



**Motion Media**

Annual Report 2001

Innovation with vision™



Videotelephony

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Telehealth

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Security and Surveillance

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# Officers and Professional Advisors

## DIRECTORS

R F Thorne (Chairman)

G D Brown

A R MacKenzie

I C Silvester

## SECRETARY

I C Silvester

## REGISTERED OFFICE

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## PUBLIC RELATIONS

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## Chairman's Statement



During 2001, Motion Media continued to capitalise upon its position as a market leader in the design and development of video communications product solutions and technologies. While we continued to develop our product portfolio, we established strong market and customer relationships to facilitate our future top line growth. An essential part of this process has been the strengthening of the management team and the recruitment of high level sales professionals who have existing long-term relationships in our target markets.

Motion Media has evolved considerably over the last year, developing its markets and customer relationships whilst still ensuring the current and future product portfolio maintains our position at the forefront of video communications technology.

In addition, the Group now has a healthy pipeline of prospects upon which to build future scaleable revenues. As a result, the Group is no longer dependent on a small number of key customers. We have developed a solid foundation of customers and partners in our vertical markets including personal Videotelephony, Telehealth and Security and Surveillance.

Whilst sales revenues for the year were virtually flat compared with 2000 at £2.72 million, sales from product solutions increased by 32%, with unit volumes increasing by 45% as the Group's products went into more homes, businesses and healthcare facilities than ever before. Significant sales were made into the US market in the last quarter of the year, establishing sales momentum in the largest market in the world, and makes us firmly believe that the contribution of our US operations can grow substantially in the coming year.

The Board continually reviews strategy and the Group's cost structure to ensure net expenditure is contained within available resources whilst continuing development of new technologies and sales opportunities. We took

action in January 2002 to reduce our cost base which, unfortunately, led to 21 redundancies. The Board has subsequently approved a plan to restructure its US and UK operations to ensure the Company maximises efficiencies across its operations. The restructure will be concluded by June 2002. On the basis of the reduced cost base, our projections show that the group has sufficient available resources to deliver its business plan over the coming year.

The sale and leaseback of our new headquarters at Aust was completed on 19 March 2002, generating £4 million before expenses, covering the cost of our investment in the facility. In addition, the Company has secured an equity credit line with Strategic Investment Management SA ("SIM"), through which additional funds can be raised, if appropriate. Details of this facility are contained in the explanatory notes to the 2002 AGM notice, along with shareholder resolutions to approve the allocation of the Company's shares for issuing to SIM under the facility.

We are in the process of making the Group a much leaner operation, having increased the quality of the sales force, established our presence in the US, extended our product range and are near to completion of our major development of the IP (Internet Protocol - broadband) videophone. In summary, we believe the Company is well positioned to maintain and accelerate the momentum achieved in the later half of 2001.

Finally, I would like to thank all of our shareholders for their continued support and all our employees for their outstanding efforts in building the strong foundations upon which we can grow in 2002 and beyond.

**Rex Thorne, OBE**  
Chairman

26 April 2002

# Operating and Financial Review

## OPERATING REVIEW

### RESULTS

Whilst essentially flat sales mirrored what was happening with most companies in tough market conditions, there were some significant achievements worthy of note:

- The last quarter of the year saw record sales for the Group.
- The US operation began to make a significant sales contribution to the Group in the last months of the year, momentum that we believe will build as we move into 2002.
- Revenues from the sale of product solutions grew 32%. This is important because the vast majority of our business is now scaleable as opposed to revenues from NRE (non-recurring engineering) which contributed greatly to the previous year's revenues.
- Unit sales grew by 45%, putting our technology in front of more customers than ever before.
- Our revenues came from a much wider range of customers and partners, in Europe and the Americas, than it did in 2000. This helps ensure we are much less exposed to fluctuations in turnover as a result of any one customer not meeting expectations, something that impacted our achievements quite substantially in 2001.

