

2000 Annual Report



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Motion Media

Directors, Secretary and Advisers

DIRECTORS

Rex Francis Thorne OBE, BSc, FIM, MCIM

Non-executive Chairman

Kenneth Neville Burgin BSc

Chief Executive Officer

Graham Douglas Brown SHND Business Studies

Managing Director

Iain Charles Silvester BSc, ACA

Finance Director

John Duncan Martin B Eng

Technical Director

Nicholas Graham Sturge B Eng, AMIEE

IT and Quality Director

David Edward Sykes BSc, MSc

Sales & Marketing Director

Alan Richard MacKenzie BSc (Econ), FSI Dip

Non-executive Director

COMPANY SECRETARY AND REGISTERED OFFICE

Iain Charles Silvester BSc, ACA

Horton Hall

Horton

Bristol BS37 6QN

FINANCIAL ADVISER

ARM Corporate Finance Limited

12 Pepper Street

London E14 9RP

AUDITORS

Solomon Hare

Chartered Accountants

Oakfield House

Oakfield Grove

Clifton

Bristol BS8 2BN

SOLICITORS

Burges Salmon

Narrow Quay House

Prince Street

Bristol BS1 4AH

BANKERS

The Royal Bank of Scotland Plc

London City Office

62-63 Threadneedle Street

London EC2R 8LA

STOCKBROKERS

Teather & Greenwood Limited

Beaufort House

15 St. Botolph House

London EC3A 7QR

REGISTRARS

Capita IRG plc

Balfour House

390/398 High Road

Ilford

Essex

IG1 1NQ

PUBLIC RELATIONS

Citigate Dewe Rogerson

3 London Wall Buildings

London Wall

London

EC2M 5SY

Operating Review

Whilst the group's turnover of £2.8 million changed little over the previous year, it does not reflect changes in our strategy to take full advantage of the explosion of interest in new networks and applications capable of supporting and using video communications. The nature of the higher levels of investment made possible following the move to the Official List of the London Stock Exchange in May are longer term and had little overall effect within the year.

The number of employees grew from 48 at the beginning of the year to 78 at its close. The expansion has been primarily within the technical department and in sales and marketing personnel joining the four new Business Units: Video Communication Solutions, Mobile, Telehealth, and Surveillance. This is allowing the group to address more opportunities in parallel at any given time. Employee numbers continue to grow and we have already added four engineers and three business development managers to our new US operation in the first quarter of 2001. Total investment in research and development in the year was £1,381,000, compared with £702,000 in 1999.

The pre-tax loss of £2.48 million for the year was substantially as planned and its increase over previous years is a reflection of the need to invest in growth for the future. The gross margin was 61%, similar to the previous year. A significant driver in the gross margin is the mix of product sales and related IPR sales. Board level products continued to drive volumes in the year as customers increasingly look for a total solution to accelerate their own

product time to market. Motion Media's ability to offer its technology through licence and other IPR agreements, board level products and end user products is critical to address a wide customer base seeking different solutions to identified opportunities.

The video communications sector is still young and exhibits many of the features and problems expected in an immature market. However, this year saw a shift by a number of significant customers and potential customers towards a service provision based sales model where the end user subscribes to a service for a period of time and is able to purchase a videophone or video communications equipment at a much subsidised price. This is the same approach used widely in the mobile phone market and has contributed to the major expansion in handset ownership. This model, in one form or another, can be observed in our videophone, surveillance and telehealth vertical markets.

In response to these changes, Motion Media has directed an increasing amount of its sales and marketing effort towards winning customers who are service based organisations, including telecom operators, that have the potential for taking high volumes of product. Some of these opportunities require alliances to be forged with third party suppliers in order to offer a comprehensive solution to the service provider.

Motion Media's strategy towards seeking out and addressing the needs of service providers and telecom operators fits well with the group's technological strengths. The ability to add new



Prototype IP videophone terminal for launch in 2001

Operating Review *continued*

features to support specific applications has been used successfully to win, and will be key to retaining, new customers.

One example of a telecom operator exploring these new business models is BT. In the latter part of the year, BT purchased 360 mm225 videophones for a consumer trial using Home Highway lines with the objective of identifying line usage and potential revenue models. Subsequently, Motion Media has developed additional product features allowing advertising via the videophone, which could open the way for ongoing revenue streams to be generated through the use of the product.

The mm225 videophone operates over ISDN technology, which is extensively deployed and available in the UK, continental Europe and in many places throughout the rest of the world. As new broadband networks, (for example Digital Subscriber Line (DSL)) inevitably take time to be rolled out, operators are increasingly looking to utilise existing networks to introduce video communication equipment to a wider market place. Motion Media's technology is well placed to take advantage of both the current and future telecommunication networks.

Development work continued throughout the year on technology for use in the new Orange Mobile Videophone and consultancy revenues made a useful contribution to sales and gross margins during the year. Orange were able to deploy the first units into the retail outlets just prior to the end of the year.

Motion Media intends to be an important source of technology and products in the 3G mobile video

market. During the year, Motion Media was invited to join a consortium, which includes Vodafone and Ericsson, bidding for EU funding to develop mobile video devices for use over the future 3G mobile phone networks. These units will have the ability to provide the high quality video needed by deaf people for sign language use but will be marketable to the wider population requiring both one way and two way video communication. The European Commission signed the contracts, worth 6 million Euros, confirming the WISDOM project in December.

Motion Media continues to sell its videophone and video conferencing products through distributors and resellers. Guinness, Ordnance Survey and the Environment Agency are examples of major organisations that have chosen to use Motion Media products.

Sales of board products were strong into Conesco, a company based in the Netherlands, for use in a wide range of applications and products which include remote video surveillance end points, video call centres and dial-up video on demand servers. As part of this relationship, Motion Media developed a new version of its PC add-in card specifically for use in PC based video servers. The ability to mount multiple cards into each PC allows large high performance video servers with thousands of ports to be built in a robust and cost effective way.

