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AMSTRAD

Amstrad Consumer Electronics
Public Limited Company

Annual Report & Financial Statements
1985/86



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the course you should follow, you should consult your Stockbroker, Bank Manager, Solicitor, Accountant or other professional advisor immediately.

AMSTRAD CONSUMER ELECTRONICS PLC

Directors:

A. M. Sugar
J. L. Rice
M. M. Miller
R. J. Watkins
K. Ashcroft
R. J. East
N. F. Shearman

Registered Office:

Brentwood House,
169 Kings Road,
Brentwood,
Essex CM14 4EF

31st October, 1986

To the Shareholders.

Dear Sir or Madam,

Special Business at the Annual General Meeting

Special Resolution to change the Name of the Company

The Directors believe that the Company's name should be shortened to Amstrad plc.

Special Resolution to authorise the Directors to allot Shares for Cash

At the Extraordinary General Meeting held on 6th June, the authorised share capital of the Company was increased to £36 million and the Directors were generally and unconditionally authorised to allot all the unissued shares in the capital, as so increased, prior to 6th June, 1991. That authority did not extend to issues for cash and authority to allot shares for cash which was given to the Directors at the Annual General Meeting in 1984 expired on 30th June this year. Accordingly, the Special Resolution set out in the Notice of Annual General Meeting on page 3 of the enclosed Report and Accounts is now being proposed. The Resolution, if passed, will authorise the Directors to allot Ordinary Shares for cash until the Annual General Meeting in 1987, but this authority will be limited other than in respect of issues by way of rights, to 5 per cent. of the Ordinary Shares in the authorised share capital of the Company.

Ordinary resolution to modify Rule 3(c) of the Amstrad Share Option Scheme

My Board colleagues and I seek your approval for an amendment to the Amstrad Share Option Scheme which is approved by the Inland Revenue ("the Approved Scheme").

As you will see from the Annual Report and Financial Statements which accompany this document, the Company is rapidly increasing its geographical spread of trading. At present directors and employees working overseas permanently for Group Companies are able to participate in the Amstrad (Overseas Employees) Scheme ("Overseas Scheme") whose terms are similar to those of the Approved Scheme for United Kingdom resident participants.

The Overseas Scheme does not comply with the provisions of the Finance Act, 1984, and, therefore, those participating in the Overseas Scheme do not obtain the tax advantages available to employees resident in the United Kingdom participating in the Approved Scheme.

Your Board proposes to amend the Approved Scheme to enable directors and employees working abroad to participate in that Approved Scheme. The aggregate value of shares over which options will be granted to such directors or employees may not exceed the lower of £100,000 and four times an individual's annual earnings for the current or preceding year of assessment (whichever of those years gives the greater amount). The total number of these shares will be accounted for in the overall limit on the number of shares to be made available under the Approved Scheme.

Subject to shareholders' approval, the amendment will be submitted to the Inland Revenue for formal approval. The approved Scheme's present compliance with the guidelines published by the Investment Protection Committee of the Association of British Insurers will not be affected.

Recommendation

The Directors who hold approximately 46.2 per cent. of the shares in the Company, intend to vote in favour of the Resolutions to be proposed at the Annual General Meeting on 27th November, 1986 in respect of their own beneficial holdings and recommend shareholders to vote likewise.

Action to be taken

A form of proxy is enclosed with the Annual Report and Financial Statements for use at the Annual General Meeting and you are requested to complete and return it, in accordance with the instructions printed thereon, so that it arrives at the Company's Registrars, Lloyds Bank Plc, Registrars Dept., Goring-by-Sea, Worthing, West Sussex BN12 6DA not later than 48 hours before the time fixed for the Meeting. The completion and return of a form of proxy will not preclude a holder of shares from attending and voting at the meeting in person should he so wish.

Scheme Rules for inspection

Copies of the Rules of the Scheme may be inspected at the Registered Office of the Company and at the offices of the Company's Solicitors, Messrs. Herbert Smith, Walling House, 35 Cannon Street, London EC4M 5SD at any time during usual business hours on weekdays up to and including the date of the Meeting, and at the Meeting.

Yours faithfully,

A. M. Sugar,
Chairman and Managing Director.

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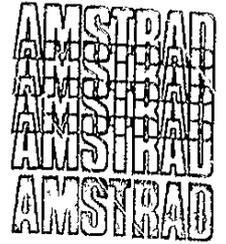


Results at a Glance for the year ended 30th June, 1986
Amstrad Consumer Electronics plc

	1986		1985	
Turnover by Geographical Territory	£m	% of turnover	£m.	% of turnover
U.K.	129.2	42.5	63.3	46.5
France	66.3	21.8	24.3	17.8
Germany	37.5	12.3	32.5	23.9
Spain	32.3	10.6	4.4	3.2
Other Europe	11.4	3.8	2.8	2.1
Asia	2.2	0.7	2.7	2.0
Australasia	8.0	2.7	6.1	4.5
North America	17.2	5.6	—	—
Total Turnover	304.1	100.0	136.1	100.0
Profit on ordinary activities before tax	75.3	24.8	20.2	14.8
Profit on ordinary activities after tax	52.0	17.1	14.0	10.3
Dividends per share	0.35p		0.19p	
Earnings per share	9.54p		2.57p	
Dividend cover	27.3		13.5	

Dividend Payment

The Final Dividend will be posted on 28th November, 1986 to Ordinary Shareholders who are registered on the books of the Company at the close of business on 27th October, 1986.