The average gross margin in 2001 reduced to 53% compared with 61% in 2000. This reflects aggressive pricing for the consumer market, a desire to achieve price points that will help drive the planned volumes, and in addition the much reduced contribution from NRE, which is treated as 100% gross profit.

Despite essentially flat sales, the pre-tax loss of £6.89 million was substantially as planned, reflecting the tight expense controls that have been implemented. We continue to invest in Research and Development, spending £2.2 million in 2001 compared with £1.4 million in 2000 and have continued with our policy of writing off all development software costs.

We continue to build on our strategy of working with strategic channel partners as the route to the end

customer in our chosen markets. This has enabled us to focus on our core competency while targeting those major companies who have the brand, the distribution, the installed base of customers, the financial strength and, most relevantly, who will benefit from our value proposition. Our relationship with BT is an excellent example of this.

Having entered 2001 with the majority of our business coming from a limited number of customers, we enter 2002 with a much wider portfolio of major customers and partners and excellent future prospects upon which to build a greater level of revenues.

### MARKET FOCUS AND CUSTOMERS

The development of our markets has been a key element of 2001. Within these markets, we have determined which sectors are most likely to benefit from the use of video communications and, consequently, we are focusing on the following vertical markets:

**Videotelephony** - specifically the business desktop and the consumer sectors.

The business desktop opportunity is immense, with the benefits of videoconferencing now being widely understood. However, traditional videoconferencing is currently room based, requires advance booking, and the equipment is both expensive and difficult to use. Through our personal videotelephony product solutions the business customer is able to achieve the same benefits but more cost-effectively, much more easily and, vitally, more flexibly or impulsively from their own desktop or home office.

The benefits to the consumer were clearly demonstrated in the recent BT trials, where it was shown that grandparents were calling to see grandchildren, divorced parents were seeing children more regularly, families and friends were able to keep in contact visually, as well as the obvious benefits to the deaf community.

Based on the success of the initial trial, BT ordered 1,000 mm215 videophones, designed specifically for the

## Operating and Financial Review continued

consumer market, for a marketing trial. A key factor in this escalation of the trial is that the initial trialists were found to be spending 20 minutes on the average call, as opposed to the national average of 3 minutes for a speech call. BT has backed this second phase with a number of marketing activities including road shows around various major shopping centres, demonstration facilities at a number of key locations, exhibiting at the Ideal Home Show and featuring the videophone in one of their corporate television advertisements.

Of great significance are our videophone deployment initiative discussions with PTT's around the world. We are currently working with telecom operators across Europe and in the US and Canada. This involves not only the current ISDN and PSTN (analogue) products but also the IP videophone, due for release this year, in which there is great interest. In fact, the BDRC predicts that there will be over 17m household/SME broadband subscribers in the US and 9.3m in the European Union by the end of 2002. They predict this increasing to 22.6m and 16.8m respectively by the end of 2003\*.

The telecom operators are excited not just about the consumer opportunity but also the opportunities presented in the business sector. These operators are striving to maximise network revenues and infrastructure, drive broadband uptake, deliver more value added services and avoid customer churn - all of which we are ideally positioned to help them achieve.

Lately, we have announced that Motion Media has secured preferred supplier status to provide young deaf people in Norway with its desktop videophones. This follows intensive trialling of Motion Media's mm225 videophone, which runs over ISDN lines, by the Norwegian Ministry of Social Affairs. The Norwegian government is giving videophones to all deaf people in Norway under the age of 18, approximately 800 people. There are also indications that they may extend this offer to all deaf people in the country of which there are approximately 3,000.

**Telehealth** - specifically the telecare or homecare sector.

This is the remote provision of care to patients in their homes. Videocommunications provide a demonstrable cost-effective solution to the many challenges health services around the world face today, including long waiting lists, hospital bed shortages, staff shortages, millions of house bound patients and an ageing population.