Telehealth was the first of the Motion Media Business Units to be formed at the end of 1999. Significant progress has been made in forming relationships with the medical profession and care



eyesite 300 homecare system



eyesite 400 security and surveillance unit

organisations in the UK, continental Europe and the US. In the latter case, the majority of demand is for POTS systems due to additional complexities surrounding the US ISDN network infrastructure. This identified demand led to the decision to enter into a \$1m agreement on 29 December 2000 to acquire certain assets and IPR of C-Phone Corporation in order to gain access to such products and technology as well as establish a US base for the group.

Of particular significance in the USA are the recently announced changes to the Medicare & Medicaid reimbursement plans which, from 1 July 2001 will permit doctors to claim a fee for making an interactive consultation, equivalent to that currently claimed for a home visit. This will provide a financial incentive to open the way for mass deployment of video communication equipment in patients' homes across the USA. Motion Media is building strong supply arrangements with a number of US health service providers, including ATI, Millenium, and Telemed Solutions.

Another achievement in this market sector has been the inclusion of Motion Media products in one of the first video telecare trials being carried out in the West Lothian area of Scotland in conjunction with Tunstall Telecom. Our relationships in this area are continuing to expand and we are also working closely with Nestor Healthcare Group plc to develop video telecare services.

The technical department has made significant progress in the development of a new generation of technology for use in future products. These include

a new IP videophone for use on the next generation of broadband and computer networks. The IP videophone is due to be launched later in 2001 and is being developed in conjunction with a major broadband network operator. The IP videophone is designed to operate at data rates of up to 5Mbps (compared with 128Kbs for ISDN) which will provide stunning video and audio quality.

The business outgrew Horton Hall in the summer and a second temporary site was opened in nearby Yate. The acquisition of the high profile former Severn View Motorway Services building at Aust for £1.25million together with 15 acres of land will allow the UK operation to return to a single site once the redevelopment work to create the new Motion Media Technology Centre is complete.

Motion Media Technology Inc, the company's wholly owned US subsidiary, was formed at the very end of the year as the vehicle for the new US operation and the recipient of the assets purchased from C-Phone. The business is based at Wilmington, North Carolina and will employ most of the former C-Phone staff providing additional product development, customer services and sales support capability.

The interest in the new broadband IP networks, such as DSL, the huge investments made in securing 3G mobile network licenses, which now need high bandwidth applications such as video to make them viable, and the need by all telecom providers to differentiate themselves with innovative and exciting applications and services, is beginning to crystallise the exciting business environment which is foreseen for Motion Media.

“Motion Media is building strong supply arrangements with a number of US health service providers”



mm225 ISDN videophone

Financial Review

The group's capital structure is set out below:

	£	£
<i>Net funds</i>		
Finance leases and hire purchase contracts		(3,672)
Short term deposits		12,500,000
Cash at bank		827,775
		13,324,103
<i>Shareholders' funds</i>		
Equity		16,681,024
		3,356,921

LIQUIDITY

The statement of cash flows shows that there was an increase in cash in the year ended 31 December 2000 of £13,426,819, including short term deposits, (1999 - £(240,772)). The net increase is due to two share issues during the year generating a total of £18.5m net of expenses. The increase in operating cash outflow for the year was largely as planned and reflects the group's investment in research and development to support the development of next generation technology and products and an increase in activity in the sales and marketing departments. It is the group's policy to write off all research and development expenditure as incurred, including all software. During the year a total of £397,000 was invested in software development tools for the technical department to accelerate the development of core technology for next generation products, including the IP videophone.

The outflow of cash from capital expenditure was £1,865,129 (1999 - £61,423). This includes an investment of £1.25m in property to be redeveloped for the group to provide the new Motion Media Technology Centre. This development is planned to be completed in August 2001 and will cost approximately £2.7 million.

On 29 December 2000, the company signed a letter of intent to acquire certain assets and the business of C-Phone Corporation, Inc. The deal is subject to the approval of the shareholders of C-Phone and is for a

total consideration of \$1million. This purchase will be funded out of cash.

TREASURY

The group's financial instruments, other than derivatives, comprise cash and liquid resources, some borrowings and various items, such as trade debtors and trade creditors that arise directly from its operations.

It is the group's policy to finance its operations through cash, and to utilise overdraft facilities after review of the projected working capital requirements of the group should a short-term funding requirement arise.

There were no derivative transactions during the year. It is, and has been throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken.

The majority of the group's sales and purchases are priced in sterling. Foreign currency exposure arises on certain trading balances and is detailed in note 24.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the group 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.



The new Motion Media Technology Centre, Aust, Bristol

Corporate Governance

In June 1998 the Combined Code was issued by the London Stock Exchange. The Combined Code, which is now embodied in the Listing Rules of the UK Listing Authority, is based upon the report of the Hampel committee and sets out principles of good corporate governance and a code of best practice which consolidate the reports of the earlier Cadbury and Greenbury committees. This report together with the report of the remuneration committee sets out the manner in which the company has applied the principles set out in Section 1 of the Combined Code.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

For the period April 1996 to 5 May 2000 Motion Media PLC shares were traded on the OFEX trading facility and the company was not subject to the provisions set out in Section 1 of the Combined Code. However the group was already following some of the guidance as an unquoted company. The company listed on the London Stock Exchange on 8 May 2000 and since then has undertaken a process of review of its compliance with the provisions set out in Section 1 of the Combined Code. As a result, in the opinion of the directors, the company complies with the provisions of the Combined Code, except as stated below:

Board Balance

The board comprised 5 executive and 2 non-executive directors during the year. Combined Code provision A.3.1 states that at least one third of the board should comprise non-executive directors.

Audit Committee and Auditors

The audit committee comprises two independent non-executive directors. The Combined Code provision D.3.1 states that the audit committee should comprise at least three directors, all non-executive.

BOARD OF DIRECTORS

The directors bring a range of relevant expertise and experience to the board. At 31 December 2000 the Board comprised the independent non-executive Chairman, five executive directors and one other independent non-executive director. On 13 March 2001 Graham Brown was appointed Managing Director and Ken Burgin, who was previously Managing Director, was appointed Chief Executive Officer by the board.