Directors and Advisers

The Board of Directors

A. M. Sugar (Chairman and Managing Director)
J. L. Rice BA
M. M. Miller BA
R. J. Watkins
K. Ashcroft FCA, FCMA
R. J. East MA (Non-Executive Director)
N. F. Shearman FCCA (Non-Executive Director)

Secretary

J. L. Rice BA

Registered Office

Brentwood House,
169 Kings Road,
Brentwood,
Essex CM14 4EF

Auditors

Touche Ross & Co.
Chartered Accountants,
Hill House,
1 Little New Street,
London EC4A 3TR

Registrars

Lloyds Bank Plc
Goring-by-Sea,
Worthing,
Sussex BN12 6DA

Stockbrokers

W. Greenwell & Co.
Bow Bells House,
Bread Street,
London EC4M 9EL

Bankers

Lloyds Bank Plc
19 Upper Street,
Islington,
London N1 0PT

Standard Chartered Bank plc
28 Northumberland Avenue,
London WC2N 5AG

Merchant Bankers

Kleinwort, Benson Limited
20 Fenchurch Street,
London EC3P 3DB

Solicitors

Herbert Smith & Co.
Watling House,
35-37 Cannon Street,
London EC4M 5SD

Estate Agents and Surveyors

Goldstein Leigh
43 Portland Place,
London W1N 3AG



Notice of Meeting

NOTICE IS HEREBY GIVEN that the 16th ANNUAL GENERAL MEETING of Amstrad Consumer Electronics plc will be held at The Samuel Pepys Room, Brentwood Moat House, London Road, Brentwood, Essex CM14 4NR on 27th November, 1986, at 3 pm for the following purposes:

1. To receive and adopt the Financial Statements for the year ended 30th June, 1986 and the Directors' and Auditors' reports thereon.
2. To declare a dividend.
3. To re-elect Directors.
4. To re-appoint the Auditors and authorise the Directors to fix their remuneration.
5. Special Business—

To consider, and if thought fit, pass the following resolutions which will be proposed:

as Special Resolutions

- (i) That the name of the Company be changed to Amstrad plc.
- (ii) That the Directors be and they are hereby authorised, pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities, within the meaning of Section 94 of the Act, pursuant to the authority given to the Directors by the ordinary resolution passed on 6th June, 1986 as if Section 89(1) of the Act did not apply to the allotment, provided that this authority shall be limited to:
 - (a) the allotment of equity securities in connection with any rights issue in favour of holders of Ordinary Shares in the capital of the Company notwithstanding that by reason of such exclusions as the Directors may deem necessary to deal with problems arising in any overseas territory, in connection with fractional entitlements or otherwise howsoever, the Ordinary Shares to be allotted are not offered to all of such holders in proportion to the number of Ordinary Shares held by them respectively; and
 - (b) the allotment of equity securities up to an aggregate nominal value of £1,800,000 otherwise than pursuant to paragraph (a) above.

This authority shall expire on the date of the Annual General Meeting of the Company in 1987; provided that the Company may before the expiry of such period make any offer or agreement which would or might require equity securities to be allotted after the expiry thereof and the Directors may allot equity securities in pursuance of such offer or agreement.

as an Ordinary Resolution

- (iii) That the Amstrad Share Option Scheme be amended by adding the following to the end of Rule 3(c):

"Where a Participant has no Relevant Earnings because at the date of grant of an Option he is resident and performs all or any of his duties outside the United Kingdom for a participating Company, no Option shall be granted at any time to him if it would result in the aggregate Subscription Prices in (i) and (ii) above exceeding in amount the lower of £100,000 and four times his earnings for the current or preceding Year of Assessment whichever is the greater (excluding benefits-in-kind) arising from his employment with a Participating Company. Where a Participant is paid in a currency other than UK Sterling his earnings shall for these purposes be converted into UK Sterling at the closing rate on the dealing day preceding the date of the relative invitation, as published in the Financial Times."

6. To transact any other ordinary business of the Company.

31st October, 1986

Brentwood House,
169 Kings Road,
Brentwood,
Essex CM14 4EF

By Order of the Board

J. L. Rice
Secretary

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A Form of Proxy is enclosed with this notice for use in connection with the business set out above. This Form of Proxy must reach the registrars of the Company no later than forty-eight hours before the meeting.
2. Mr. A. M. Sugar, Mr. J. L. Rice, Mr. M. M. Miller, Mr. R. J. Watkins and Mr. K. Ashcroft have service contracts with the Company. These contracts which are available for inspection at the Registered Office of the Company during office hours, will be available for inspection at the Annual General Meeting. No other Directors have service contracts.



Chairman's Statement

In last year's statement, and in the interim report I stated my confidence in the continued growth of the Company. Once again I am pleased to report record Sales of £304.1 million, up 123% from last year, and superb record Pre-Tax Profits of £75.3 million, up 273% from last year.

As a result of the higher growth of profits the Directors will recommend a 100% increase in the final dividend making the total dividend for the year an increase of 84% over last year, and the sixth successive year in which the dividend has been increased. The final dividend after adjusting for the 4 for 1 capitalisation issue will be 0.25p per share which, together with the interim already paid, makes a total of 0.35p per ordinary share and is equivalent to 0.49p per share with the related tax credit at the rate of 29/71sts.

The Year

The year started well after the launch of the 6128 computer, a "bridge" product which appeals both to the hobby market, and the serious user.

This was followed by the PCW word processor, which not only became an immediate success, but has stood the Personal Computer Industry on its head by demonstrating that volume sales and sector growth can be achieved by bringing a product at a highly competitive price to the non-boffin user, who previously had no understanding or intention to get involved with computers. This new slice of the market is neither consumer nor entertainment orientated, but is centred around serious users such as Authors, Journalists, Accountants, Lawyers, Doctors and other professional business people, who represent a more stable market.

The PCW was announced at the end of August 1985 with the promise that it would be available at the end of September 1985. As a result of powerful advertising emphasising the Word Processing merits of the product against a typewriter, 350,000 units were sold in a period of just over eight months, making the total number of computers sold in this financial year over 1 million units.

The DMP 2000 printer, assembled in our own factory Amstrad Microtronics Ltd, has also been a success story. The price and performance is such that product demand outstripped the initial manufacturing capacity, which has since been doubled.

The year has also seen the entry of Amstrad into the fast growing market for compact disc based audio systems with the successful launch of highly competitive Midi and Tower products. These have been well received by the market, as have our very competitively priced Video Recorder products.

As a result of our policy of opening up international markets, further growth opportunities were revealed which enabled existing and new products to have a wider distribution. The Amstrad name is now strongly marketed in most major countries in the World. Sales volume increased, in the year, by 104% in the U.K., by 173% in France, and major new markets were opened in Spain (£32 million) and North America (£17 million).