The ability to deliver healthcare remotely and virtually provides Motion Media with a massive global opportunity. As an example of the compelling business case for our product solutions, a recent trial in the US showed that the average number of visits made by care providers in the community could be increased 5-6 times through the use of 'virtual' visits. The healthcare provider can not only see and talk to the patient but a wide range of medical devices, such as ECG and blood pressure monitors, can be connected to them to facilitate remote diagnosis. This opportunity does not need to be funded by the patients themselves but by healthcare organisations, both public and private, that have the business incentive to do so.

During the year we announced a significant order of 1,000 CareStations for Informed Care and key partnerships with TeleMedicine Solutions and Millennium Healthcare Solutions who all address the Telecare market in the US.

We also appointed Dr. Jay Sanders as Consulting Medical Director. Dr Sanders is known throughout the industry as the 'Father of Telemedicine' and Motion Media has already made excellent progress as a result of this relationship.

**Security & Surveillance** - specifically the remote video surveillance sector.

Security Industry analyst J.P. Freeman reports that sales growth of remote video products will outstrip all other types of video security over the next four years with a growth rate of over 62%. (J.P. Freeman and Co., Security Technology and Design magazine, January 2002) Unlike our other target markets, this is a mature market that understands the benefits of the addition of video and we are succeeding through clearly differentiating our product

\*Source BDRC Ltd. Commissioned by European Commission Directorate General Information Society.



solutions and by careful partnering with key, established players.

In the US, ADI which is the largest distributor in the security and surveillance market and Security and Surveillance Inc., a large specialised system integrator, are both committed to carrying our eyesite products in their portfolios and are already demonstrating significant opportunities for this product.

The sales in the US in 2001, which largely occurred in the last quarter of the year, were mainly in the telehealth and security and surveillance markets. ISDN does not have great market acceptance in the US but, with the advent of our IP videophone this year, we anticipate major opportunities in the videotelephony arena given the much greater penetration of broadband networks to business and to the home.

## PRODUCT SOLUTIONS AND TECHNOLOGIES

Great emphasis has been placed on building a more complete portfolio of product solutions for our target markets. We entered the year dependent on ISDN based solutions including the mm225 videophone. This is a situation we have addressed aggressively.

As well as further developing the *mm* range, we have now successfully brought to market products in the eyesite and CareStation range to address the security and surveillance and telecare markets respectively. We have also ensured that we are able to offer products on PSTN (public switched telephone network), ISDN (integrated services digital network) and IP (Internet protocol) networks to ensure maximum penetration. Additionally, through our work with companies like Vodafone and Ericsson on the European Union funded WISDOM project for the deaf community, we are well positioned for a mass-market opportunity as and when there is widespread deployment of 3G mobile networks. We also invested resource in designing cost out of our products and technologies, to help drive customer pricing down to ensure our products are affordable to a much greater audience.

### eyesite™ 110



The major products for our target markets are currently:

- **mm215** - ISDN based videophone for consumers.
- **mm225** - ISDN based videophone for business customers with additional functionality.
- **CareStation™ 125** - PSTN based videophone with special facility to attach a wide variety of medical devices for the telecare market.
- **CareStation™ 110** - PSTN based set top box with special facility to attach a wide variety of medical devices for the telecare market.
- **eyesite™ 110** - PSTN based video transmission unit for remote monitoring and surveillance of small businesses and homes.
- **eyesite™ 140** - Proprietary IP based video transmission unit for remote monitoring and surveillance of enterprises.
- **eyesite™ 300/400** - ISDN based video transmission unit for remote monitoring and surveillance of enterprises.

In addition, we have various OEM boards and cards for customers who want to integrate our video and audio technology into their own products. An example of an OEM customer is 7e Communications Ltd, who make a ruggedized satellite videophone based on our technology for the broadcast sector. The many "by videophone" images seen across the world on television news broadcast by organisations such as CNN during the Afghanistan conflict were transmitted using this equipment.

