to all the major technologies, the Display Division can also provide the most suitable touchscreen for any CRT or LCD application. High profile customers in 1995 included the BBC, Comet Stores and the Rugby Football Union.

Market statistics show significant growth for all areas of displays technology and Microvitec's expertise in niche areas provides the platform for continued profitable growth.

A Siemens fully-automatic surface mount machine was one of the major capital additions in 1995.

Display

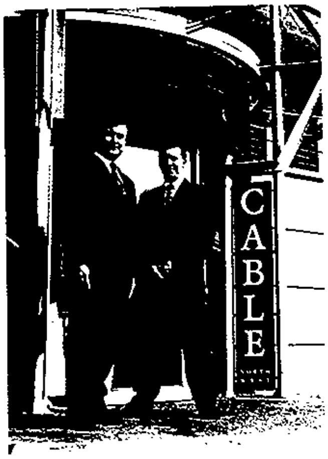


The first monitor handed over for the newly-launched Amiga. Pictured left to right: Karl-Heinz Hahnel (managing director of Microvitec GmbH), Petro Tyschtschenko (president of Amiga Technologies GmbH), Tony Sampson (managing director of Microvitec Displays)

Divisional

A new flexible point of information kiosk system

Networking



A new network allowed Cable North West to centralise and fully automate its cable telephone system. Mark Morris, director of Microvitec's networking division, is pictured with Cable North West's network operations manager, Mike Owen.

Divisional

The networking marketplace continues to grow in excess of 30% per annum. The Division can take full advantage of this growth through the range of products and services it can offer.

Because of the dependency on networking, many companies are now looking for help with their IT strategy from product independent systems integrators. The Division has combined the resources of three subsidiaries which will be renamed Microvitec Network Intelligence during 1996. This combined operation is capable of taking on major projects on a nationwide basis and turnover will increase in line with the predicted growth in the networking market. These projects involve the design, installation and support of the latest networking technologies, including connection to the Internet, for a wide variety of clients. Some examples of major corporate customers in 1995 included MGM, Cable North West, Powergen and Shell.

Microvitec also specialises in the design and manufacture of its own networking products. A range of infra-red wireless links has been introduced to provide customers with a simple and cost effective way of linking local area networks between buildings. In 1995, the product won several prestigious awards including 'Best of Show' at North America's leading networking exhibition and this has led to a high level of customer interest on both sides of the Atlantic.

MGM's new Regent Street headquarters where a networking infrastructure project was successfully completed. "Their total project capability came into its own - they completed the project within our tight timescales and to an excellent standard of workmanship. They will be a continuing source of networking expertise for MGM." Paul Barter, Computer Manager

Dominance of the Token Ring transceiver market also continued. Transceivers are a key component provided to all the major computer and networking companies for inclusion in the design of their own products. The group's Canadian subsidiary retained its 75% share of this market in addition to launching significant new products including a stackable hub which facilitates the connection of computer equipment to a network. The first in a range of network management software products was also released in 1995.

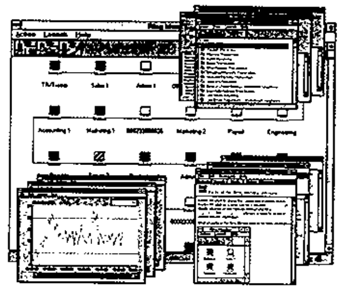
In addition, multimedia has been selected as an area for special focus particularly concerning the ability to store and display video images on a computer and transmit these images over a network. Significant investment has been made in equipment to convert and compress video into a variety of formats. Film material for use in BT's Video on Demand trial was encoded using this facility.

In March 1996, the patented 'See-Phone' technology was acquired. This will enable Microvitec to offer customers a cost effective way of distributing video to the desk top, providing users with instant access to applications such as video conferencing, business TV and images from remote security cameras.

Investment in product development and technical expertise will ensure Microvitec continues to expand its networking activities in line with the market potential.

An MPEG video encoding service is provided for BT's Video On Demand trials.

Networking

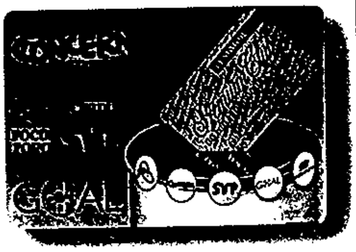


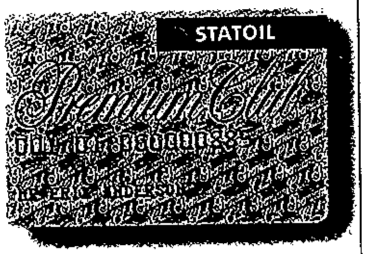
The launch of TR/Tracer for Windows provides a powerful management tool for Token Ring networks.

Divisional

BT

Software





An innovative loyalty programme was launched at Statoil's service stations.

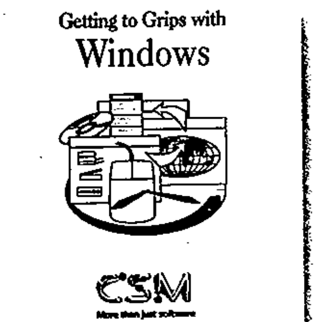
Divisional

This Division consists of highly focused software operations which develop and supply specialist software and associated equipment for the accountancy, legal, publishing and retail markets.

The accountancy and legal software products are marketed through a network of independent centres. All the accountancy software packages are fully recommended by the Institute of Chartered Accountants in England and Wales and a series of joint marketing and educational initiatives are operated with the Institute. The Division retained its position as the recognised market leader in the accountancy market place. The introduction of Windows based packages and a new product to address the requirements for Self Assessment of personal taxation will underpin future business growth.

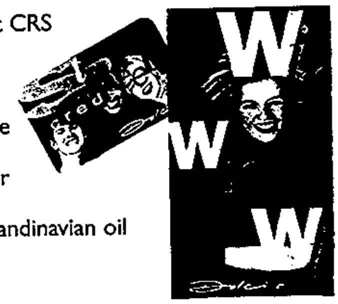
The application of computer technology has increased the power and sophistication of customer loyalty systems. The Division has the expertise to design and install the most appropriate scheme for any particular retailer or market. Major successes in 1995 included a project for the British Shoe Corporation's Dolcis stores, an installation at eight CRS supermarkets and a national scheme in the Republic of Ireland for Statoil, the leading Scandinavian oil company.

Considerable interest in loyalty systems has also been generated within the newspaper industry which is faced with the problem of declining readership. The Division already has a significant customer base to exploit in this area, built on sales of software to manage advertising copy and newspaper distribution.



The Division's accountancy software is recommended by the ICAEW

An electronic loyalty programme has been installed at eight of the CRS' Pioneer stores.



The British Shoe Corporation successfully trialed a card based electronic loyalty programme at eight of its Dolcis stores.

The Western Newspaper Group where a system has been installed to handle sales and accounts.

Financial Review

	1995	1994
	£'000	£'000
Turnover	**55,050**	44,146
Profit before taxation	**3,411**	2,560
Profit after taxation	**2,315**	1,962
Net assets	**12,210**	10,476
Net borrowings	**7,004**	2,968
Earnings per ordinary share	**3.1p**	3.0p
Dividends per ordinary share	**0.85p**	0.4p
Ratios:		
Profit before taxation to turnover	**6.2%**	5.8%
Gearing	**57%**	28%
Net interest cover (times)	**8.0**	10.3
Dividend cover (times)	**3.7**	6.7

A summary of the operating results is shown above.

The profitability of the group in 1995 has led to a strengthening of the balance sheet and growth in shareholders' funds. Net assets rose 17% to **£12.2m** (1994: £10.5m). Gearing increased from 28% to 57%, reflecting increased capital investment and greater working capital requirements within the Displays Division.