In April 1986 we acquired the Intellectual Property Rights for Sinclair computers and the Sinclair Brand with the main purpose of continuing the existence of the Sinclair Spectrum computer, for which there is a substantial continuing market in the home entertainment sector. There is a massive software base in the market which will support the sale of a large volume of machines for many years to come. The product has been re-engineered in a true Amstrad manner and was enthusiastically received at the recent Personal Computer World Exhibition. This also illustrates a main strength of Amstrad in its ability to grasp a new product, and to bring it to the market place in record time (six months) at the right price and with the right quality.

In June 1986 we decided to carry out a 4 for 1 capitalisation issue in order that the Market Value of the shares and the issued capital of the Company should be more in line with the achieved growth.

Policy

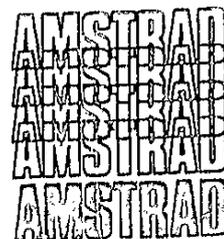
The Company is now firmly based, with major markets throughout the world. We have a great deal of product activity in all of these markets. All segments of the personal computer market are covered including those of entertainment, the semi serious market, and the business sector. Previous failures by other companies in the computer industry have been brought about by them having all their activity in one sector and not being able to ride out the seasonal downturns of their particular product. We can plan to have the right product for sale at the right time.

We now enjoy a very good share of the Video Recorder market and we have maintained our share in the Audio market. Our U.K. customer base is also very diverse and includes traditional brown goods retailers (both independent and chains), mail order companies, office equipment retailers and distributors, and business computer distributors. Recent market reports continue to forecast substantial growth for all these distribution outlets.

Similar customer bases are being established in all of our major export markets, where I am pleased to say we are enjoying success with our total product range of audio/video and computer products particularly in France and Spain.

Now that the sales volumes are getting larger and the market horizons wider we are also broadening manufacturing sources. We procure our products and components from U.K., Japan, U.S.A., Korea, Italy, Germany, France, Belgium, Taiwan and Hong Kong. We have the facility to expand our manufacturing capability and at the same time remain flexible, both from a currency exchange and a political point of view.

The Company is well balanced in Marketing and Technical expertise. Although most outside observers view us as marketeers, the technical excellence of our products and development facilities should never be underestimated. We



have never claimed to be inventors of any major technological breakthroughs, however we use the most up-to-date technology, applied with speed and innovation, in a way that has earned us respect worldwide from the electronics industry. It is our intention to expand our development activity in harmony with our marketing expertise to enable us to launch more and more products in this very exciting and rapidly advancing electronics industry.

Product Activity — Computers

On 2nd September this year we launched our new range of eight models of the PC-1512 series computers. These new machines were unveiled to an audience of 850 including Press, distributors, trade media and financial institutions. Our new range of computers are engineered to operate all of the famous software that can also be used on industry standard I.B.M. machines and compatibles. They are priced to include many features not offered as standard on other machines currently in the market.

The eight combinations of floppy, hard disk and colour/monochrome monitor present a winning combination with a price range of £399 plus VAT for the single disk drive monochrome version to £949 plus VAT for the 20 megabyte hard disk colour version. This price combination will open up many market sectors; starting at home computing, to which we have been able to bring industry standard computing at a price level the mass market can afford, enabling the user for the first time to take home their work and at the same time allow the machine to be used by other members of the family for entertainment or other applications.

The versatility of the product is such that as well as providing a simple economic "entry" machine, all versions are capable of networking and interfacing with mainframes (with appropriate interfaces) and can be used in all "serious" business applications — leaving most D.P. Managers with no other logical alternative!

I would like to make it quite clear that the introduction of this range of machines was not intended to be a head-to-head trial of strength with the goliath of the industry, but more the established Amstrad approach, of bringing feature packed and competitively priced products to an established market. We have demonstrated in the past that this approach has opened up massive expansion in the market and has dwarfed previous market figures. (The *Financial Times* dated 15th September, 1986 states "the Amstrad word processor has one advantage; its amazingly low price which has created a new market.")

Prior to the launch of our PCW 8256 the U.K. market size for dedicated word processors was approximately 50,000 per year, the sales performance of the PCW has ridiculed this statistic.

I feel we will also trigger a revolution in the associated software industry by introducing comparably priced versions of popular software, selling in a logical ratio to the hardware cost. We have already agreed licensing agreements on titles such as Wordstar, Supercalc 3, Reflex and Sidekick and we are quite sure we will expand to other famous titles as the various software vendors come to realise that the Amstrad revolution is affecting their business.

We already have in production a very competitive printer — Model DMP-3000, which is built to complement the PC industry standard machines. We have also started to design a larger printer, DMP-4000, which, again, will be very competitive and will perform as an industry standard compatible printer. We will deliver this item from January 1987.

This range of hardware and software will have a tremendous impact on our growth in the current financial year, both in the U.K. and export markets, and, unlike other consumer electronic products, has a far longer and more stable market life.

We do not plan to allow this product to challenge the established PCW range of products as we have deliberately positioned them as our word-processing products targeted at the typewriter market. We are going to promote the PC-1512 with TV and Press advertising using a new slogan which I think goes a long way to sum up Amstrad.

"Compatible with you know who. Priced as only we know how."

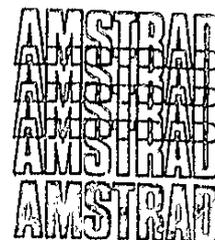
Needless to say we are not stopping here with our development. Next year will see again some new computer-based products which will slot logically into our range.

Product Activity — Audio and Video

This other string to our bow is trading very well and we have five new audio models this year, the benefit of which will mostly reflect in the current financial year. We have designed new midi and tower units which are now being made in very high volume at our Shoeburyness plant. They are very promotionally priced and already show signs of being a tremendous success. Also encouraging is that we are having a very good response from our export customers for these models.

A new Compact Disc based product will appear in the autumn. Priced at £199. It offers phenomenal value for money as a portable music system. It is also connectable to other audio systems.