The board is responsible to shareholders for the proper management of the group. A statement of the directors responsibilities in respect of the accounts is set out on page 13 and a statement on going concern is given on page 6. The directors have access to the company secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

There are not less than ten formal board meetings scheduled each year. Other meetings are held as necessary. Responsibilities of the board include the development of business strategy, approval of major business matters and policies, the review and approval of the annual report, interim financial statement, operating budgets and the review of performance against business objectives. To enable the board to perform its duties, briefing papers, matters for decision and minutes are distributed to all directors in advance of board meetings.

BOARD COMMITTEES

Audit Committee

The audit committee comprises the non-executive directors and is chaired by Rex Thorne. The committee meets annually with the Finance Director and a representative of the company's auditors. On at least one occasion during the year, the committee meets with the auditors without any executive directors present. The committee is responsible for ensuring that arrangements for the independent audit of the annual report and financial statements are appropriate and effective. The committee also monitors the controls that are in force to ensure the integrity of the information reported to shareholders and compliance with the rules of the UK Listing Authority.

Remuneration Committee

The remuneration committee comprises the non-executive directors and is chaired by Rex Thorne. The committee makes recommendations to the board regarding the compensation policy for executive directors and employees. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes and pension rights. The board itself determines the remuneration of the non-executive directors.

Corporate Governance *continued*

Nomination Committee

The nomination committee comprises the non-executive directors and is chaired by Rex Thorne. The committee is responsible for proposing candidates for appointment to the board, having regard to the balance and structure of the board. In appropriate cases recruitment consultants are used to assist in this process. All directors are subject to re-election at least every three years.

RELATIONS WITH SHAREHOLDERS

The company is committed to maintaining good relations with its shareholders through the provision of interim and annual reports, press releases, through its web site www.motion-media.com and through meetings with shareholders in general meetings. There is regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year.

INTERNAL CONTROL

The board is responsible for establishing and maintaining the group's system of internal control. Internal control systems are designed to address the needs of the group and the risks to which it is exposed. However such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

Key procedures which the directors have established with a view to providing effective internal financial control include the provision of monthly management accounts for the group, annual budgets and forecasts and monitoring of actual results against budget. Financial authority is delegated to managers in accordance with clearly defined operational limits. Internal controls are in line with the group's relatively small size and accordingly the board does not consider it appropriate to have an internal audit function at the current time. The board continually reviews the effectiveness of internal controls.

Report on Directors' Remuneration

The remuneration committee comprises the non-executive directors and is chaired by Rex Thorne. The committee makes recommendations to the board, within agreed terms of reference, on remuneration packages for executive directors and senior managers in order to retain and motivate high quality individuals capable of achieving the group's objectives. The package consists of basic salary, benefits, share options, performance related bonuses and pensions. The committee has access to independent advice on competitive levels of compensation within the electronics sector. In designing remuneration policy and packages, the committee has had regard to the provisions of Schedule A to the Combined Code. The committee has followed Schedule B to the Combined Code in preparing this report.

The details of individual components of the remuneration package and service contracts are discussed below.

Basic salary: Salaries and benefits are usually reviewed annually with effect from 1 January. The executive directors' basic salaries were last reviewed in February 2001, and no director, other than the Sales and Marketing Director, received an increase in basic salary for the next financial year.

Performance related bonus: The group operated a profit related pay scheme for the year ended 31 December 2000. No bonuses are payable under this scheme for the current year. For the next financial year, the group has established a new discretionary bonus scheme for executive directors, other than the Sales and Marketing Director, and other employees. Performance related bonuses for executive directors are calculated based on formulae which are determined in advance by the remuneration committee. The formulae for the executive directors, other than the Sales and Marketing Director, measure the group's performance against specific operating profit targets. The Sales and Marketing Director's formula is based on sales and gross profit targets.

Share options: Share options are awarded to executive directors and other employees of the

group. On 5 May 2000, options were granted to certain executive directors to reflect the competitive environment in which the group operates. The exercise price of the options is £1.40, equivalent to the price of the company's shares on admission to the Official List of the London Stock Exchange on 8 May 2000. These options vest as set out below. The company's approved and unapproved option schemes comply fully with the Association of British Insurers (ABI) guidelines apart from the percentage of equity which has been made available under the schemes in the first three years. This amount is five percent rather than three percent as recommended by the ABI in order to assist the company's ability to attract new employees during the next few years. Under the scheme rules, the maximum value of options that may be awarded is an amount equating to four times the annualised total earnings of the employee in a 10 year period. The exercise price is the average mid-market quotation for a share in the five dealing days preceding the date of grant. The remuneration committee has set performance targets for the exercise of options related to financial targets of the group over a three year period.

Pensions and other benefits: The executive directors and the non-executive Chairman are members of the Group Personal Pension Plan. During the year, the group contributed up to five percent of each individual's basic salary to their pension. With effect from 1 January 2001 a new employee benefit package was introduced which includes private health insurance and an increase in the group's contribution to the pension scheme to eight percent.

Fees: The fees for the non-executive directors, are determined by the board within the limits stipulated in the Articles of Association. Non-executive directors are not involved in any discussions or decision about their own remuneration.

Service contracts: Executive directors are currently on 12 months entitlement to notice by either party. None of the non-executive directors has service contracts. Terms of service for the non-executive directors are specified in letters of appointment dated 7 April 2000.

Report on Directors' Remuneration *continued*

Directors' emoluments

The emoluments of the directors are as follows:

	Salary £	Fees £	Sales bonus £	Total emoluments excluding pension contributions		Pension contributions	
				2000 £	1999 £	2000 £	1999 £
Executive directors							
K N Burgin	70,688	-	-	70,688	55,000	481	2,071
J Martin	60,563	-	-	60,563	45,000	394	1,521
G R Nunan ⁽¹⁾	5,625	-	-	5,625	42,500	279	1,447
I C Silvester	61,875	-	-	61,875	41,667	3,094	456
N G Sturge	52,406	-	-	52,406	42,500	372	1,266
D E Sykes	48,000	-	32,000	80,000	78,683	2,273	1,743
Non-executive directors							
R F Thorne	-	17,063	-	17,063	15,000	907	399
A R MacKenzie ⁽²⁾	-	12,500	-	12,500	12,500	-	-
	299,157	29,563	32,000	360,720	332,850	7,800	8,903

⁽¹⁾ Resigned 10 February 2000.