The group invested **£3.5m** (1994: £2.6m) in capital expenditure, largely on capital equipment for manufacturing, engineering and systems development. Expenditure on research and development written off to the profit and loss account amounted to **£2.1m** (1994: £1.9m). It is anticipated that the group will continue to fund capital and development expenditure from operating cash flow, although use will be made of finance leasing facilities where appropriate. Two new subsidiaries were acquired during the year at a total cost of £1.3m, which includes £0.2m of estimated contingent consideration.

Interest rates are variable on all short and medium term borrowings. Currency borrowings are made to match overseas investments where necessary but no other attempts are made to use financial instruments to limit interest rate or foreign currency exposure. However, given the growing importance of the group's overseas operations, close attention will be given to all aspects of treasury management during 1996. In particular, the repatriation of overseas funds will be controlled to ensure that the most cost effective position is achieved.

The charge for taxation was 32% in 1995 compared to 23% last year. The increased charge is mainly as a result of the reduction in tax losses available for set off.

In line with the board's stated intention to follow a progressive dividend policy, an interim dividend of 0.4p was paid on 1st December, 1995 and a final dividend of 0.45p is proposed to be paid on 1st July, 1996.

Report of the Directors

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

Results and Dividends

The group profit for the year before taxation amounted to £3,411,000 (1994: £2,560,000) from which is deducted taxation of £1,096,000 (1994: £598,000) giving a profit on ordinary activities after taxation of £2,315,000 (1994: £1,962,000).

An interim dividend of 0.4p per ordinary share (1994: Nil) was paid on 1st December, 1995. The directors recommend the payment of a final dividend of 0.45p per ordinary share (1994: 0.4p). The retained profit of £1,689,000 (1994: £1,668,000) has been transferred to reserves.

Principal Activities and Business Review

The group is engaged in the design, manufacture, marketing and distribution of networking and computer related products, the development of professional software and the provision of technical networking services.

A detailed review of the group's business and activities during the year is contained in the Chairman's Statement, Divisional Review and Financial Review on pages 3 to 9.

During the year the group acquired two subsidiaries at a total cost of £1.3m, which includes £0.2m of estimated contingent consideration. Details are contained in the Chairman's Statement on page 3 and in note 27(d) to the financial statements.

Post Balance Sheet Event

The Networking division acquired the patented See-Phone technology for networked integrated telephone and video services on 6th March, 1996. The consideration was £375,000 of which £100,000 is deferred for six months.

Future Developments

The group is continuing to invest in the development of new products and services for the computer and networking market places. Reference is made to these matters in the Chairman's Statement and Divisional Review on pages 3 to 8.

Fixed Assets

A summary of changes in fixed assets is shown in notes 12 and 13 to the financial statements.

The directors consider that there is no significant difference between the book value and market value of land and buildings.

Substantial Interests

At 6th March, 1996 the following persons had notified the company of a beneficial interest which represents 3% or more of the company's issued ordinary share capital at that date:

3i Plc	4,624,380	6.09%

No nominee shareholders held 10% or more of the company's issued ordinary share capital at 6th March, 1996.

Share Capital

The movements on the issued and authorised share capital are detailed in note 20 to the financial statements.

Report of the Directors

continued

Directors

The directors of the company and their interests in the share capital of the company as recorded in the register of director's interests were as follows:

	31st December, 1995		1st January, 1995 or date of appointment	
	Ordinary shares of 5p	Ordinary share options	Ordinary shares of 5p	Ordinary share options
Beneficial:				
J.M. Bailey	239,448	1,700,148	269,448	1,689,235
B.J. Brooks	–	155,000	–	150,000
A.B. Sampson	24,620	413,276	24,620	413,276
P.J. Barron	–	–	–	–
J.K. Roe	40,000	–	40,000	–
Dr A. Aitken	–	–	–	–

No director has any interest in the shares of any subsidiary of Microvitec PLC.

There have been no changes in the above interests between 31st December, 1995 and 6th March, 1996.

Beneficial holdings include the director's personal holdings and those of their spouse and minor children as well as holdings in family trusts of which the director's spouse or their minor children are beneficiaries or potential beneficiaries.

Mr B.J. Brooks and Dr A. Aitken were appointed directors on 27th June, 1995. Having been appointed during the year, both retire and, being eligible, offer themselves for re-election. Mr B.J. Brooks has a notice period of twelve months. Dr A. Aitken does not have a service contract.

Mr A.B. Sampson retires by rotation and, being eligible, offers himself for re-election. His notice period is twelve months.

Details of the directors' share options can be found in note 7 to the financial statements.

Non-executive Directors

The board of Microvitec PLC supports the recommendations of the Cadbury Committee regarding board composition and the role of non-executive directors. Non-executive directors serve on the Audit Committee and the Remuneration Committee.

Mr P.J. Barron, aged 53, has extensive operations experience in the electronics industry, notably with Texas Instruments in the USA and Systime in the UK. Mr Barron is currently managing director of Chase Advanced Technologies Limited.

Mr J.K. Roe, aged 61, was a director of N.M. Rothschild & Sons Ltd from 1970 until 1992. He is Chairman of Ronson plc, Deputy Chairman of Innovations Group plc, a director of Jupiter International Group PLC and of a number of other listed and unlisted companies. He is also a member of the Monopolies and Mergers Commission.

Dr A. Aitken, aged 53, is President of Microelectronic Industry Consultants based in Ontario, Canada and was until 1984 Vice President of Mitel. He is also an executive director of OCRInet Inc, based in Ottawa, Canada.

Directors' and Officers' Liability Insurance

During the year the company purchased and maintained liability insurance for its directors and officers as permitted by section 310(3) of the Companies Act 1985.

Employee Involvement

It is the group's policy that employees should be kept as fully informed as is feasible and practicable about the activities of the group through consultative meetings. In addition, managers hold regular meetings with representatives of their staff in order to encourage employees to make their views known on matters which affect them.

At 6th March, 1996 4,298,900 shares, representing 6% of the issued share capital, were owned by employees of the group.

The company established an employee trust by settlement dated 14th June, 1983. Under the terms of the trust the company may make payment to the trustees out of its estimated net profits and such payment is limited by the articles of association to 2.5% of such profits. The trustees, who meet regularly, hold the trust fund for the benefit of the employees. They have wide powers of investment and have discretion in the making of distributions to or for the benefit of any person so entitled.

Employment of Disabled Persons

The group's policy is to give full consideration to applications from disabled persons and to ensure that those recruited receive training, career development and promotion which is similar to that of all other employees. Special attention would be given to the needs of any employee who became temporarily or permanently disabled whilst in employment.

Pensions

During the year the group continued to operate money purchase pension schemes with defined contribution levels covering the majority of its employees, including directors. Contributions to the schemes are independently administered by insurance companies.

Share Option Schemes

A share option scheme was introduced in 1984 and in 1995 options in respect of 279,115 ordinary shares were exercised under the scheme and a further 449,000 options lapsed. At 31st December, 1995 options under the Employee Share Option Scheme were outstanding on 3,176,970 ordinary shares. This scheme expired on 8th May, 1994.

Under the terms of a share subscription and option agreement dated 12th June, 1990, options were granted to Mr J.M. Bailey, Mr A.C. Melkerson, Mr R.W. Adams and Mr A.E. Greenough. The first tranche of these options is exercisable between 13th July, 1990 and 12th July, 1997 at a price of 29p per share. The rights to the second and third tranches of options have now lapsed.

The Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme for full time directors and employees of the group granted options in respect of 606,000 ordinary shares and 97,500 options lapsed. There were no options exercisable during the year. At 31st December, 1995 options were outstanding on 917,796 ordinary shares. Options over 60,000 ordinary shares have been granted under the Microvitec 1994 Unapproved Executive Share Option Scheme of which none were exercisable during the year. At 31st December, 1995 options were outstanding on 110,000 ordinary shares.