We recognise the need to stay ahead of any competition that may develop and in 2001 our Research and Development costs accounted for £2.2 million or 25% of total annual expenses. We intend maintaining our focus on Research and Development into 2002 and beyond. The engineering team is developing products and technologies in line with a future Product Roadmap, which is based on our target markets' anticipated requirements. Our top of the line IP videophone, a video and Internet appliance, is due for release in 2002. This has been extremely well received by customers and partners and a number of major organisations have signed up to take part in the Beta (pre-production) trial starting imminently.

The other major advantage of the thousands of man-

## Operating and Financial Review continued

hours that have been put into developing our IP videophone, has been the development of a completely new technology platform. This will enable us to bring specific models or customer spins to market much more rapidly than has been achievable in the past.

### PEOPLE

During 2001 we strengthened the Motion Media management team and restructured the organisation to focus on the second stage of Motion Media's evolution. This initially focused on the Sales and Marketing functions and, latterly, on the whole of the organisation, resulting in a more professional and commercially oriented Group.

#### Management Team

The Managing Director, Graham Brown, joined in March 2001 with a strong commercial background and experience gained in senior international positions within Apple Computer Inc. and Mitsubishi. Ken Burgin, previously Chief Executive, has taken a well-earned sabbatical. The existing team has been further strengthened by the addition of Evan Maindonald from BT as Vice President of Sales and Garey De Angelis from Apple Computer and Softbank as CEO of the US operation, Group Marketing Director and Group Manufacturing Director.

#### Engineering Team

The core competence of Motion Media, the engineering team, is world class. It now includes a number of former C-Phone engineers adding incremental skills and strengths, helping to ensure we maintain and increase our technology lead in our chosen markets.

#### Sales Team

With the recent addition of seasoned high-level business development professionals, we have now built a first class sales team capable of exploiting the undoubted potential offered by our market leading products and solutions. This is borne out by the vastly improved pipeline of well-qualified opportunities and prospects on both sides of the Atlantic.

The recent instigation of a competency framework is enabling us to put in place a comprehensive training and development programme to ensure we attain 'best in class' skills in all roles across the Group.

#### Manufacturing

We are establishing turnkey relationships with sub-contract manufacturers in the UK and US. These relationships enable us to manufacture products to the highest quality, with scaleable capacity to cope with expanding unit volume requirements, as well as enabling us to take advantage of their massive purchasing power to help drive down our product costs.

#### Facilities

We are now operating from our impressive new corporate headquarters in the Motion Media Technology Centre at Aust, which we moved into in August 2001. We have completed the Sale and Leaseback of the property, which realised £4 million before expenses. This building is larger than we need for our own current and planned staffing and we expect to sub-let all surplus space by the end of June 2002.

We are in the process of reviewing the options with the Horton Hall site, on which we have 2 years of the lease remaining, which may include sub-letting. The cost of this future lease commitment has been provided for in the accounts. Our US operation is headquartered from Wilmington, North Carolina.

### OUTLOOK FOR THE FUTURE

2001 was an evolutionary year for Motion Media, with the Group going through considerable change to become more commercially orientated without compromising its ability and desire to stay at the forefront of video communications technology.

Following the establishment of the US operations, the Group's cost base is in the process of being substantially reduced to approximately £5.8 million per annum and the organisation now has a much greater focus on its target vertical markets. Cost control remains a core focus for the Group to ensure that net expenditure remains within available resources. The current range of technology and product solutions are gaining greater market acceptance. Products, such as the next generation IP and PSTN videophones, are receiving a very high level of international interest. As a result of the investment in key



sales personnel, the quality of the opportunities in Europe and the US have been significantly enhanced.

We look forward to reporting on our progress on 2002 as the Group accelerates the momentum achieved in the second half of 2001.