⁽²⁾ In 1999 Mr MacKenzie's fees were paid to ARM Corporate Finance Limited. Of the total fees of £12,500 in the year ended 31 December 2000, \$4,167 was paid to ARM Corporate Finance Limited.

Interest in share options

The company has two share option schemes by which executive directors and other employees are able to subscribe for ordinary shares in the company.

The interests of the directors were as follows:

	At 31 December 1999 Number	Granted Number	At 31 December 2000 Number	Exercise price per share	Date from which exercisable	Expiry date
I C Silvester	500,000	-	500,000	6p	26 March 2002	25 March 2009
	-	185,000	185,000	140p	5 May 2003 ⁽¹⁾	4 May 2010
	500,000	185,000	685,000			
D E Sykes	230,760	-	230,760	13p	27 April 2000	26 April 2007
	-	185,000	185,000	140p	5 May 2003 ⁽¹⁾	4 May 2010
	230,760	185,000	415,760			

⁽¹⁾ Share options were granted at the price at which the company's shares were admitted to the Official List of the London Stock Exchange on 8 May 2000. The directors may only exercise the options if certain performance targets related to the group's financial performance are achieved.

No other directors have been granted options over the shares of the company or other group companies.

The market price of the company's shares on 31 December 2000 was 172.5p per share. The high and low share prices during the year were 191.5p and 71.5p respectively.

Directors' Profiles

NON-EXECUTIVE DIRECTORS



Rex Thorne

Chairman (aged 73)

Mr. Thorne was appointed non-executive Chairman of Motion Media Technology in 1993. He became non-executive Chairman of Motion Media PLC in 1996 and is considered by the board to be the senior independent director. Mr. Thorne has an extensive career background in the telecommunications and electronics industries extending over 40 years and has held a number of senior executive directorships with various major companies in the communications industry. He is also non-executive director of APC plc and Marcom Ltd. He was awarded an OBE in 1990 for services to the Radio Communications industry.



Alan MacKenzie (aged 44)

Mr. MacKenzie has extensive experience in stockbroking, mergers and acquisitions, and corporate finance, gained over a number of years with Greene & Co., Capel-Cure Myers, Grieveson Grant and Co. and Laing and Cruickshank. In 1988 he formed ARM & Co., specialising in mergers and acquisitions and in 1992 formed ARM Corporate Finance Limited to specialise in corporate finance activities.

EXECUTIVE DIRECTORS



Ken Burgin

Chief Executive Officer (aged 44)

Mr. Burgin was appointed Chief Executive of Motion Media PLC in March 2001, and joined Motion Media Technology Ltd in 1993 as co-founder and Managing Director. He previously worked for Philips and SGS-THOMSON, following its acquisition of Inmos, where he was Research and Development Manager for the Image Processing group.



Iain Silvester *Finance Director and Company Secretary (aged 39)*

Mr. Silvester joined Motion Media Technology Ltd in December 1998 and was appointed Finance Director and Company Secretary of Motion Media PLC in March 1999. He qualified as a Chartered Accountant with Arthur Young (now Ernst & Young). He was previously Finance Director and Company Secretary of Chemical Design Holdings PLC and International Controller for IBAH, Inc.



David Sykes

Sales & Marketing Director (aged 47)

Mr. Sykes joined Motion Media PLC in 1997 to develop the sales and marketing function. He previously worked for IBM on the product development of advanced computer terminals.



Graham Brown

Managing Director (aged 42)

Mr. Brown joined the board of Motion Media PLC in March 2001. He previously held a number of executive management posts in companies including Apple Computers Inc and Mitsubishi Electric Computer Division. At Apple he attained the position of Regional Director in the Asia Pacific area and at Mitsubishi he was Vice President responsible for world-wide sales.



John Martin *Technical Director (aged 34)*

Mr. Martin joined Motion Media Technology Ltd in 1993 as a co-founder and has been responsible for image compression architecture and image processing and graphics display. He was appointed to the board of Motion Media PLC in 1996. He previously worked for GPT and joined Inmos in 1989 working on image processing, still and moving image compression and motion estimation control.



Nick Sturge *Information Technology and Quality Director (aged 33)*

Mr. Sturge joined Motion Media Technology Ltd as a co-founder and Director in 1993. He was appointed to the board of Motion Media PLC in 1996. He previously worked for Inmos in its Image Processing Group, where he worked on image compression technology and CAD hardware and software systems specification.

Directors' Report

The directors present their report and the group financial statements for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activities during the year continued to be the design and marketing of video telecommunications equipment and technology.

RESULTS AND DIVIDENDS

The group's loss for the year on ordinary activities before taxation was £2,479,626 (1999: £525,535). Costs of research and development undertaken in the year have been written off as detailed in note 3. A review of activities is included in the Chairman's statement on page 2 and the Operating and Financial Review on pages 3-6.

The directors do not recommend the payment of a dividend at this stage in the company's development.

DISABLED EMPLOYEES

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Existing disabled employees, and employees who may become disabled during employment, are provided with

training and such assistance as is necessary to allow them to develop their careers with the group.

EMPLOYEE INVOLVEMENT

The group operates a policy of providing employees with weekly information concerning the performance of the business. Monthly meetings are held between representatives of the board and employees through the Promotion of Excellence through Communication and Teamwork forum at which employees are encouraged to present their suggestions and views on the group's performance. Employees are encouraged to invest in the group through participation in share option schemes.

POLICY ON PAYMENT OF CREDITORS

The group policy on payment to suppliers is that balances owing are paid according to the terms and conditions agreed with each supplier, providing that all trading terms and conditions have been complied with.

The average number of days purchases included within trade creditors at the year end was 61 (1999: 99).