Charitable and Political Contributions

Donations to UK charitable organisations amounted to £1,515 (1994: £200). There were no political donations.

Close Company

The company is not a "close company" as defined by the Income and Corporation Taxes Act 1988. There has been no change since 31st December, 1995.

Annual General Meeting

The shareholders will be asked to consider an item of special business at the Annual General Meeting.

Resolution 7 is to enable the company to allot shares up to a maximum of 33.3% of the company's issued ordinary share capital, and enables the company to disapply shareholders' pre-emption rights in respect of rights issues, over the issue of shares for cash up to a maximum of 5% of the company's issued ordinary share capital and in respect of issues of shares pursuant to the terms of the subscription and option agreement dated 12th June, 1990 between the company and Mr J.M. Bailey, Mr A.C.Melkerson, Mr R.W. Adams and Mr A.E. Greenough.

Auditors

Our auditors KPMG have indicated that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Audit Plc as auditors of the company.

By order of the Board
B.J. Brooks
Secretary

Futures Way
Bolling Road
Bradford, West Yorkshire
BD4 7TU

6th March, 1996

Corporate Governance

The Cadbury Code

The company complied throughout the year with the recommendations of the Cadbury Code of Best Practice in relation to the management of the group apart from those relating to the roles of the Chairman and the Chief Executive, the requirement for non-executive directors to have fixed term service contracts and, for part of the year, the composition of the Audit Committee.

Significant matters relating to the company's compliance with the Code are explained below:

The Board of Directors

The activities of the group are ultimately controlled by the board of directors, which currently consists of three executive and three non-executive directors. The board, which has an agreed Schedule of Matters reserved for its consideration and approval, meets regularly throughout the year to consider key areas of the group's affairs. These include strategy, major acquisitions or disposals, operating budgets and material contracts.

The company has a procedure to enable directors to take independent professional advice at the expense of the company in the furtherance of their duties. All directors have unrestricted access to the Company Secretary.

The board has considered the Cadbury recommendation to separate the roles of Chairman and Chief Executive. In view of the strength of the non-executive presence on the board and the present size of the group, it is not proposed to change the current structure.

Non-executive Directors

Following the appointment during the year of Dr A. Aitken, the board now includes three non-executive directors who represent a source of strong independent advice and judgement. The remuneration of non-executive directors takes the form of fees, set by the executive directors in line with those of peer group companies.

Non-executive directors do not have fixed term service contracts, however, they are required to retire by rotation.

Executive Directors

Directors' service contracts are in accordance with the requirements of the Code. Directors' emoluments are disclosed in the Remuneration Committee report and in note 7 to the financial statements.

Emoluments of the executive directors, including participation in the Share Option Schemes are determined by the Remuneration Committee which consists entirely of the non-executive directors.

Going Concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal Financial Controls

The board of directors has overall responsibility for the group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The group has a well established internal financial control framework and the directors have reviewed its effectiveness for the year ended 31st December, 1995 and for the period to the date of approval of the financial statements. The review has been based on written reports on internal financial controls provided by the management of each group company.

The group's internal control environment can be summarised under the following headings:

Matters Reserved To The Board

The board, which meets at least 6 times a year, is responsible for overall group strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the group including treasury and dividend policy.

The Audit Committee, which meets 3 times a year, comprises three non-executive directors and assists the board in its duties regarding the group's financial statements and the maintenance of adequate internal financial controls. The Committee provides a direct link between the board and the external auditors through regular meetings.

Organisational Structure

The directors have established an organisational structure with clearly defined lines of responsibility and delegation of authority to executive management. A group management committee which consists of the executive directors and the managing directors of all subsidiaries meets 6 times a year to discuss relevant group issues.

Financial Reporting

The group has a comprehensive system for planning and budgeting and for monitoring and reporting performance of group companies to the directors. Monthly results are reported against budget and prior year and forecasts for the current financial year are regularly revised based on actual performance.

Controls Over Subsidiary Companies

Executive management has defined the financial controls and procedures within which each subsidiary is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises the three non-executive directors who take advice at all stages of their deliberations from the company's professional advisors. The Committee sets remuneration for the executive directors of Microvitec PLC and the managing directors of each subsidiary undertaking.

Basic salaries are set to be comparable with those of peer group companies and executive directors are entitled to benefits in kind, such as the provision of a company car and private health insurance, as is normal industry practice.

An annual bonus is payable based upon targets set by the Remuneration Committee. Superior performance is encouraged by providing challenging performance goals, linked to the group's performance, which must be achieved before maximum bonus is payable. Targets are set for executives individually on an annual basis.

Share options are granted to strengthen the link between personal interests and those of the shareholders. Full details of the directors' share options are given in note 7 to the financial statements.

Directors' remuneration payable for the year to 31st December, 1995 was as follows:

	Basic Salary £'000	Fees £'000	Benefits in kind £'000	Performance related Bonus £'000	Pension contributions £'000	Total £'000	1994 £'000
Executive							
J.M. Bailey	109	–	8	21	18	156	166
B.J. Brooks (appointed 27th June, 1995)	25	–	3	8	2	38	–
A.B. Sampson	61	–	6	11	8	86	96
Non-Executive							
J.K. Roe	–	16	–	–	–	16	16
P.J. Barron	–	13	–	–	–	13	13
Dr A. Aitken (appointed 27th June, 1995)	–	5	–	–	–	5	–
	195	34	17	40	28	314	291

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 group 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; and
- 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 group and to prevent and detect fraud and other irregularities.

KPMG

Report of the Auditors, KPMG, to the Members of Microvitec PLC

We have audited the financial statements on pages 19 to 38. We have also examined the amounts disclosed relating to emoluments of the directors which form part of the Remuneration Committee report on page 16.

Respective Responsibilities of Directors and Auditors

As described above, 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 group'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 and the group as at 31st December, 1995, and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
Bradford

6th March, 1996

Review Report by the Auditors to Microvitec PLC on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 14 to 16 concerning the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of Opinion

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That bulletin does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of the company's internal financial controls or corporate governance procedures, or on the ability of the group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 15, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and the statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on pages 14 to 16 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

KPMG

KPMG
Chartered Accountants
Registered Auditors
Bradford

6th March, 1996

Consolidated Profit and Loss Account

For the year ended 31st December, 1995

	Note	1995 £'000	1994 £'000
TURNOVER	2		
Continuing operations		**54,669**	44,146
Acquisitions		**381**	–
		55,050	44,146
Cost of sales		**(37,673)**	(31,500)
GROSS PROFIT			
		17,377	12,646
Net operating expenses	3		
– exceptional		**–**	(157)
– other		**(13,481)**	(9,753)
		(13,481)	(9,910)
OPERATING PROFIT	2		
Continuing operations		**3,919**	2,736
Acquisitions		**(23)**	–
		3,896	2,736
Profit on disposal of investments		**–**	100
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		**3,896**	2,836
Interest receivable	4	**16**	24
Interest payable	5	**(501)**	(300)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**3,411**	2,560
Taxation on profit on ordinary activities	8	**(1,096)**	(598)
PROFIT FOR THE FINANCIAL YEAR	9	**2,315**	1,962
Dividends – equity	10	**(626)**	(294)
RETAINED PROFIT FOR THE FINANCIAL YEAR	22	**1,689**	1,668
EARNINGS PER SHARE	11	**3.1p**	3.0p

There is no material difference between the profit as disclosed above and the profit calculated on the historical cost basis.