## FINANCIAL REVIEW

### LIQUIDITY

The statement of cash flows shows that there was a decrease in cash from operating activities in the year ended 31 December 2001 of £8.1 million (2000 - £3.9 million.) This 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, an increase in activity in the sales and marketing departments, and the Group's investment in its US operation. 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 £2.2 million was invested in Research and Development. Total payroll costs for the Group in 2001 are £4.7million (2000: £2.1million) or 53% of the total expenses of the Group.

Working capital financing has increased by £1.3 million during 2001. The majority of the increase is in component stock. The Group changed sub-contract manufacturers during 2001 and is now establishing full turnkey relationships with new sub-contract manufacturers in the UK and the US. At 31 December 2001, the Group was holding component stocks for issue to the sub-contract manufacturers, prior to establishing a turnkey relationship, under which the sub-contractor is responsible for component procurement and management.

The net outflow of cash from capital expenditure was £3.5 million (2000 - £1.8m). This includes an investment of £2.8million in the redevelopment of the Group's freehold premises, the new Motion Media Technology Centre, which was completed in August 2001. The total investment in freehold land and buildings at 31 December 2001 was just under £4.2 million. On 19 March 2002 the Group

CareStation™ 125



completed the sale and lease back of substantially all the freehold land and buildings for £4 million, before expenses. The total book value of the freehold land and buildings at 31 December 2001, subject to the sale and leaseback, is just under £3.8 million.

On 29 December 2000, the company signed a letter of intent ("the LOI") to acquire certain assets of C-Phone Corporation through its new subsidiary, Motion Media Technology Inc. Under the terms of the LOI, the Company purchased certain inventories and IPR (relating to video over PSTN technology) in January 2001, totalling \$300,000. On 26 June 2001 the Company signed an agreement to purchase further inventories and fixed assets to the value of \$545,000. All payments were in cash, and the Company has no further commitments under the terms of the LOI or subsequent agreements.

### 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.

Following the incorporation of Motion Media Technology Inc in the US, a significant part of the Group's sales, and expenses, are denominated in US dollars. Foreign currency gains or losses arising on translation of the financial statements of overseas subsidiaries arising on consolidation is transferred to reserves. The nature of the trading between Group companies is evolving and foreign currency and corporation taxation exposure is continually reviewed to mitigate adverse risk

# Corporate Governance

In June 1998 Corporate Governance (“The Code” or “The Combined Code”) was issued by the London Stock Exchange. The Code, which is now embodied in the Listing Rules of the Financial Services 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 Code.

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

The Listing Rules require the Board to report on compliance with the Code provisions throughout the accounting period. Save for the exceptions below, the Company has complied throughout the accounting period ended 31 December 2001 with the provisions set out in Section 1 of the Code. The exceptions to the Code are set out below:

### **Board balance**

The Combined Code provision A3.1 states that non-executive directors should comprise not less than one third of the Board. Since 12 June 2001 the Company has complied with this provision.

### **Senior independent non-executive director**

The combined Code provision A2.1 states that the Board should appoint a senior non-executive director. The Board believes that, given the current structure, this is not necessary or appropriate at the current time. This will be monitored and if circumstances change such that the Board feels it appropriate to appoint a senior independent director, it will do so in the future.

### **Audit Committee**

The audit committee comprises two 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 2001 the Board comprised the independent non-executive Chairman, two executive directors and one other 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. D E Sykes resigned on 8 May 2001. On 12 June 2001 two founder directors, John Martin and Nick Sturge, resigned from the Board of the Company but remain on the Board of Motion Media Technology Limited. On 30 October 2001 Ken Burgin resigned from the Board and commenced a 12 month unpaid sabbatical. He remains an employee of the Group.

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 16 and a statement on going concern is given on page 10. 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. All directors are able to take independent professional advice in the furtherance of their duties if necessary.

There are not less than ten formal Board meetings scheduled each year. Other meetings are held as necessary. The Board has a formal schedule of matters reserved to it. 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.



mm225



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 Financial Services 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 key 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.

#### **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](http://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 mis-statement or loss.