We have launched a new model VCR 4600 which offers the user up to eight hours of play from a standard VHS E 240 tape. We already have started to make a big impact in Amstrad's U.K. market share of Video Cassette Recorders. During the year our market share peaked at nearly 10%. Whilst this is nice to know and has a sense of reward about it, I have in the past told you that we have no interest in market share figures and statistics. We are in this VCR business for profit and our new VCR 4600 selling at £329 including VAT will make a healthy contribution to the current financial year's results.



Chairman's Statement (continued)

I mentioned in last year's report a logical concept in VCR/CTV. I am pleased to announce that in this current financial year we will introduce a TELEVIDEO combined CTV and video recorder model TVR-1 retailing for £399 including VAT. This is viewed by the Company as a market test product, the results of which will indicate our future development path for such products.

New Product Areas

I recently announced our interest in satellite broadcasting and the equipment needed to receive such transmissions. I am convinced that this era is rapidly being thrust upon us. Whilst I genuinely believe that the consortium, of which Amstrad is proud to be a member, contains what I consider to be the best team to make a success of satellite broadcasting, realistically, it could be unfortunate and not be awarded the franchise. Whatever the outcome of the franchise negotiations, we will surely be one supplier, if not the first, to provide the receiving hardware at a price which will make satellite reception a mass market proposition in the U.K.

Subsidiary Companies

Our Hong Kong company has continued to trade very successfully, and its manufacturing subsidiary, Amstrad Microtronics Ltd, has become profitable very quickly and now employs over 200 staff.

In France, a large increase in sales has given Amstrad France 41% of the home computer market. They have followed, and will continue to follow, the methods of Amstrad U.K. in marketing and distribution. We feel the new PC-1512 range will have an exceptionally good result there.

Amstrad Distribution Ltd. (ADL — formerly Europa Ltd.) distributes Amstrad products to independent retailers and dealers in the U.K., and has performed profitably throughout the year. The trading approach now concentrates solely on Amstrad products, other distributorships having been disposed of. Mr. Barry Young joined the Company in May 1986 as Managing Director.

The computer industry is supported by many independent dealers who offer the support to the final user that is needed to make products such as the new PC-1512 a success. ADL now have a fully-computerised sales administration system enabling them to serve the independent dealer very quickly and efficiently.

To support the marketing activities in North America, Amstrad International (U.S.A.) Inc. was formed in October 1985. Mr. Chris Pullen is the President of this company. Its function up to now has been simply as a liaison office to help service our customer Sears World Trade. Our U.S. company will also be responsible for the development of the South American market.

Our arrangements for sales in North America and Canada are quite flexible and, as previously explained, we will use a cautious approach until such time that we feel we have a full understanding of this massive market. We plan the U.S. launch of the new PC-1512 in January 1987.

Conclusion

The year I have just reported has shown excellent growth of sales and profits, once again I would like to say that this is no "fluke" or "flash in the pan". Our sales forecast for the next financial year is very encouraging both in terms of existing and new products, together with large unexploited gaps in our markets overseas.

During the year the balance sheet has strengthened and liquidity improved substantially, enabling us to go forward with the resources to finance the further growth to which we have become accustomed.

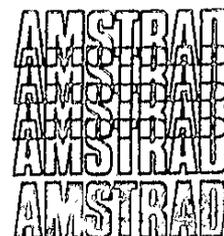
The Electronics industry is a fascinating one, inasmuch as there are always new products to develop and markets to explore. It is my opinion that technological advancement will always offer new challenges and opportunities.

I would once again like to take this opportunity to express my thanks to all of the Team at Amstrad, both in the U.K. and overseas including our overseas distributors, who we treat as part of the family, for their continued enthusiasm and efforts, together with our suppliers, sub-contractors and consultants, both in the U.K. and overseas for their undivided support.

The Groups' order books are very healthy and I am very confident that our result for the current financial year will continue vigorously in a way only we know how.

A. M. Sugar
Chairman

1st October, 1986



Directors' Report

Amstrad Consumer Electronics plc

The Directors have pleasure in presenting their report and the audited financial statements for the year ended 30th June, 1986.

Principal Activities

The Company is engaged in the design, manufacture and distribution of consumer electronic and micro computing products. Its principal trading is carried out from the UK (into UK, and certain export territories), from Hong Kong (into Australasia, Europe, USA and other export territories), from France (into France and French colonial markets) and from Amstrad Distribution Ltd trading to smaller, independent retailers in the UK.

Results

Turnover for the year was £304.1 million (1985 — £136.1 million). Profit before taxation was £75.3 million (1985 — £20.2 million). Profit transferred to reserves was £47.2 million (1985 — £12.9 million).

The activities of the Group are dealt with in the chairman's statement.

Dividends

An interim dividend of 0.10p per share was paid on 11th April, 1986. The Directors recommend the payment of a final dividend of 0.25p per share, making a total of 0.35p per share for the year.

Capitalisation Issue

A capitalisation issue was made on 2nd June, 1986 whereby the authorised share capital was increased to £36,000,000 and the issued and fully paid up share capital was increased to £27,260,417 (Note 16).

Directors and Directors' Interests

The present membership of the Board is set out below. Mr. R. A. Mould resigned from the Board on 13th January, 1986. In accordance with the Articles of Association, Mr. Miller and Mr. Watkins retire at the forthcoming Annual General Meeting and offer themselves for re-election.

No Director had, during the year or at the end of the year, any material interest in any contract with the Company.

Directors' Interests	No. of ordinary shares beneficially held		Share Option Scheme 23rd July, 1985
	30th June, 1986	30th June, 1985	
A. M. Sugar	249,918,750	276,213,750	—
J. L. Rice	60,650	60,650	1,176,000
R. J. East	254,165	254,165	—
N. F. Shearman	58,330	58,330	—
M. M. Miller	—	—	1,176,000
R. J. Watkins	—	—	1,176,000
K. Ashcroft	25,000	25,000	1,176,000

In addition Mr. N. F. Shearman held a non-beneficial interest in 1,495,000 shares (1985 — 1,495,000). There have been no changes in the above shareholdings since 30th June, 1986.

Details of the Share Option Scheme are set out in Note 21.