The notes on pages 24 to 38 form part of these financial statements

Consolidated Balance Sheet

As at 31st December, 1995

		Note	1995	1994	
		£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets	12		493		238
Tangible assets	13		9,519		7,046
Investments	14		15		15
			10,027		7,299
Current Assets					
Stocks	15	10,159		7,847	
Debtors	16	13,272		10,786	
Cash at bank and in hand		3,965		3,419	
		27,396		22,052	
Creditors: amounts due within one year	17	(22,507)		(16,304)	
Net Current Assets			4,889		5,748
Total Assets less Current Liabilities			14,916		13,047
Creditors: amounts due after one year	18		(2,124)		(2,049)
Provisions for Liabilities and Charges	19		(582)		(522)
Net Assets			12,210		10,476
Capital and Reserves					
Called up equity share capital	20		3,797		3,678
Potential issue of shares	21		547		477
Share premium account	22		4,178		4,120
Revaluation reserve	22		896		914
Acquisition reserve	22		(1,879)		(1,614)
Profit and loss account	22		4,671		2,901
Shareholders' Funds - Equity			12,210		10,476

The financial statements were approved by the board of directors on 6th March, 1996

J.M. Bailey, Executive Chairman.

B.J. Brooks, Finance Director

The notes on pages 24 to 38 form part of these financial statements

Balance Sheet

As at 31st December, 1995

	Note	1995		1994	
		£'000	**£'000**	£'000	£'000
Fixed Assets					
Tangible assets	13		**7,286**		5,813
Investments	14		**8,505**		7,237
			15,791		13,050
Current Assets					
Stocks	15	**5,265**		4,521	
Debtors	16	**9,275**		8,420	
Cash at bank and in hand		**1,431**		1,283	
		15,971		14,224	
Creditors: amounts due within one year	17	**(15,077)**		(11,435)	
Net Current Assets			**894**		2,789
Total Assets less Current Liabilities			**16,685**		15,839
Creditors: amounts due after one year	18		**(1,798)**		(1,888)
Provisions for Liabilities and Charges	19		**(220)**		(223)
Net Assets			**14,667**		13,728
Capital and Reserves					
Called up equity share capital	20		**3,797**		3,678
Potential issue of shares	21		**547**		477
Share premium account	22		**4,178**		4,120
Revaluation reserve	22		**896**		914
Acquisition reserve	22		**5,096**		4,177
Profit and loss account	22		**153**		362
Shareholders' Funds - Equity			**14,667**		13,728

The financial statements were approved by the board of directors on 6th March, 1996

J.M. Bailey, Executive Chairman.

B.J. Brooks, Finance Director

The notes on pages 24 to 38 form part of these financial statements

Consolidated Cash Flow Statement

For the year ended 31st December, 1995

	Note	1995		1994	
		£'000	£'000	£'000	£'000
Net Cash Inflow from Operating Activities	27(a)		1,957		3,771
Returns on Investments and Servicing of Finance					
Interest received		16		24	
Interest paid		(415)		(292)	
Interest element of finance lease rental repayments		(86)		(8)	
Dividends paid		(588)		-	
Net Cash Outflow from Returns on Investments and Servicing of Finance			(1,073)		(276)
Taxation					
Corporation tax paid			(721)		(159)
Investing Activities					
Acquisition of subsidiary undertakings (net of cash and cash equivalents acquired)	27(d)	(305)		(78)	
Purchase of intangible fixed assets		(413)		(111)	
Purchase of tangible fixed assets		(3,513)		(2,624)	
Purchase of investments		-		(15)	
Proceeds from sale of investments		-		138	
Loan note repayments		-		100	
Proceeds from sale of tangible fixed assets		44		27	
Net Cash Outflow from Investing Activities			(4,187)		(2,563)
Net Cash (Outflow)/Inflow before Financing			(4,024)		773
Financing					
Issue of ordinary shares		72		340	
Expenses of share issue		-		(31)	
Repayment of bank and other loans due after one year	27(c)	(376)		(301)	
Increase in finance leases and hire purchase agreements	27(c)	595		687	
Net Cash Inflow from Financing			291		695
(Decrease)/Increase in Cash and Cash Equivalents	27(b)		(3,733)		1,468

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31st December, 1995

	1995	1994
	£'000	**£'000**
Profit for the Financial Year	**2,315**	1,962
Currency translation differences on foreign currency investments	**81**	(156)
Total recognised gains for the financial year	**2,396**	1,806

Reconciliation of Movements in Consolidated Shareholders' Funds

For the year ended 31st December, 1995

	1995	1994
	£'000	**£'000**
Profit for the Financial Year	**2,315**	1,962
Dividends – equity	**(626)**	(294)
New share capital subscribed	**72**	340
Share capital issued in consideration for the acquisition of subsidiaries (net of costs)	**1,024**	2,936
Potential issue of shares (note 21)	**70**	477
Goodwill written off (note 27(d))	**(1,184)**	(3,035)
Transfer to deferred taxation (note 22)	**(18)**	(18)
Currency translation differences on foreign currency investments	**81**	(156)
Net increase in shareholders' funds	**1,734**	2,212
Shareholders' funds at 31st December, 1994	**10,476**	8,264
Shareholders' funds at 31st December, 1995	**12,210**	10,476

1 ACCOUNTING POLICIES

Basis of preparation:

The financial statements are prepared under the historical cost convention supplemented by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards,

Consolidation:

The consolidated financial statements incorporate the financial statements of Microvitec PLC and all its subsidiary undertakings.

The consolidated profit and loss account includes the results of companies acquired during the year from their effective dates of acquisition. The difference between the total consideration payable for new interests and the fair value of net assets acquired is taken to reserves.

A separate profit and loss account dealing with the results of the parent company only has not been presented in accordance with Section 230 Companies Act 1985.

Associated undertakings:

Where the group holds not less than 20% of the equity share capital in companies other than subsidiary undertakings and over whose operating and financial policy it exerts a significant influence, it is the policy of the group to treat such companies as associated undertakings.

Depreciation:

All tangible fixed assets, other than freehold land, are depreciated on a straight line basis at annual rates calculated to write off their cost or valuation, less estimated residual value, over the term of their useful lives, as follows:

Freehold buildings	– 50 years
Long leasehold property	– 50 years
Short leasehold property	– over the period of the lease
Plant, machinery and fixtures	– 3 to 5 years
Motor vehicles	– 4 years
Tooling	– 3 years or such shorter period as is considered appropriate

Deferred taxation:

Provision is made under the liability method for deferred taxation except where, in the opinion of the directors, a liability is unlikely to arise in the foreseeable future.

Advance corporation tax:

Advance corporation tax is carried forward only to the extent that it is recoverable in the foreseeable future.

Stocks:

Stocks are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods cost includes attributable overheads.

Foreign currencies:

The results of overseas operations are translated into sterling at the average rates of exchange applicable to the accounting period. Assets and liabilities of overseas operations are translated into sterling at the rates of exchange ruling at the date of the group balance sheet. Exchange differences arising on consolidation of overseas operations are taken direct to reserves and are offset by exchange differences arising from the translation of foreign currency loans which are used to finance equity investments to the extent of differences arising on the translation of overseas operations, the excess being reflected in the operating result for the year. Other exchange differences are reflected in the operating result for the year.

Research and development:

Research expenditure is written off in the year in which it is incurred. Development costs incurred on specific projects are carried forward as intangible fixed assets to the extent that they are expected to be recovered against future income from the subsequent sale of the products concerned. Deferred development expenditure is written off in line with the expected use arising from the products. All other development costs are written off against profits in the period in which they are incurred.

Leased assets:

Assets acquired under finance leases or similar agreements are shown as fixed assets and depreciated in accordance with the accounting policy shown above. The corresponding liability for the capital element is shown in creditors and the interest element, which is calculated on the basis of the amount outstanding, is charged against profits over the period of the agreement. The rental costs of all other leased assets are charged against profits as incurred.

Pensions:

The group operates money purchase pension schemes with defined contribution levels covering the majority of its employees. The schemes are independently administered by insurance companies. Pension costs are charged to the profit and loss account as incurred.