The Board has conducted an annual review of the key business and financial risks and the effectiveness of the system of internal control for the year ended 31 December 2001. The key risk management activities are described under the following headings:

- **Strategy**

The strategic plans of the Group have been a core focus of the Board during 2001. In March 2001 Graham Brown was appointed Managing Director and since that time a detailed review of operations, employees and business focus has occurred. The evolving role of the US operation has contributed to the revised strategic direction of the Group and the allocation of resources to execute it.

Monthly Board meetings continue to provide a forum at which strategy and execution and financial progress are monitored and discussed.

- **The role of the Executive Management Team**

Day to day management of the Group's activities is delegated to the Executive Management Team (EMT), with senior management representatives from UK and US operations meeting weekly by video to discuss progress in delivering the Group's business plan

- **Financial Controls**

The Group's investment in new accounting and business software in 2000 is delivering benefits in timeliness and comprehensiveness of management information. Each subsidiary produces monthly results with comparison against budget for review by the Board. The Group has made significant investment in quality procedures and policy documentation over a number of years.

- **IT Systems**

The Group has established controls and procedures over the security of data held on IT systems, including daily

## Corporate Governance continued

back-up routines. The Group has put in place appropriate disaster recovery arrangements.

- **Internal Audit**

The Board believes that a separate internal audit function is inappropriate at this stage in the Group's development. The investment in procedure and policy documentation, along with appropriately qualified departmental directors to monitor compliance of those procedures mitigates that risk to manageable levels.

- **Personnel**

With employee costs being a significant part of Group expenses, and engineering excellence key to the Group's strategy, personnel is a core focus for the Board. In the latter half of 2000 appropriately qualified HR personnel were recruited, reporting to the Business Services Director, to oversee this function.

Specific policies have been introduced during 2001 covering Health and Safety, Environment, and Recruitment procedures. In the latter half of 2001, a competency framework was introduced.

- **Technology and production**

Maintaining a leading position requires retention of existing engineers and the ability to attract new engineers when required.

The Board has established a clear business strategy and product road map, based on market requirements and expectations. These processes have been significantly enhanced following the senior level commercial appointments in 2001, which will help ensure the technical leadership is translated into commercial success. A review of the technical departments development processes was undertaken during 2001, led by John Martin, Technical Director with the assistance of external consultants, and process improvements and documentation were completed.

The Group's ability to remain price competitive as target markets become volume led is critical to success. This is being achieved by a move towards global production and procurement, maximising the component pricing leverage of sub-contract manufacturers, whilst focusing on trading partnerships that will steer product development and

drive volumes necessary to maintain a leadership position as the markets mature.

- **Regulatory Compliance**

Motion Media is a small listed Company and does not have a dedicated legal, secretarial and compliance function. However the Board and Company Secretary has access to external resource as appropriate.

- **Risk Management Reporting and Board Review**

The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Group.

### GOING CONCERN BASIS

The directors continually review the Group's cost structure to ensure projected net expenditure is contained within available resources. The directors have approved a plan to restructure the Group, which will significantly reduce total expenses. The restructure will be concluded by June 2002. On the basis of the reduced cost base, cash flow projections show that the Group has sufficient available resources to deliver its business plan over the coming year.

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements. This statement also forms part of the Operating and Financial Review.

# Report on Directors' Remuneration

## 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 January 2002, and no director received an increase in basic salary for the next financial year.

**Performance related bonus:** The Group operates a discretionary bonus scheme for executive directors, and other key employees. Performance related bonuses for executive directors are calculated based on formulae, which are determined in advance by the remuneration committee, and do not exceed 50% of basic salary. This formula measures the Group's performance against specific operating profit targets and personal performance objectives. No bonuses are payable for 2001.

**Share options:** Share options are awarded to executive directors and other employees of the Group. The Company's existing approved and unapproved option schemes were adopted at the 2000 EGM and 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 existing scheme rules, the maximum value of options that may be awarded is an amount equating to 4 times the annualised total earnings of the employee in a 10-year period, consistent with the guidance provided by the ABI at the time the scheme rules were adopted.