DIRECTORS AND THEIR INTERESTS

The interests of the directors of the company in the ordinary share capital of the company at 31 December 2000, were:

	Ordinary shares		Deferred shares	
	31 December 2000 1p shares	1 January 2000 10p shares	31 December 2000 10p shares	1 January 2000 10p shares
K N Burgin - beneficial	7,254,930	688,157	-	244,188
- non-beneficial	2,187,460	198,773	-	67,932
J D Martin - beneficial	5,438,500	548,803	-	196,452
non-beneficial	210,250	-	-	-
I C Silvester	-	-	-	-
N G Sturge - beneficial	5,818,750	550,803	-	196,452
- non-beneficial	50,000	-	-	-
D E Sykes	-	-	-	-
R F Thorne	1,100,800	110,080	-	36,720

There have been no changes in the above interests at 6 March 2001.

Directors' Report *continued*

On 7 April 2000 each deferred share of 10p each was redeemed for nil consideration.

On 5 May 2000 each issued and each authorised but unissued ordinary share of 10p each was sub-divided into 10 ordinary shares of 1p each.

A R MacKenzie has an interest in 1,010,000 1p ordinary shares (1999: 101,000 10p ordinary shares) held by ARM Corporate Finance Ltd.

Non-beneficial interests relate to shares held by connected parties, including charitable trusts.

At 31 December 1999 K N Burgin, J D Martin and N G Sturge were trustees and beneficiaries of the Motion Media Retirement Benefits Scheme which held 292,353 ordinary shares of 10p each and

102,652 deferred shares of 10p each. On 30 June 2000, the process to terminate the scheme commenced and the beneficial interests in shares transferred to the scheme beneficiaries.

In addition to the directors listed above above, GR Nunan served as a director until 10 February 2000 when he resigned. G Brown was appointed Managing Director on 13 March 2001.

SUBSTANTIAL SHAREHOLDINGS

In addition to the holdings listed above, the company has been notified or is aware of holdings of 3% or more of the issued ordinary share capital as at 6 March 2001:

	Ordinary shares	Percentage of existing ordinary share capital
Mr G R Nunan	6,026,800	5.95%
Mr S J Maudsley	4,391,970	4.34%
Mr C Blackburn	4,080,000	4.03%
Mr S D Turner	5,463,040	5.40%

Save as disclosed above, no other person has notified the company in accordance with sections 198 to 208 of the Companies Act 1985.

EUROPEAN MONETARY UNION

The directors have considered the impact of the Economic Monetary Union on the group's activities. Although some modifications to the systems will be required to accommodate the introduction of the Euro the board is not aware of any significant costs associated with the implementation.

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 the group and of the profit or loss of the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Following the conclusion of a formal invitation to tender process, Solomon Hare have indicated that they will not be seeking reappointment as auditors for the forthcoming year. Deloitte & Touche have indicated their willingness to be appointed in their place and accordingly a resolution for their appointment is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board by

I C Silvester

Secretary

23 March 2001

Independent Auditors' Report

TO THE SHAREHOLDERS OF MOTION MEDIA PLC

We have audited the financial statements of Motion Media PLC for the year ended 31 December 2000 which comprise the primary financial statements such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and 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 the group's and the company's affairs as at 31 December 2000 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

SOLOMON HARE
Registered Auditors
Chartered Accountants
Oakfield House
Oakfield Grove
Clifton
Bristol BS8 2BN

23 March 2001

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2000	Note	2000 £	1999 £
Turnover	2	2,837,177	2,718,967
Cost of sales		(1,098,976)	(1,099,868)
Gross profit		1,738,201	1,619,099
Administrative expenses		(4,829,839)	(2,235,741)
Other operating income		34,674	91,813
Operating loss	3	(3,056,964)	(524,829)
Interest receivable	5	579,671	371
Interest payable and similar charges	6	(2,333)	(1,077)
Loss for the year	16	(2,479,626)	(525,535)

All recognised gains and losses are included in the profit and loss account.

All of the above results relate to continuing activities.

Loss per share (normal)	20	2.57p	0.61p
Loss per share (diluted)	20	2.52p	0.60p

Consolidated Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 2000	2000 £	1999 £
Loss for the financial year	(2,479,626)	(525,535)
Lapsed share option - advance payment	-	120,000
Total recognised gains and losses relating to the year	(2,479,626)	(405,535)

The notes on pages 19 to 25 form part of these financial statements

Consolidated Balance Sheet

AT 31 DECEMBER 2000	Note	2000 £	1999 £
Fixed assets			
Tangible assets	8	1,829,721	165,550
Current assets			
Stocks	10	1,274,988	532,671
Debtors due within one year	11	1,200,104	577,307
Cash at bank and in hand		13,327,775	20,956
Creditors: amounts falling due within one year	12	15,802,867 (951,564)	1,130,934 (651,917)
Net current assets		14,851,303	479,017
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	16,681,024 -	644,567 (4,555)
Net assets		16,681,024	640,012
Capital and reserves			
Called up share capital	15	1,013,155	1,052,143
Share premium account	16	21,972,714	3,595,770
Capital redemption reserve	16	182,682	-
Profit and loss account	16	(6,487,527)	(4,007,901)
Shareholders' funds (including non-equity)	17	16,681,024	640,012

Approved by the board

K N Burgin Director

23 March 2001

The notes on pages 19 to 25 form part of these financial statements

Company Balance Sheet

AT 31 DECEMBER 2000	Note	2000 £	1999 £
Fixed assets			
Investments	9	7,750,596	4,749,918
Current assets			
Debtors due within one year	11	38,638	2,542
Debtors due after more than one year	11	2,663,567	50,000
Cash at bank and in hand		13,305,076	1,097
Creditors: amounts falling due within one year	12	16,007,281 (35,731)	53,639 (20,058)
Net current assets		15,971,550	33,581
Net assets		23,722,146	4,783,499
Capital and reserves			
Called up share capital	15	1,013,155	1,052,143
Share premium account	16	21,972,714	3,595,770
Capital redemption reserve	16	182,682	-
Profit and loss account	16	553,595	135,586
Shareholders' funds (including non-equity)	17	23,722,146	4,783,499