2 SEGMENTAL REPORTING

Turnover represents sales of products and services to customers outside the group excluding value added tax. The analysis of turnover by geographical destination is as follows:

	1995 £'000	1994 £'000
United Kingdom	**28,875**	23,616
USA	**7,044**	5,330
Rest of America	**7,571**	8,565
Germany	**8,198**	2,773
Rest of Europe	**2,709**	3,075
Rest of World	**653**	787
	55,050	44,146

	Turnover to third parties		Operating profit	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Display division	**33,175**	29,461	**2,076**	2,109
Networking division	**15,800**	10,250	**1,929**	1,159
Software division	**6,075**	4,435	**726**	280
Group overheads			**(835)**	(812)
	55,050	44,146	**3,896**	2,736
Profit on disposal of investments			**-**	100
Interest payable (net)			**(485)**	(276)
Profit on ordinary activities before taxation			**3,411**	2,560

The group's overseas operations made an operating profit of £1,559,000 (1994: £1,680,000) on turnover of £14,978,000 (1994: £8,612,000). Net assets of overseas operations were £3,268,000 (1994: £2,029,000).

	Net assets	
	1995 £'000	1994 £'000
Display division	**8,425**	9,403
Networking division	**3,062**	943
Software division	**723**	130
	12,210	10,476

The above analysis has been changed to reflect the current divisional structure.

	1995	1994
3 NET OPERATING EXPENSES	**£'000**	**£'000**
Distribution costs	**5,080**	3,079
Administrative expenses (see below)	**8,401**	6,845
Other operating income	**–**	(14)
	13,481	9,910

Administrative expenses includes £Nil (1994: £157,000) on expenditure on proposed acquisitions which did not proceed. Acquisitions in 1995 had cost of sales of £218,000 and net operating expenses of £194,000 in the period from date of acquisition to 31st December 1995.

	1995	1994
4 INTEREST RECEIVABLE	**£'000**	**£'000**
Other interest receivable and similar income	**16**	24

	1995	1994
5 INTEREST PAYABLE	**£'000**	**£'000**
Bank loans, overdrafts and other loans repayable within five years	**415**	292
Finance leases and hire purchase agreements	**86**	8
	501	300

	1995	1994
6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**£'000**	**£'000**
This is arrived at after charging/(crediting):		
Depreciation	**1,362**	887
Amortisation	**158**	49
Auditors' remuneration	**79**	78
Auditors' remuneration in respect of other services	**32**	97
Operating leases – property	**692**	536
– plant and machinery	**234**	453
Research and development expenditure	**2,112**	1,887
Foreign exchange gain	**(286)**	(56)

	1995	1994
7 EMPLOYEES	**£'000**	**£'000**
Employee costs including directors during the year amounted to:		
Wages and salaries	**12,957**	10,602
Social security costs	**1,327**	958
Other pension costs	**359**	322
	14,643	11,882

The average number of employees including directors during the year was made up as follows:	**No.**	**No.**
Production	**371**	314
Selling and distribution	**90**	91
Engineering and development	**219**	181
Administration	**112**	91
	792	677

7 EMPLOYEES *continued*

	1995 £'000	1994 £'000
Directors' emoluments – fees	**34**	36
– as executives (including benefits in kind)	**212**	178
– performance related bonus	**40**	59
– pension contributions	**28**	25
	314	298

The emoluments, including pension contributions of £18,394 (1994: £17,986) and a performance related bonus of £21,000 (1994: £35,000), of the Executive Chairman, who is also the highest paid director, were £156,000 (1994: £166,000).

Performance related bonuses are based on the achievement of pre-set targets for profit growth and are approved by the Remuneration Committee.

The emoluments of all directors, excluding pension scheme contributions, are as follows:

	No.	No.
£5,001 – £10,000	1	1
£10,001 – £15,000	1	1
£15,001 – £20,000	1	1
£35,001 – £40,000	1	–
£75,001 – £80,000	1	–
£85,001 – £90,000	–	1
£135,001 – £140,000	1	–
£145,001 – £150,000	–	1

No director had any interest in a material contract with the company or any of its subsidiary undertakings during the year ended 31st December, 1995.

Directors' share options

The share options held by the directors were:

	Date Granted	Share Options	Exercise Price	Date Exercisable	Expiry Date
J.M. Bailey					
– Management team share options	12/6/90	700,148	29p	13/7/90	12/7/97
– Employee share option scheme	17/3/94	1,000,000	36¼p	16/3/97	15/3/04
A.B. Sampson					
– Employee share option scheme	5/4/91	100,000	19p	4/4/94	3/4/01
	8/4/92	8,276	34p	7/4/95	6/4/02
	22/10/92	20,000	22p	21/10/95	20/10/02
	14/4/93	10,000	28½p	13/4/96	12/4/03
	8/10/93	25,000	30¼p	7/10/96	6/10/03
	17/3/94	250,000	36¼p	16/3/97	15/3/04
B.J. Brooks					
– Employee share option scheme	8/4/91	17,500	34p	7/4/95	6/4/02
	22/10/92	10,000	22p	21/10/95	21/10/02
	14/4/93	10,000	28½p	13/4/96	12/4/03
	8/10/93	12,500	30¼p	7/10/96	6/10/03
	17/3/94	40,000	36¼p	16/3/97	15/3/04
– Executive share option scheme	19/8/94	60,000	41½p	18/8/97	17/8/04
	31/8/95	5,000	39p	30/8/98	29/8/05

No director exercised any share options during the year.

As a result of the issue of shares during the year, Mr J.M. Bailey was granted options over 10,913 ordinary shares under the terms of a share subscription and option agreement dated 12th June, 1990.

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1995 £'000	1994 £'000
Corporation tax payable at 33% (1994: 33%)	375	227
Overseas taxation	536	431
Deferred taxation (note 19)	189	(55)
	1,100	603
Adjustments in respect of prior years: Corporation tax	(4)	(5)
	1,096	598

The taxation charge for the year has been reduced/(increased) by:		
Provisions and expenses not allowable for taxation	(70)	(51)
Losses and other timing differences	117	322
	47	271

Provision has not been made in the financial statements for United Kingdom and overseas taxation payable in the event of a distribution of overseas profit, where it is unlikely that such profits will be distributed.

9 PROFIT FOR THE FINANCIAL YEAR

Of the consolidated profit, a loss of £209,000 (1994: profit of £362,000) is dealt with in the financial statements of the parent company.

10 DIVIDENDS ON EQUITY SHARES

	1995 £'000	1994 £'000
Ordinary shares of 5p each:		
Interim dividend of 0.40p per share paid 1st December, 1995	294	-
Proposed final dividend of 0.45p per share payable on 1st July, 1996 (1994: 0.40p)	332	294
	626	294

11 EARNINGS PER SHARE

	1995	1994
	No.	No.
The earnings per ordinary share has been calculated taking into account the weighted average number of ordinary shares in issue during the year	73,699,228	64,399,634
	£'000	£'000
Profit attributable to shareholders	2,315	1,962

The fully diluted earnings per share is not materially different from the basic earnings per share.

12 INTANGIBLE FIXED ASSETS

	Group £'000	Parent Company £'000
Cost		
At 1st January, 1995	598	-
Additions	413	-
At 31st December, 1995	1,011	-
Amortisation		
At 1st January, 1995	360	-
Charged in year	158	-
At 31st December, 1995	518	-
Net book amount		
At 31st December, 1995	493	-
At 31st December, 1994	238	-

Intangible fixed assets comprise of deferred development expenditure and licence fees.