Substantial Shareholdings

At the date of this report the Company has been notified that Clerical Medical & General Life Assurance Society had an interest in 38,769,250 (1985 — 56,052,150) ordinary shares representing 7.1 per cent. (1985 — 10.3 per cent.) of the issued ordinary shares.

Tangible Fixed Assets

Details of movement in the tangible fixed assets of the Company during the year are as disclosed in Note 10 to the Financial Statements.

Health and Safety

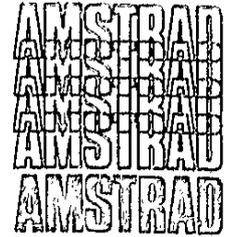
In accordance with the provisions of the Health and Safety at Work etc., Act, 1974, the Company has issued a written statement of its general policy with respect to the health, safety and welfare at work of its employees and the organisation and arrangements for carrying out that policy. The statement has been brought to the notice of all the employees of the Company.

Employment of disabled persons

It is the policy of the Company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

Employee Involvement

It is the responsibility of each of the executive Directors to ensure that the staff in their departments are fully informed of the Company's affairs. In a Company the size of Amstrad it is possible for the Directors to have daily informal face to face contact with staff at all levels. The Share Option Scheme is designed to give senior management within the Company both at home and abroad a stake in its future growth and success.



Charitable and Political donations

No political or charitable contributions were made during the year (1985 — Nil).

Close Company Status

The close company provisions of the Income and Corporation Taxes Act 1970 no longer apply to the Company.

Auditors

A resolution to re-appoint the auditors Touche Ross & Co. and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

1st October, 1986
Brentwood House,
169 Kings Road,
Brentwood,
Essex CM14 4EF

By Order of the Board
J. L. Rice
Secretary

Auditors' Report

Amstrad Consumer Electronics plc

Touche Ross & Co.
Hill House
1 Little New Street
London EC4A 3TR

 **Touche Ross**
Chartered Accountants

To the members of Amstrad Consumer Electronics plc

We have audited the financial statements on pages 9 to 19 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 30th June, 1986, and of the profit and source and application of funds of the group for the year then ended, and comply with the Companies Act 1985.

1st October, 1986



Chartered Accountants



Statement of Accounting Policies

Amstrad Consumer Electronics plc

a) **Accounting convention**

The financial statements have been prepared under the historical cost convention.

b) **Consolidation**

The group financial statements consolidate those of the Company and all subsidiaries for the financial period ended 30th June, 1986.

At the date of acquisition the fair values of the net assets, excluding goodwill of the subsidiary are determined and these values are incorporated in the consolidated financial statements. Any excess of the cost of investments over the net assets of the subsidiary that remains after this valuation is written off to retained profits.

c) **Depreciation**

Depreciation is provided on tangible fixed assets, at cost or valuation, on a straight line basis at annual rates based on the estimated economic lives of the tangible fixed assets as follows:

Freehold buildings	2%
Short leases.....	Over the residual term of the lease
Plant, machinery and tooling	10%–50%
Fixtures and fittings, vehicles and equipment	10%–33⅓%

d) **Foreign currencies**

Transactions of UK companies denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Amounts receivable and payable in foreign currencies at the Balance Sheet date are translated at the rate ruling at that date unless they are covered by forward exchange contracts where the rate of the contract is used. Translation differences are dealt with in the profit and loss account.

Forward currency contracts existing at the year end which are in excess of purchase commitments and in which a gain or loss has arisen at 30th June, 1986 have been recognised as part of the profit on ordinary activities of the year.

The financial statements of the foreign subsidiary companies have been translated at the rate of exchange ruling at 30th June, 1986. Differences on exchange arising from the translation of the opening net assets of the foreign subsidiaries at the year end rate are taken direct to reserves.

e) **Stock and work in progress**

Stock and work in progress are valued at the lower of cost and net realisable value. Cost is represented by materials and direct labour, together with an appropriate element of production overhead. Provision has been made for obsolete and slow moving stock.

f) **Deferred tax**

Deferred tax is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability or asset will crystallize in the future.

g) **Investments**

Investments have been valued at their foreign currency cost and translated to sterling at the rate of exchange ruling at the Balance Sheet date.

h) **Intangible fixed assets**

Intangible fixed assets comprise development costs in connection with the Company's microcomputer products which are written off over eighteen months.

**Consolidated
Profit and Loss Account** for the year ended 30th June, 1986
Amstrad Consumer Electronics plc



	Note	1986		1985	
		£000	£000	£000	£000
Turnover	1		304,150		136,061
Change in stocks of finished goods and work in progress			4,298		1,686
			<u>308,448</u>		<u>137,747</u>
Other operating income			348		512
			<u>308,796</u>		<u>138,259</u>
Raw materials and consumables		(207,130)		(103,539)	
Other external charges		(18,924)		(7,316)	
Staff costs	2	(4,672)		(3,594)	
Depreciation and other amounts written off intangible and tangible fixed assets		(1,168)		(1,047)	
Other operating charges		(3,851)		(2,364)	
			<u>(235,745)</u>		<u>(117,860)</u>
Operating Profit			73,051		20,399
Other interest receivable and similar income			4,198		449
Interest payable and similar charges	3		(1,965)		(691)
Profit on ordinary activities before taxation	4 & 18		75,284		20,157
Taxation on profit on ordinary activities	5		(23,279)		(6,147)
Profit on ordinary activities after taxation			52,005		14,010
Extraordinary items (after tax)	6		(2,954)		(42)
Profit for the financial year attributable to shareholders of Amstrad Consumer Electronics plc			49,051		13,968
Dividends	7		(1,893)		(1,027)
Profit transferred to reserves	19		<u>47,158</u>		<u>12,941</u>
Earnings per share					
Based on profit on ordinary activities after taxation	8		<u>9.54p</u>		<u>2.57p</u>

The attached notes form part of these financial statements.