Approved by the board

K N Burgin Director

23 March 2001

The notes on pages 19 to 25 form part of these financial statements

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2000	£	2000 £	£	1999 £
Net cash outflow from operating activities (note 21)		(3,850,376)		(204,552)
Returns on investments and servicing of finance				
Interest received	579,671		371	
Interest paid	(1,225)		-	
Interest element of HP rental payments	(1,108)		(1,077)	
		577,338		(706)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,865,129)		(61,423)	
Sale of tangible fixed assets	48,701		19,098	
		(1,816,428)		(42,325)
Management of liquid resources				
Increase in short term deposits	(12,500,000)		-	
		(12,500,000)		-
Cash outflow before financing		(17,589,466)		(247,583)
Issue of ordinary share capital	19,394,321		9,500	
Share issue costs	(873,683)		-	
Capital element of HP rental payments	(4,353)		(2,689)	
		18,516,285		6,811
Increase/(decrease) in cash in the year (note 22)		926,819		(240,772)

The notes on pages 19 to 25 form part of these financial statements

Notes to the Financial Statements

1 ACCOUNTING POLICIES

a. Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b. Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries for the year ended 31 December 2000 and exclude all intra-group transactions. The acquisition method of accounting has been used and the results of the subsidiaries are included from the date of acquisition. The company has taken advantage of the exemption provided by section 230 of the Companies Act 1985 from presenting its own profit and loss account.

c. Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, net of Value Added Tax.

d. Tangible fixed assets and depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset, as follows:

Demonstration tools	–	25% on cost
Property maintenance	–	25% on cost
Computer equipment	–	25% on cost
Equipment	–	25% on cost
Production tooling	–	25% on cost

Depreciation has not been charged on the freehold buildings purchased during the year. The property is being re-developed for the group and will be brought into commission during 2001.

e. Stocks

Stocks have been valued at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

f. Deferred taxation

Provision is made, using the liability method, for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

g. Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

h. Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account.

i. Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits as incurred.

j. Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account.

k. Research and development

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

l. Government grants

Grants relating to revenue expenditure are credited to the profit and loss account over the life of the project.

m. Investments

Investments are stated at cost, less any provision for impairment in value.

n. Goodwill

Goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves on acquisition. Under the transitional arrangements of FRS10 the balance on the goodwill write-off reserve has been transferred to the profit and loss account reserve. Such goodwill will be included in the calculation of profit or loss on disposal of the business to which it relates.

2 TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the group.

This turnover arose from the following geographical areas:

	2000 £	1999 £
United Kingdom	1,730,678	1,396,824
Other EC	879,525	794,805
Rest of the world	226,974	527,338
	2,837,177	2,718,967

3 OPERATING LOSS

	2000 £	1999 £
Operating loss is arrived at after charging:		
Directors' emoluments	360,720	332,850
Directors' pension contributions	7,800	8,903
Depreciation:		
- owned assets	174,494	105,214
- assets held under finance leases	2,640	1,451
Auditors' remuneration:		
- as auditors	9,500	8,750
- non audit services	3,500	2,335
Operating leases:		
- land and buildings	71,500	44,629
Profit on disposal of fixed assets	(24,877)	(9,494)
Research and development	1,380,950	701,922

Research and development costs include the costs of staff employed in those activities.

Further details of directors' remuneration are provided on page 9.

In addition to the above, fees of £75,000 were paid to the auditors as Reporting Accountant in connection with the share issue detailed in note 15. The costs have been set against the share premium account.

4 STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including directors) during the year was as follows:

	2000	1999
Management and office	61	48

The aggregate payroll costs of these persons were as follows

	2000 £	1999 £
Wages and salaries	1,880,511	1,388,070
Social security costs	197,452	146,371
Other pension costs	49,840	30,430
	2,127,803	1,564,871

Notes to the Financial Statements *continued*

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2000 £	1999 £
Bank interest receivable	579,671	371

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £	1999 £
Bank interest	1,225	-
Finance lease charges	1,108	1,077
	2,333	1,077

7 TAX ON LOSS ON ORDINARY ACTIVITIES

No tax charge arises in respect of the year ended 31 December 2000 (1999: £nil).

The group has tax losses of approximately £5.3 million (1999: £3.2 million) available for offset against future trading profits arising from the same trade.

8 TANGIBLE FIXED ASSETS

GROUP

	Demo tools £	Leasehold improvements £	Land and buildings £	Computer equipment £	Fixtures and fittings £	Production tooling £	Totals £
Cost							
At 1 January 2000	65,431	-	6,007	147,102	94,445	208,414	521,399
Additions	103,654	80,058	1,379,648	162,329	131,851	7,589	1,865,129
Disposals	(25,370)	-	-	(1,482)	-	-	(26,852)
At 31 December 2000	143,715	80,058	1,385,655	307,949	226,296	216,003	2,359,676
Depreciation							
At 1 January 2000	19,148	-	5,823	104,858	78,839	147,181	355,849
Charge for year	27,983	32,023	184	38,971	25,266	52,707	177,134
On disposals	(3,028)	-	-	-	-	-	(3,028)
At 31 December 2000	44,103	32,023	6,007	143,829	104,105	199,888	529,955
Net book value							
At 31 December 2000	99,612	48,035	1,379,648	164,120	122,191	16,115	1,829,721
At 31 December 1999	46,283	-	184	42,244	15,606	61,233	165,550

The company held no fixed assets during the year.

Hire purchase agreements:

Included within the net book value of £1,829,721 is £5,416 relating to assets held under hire purchase agreements (1999: £8,056). The depreciation charged to the financial statements in the year in respect of such assets amounted to £2,640 (1999: £1,451).

	2000 £	1999 £
Capital commitments		
Contracted but not provided for in the financial statements	2,676,922	-

The capital commitment relates to a building contract to redevelop the group's new freehold premises.

9 INVESTMENTS: COMPANY

	2000 £	1999 £
Shares in group undertakings	7,750,596	4,749,918

The company holds the entire share capital of Motion Media Technology Limited, a company registered in England. Its principal activity is the design and marketing of video telecommunications equipment. During the year inter-company loans totalling \$3,000,000 were capitalised.

The company holds the entire share capital of Motion Media Technology Inc, a company registered in the state of Delaware, USA. Motion Media Technology Inc did not trade during the year.