13 TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £'000	Long leasehold property £'000	Short leasehold property £'000	Plant, machinery, fixtures, vehicles and tooling £'000	Total £'000
Cost or valuation					
At 1st January, 1995	3,667	410	56	9,760	13,893
Additions	15	–	–	3,502	3,517
Acquisitions (note 27(d))	–	–	103	467	570
Disposals	–	–	–	(376)	(376)
Exchange rate adjustment	–	–	–	37	37
At 31st December, 1995	3,682	410	159	13,390	17,641
Cost	123	410	159	13,390	14,082
Independent valuation 1989	4,017	–	–	–	4,017
Independent valuation 1990	170	–	–	–	170
Valuation adjustment 1991	(628)	–	–	–	(628)
	3,682	410	159	13,390	17,641
Depreciation					
At 1st January, 1995	299	45	55	6,448	6,847
Charged in year	48	11	–	1,303	1,362
Acquisitions (note 27(d))	–	–	22	215	237
Disposals	–	–	–	(342)	(342)
Exchange rate adjustment	–	–	–	18	18
At 31st December, 1995	347	56	77	7,642	8,122
Net book amount					
At 31st December, 1995	3,335	354	82	5,748	9,519
At 31st December, 1994	3,368	365	1	3,312	7,046

PARENT COMPANY	Freehold land and buildings £'000	Long leasehold property £'000	Plant, machinery, fixtures, vehicles and tooling £'000	Total £'000
Cost or valuation				
At 1st January, 1995	3,667	334	6,050	10, 051
Additions	15	–	2,274	2,289
Disposals	–	–	(29)	(29)
At 31st December, 1995	3,682	334	8,295)	12,311
Cost	123	334	8,295	8,752
Independent valuation 1989	4,017	–	–	4,017
Independent valuation 1990	170	–	–	170
Valuation adjustment 1991	(628)	–	–	(628)
	3,682	334	8,295	12,311
Depreciation				
At 1st January, 1995	299	42	3,897	4,238
Charged in year	48	9	745	802
Disposals	–	–	(15)	(15)
At 31st December, 1995	347	51	4,627	5,025
Net book amount				
At 31st December, 1995	3,335	283	3,668	7,286
At 31st December, 1994	3,368	292	2,153	5,813

13 Tangible Fixed Assets *continued*

The aggregate amounts at which freehold land and buildings would have been shown in the financial statements had they not been revalued are as follows:

	Group and Company	
	1995	1994
	£'000	**£'000**
Cost	**2,757**	2,742
Depreciation	**(479)**	(439)
Net book amount	**2,278**	2,303

Freehold land and buildings include depreciable assets of £2,850,000 (1994: £2,835,000).

Included above for the group are assets held under finance leases and hire purchase agreements with a net book amount of £1,619,000 (1994: £845,000) after charging depreciation for the year of £315,000 (1994: £79,000). Assets held under finance leases and hire purchase agreements in the parent company have a net book amount of £1,130,000 (1994: £637,000) after charging depreciation for the year of £236,000 (1994: £63,000).

14 Investments

	Group		Parent Company	
	1995	1994	**1995**	1994
	£'000	**£'000**	**£'000**	**£'000**
Subsidiary undertakings:				
Ordinary shares at cost less provisions	**–**	–	**8,490**	7,222
Trade investments at cost	**15**	15	**15**	15
	15	15	**8,505**	7,237

	Subsidiary Undertakings	
	Cost	Provision
Movements during the year were:	**£'000**	**£'000**
At 1st January, 1995	9,189	(1,967)
Acquisitions (note 27 (d))	1,184	–
Exchange rate adjustment	99	–
At 31st December, 1995	**10,472**	(1,967)

The activities of the principal subsidiary undertakings, which are all wholly owned, are as follows:

	Country of incorporation and operation	Principal activity
Microvitec Inc.	United States of America	Design, manufacture and marketing of computer displays, multimedia products and communications equipment
Microvitec (Deutschland) GmbH	Germany	Design, manufacture and marketing of computer displays, multimedia products and communications equipment
Perex Ltd	UK	Specialist supplier of computer peripheral equipment
Ellinor Technology Ltd*	UK	Investment company
Microvitec Systems Integration Ltd	UK	Maintenance of computer equipment
SilCom Manufacturing Technology Inc.	Canada	Design, manufacture and marketing of communications equipment
Justfree Ltd	UK	Specialist networking, internetworking and intelligent cabling
SCI Network Intelligence plc	UK	Specialist networking, internetworking and intelligent cabling
Freebird Communications Ltd*	UK	Design and manufacture of wireless communications products
CSM Ltd	UK	Production and sale of computer software
Cognito Software Ltd	UK	Provision of computer related consultancy services
Integrated Publishing Systems Ltd	UK	Provision of computer related consultancy services
Project Assyst Ltd	UK	Provision of computer related consultancy services
Vitec GmbH*	Germany	Maintenance of computer equipment

*These subsidiary undertakings are not directly owned by Microvitec PLC.

A full list of subsidiary undertakings will be filed with the Registrar of Companies.

All companies incorporated in the UK are registered in England and Wales.

15 Stocks

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
Raw materials	**5,068**	4,909	**3,523**	2,583
Work in progress	**1,603**	792	**972**	548
Finished goods	**3,488**	2,146	**770**	1,390
	10,159	7,847	**5,265**	4,521

16 Debtors

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
Trade debtors	**12,355**	9,653	**4,291**	5,603
Amounts owed by subsidiary undertakings	**–**	–	**4,214**	2,066
Other debtors	**463**	713	**606**	603
Prepayments and accrued income	**454**	408	**164**	148
Corporation tax recoverable	**–**	12	**–**	–
	13,272	10,786	**9,275**	8,420

17 Creditors: Amounts Due Within One Year

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
Bank overdrafts (see below)	**4,532**	3,281	**2,910**	2,470
Bank loan (see below)	**398**	384	**398**	384
Other loans (see below)	**3,743**	783	**3,594**	735
Trade creditors	**8,213**	7,769	**5,093**	5,947
Amounts owed to subsidiary undertakings	**–**	–	**648**	77
Corporation tax payable	**644**	427	**115**	135
Advance corporation tax payable	**157**	74	**157**	74
Other taxes and social security	**491**	701	**139**	148
Other creditors	**405**	189	**59**	65
Deferred consideration	**375**	245	**375**	245
Accruals and deferred income	**2,706**	1,928	**938**	700
Finance leases and hire purchase agreements	**511**	229	**319**	161
Proposed dividend	**332**	294	**332**	294
	22,507	16,304	**15,077**	11,435

The bank borrowings in the parent company and the group are secured by fixed and floating charges over certain assets of the company and the group. Other loans are secured by a first charge over certain trade receivables of the company.

18 CREDITORS: AMOUNTS DUE AFTER ONE YEAR

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
Amounts owed under finance leases and hire purchase agreements:				
Within one to two years	**346**	241	**299**	173
Within two to five years	**665**	319	**386**	226
	1,011	560	**685**	399
Bank loans within one to two years	**390**	384	**390**	384
Bank loans within two to five years	**384**	766	**384**	766
Deferred consideration	**339**	339	**339**	339
	2,124	2,049	**1,798**	1,888

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Warranty and other provisions £'000	Total £'000
GROUP			
At 1st January, 1995	372	150	522
Transfer from revaluation reserve (note 22)	18	–	18
Charge/(credit) for the year in the profit and loss account	189	(72)	117
Exchange differences	8	–	8
Advance corporation tax	(83)	–	(83)
At 31st December, 1995	504	78	582
PARENT COMPANY			
At 1st January, 1995	186	37	223
Transfer from revaluation reserve (note 22)	18	–	18
Charge/(credit) for the year in the profit and loss account	99	(37)	62
Advance corporation tax	(83)	–	(83)
At 31st December, 1995	220	–	220

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
Deferred taxation comprises:				
Capital allowances and other timing differences	**522**	382	**220**	186
Losses	**(18)**	(10)	**–**	–
	504	372	**220**	186

	Group 1995 £'000	Group 1994 £'000	Parent Company 1995 £'000	Parent Company 1994 £'000
The amount of unprovided deferred taxation comprises:				
Capital allowances and other timing differences	**180**	221	**180**	221

In addition to the above, certain UK and overseas subsidiary undertakings have tax losses carried forward amounting to approximately £135,000 (a tax value of £41,000) which may be available for relief against future taxable profits.