Consolidated Balance Sheet at 30th June, 1986
Amstrad Consumer Electronics plc

	Note	1986		1985	
		£000	£000	£000	£000
£000					
66,061					
1,086					
37,747					
512					
38,259					
17,860)					
20,399					
449					
(691)					
20,157					
(6,147)					
14,010					
(42)					
13,968					
(1,027)					
12,941					
Fixed assets					
Intangible assets	9		379		160
Tangible assets	10		7,219		6,833
			<u>7,598</u>		<u>6,993</u>
Current assets					
Stocks	12	33,277		25,173	
Debtors	13	45,936		25,092	
Investments		—		257	
Cash at bank and in hand		62,467		13,519	
		<u>141,680</u>		<u>64,641</u>	
Creditors					
Amounts falling due within one year	14	<u>(61,175)</u>		<u>(28,614)</u>	
Net current assets			<u>80,505</u>		<u>36,027</u>
Total assets less current liabilities			<u>88,103</u>		<u>43,020</u>
Provision for liabilities and charges	15		—		(850)
Net Assets			<u>88,103</u>		<u>42,170</u>
Capital and reserves					
Called up share capital	16		27,260		5,452
Share premium account	17		—		12,327
Other reserves	19		608		605
Profit and loss account	19		60,235		23,785
Shareholders' funds			<u>88,103</u>		<u>42,170</u>

These financial statements were approved by the Board of Directors on 1st October, 1986.

Directors

The attached notes form part of these financial statements.



Balance Sheet at 30th June, 1986
Amstrad Consumer Electronics plc

	Note	1986		1985	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		379		160
Tangible assets	10		6,499		6,551
Investments	11		332		331
			<u>7,210</u>		<u>7,042</u>
Current assets					
Stocks	12	21,904		21,844	
Debtors	13	31,602		19,996	
Cash at bank and in hand		30,221		7,163	
		<u>83,727</u>		<u>49,003</u>	
Creditors					
Amounts falling due within one year	14	(42,691)		(23,763)	
Net current assets			<u>41,036</u>		<u>25,240</u>
Total assets less current liabilities			<u>48,246</u>		<u>32,282</u>
Provision for liabilities and charges	15		—		(1,206)
Net assets			<u>48,246</u>		<u>31,076</u>
Capital and reserves					
Called up share capital	16		27,260		5,452
Share premium account	17		—		12,327
Profit and loss account	19		20,986		13,297
Shareholders' funds			<u>48,246</u>		<u>31,076</u>

These financial statements were approved by the Board of Directors on 1st October, 1986.

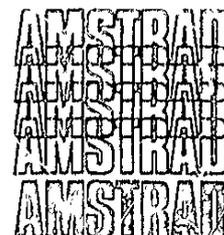
Directors

The attached notes form part of these financial statements.



Consolidated Statement of Source and Application of Funds for the year ended 30th June, 1986
Amstrad Consumer Electronics plc

	1986 £000	1985 £000
Source of Funds		
Profit on ordinary activities before taxation	75,284	20,157
Adjustment for items not involving the movement of funds:		
Depreciation of intangible and tangible fixed assets	1,185	662
(Profit)/Loss on sale and write off of tangible fixed assets	(17)	424
Exchange differences	(1,487)	65
Total generated from operations	74,965	21,308
Proceeds from sale of goodwill and licences	420	—
Disposal of tangible fixed assets	153	269
Proceeds from sale of investment	257	—
Total source of funds	75,795	21,577
Application of Funds		
Cost of intangible assets	(517)	(154)
Purchase of tangible fixed assets	(1,421)	(3,220)
Tax paid	(2,407)	(3,483)
Dividends paid	(1,204)	(802)
Acquisition of Sinclair Intellectual Property Rights	(5,000)	—
Acquisition of Minority Interest	—	(88)
Purchase of investment	—	(257)
Total application of funds (excluding working capital)	(10,549)	(8,004)
	65,246	13,573
Movement in Working Capital		
Increase in stocks	(8,104)	(1,680)
Increase in debtors and bills receivable	(16,489)	(8,618)
Increase in creditors and bills receivable	5,050	8,370
Total Movement in Working Capital	(19,543)	(1,928)
Movement of Net Liquid Funds	45,703	11,645

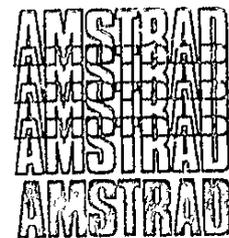


Notes to the Financial Statements

Amstrad Consumer Electronics plc

1. Turnover	1986	1985
	£000	£000
The amount of turnover attributable to geographical areas was as follows:		
United Kingdom	129,188	63,310
France	66,270	24,265
Germany	37,536	32,497
Spain	3,308	4,370
Other European countries	12,380	2,831
Asia	2,157	2,645
Australasia	8,053	6,143
North America	17,258	—
	<u>304,150</u>	<u>136,061</u>
Turnover consists of the total sales invoiced to external customers during the year exclusive of Value Added Tax and other sales taxes.		
2. Staff costs	1986	1985
	£000	£000
Directors' emoluments	366	281
Ex-gratia payment to former Director	20	—
	<u>386</u>	<u>281</u>
The remuneration of the Chairman and highest paid Director was:		
	<u>103</u>	<u>70</u>
The Directors' remuneration was distributed as follows:		
Ranges of remuneration	No.	No.
£ 5,001 – £ 10,000	2	3
£ 30,001 – £ 35,000	—	1
£ 35,001 – £ 40,000	—	1
£ 40,001 – £ 45,000	1	—
£ 45,001 – £ 50,000	—	1
£ 50,001 – £ 55,000	—	1
£ 55,001 – £ 60,000	4	—
£ 65,001 – £ 70,000	—	1
£100,001 – £105,000	1	—
The number of Group employees, other than Directors and those who worked wholly or mainly outside the United Kingdom, whose remuneration was in excess of £30,000, were as follows:		
Ranges of remuneration	No.	No.
£30,001 – £35,000	1	—
£40,001 – £45,000	1	—
	£000	£000
Wages and salaries including Directors' emoluments	4,192	3,278
Social security costs	480	316
Total	<u>4,672</u>	<u>3,594</u>
These costs were in respect of the average number of employees during the year as follows:		
Production	No. 253	No. 319
Sales, distribution and administration	273	177
	<u>526</u>	<u>496</u>