10 STOCKS

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Components	457,377	6,439	-	-
Finished goods and goods for resale	804,902	500,530	-	-
Accessories and miscellaneous	12,709	25,702	-	-
	1,274,988	532,671	-	-

11 DEBTORS

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Trade debtors	688,964	486,994	-	-
Other debtors	437,164	65,826	32,611	-
Prepayments and accrued income	73,976	24,487	6,027	2,542
Amounts owed by group undertakings	-	-	2,663,567	50,000
	1,200,104	577,307	2,702,205	52,542

Included within amounts owed by group undertakings is £2,663,567 (1999: \$50,000) due after more than one year.

12 CREDITORS: amounts falling due within one year

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Bank overdraft	-	120,000	-	-
Trade creditors	745,518	420,659	23,050	280
Other creditors	1,292	-	678	-
Amounts owed to group undertakings	-	-	-	5,378
Other taxes and social security	86,203	43,129	-	-
Accruals and deferred income	114,879	64,659	12,003	14,400
Obligations under finance leases and hire purchase contracts	3,672	3,470	-	-
	951,564	651,917	35,731	20,058

13 CREDITORS: amounts falling due after more one year

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Obligations under finance leases and hire purchase contracts	-	4,555	-	-
	-	4,555	-	-

Notes to the Financial Statements *continued*

14 PROVISIONS FOR LIABILITIES AND CHARGES

No provision has been made in the financial statements. Amounts not provided/(not recognised) at the year end are analysed as follows:

Group	2000		1999	
	Provided £	Unprovided £	Provided £	Unprovided £
Accelerated capital allowances	-	(92,700)	-	(42,977)
Other timing differences	4,000	-	2,362	-
Tax losses carried forward	(4,000)	(1,054,000)	(2,362)	(640,514)
	-	(1,146,700)	-	(683,491)

Company	2000		1999	
	Provided £	Unprovided £	Provided £	Unprovided £
Tax losses carried forward	-	-	-	(7,476)

15 SHARE CAPITAL

	2000 No.	1999 No.	2000 £	1999 £
Authorised:				
Ordinary shares of 10p each	-	13,173,180	-	1,317,318
Ordinary shares of 1p each	200,000,000	-	2,000,000	-
Deferred shares of 10p each	-	1,826,820	-	182,682
	200,000,000	15,000,000	2,000,000	1,500,000
Allotted issued and fully paid:				
Ordinary shares of 10p each	-	8,694,611	-	869,461
Ordinary shares of 1p each	101,315,554	-	1,013,155	-
Deferred shares of 10p each - non equity	-	1,826,820	-	182,682
	101,315,554	10,521,431	1,013,155	1,052,143

On 24 January 2000, 125,000 new ordinary shares of 10p each were issued for cash at £13.50 per share.

On 7 April 2000 1,826,820 Deferred shares of 10p each were redeemed for £nil consideration. The nominal value has been transferred to a capital redemption reserve. On that date the authorised deferred share capital was converted into authorised ordinary share capital.

On 5 May 2000, the authorised share capital of the company was increased from £1,500,000 to £2,000,000 by the creation of 5,000,000 additional ordinary shares of 10p each. On that date, each issued and authorised but unissued ordinary share of 10p each was sub-divided into 10 ordinary shares of 1p each.

On 8 May 12,599,444 new ordinary shares of 1p each were issued for cash at £1.40 per share pursuant to the Placing and Open Offer on terms and conditions and on the basis set out in the Prospectus of the company dated 11 April 2000.

During the year employee options over 520,000 new ordinary shares of 1p each were exercised at 13p per share.

At 31 December 2000 the following options over ordinary share capital have been granted, but not exercised:

Number of shares	Exercise price	Exercise period
230,760	13.0p	Between April 2000 and April 2007
410,000	14.5p	Between April 2001 and April 2008
100,000	10.5p	Between August 2001 and August 2008
810,000	6.0p	Between April 2002 and April 2009
229,054	140.0p	Between April 2003 and April 2010
370,000	140.0p	Between May 2003 and May 2010
19,736	152.0p	Between September 2003 and September 2010

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP

	Share capital £	Share premium £	Capital redemption reserve £	Profit & loss account £	2000 £	1999 £
At 1 January 2000	1,052,143	3,595,770	-	(4,007,901)	640,012	1,156,047
Other reserve transfer	(182,682)	-	182,682	-	-	-
Shares issued	143,694	19,250,627	-	-	19,394,321	9,500
Share issue costs	-	(873,683)	-	-	(873,683)	-
Loss for the year	-	-	-	(2,479,626)	(2,479,626)	(525,535)
At 31 December 2000	1,013,155	21,972,714	182,682	(6,487,527)	16,681,024	640,012

COMPANY

	Share capital £	Share premium £	Capital redemption reserve £	Profit & loss account £	2000 £	1999 £
At 1 January 2000	1,052,143	3,595,770	-	135,586	4,783,499	4,811,377
Other reserve transfer	(182,682)	-	182,682	-	-	-
Shares issued	143,694	19,250,627	-	-	19,394,321	9,500
Share issue costs	-	(873,683)	-	-	(873,683)	-
Profit for the year	-	-	-	418,009	418,009	(37,378)
At 31 December 2000	1,013,155	21,972,714	182,682	553,595	23,722,146	4,783,499

Goodwill totalling £755,082 has been written off against reserves.

17 ANALYSIS OF SHAREHOLDERS' FUNDS

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Equity	16,681,024	457,330	23,722,146	4,600,817
Non-equity	-	182,682	-	182,682
	16,681,024	640,012	23,722,146	4,783,499

18 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2000 the group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings	
	2000 £	1999 £
Operating lease which expire:		
Within 1 year	29,167	-
In two to five years	47,900	47,900

19 RELATED PARTY TRANSACTIONS

Motion Media PLC has taken advantage of the exemption not to disclose any group transactions due to the preparation of these consolidated financial statements.

With the exception of A R MacKenzie, all directors of Motion Media PLC were directors of Motion Media Technology Limited and as such are classified as related parties.

During the year, a total of £175,824 (1999 - £12,500) was paid to ARM Corporate Finance Ltd, a company in which A R MacKenzie is a director and shareholder, including £155,000 in connection with the share issue detailed in note 15.