20 Equity Share Capital

	Group and Company 1995 £'000	1994 £'000
Authorised:		
90,000,000 ordinary shares of 5p each	**4,500**	4,500
Allotted, called up and fully paid:		
75,949,224 (1994: 73,569,445) ordinary shares of 5p each	**3,797**	3,678

During the year options in respect of 279,115 ordinary shares of 5p each were exercised by employees under the terms of the Employee Share Option Scheme. The price paid for such shares was £72,604 in accordance with the terms of the scheme.

On 18th December, 1995 1,619,895 shares were issued for cash at 47¾p, and 480,769 shares were issued at a market value of 52p as part of the consideration for SCI Network Intelligence plc.

Employee Share Option Schemes

Options to subscribe for ordinary shares of 5p each are exercisable in accordance with the Microvitec PLC (1984) Employee Share Option Scheme. During the year ended 31st December, 1995 options over 279,115 ordinary shares were exercised and a further 449,000 options lapsed. At 31st December, 1995 options under the Employee Share Option Scheme were outstanding on 3,176,970 ordinary shares.

Dates exercisable	No. of shares	Price
26th March, 1989 – 25th March, 1996	19,338	29p
2nd September, 1989 – 1st September, 1996	2,841	38p
26th March, 1990 – 25th March, 1997	6,072	45p
12th September, 1991 – 11th September, 1998	7,450	41p
6th April, 1992 – 5th April, 1999	33,446	41p
19th September, 1992 – 18th September, 1999	50,379	37p
9th April, 1993 – 8th April, 2000	25,932	29p
28th September, 1993 – 27th September, 2000	22,652	19p
4th April, 1994 – 3rd April, 2001	133,678	19p
7th April, 1995 – 6th April, 2002	217,682	34p
21st October, 1995 – 20th October, 2002	217.000	22p
13th April, 1996 – 12th April, 2003	452,000	28½p
7th October, 1996 – 6th October, 2003	487,500	30¼p
16th March, 1997 – 15th March, 2004	1,501,000	36¼p

Management team share options

Under the terms of a share subscription and option agreement dated 12th June, 1990 options were granted to Mr J.M. Bailey, Mr A.C. Melkerson, Mr R.W. Adams and Mr A.E. Greenough. Mr A.C. Melkerson resigned as a director on 1st November, 1991 and relinquished his rights under the agreement.

The first tranche of these options, comprising 1,750,372 ordinary shares, is exercisable between 13th July, 1990 and 12th July, 1997 at a price of 29p per share. The rights to the second and third tranches of options have now lapsed.

20 EQUITY SHARE CAPITAL *continued*

Executive Share Option Schemes

Options to subscribe for ordinary shares of 5p each are exercisable in accordance with the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme. During the year ended 31st December, 1995 the company granted options in respect of 606,000 ordinary shares under the scheme and 97,500 options lapsed. There were no options exercisable during the year. At 31st December, 1995 options were outstanding on 917,796 ordinary shares.

Dates exercisable	No. of shares	Price
18th August, 1997 – 17th August, 2004	364,296	41½p
15th March, 1998 – 14th March, 2005	406,000	33½p
30th August, 1998 – 29th August, 2005	147,500	39p

Options to subscribe for ordinary shares of 5p each are exercisable in accordance with the 1994 Microvitec Unapproved Executive Share Option Scheme. During the year ended 31st December, 1995 the company granted options in respect of 60,000 ordinary shares under the scheme and no options were exercisable. At 31st December, 1995 options were outstanding on 110,000 ordinary shares.

Dates exercisable	No. of shares	Price
18th August, 1997 – 17th August, 2004	50,000	41½p
15th March, 1998 – 14th March, 2005	25,000	33½p
30th August, 1998 – 29th August, 2005	35,000	39p

The market price of the company's shares at 31st December, 1995 was 49.0p and the range during the year was 30.5p to 53.0p.

21 POTENTIAL ISSUE OF SHARES	Group and Company	
	1995	1994
	£'000	**£'000**
Deferred consideration	**547**	477

The potential issue of shares relates to shares which the company may have to issue to satisfy estimated contingent consideration due under the terms of earn out agreements with the former shareholders of Project Assyst Limited, Cognito Software Limited, Justfree Limited and SCI Network Intelligence plc.

22 RESERVES

GROUP	Share Premium £'000	Revaluation Reserve £'000	Acquisition Reserve £'000	Profit and Loss Account £'000
At 1st January, 1995	4,120	914	(1,614)	2,901
Premium on shares issued	58	–	–	–
Premium on shares issued as part of consideration	–	–	919	–
Goodwill written off (note 27(d))	–	–	(1,184)	–
Exchange movements	–	–	–	81
Transfer to deferred taxation (note 19)	–	(18)	–	–
Retained profit for the financial year	–	–	–	1,689
At 31st December, 1995	4,178	896	(1,879)	4,671

PARENT COMPANY	Share Premium £'000	Revaluation Reserve £'000	Acquisition Reserve £'000	Profit and Loss Account £'000
At 1st January, 1995	4,120	914	4,177	362
Transfer to deferred taxation (note 19)	–	(18)	–	–
Premium on shares issued	58	–	–	–
Premium on shares issued as part of consideration	–	–	919	–
Retained loss for the financial year	–	–	–	(209)
At 31st December, 1995	4,178	896	5,096	153

The cumulative amount of goodwill written off resulting from acquisitions amounts to £7,102,000 (1994: £5,918,000).

23 Future Operating Lease Commitments

	Group		Parent Company	
	1995	1994	**1995**	1994
	£'000	£'000	**£'000**	£'000
Annual property rentals on leases which expire:				
Within one year	**97**	132	**–**	–
Within two to five years	**249**	373	**249**	206
After five years	**505**	256	**–**	43
	851	761	**249**	249

	Group		Parent Company	
	1995	1994	**1995**	1994
	£'000	£'000	**£'000**	£'000
Annual rentals on other leases which expire:				
Within one year	**139**	382	**77**	108
Within two to five years	**284**	216	**48**	45
After five years	**–**	–	**–**	–
	423	598	**125**	153

24 Capital Commitments

	Group		Parent Company	
	1995	1994	**1995**	1994
	£'000	£'000	**£'000**	£'000
Capital expenditure committed	**–**	309	**–**	309
Capital expenditure authorised by the board not yet committed	**200**	–	**200**	–
	200	309	**200**	309

25 Contingent Liabilities

The company has guaranteed the bank borrowings of its UK subsidiary undertakings which at 31st December, 1995 amounted to £Nil (1994: £102,000).

Action has been brought in Canada against Microvitec PLC and SilCom Manufacturing Technology Inc (SilCom) by the former President of SilCom who was dismissed for cause in October 1993.

The group has lodged a counterclaim of a similar amount to the claim made by the former President of SilCom and the group will vigorously pursue the litigation. The directors, based on Counsel's advice, are still of the opinion that the net effect of this litigation will be immaterial in relation to the group's financial position.

26 Pensions

During the year the group continued to operate money purchase pension schemes with defined contribution levels covering the majority of its employees, including directors. Contributions to the schemes are independently administered by insurance companies.

The pension cost charge represents contributions payable by the group to the schemes and amounted to £359,000 (1994: £322,000). Contributions of £17,000 (1994: £4,000) were payable to the schemes at the year end.