	1986 £000	1985 £000
3. Interest payable and similar charges		
Interest payable on loans against trust receipts and overdrafts repayable within 5 years	1,295	602
Discounts on bills payable	670	89
	<u>1,965</u>	<u>691</u>
4. Profit on ordinary activities before taxation is after charging:	1986	1985
	£000	£000
Depreciation of tangible and intangible fixed assets	1,185	662
Auditors' remuneration	87	61
Hire of plant and machinery	19	53
	<u>1,291</u>	<u>776</u>
5. Taxation on profit on ordinary activities	1986	1985
	£000	£000
United Kingdom corporation tax at 38.75% (1985 — 43.75%) based on the profit for the year	16,751	3,140
Deferred tax	(3,028)	77
Overseas tax	9,556	2,930
	<u>23,279</u>	<u>6,147</u>
6. Extraordinary items	1986	1985
	£000	£000
Loss on Disposal of Freehold property	—	(113)
Transfer from revaluation reserve	—	71
Write-off of cost of Sinclair Intellectual Property Rights	(5,000)	—
Proceeds from sale of goodwill and licences	420	—
Net Tax Credit on extraordinary items	1,626	—
	<u>(2,954)</u>	<u>(42)</u>
Total extraordinary items net of tax		
7. Dividend		
The Directors propose a final dividend of 0.25p (1985 — 0.12p) per ordinary share, which together with the interim dividend of 0.10p (1985 — 0.07p) per ordinary share paid on 11th April, 1986 makes a total distribution of 0.35p (1985 — 0.19p) per ordinary share in respect of the year ended 30th June, 1986. This is equivalent to 0.49p (1985 — 0.27p) per ordinary share with the related tax credit at the current rate of 29/71sts (1985 — 3/7ths).		
8. Earnings per share		
The calculation of earnings per share is based on profit after tax before extraordinary items, on the ordinary shares in issue at 30th June, 1986. The comparative has been adjusted to reflect the capitalisation issue on 2nd June, 1986.		
9. Intangible fixed assets	1986	1985
	£000	£000
Development costs:		
Cost		
At 1st July, 1985	337	183
Amounts capitalised in the year	517	154
	<u>854</u>	<u>337</u>
At 30th June, 1986		
Amortisation		
At 1st July, 1985	177	2
Charged in year	298	175
	<u>475</u>	<u>177</u>
At 30th June, 1986		
Net book value		
At 30th June, 1986	<u>379</u>	<u>160</u>



Notes to the Financial Statements (continued)

10. Tangible fixed assets	Freehold land and buildings £000	Short leases £000	Plant, machinery and tooling £000	Fixtures, fittings, vehicles and equipment £000	Total £000
CONSOLIDATED					
Cost at 1st July, 1985	5,350	15	796	1,578	7,739
Exchange differences	—	—	(20)	5	(15)
Additions	—	5	616	800	1,421
Disposals	—	(6)	(19)	(293)	(318)
Cost at 30th June, 1986	<u>5,350</u>	<u>14</u>	<u>1,373</u>	<u>2,090</u>	<u>8,827</u>
Depreciation at 1st July, 1985	101	4	288	513	906
Exchange differences	—	—	(3)	—	(3)
Charged in year	88	1	358	440	887
On disposals	—	(4)	(1)	(177)	(182)
Depreciation at 30th June, 1986	<u>189</u>	<u>1</u>	<u>642</u>	<u>776</u>	<u>1,608</u>
Net book value At 30th June, 1986	<u>5,161</u>	<u>13</u>	<u>731</u>	<u>1,314</u>	<u>7,219</u>
Net book value At 30th June, 1985	<u>5,249</u>	<u>11</u>	<u>508</u>	<u>1,065</u>	<u>6,833</u>
COMPANY					
Cost at 1st July, 1985	5,350	15	656	1,359	7,380
Additions	—	5	376	336	717
Disposals	—	(6)	(11)	(193)	(210)
Cost at 30th June, 1986	<u>5,350</u>	<u>14</u>	<u>1,021</u>	<u>1,502</u>	<u>7,887</u>
Depreciation at 1st July, 1985	101	4	263	461	829
Charged in year	88	1	254	354	697
On disposals	—	(4)	(2)	(132)	(138)
Depreciation at 30th June, 1986	<u>189</u>	<u>1</u>	<u>515</u>	<u>683</u>	<u>1,388</u>
Net book value At 30th June, 1986	<u>5,161</u>	<u>13</u>	<u>506</u>	<u>819</u>	<u>6,499</u>
Net book value At 30th June, 1985	<u>5,249</u>	<u>11</u>	<u>393</u>	<u>898</u>	<u>6,551</u>

11. Investments

	Company	
	1986	1985
	£000	£000
Shares in subsidiaries at cost:		
At 1st July, 1985	331	243
Additions	1	88
	<u>332</u>	<u>331</u>
At 30th June, 1986	<u>332</u>	<u>331</u>

The following information relates to the Company's wholly owned subsidiaries, which, in the opinion of the Directors, principally affect the consolidated profits or assets of the Company.

Name of subsidiary	Country of Incorporation
Amstrad International (Hong Kong) Limited	Hong Kong
Amstrad S.A.R.L.	France
Amstrad Distribution Limited	England
Amstrad International (U.S.A.) Inc.	U.S.A.

12. Stocks

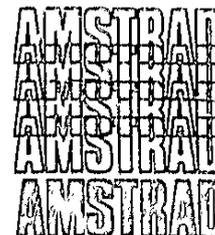
	Consolidated		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
The amounts attributed to the different categories are as follows:				
Raw materials and consumables	6,090	2,227	5,490	2,227
Work in progress	279	179	158	179
Finished goods and goods for resale	26,908	22,767	16,256	19,438
	<u>33,277</u>	<u>25,173</u>	<u>21,904</u>	<u>21,844</u>

13. Debtors

	Consolidated		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Trade debtors	38,325	23,660	9,011	7,979
Amounts owed by group companies	—	—	18,521	10,845
Other debtors	3,523	1,418	2,023	721
Prepayments	333	614	127	451
Deferred Taxation (Note 15)	3,755	—	1,920	—
	<u>45,936</u>	<u>25,692</u>	<u>31,602</u>	<u>19,996</u>