A resolution will be put to the shareholders of the company at the 2002 AGM to amend this rule in light of the current guidance from the ABI to permit annual grants to executive directors and other employees of the Group. 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.

The company is proposing to establish a new employee share option scheme, which will require the approval of the shareholders of the company at the 2002 AGM. The new scheme is an Enterprise Management Incentives (EMI) scheme and effectively replaces the existing 2000 Inland Revenue Approved scheme adopted at the 2000 EGM. Details of the EMI scheme and the shareholder resolution can be found in the explanatory notes to the notice of the 2002 AGM.

**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 eight percent of each individual's basic salary to their pension. With effect from 1 January 2001 a new employee benefit package was introduced which now includes private health insurance.

**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. Under the terms of service, the non-executive directors are currently on 3 months entitlement to notice by either party.

## Report on Director's Remuneration continued

### Director's emoluments

The emoluments of the directors are as follows:

|                                | Salary<br>£ | Fees<br>£ | Benefits in kind<br>£ | Sales Bonus<br>£ | Total emoluments excluding<br>pension contributions |           | Pension contributions |           |
|--------------------------------|-------------|-----------|-----------------------|------------------|---|-----------|-----------------------|-----------|
|                                |             |           |                       |                  | 2001<br>£   | 2000<br>£ | 2001<br>£             | 2000<br>£ |
| <b>Executive directors</b>     |             |           |                       |                  |   |           |                       |           |
| G D Brown (1)                  | 108,740     | -         | 2,564                 | -                | 111,304   | -         | 5,088                 | -         |
| K N Burgin (2)                 | 62,500      | -         | 2,564                 | -                | 65,064  | 70,688    | 8,534                 | 481       |
| J Martin (3)                   | 28,849      | -         | 1,424                 | -                | 30,273  | 60,563    | 5,628                 | 394       |
| I C Silvester                  | 65,000      | -         | 3,418                 | -                | 68,418  | 61,875    | 5,200                 | 3,094     |
| N G Sturge (3)                 | 24,411      | -         | 1,424                 | -                | 25,835  | 52,406    | 4,225                 | 372       |
| D E Sykes (4)                  | 20,877      | -         | 1,139                 | 8,047            | 30,063  | 80,000    | 1,600                 | 2,273     |
| <b>Non-executive directors</b> |             |           |                       |                  |   |           |                       |           |
| R F Thorne                     | -           | 17,500    | -                     | -                | 17,500  | 17,063    | 1,400                 | 907       |
| A R MacKenzie (5)              | -           | 12,500    | -                     | -                | 12,500  | 12,500    | -                     | -         |
|                                | 310,377     | 30,000    | 12,533                | 8,047            | 360,957   | 355,095   | 31,675                | 7,521     |

(1) Appointed 13 March 2001

(2) Resigned 30 October 2001

(3) Resigned 12 June 2001

(4) Resigned 8 May 2001

(5) A R MacKenzie's fees are paid to ARM & Co.

### 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<br>31 December<br>2000 | Granted number | At<br>31 December<br>2001 | Exercise price per<br>share | Date from which<br>exercisable | Expiry date   |
|---------------|---------------------------|----------------|---------------------------|-----------------------------|--------------------------------|---------------|
| G D Brown     | -                         | 720,000        | 720,000                   | 75p                         | 2 April 2004 (1)               | 1 April 2011  |
| 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    |
|               | 685,000                   | -              | 685,000                   |                             |                                |               |

(1) 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 2001 was 43.0p per share. The high and low share prices during the year were 171.5p and 37.0p respectively.

## Director's Profiles

### NON-EXECUTIVE DIRECTORS



#### **Rex Thorne - Chairman (aged 74)**

Mr Thorne was appointed non-executive Chairman of Motion Media Technology in 1993. He became non-executive Chairman of Motion Media PLC in 1996. 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 Limited. He was awarded an OBE in 1990 for services to the Radio Communications industry.