27 GROUP CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1995 £'000	1994 £'000
Operating profit	**3,896**	2,736
Depreciation and amortisation	**1,520**	882
(Profit)/loss on disposal of tangible fixed assets	**(10)**	10
Change in warranty and trade investment provisions	**(72)**	39
Exchange differences	**–**	(95)
Increase in stocks	**(1,984)**	(177)
Increase in debtors	**(1,738)**	(1,799)
Increase in creditors	**345**	2,175
Net cash inflow from operating activities	**1,957)**	3,771

(b) Analysis of changes in cash and cash equivalents

	Cash at bank and in hand £'000	Overdrafts and short term loans £'000	Net £'000
Balance at 1st January, 1995	3,419	(4,448)	(1,029)
Change in year	546	(4,225)	(3,679)
Balance at 31st December, 1995	3,965	(8,673)	(4,708)

	£'000
Balance at 1st January, 1994	(2,477)
Net cash inflow before adjustments for the effect of foreign exchange rates	1,468
Effect of foreign exchange rates	(20)
Balance at 31st December, 1994	(1,029)
Net cash outflow before adjustments for the effect of foreign exchange rates	(3,733)
Effect of foreign exchange rates	54
Balance at 31st December, 1995	(4,708)

(c) Analysis of changes in financing

	Share capital and share premium £'000	Potential issue of shares £'000	Loans and finance lease obligations £'000	Total £'000
Balance at 1st January, 1994	9,873	–	1,500	11,373
Cash inflow from financing	340	–	–	340
Shares issued for non cash consideration	444	–	–	444
Potential issue of shares	–	477	–	477
Transfer to special reserve	(2,859)	–	–	(2,859)
Repayment of long term loans	–	–	(301)	(301)
Acquisition of subsidiary undertakings	–	–	53	53
Finance leases incepted	–	–	687	687
Balance at 31st December, 1994	7,798	477	1,939	10,214
Cash inflow from financing	72	–	–	72
Shares issued for non cash consideration	105	–	–	105
Potential issue of shares	–	70	–	70
Repayment of long term loans	–	–	(376)	(376)
Acquisition of subsidiary undertakings	–	–	138	138
Finance leases incepted	–	–	595	595
Balance at 31st December, 1995	7,975	547	2,296	10,818

27 GROUP CASH FLOW STATEMENT *continued*

(d) Purchase of Subsidiary Undertakings	Net assets acquired 1995 £'000	1994 £'000
Tangible fixed assets	**333**	336
Intangible fixed assets	**–**	86
Stocks	**306**	758
Debtors	**625**	1,308
Creditors	**(1,019)**	(1,332)
Net cash and bank loans	**(146)**	348
Provisions for liabilities and charges	**–**	(85)
	99	1,419
Goodwill	**1,184**	3,035
Cost of acquisitions	**1,283**	4,454
Satisfied by:		
Ordinary shares of 5p each	**924**	2,967
Cash	**159**	426
Deferred consideration	**200**	1,061
	1,283	4,454
Net cash outflow/(inflow) relating to aquisitions:		
Cash consideration	**96**	300
Acquisition costs	**63**	126
Net cash and bank loans in subsidiary undertakings	**146**	(348)
	305	78

There were no fair value adjustments arising on acquisitions made in the year.

28 POST BALANCE SHEET EVENT

The Networking Division acquired the patented See-Phone technology for networked integrated telephone and video services on 6th March, 1996. The consideration was £375,000 of which £100,000 is deferred for six months.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the company will be held at Microvitec PLC, Bolling Road, Bradford, on Thursday, 9th May, 1996, at 3.00 p.m. for the following purposes:

Ordinary Business

1. To receive and adopt the financial statements of the company for the year ended 31st December, 1995 together with the Directors' and Auditors' Reports thereon.
2. To declare a final dividend of 0.45p per share to be paid on 1st July, 1996 to shareholders on the register on 11th June, 1996.
3. To elect A. B. Sampson as a director of the company who retires by rotation and offers himself for re-election.
4. To elect B. J. Brooks as a director of the company who retires, having been appointed during the year, and offers himself for re-election.
5. To elect Dr A. Aitken as a director of the company who retires, having been appointed during the year, and offers himself for re-election.
6. To appoint KPMG Audit plc as auditors of the company and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolution as a Special Resolution.

7. THAT:
   (a) For the purposes of Section 80 of the Companies Act 1985 (in this resolution "the Act") (and so that expressions used in this paragraph of this resolution shall bear the same meaning as in the said Section), the directors be and they are hereby generally and unconditionally authorised to allot relevant securities up to an aggregate nominal amount of £1,265,820 being one third of the issued share capital of the company at the date hereof to such persons at such times and on such terms as they think proper during the period expiring on the day preceding the fifth anniversary of the passing of this resolution save that the company may prior to the expiry of such period make any offer or agreement which would or might require relevant securities to be alloted after the expiry of the said period and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this paragraph so that all previous authorities of the directors pursuant to Section 80 of the Act be and they hereby are revoked;
   (b) In accordance with Section 95(1) of the Act, the directors of the company be and they are hereby empowered to make allotments of equity securities (as defined in Section 94(2) of the Act) for cash, pursuant to the general authority conferred upon them under paragraph (a) of this resolution as if Section 89(1) of the Act did not apply to any such allotments so that:
      (i) reference to allotment in this paragraph (b) of this resolution shall be construed in accordance with Section 94(3) of the Act; and
      (ii) the power conferred by this paragraph (b) of this resolution shall enable the company to make any offer or agreement before the expiry of the period stated in (2) below which would or might require equity securities to be allotted after the expiry of the said power and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding the expiry of such power.
      PROVIDED, however, that the power conferred by this paragraph (b) of this resolution shall:

(1) be limited:

(i) to the allotment of equity securities which are offered to all the holders of issued ordinary shares of the company (at a date selected by the directors of the company) where the equity securities respectively attributable to the holders of ordinary shares are as nearly as practicable in proportion to the number of ordinary shares held by them but subject to such exclusions and other arrangements that the directors of the company may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange;

(ii) to the allotment (otherwise than pursuant to sub-paragraph (1) (i) above of this paragraph (b) of this resolution) of equity securities up to an aggregate nominal value of £189,873 being 5% of the issued share capital of the company at the date hereof; and

(iii) to the allotment (otherwise than pursuant to sub-paragraph (1) (i) above of this paragraph (b) of this resolution) of equity securities pursuant to the terms of a subscription and option agreement dated 12th June, 1990 made between the company and Mr J.M. Bailey, Mr A.C. Melkerson, Mr R.W. Adams and Mr A.E. Greenough (being the agreement approved in general meeting on 6th July, 1990).

(2) expire on whichever is the earlier of 15 months from the passing of this resolution or the date of the Annual General Meeting of the company to be held in 1997 except to the extent that the same is renewed or extended on or before that date.

By order of the board
B.J. Brooks
Secretary

Registered Office:
Futures Way
Bolling Road
Bradford, West Yorkshire
BD4 7TU

Dated: 6th March, 1996

Notes

(1) A member entitled to attend and vote at the above mentioned Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the company. To be valid the form of proxy must be duly executed and deposited with the company's Registrars, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA no later than 48 hours before the Meeting. Completion and return of the form of proxy will not prevent a member attending at the Meeting and voting in person if he or she so wishes. A form of proxy for use at the above Meeting is enclosed herewith.

(2) The register of directors' interests and copies of directors' service contracts will be available for inspection at the registered office of the company during business hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting.

Results in Brief

	1991	1992	1993	1994	1995
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Turnover	36,873	49,888	35,170	44,146	55,050
Profit/(Loss) Before Taxation	(3,847)	(2,137)	1,611	2,560	3,411
Net Assets	9,329	7,031	8,264	10,476	12,210
Net Assets Per Share	14.7p	11.1p	13.0p	14.2p	16.1p
Earnings/(Loss) Per Share	(5.3p)	(3.4p)	2.1p	3.0p	3.1p
Dividends on Ordinary Shares	–	–	–	0.4p	0.85p