14. Creditors: amounts falling due within one year

	Consolidated		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Bank overdrafts	3,295	50	968	—
Trade creditors	4,588	1,991	3,049	1,329
Bills of exchange payable	7,630	17,265	5,195	13,755
Amounts owed to group companies	—	—	1,172	2,755
U.K. corporation tax	19,333	3,288	18,910	3,288
Other taxation and social security costs	241	129	75	72
Overseas taxation	10,392	2,860	—	—
Other creditors	9,462	1,082	8,209	735
Accruals	4,871	1,275	3,750	1,155
Dividend proposed	1,363	674	1,363	674
	<u>61,175</u>	<u>28,614</u>	<u>42,691</u>	<u>23,763</u>



Notes to the Financial Statements (continued)

15. Provision for liabilities and charges	Consolidated	Company
	£000	£000
Deferred Taxation:		
Provision at 1st July, 1985	850	1,206
Charged to Profit and Loss Account		
On ordinary activities	(3,028)	(1,549)
On extraordinary activities	(1,307)	(1,307)
Movement on Advanced Corporation Tax recoverable	(270)	(270)
	<u>(3,755)</u>	<u>(1,920)</u>
Asset at 30th June, 1986 (Note 13)		

The deferred taxation balance is fully provided as follows:

	Consolidated		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Capital allowances in excess of depreciation	162	1,599	162	1,599
Advance corporation tax recoverable	(558)	(288)	(558)	(288)
Short-term timing differences	(3,359)	(461)	(1,524)	(105)
	<u>(3,755)</u>	<u>850</u>	<u>(1,920)</u>	<u>1,206</u>
Deferred Tax (Asset)/Liability				

16. Called up share capital	30th June, 1986		30th June, 1985	
	Ordinary shares of 5p each	£000	Ordinary shares of 5p each	£000
	Shares	£000	Shares	£000
The Authorised share capital comprised:	<u>720,000,000</u>	<u>36,000</u>	<u>120,000,000</u>	<u>6,000</u>
Of which the following were allotted, issued and fully paid up:				
At 1st July, 1985	109,041,666	5,452	109,041,666	5,452
4 for 1 Capitalisation Issue:	436,166,664			
Transfer from Share Premium Account (Note 17)		12,327		—
Transfer from Revenue Reserves (Note 19)		9,481		—
	<u>545,208,330</u>	<u>27,260</u>	<u>109,041,666</u>	<u>5,452</u>
At 30th June, 1986				

17. Share premium account	1986	1985
	£000	£000
At 1st July, 1985	12,327	12,327
Transfer to Share Capital on 4 for 1 Capitalisation issue (Note 16)	(12,327)	—
	<u>—</u>	<u>12,327</u>
At 30th June, 1986		

- 18. Profit of parent company**
As permitted by Section 228(7) of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The consolidated profit for the financial year includes £19,063,000 (1985 — £4,632,000) which is dealt with in the accounts of the parent company.

19. Reserves	Consolidated		Company
	Other reserves £000	Profit and loss account £000	Profit and loss account £000
At 1st July, 1985	606	23,785	13,297
Profit retained for the year	—	47,158	17,170
Transfer to share capital on 4 for 1 capitalisation issue (Note 16)	—	(9,481)	(9,481)
Foreign exchange translation differences	—	(1,225)	—
Non-distributable legal reserve in French subsidiary	2	(2)	—
At 30th June, 1986	<u>608</u>	<u>60,235</u>	<u>20,986</u>

20. Capital expenditure	1986 £000	1985 £000
Contracted for but not provided in the financial statements	—	—
Authorised but not contracted for	<u>1,900</u>	<u>—</u>

21. Share Option Scheme

There is a Share Option Scheme for the directors and senior employees and the scheme options are normally exercisable between the third and tenth anniversary of the date of grant. No options were exercised under this scheme during the year. Options on shares were granted under this scheme during the year as follows:

Date of Grant	Price per fully paid share	Normal dates of exercise	No. of ordinary shares
23rd July, 1985	13.6p	1988 - 1995	11,845,000
22nd February, 1986	64.8p	1989 - 1996	399,115

22. Contingent liabilities

The company is currently involved in legal proceedings relating to advertisements run in 1984 relating to some of its audio equipment. The directors consider that the result of these proceedings will have no material effect on the net asset position. Amstrad Consumer Electronics plc has guaranteed the overdraft of subsidiary companies to the extent of £53.4 million (1985 — £10.4 million).

Financial Record as a Public Company

	Note	1980	1981	1982	1983	1984	1985	1986
Turnover (excluding VAT)	(£000)	8,761	14,126	28,059	51,785	84,946	136,061	304,150
Profit before tax	(£000) 1	1,361	2,376	4,770	8,044	9,115	20,157	75,284
Profit after tax	(£000) 1	1,058	1,237	2,583	5,319	5,664	14,010	52,005
Dividends pence/share (incl. Tax Credit)	2	0.06	0.11	0.14	0.16	0.19	0.27	0.49
Dividend Cover	(times) 3	5	3	6	10	8	14	27
Retained profit for year	(£000)	807	1,105	2,421	5,104	4,963	12,941	47,158
Earnings pence/share after tax	2	0.22	0.26	0.54	1.12	1.17	2.57	9.54
Share capital and reserves	(£000)	3,669	4,773	7,194	12,298	29,237	42,170	88,103
Key Ratios								
Turnover growth over prior year		56.5%	61.2%	98.6%	84.6%	64.0%	60.2%	123.5%
Profit before tax over prior year		49.9%	74.6%	100.8%	68.6%	13.3%	121.1%	273.5%
Profit before tax as a percentage of sales		15.5%	16.8%	17.0%	15.5%	10.7%	14.8%	24.8%

Notes:

1. Profit figures other than retained earnings exclude extraordinary items.
2. As adjusted to reflect the 1 for 1 capitalisation issue on 25th November, 1982, the 4 for 1 bonus issue on 4th November, 1983, the 1 for 6 rights issue on 11th May, 1984 and the 4 for 1 capitalisation issue on 2nd June, 1986.
3. Calculated before waiver of dividends for years 1980 to 1983 by A. M. Sugar.