Notes to the Financial Statements *continued*

20 LOSS PER SHARE

Loss per share has been calculated using the loss for the year of £2,479,626 (1999 - £525,535) and the weighted average number of ordinary shares in issue of 96,535,666 (1999 - 86,354,560).

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares in accordance with FRS14. Dilutive potential ordinary shares are options granted to employees where the exercise price is below the average market price of the company's ordinary shares during the year and any related performance targets had been satisfied at the end of the year. The diluted weighted average number of ordinary shares was 98,260,819 (1999 - 87,078,020).

The loss per share for the comparative period has been adjusted to reflect the share sub-division on 5 May 2000 (note 15).

21 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 £	1999 £
Operating loss	(3,056,964)	(524,829)
Depreciation of tangible fixed assets	177,134	106,665
Profit on disposal of tangible fixed assets	(24,877)	(9,494)
Increase in stocks	(742,317)	(196,885)
(Increase)/Decrease in debtors	(622,797)	184,851
Increase in creditors	419,445	235,140
Net cash outflow from operating activities	(3,850,376)	(204,552)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2000 £	1999 £
Increase/(Decrease) in cash in the year	926,819	(240,772)
Cash (inflow)/outflow on liquid resources	12,500,000	-
Cash outflow from hire purchase	4,353	2,689
Movement in net debt arising from cash flows	13,431,172	(238,083)
New Hire Purchase agreement	-	(6,343)
Net debt at 1 January 2000	(107,069)	137,357
Net funds/(debt) at 31 December 2000	13,324,103	(107,069)

23 ANALYSIS OF NET FUNDS

	B/fwd £	Cash flow £	C/fwd £
Cash at bank	20,956	806,819	827,775
Bank overdraft	(120,000)	120,000	-
Short term deposits	-	12,500,000	12,500,000
H P agreement	(8,025)	4,353	(3,672)
	(107,069)	13,431,172	13,324,103

24 DERIVATIVES

The group's financial instruments, other than derivatives, comprise cash and liquid resources, some borrowings and various items, such as trade debtors and trade creditors that arise directly from its operations.

It is the group's policy to finance its operations through cash, and to utilise overdraft facilities after review of the projected working capital requirements of the group should a short-term funding requirement arise.

The majority of the group's sales and purchases are priced in sterling. Foreign currency exposure arises on certain trading balances and the table set out below summarises the group's net foreign currency assets/(liabilities):

	2000 £	1999 £
US Dollar	(162,013)	(2,446)
Euro	432,829	111,124

There are no derivatives and it is and has been throughout the year under review the group's policy that no trading in financial instruments shall be undertaken.

There is no material difference between the book value and the fair value of the group's financial instruments.

Notice of Annual General Meeting

Notice is hereby given that the Fifth Annual General Meeting of Motion Media PLC will be held at the Company's offices at Horton Hall, Horton, Bristol, BS37 6QN on Tuesday 8 May 2001 at 12 noon:

1. To receive apologies for absence.
2. To receive and adopt the minutes of the fourth AGM held on 10 April 2000.
3. To receive and adopt the annual statements of accounts and the reports of the directors and auditors for the year ended 31 December 2000.
4. To re-elect Mr. I C Silvester as a director who retires by rotation in accordance with the Company's Articles of Association.
5. To re-elect Mr. R F Thorne as a director who retires by rotation in accordance with the Company's Articles of Association.
6. To re-elect Mr. N G Sturge as a director who retires by rotation in accordance with the Company's Articles of Association.
7. To appoint Mr. G Brown as a director, having been appointed by the Board on 13 March 2001, in accordance with the Company's Articles of Association.
8. To appoint Deloitte & Touche as auditors of the company to hold office until the conclusion of the next general meeting at which the accounts are laid before the company, and authorize the Directors to fix their remuneration.

As special business to consider and, if thought fit to pass the following Special Resolution

9. That, in accordance with Section 80 of the Companies Act 1985 (as amended) (the "Act") the directors be and they are hereby generally and unconditionally authorised to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £337,719 to such persons at such times and on such terms as they think proper provided that this authority, unless renewed, shall expire on the date fifteen months from the date this resolution is passed or the Company's next annual general meeting (if earlier) and shall be in substitution for any existing power to allot relevant securities save that the Company may,

before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot the relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

10. That, subject to the passing of Resolution 9 above, the Directors be and they are empowered, pursuant to Section 95 of the Act, in substitution for any existing power, to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority given by Resolution number 9 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the directors (subject always to the Act), by way of rights or open offer, to holders of ordinary shares in proportion (as nearly as may be) to their respective holdings on a record date fixed by the directors (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);
 - (ii) pursuant to the terms of any share option schemes of the Company (including the Share Option Schemes) whether currently in existence or adopted after the date this resolution is passed, up to an amount not exceeding £101,316, representing 10 per cent. of the issued ordinary share capital of the Company;
 - (iii) otherwise than pursuant to sub-paragraphs (i) and (ii) above, the allotment of equity securities up to an aggregate nominal amount equal to £50,658 representing 5 per cent. of the issued ordinary share capital of the Company;

Notice of Annual General Meeting *continued*

such authority to expire on the date of the next annual general meeting of the Company (or, if sooner, the expiry of fifteen months after the passing of this resolution), except as regards an allotment made pursuant to an offer or agreement entered into by the Company before such date.

As ordinary business to consider and, if thought fit to pass the following Ordinary Resolution

11. That the Company adopt a sub-plan of its Unapproved Executive Share Option Scheme (the "Scheme") for employees resident in the United States whose terms shall be the same as those of the Scheme save that the maximum number of shares of the Company that may be issued pursuant to such sub-plan upon exercise of options under Section 422 of the United States Internal Revenue Code 1986 as amended shall be 500,000 ordinary shares of 1p each.

BY ORDER OF THE BOARD

I C Silvester, 6 April 2001
Horton Hall, Horton, Bristol BS37 6QN

A statement of transactions of directors (and their family interests) in the share capital of the company and copies of their service contracts will be available for inspection at the company's registered office during normal business hours on each business day from the date of this notice up to the close of the Annual General Meeting on 8 May 2001 and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