#### **Alan MacKenzie - (aged 45)**

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



#### **Graham Brown - Managing Director (aged 43)**

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 worldwide sales.



#### **Iain Silvester - Finance Director and Company Secretary (aged 40)**

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.

## Director's Report

### OTHER SENIOR MANAGEMENT



**Gary De Angelis**  
**Chief Executive Officer US Operations**  
(aged 51)

Mr De Angelis joined Motion Media Technology Inc in May 2001, having worked previously as Director of European Business Development of Softbank Inc. Prior to joining Softbank, he spent many years as a senior manager at Apple Computer Inc., where he served as Director of OEM Licensing and Strategic Alliances, handling the licensing programme for the Mac OS and spearheading Apple's first major OEM licensing agreements with IBM and Motorola.



**Evan Maindonald**  
**Vice President Sales**  
(aged 33)

Mr Maindonald joined Motion Media Technology Limited in September 2001. He previously spent nine years with British Telecom in a variety of international sales and management roles. Most recently, he was responsible for international marketing in BT's Wholesale division. Mr Maindonald has an MBA from IMD, Switzerland and BSc in Computer Science.



**John Martin**  
**Technical Director**  
(aged 35)

Mr Martin joined Motion Media Technology Limited in 1993 as a co-founder and has been responsible for image compression architecture and image processing and graphics display. He became Technical Director in 1998. 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**  
**Business Services Director**

(aged 34)  
Mr Sturge joined Motion Media Technology Limited as a co-founder and Director in 1993. He is currently Business Services Director with responsibilities for IT, Quality, Human Resources and other business infrastructure and services. He previously worked for Inmos in its Image Processing Group, where he worked on image compression technology and CAD hardware and software systems specification.

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

### PRINCIPAL ACTIVITY

The principal activity 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 £6.89 million (2000: £2.48 million). Costs of research and development undertaken in the year totalling £2.2 million ((2000: £1.38 million) have been written off as detailed in note 4. A review of activities and future prospects is included in the Chairman's statement on page 2 and the Operating and Financial Review on pages 3-7.

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

### POST BALANCE SHEET EVENTS

On 19 March 2002, the Group sold substantially all of its freehold land and buildings for the gross proceeds of £4 million. The book value of the property subject to the sale was just under £3.8 million at 31 December 2001. On that date Motion Media Technology Ltd entered into a 20 year lease for the land and buildings subject to the sale. The lease rental is £400,000 per annum with upward only rent reviews every 5 years.

### 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 information concerning the performance of the business. Various initiatives are in place to ensure all Group employees are kept informed of developments within the business and are actively encouraged to present their suggestions and views on the Group's performance. Motion Media's executive directors are actively involved in employee discussion forums at least twice monthly. Employees are encouraged to invest in the Group through participation in share option schemes.

## ENVIRONMENTAL POLICY

The Group recognises its obligation to stakeholders and the environment to be responsible for environmental issues. The Group's environmental policy document sets out its obligations to ensure its employees are trained and provided with the necessary facilities to protect the environmental impact of their employment. This includes the use of videotelephony to minimise the necessity for

travel and its adverse impact on the environment. In addition, the Group's products are designed to minimise environmental damage during manufacture, use and disposal.

The Group affirms that it does not permit the use of chlor-fluoro-carbons and ozone depleting substances in the manufacture of its products. This requirement is a condition of selection of primary sub-contractors, and is confirmed by audit conducted by the Group's Quality Department.

## 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 all trading terms and conditions have been complied with.

The average number of days purchases included within trade creditors of the Group at the year-end was 30 (2000: 61). The average number of days purchases included within trade creditors of the Company at the year-end was 53 (2000: 41).

## DIRECTORS AND THEIR INTERESTS

The interests of the directors of the company in the ordinary share capital of the company at 31 December 2001, and 1 January 2001

|                                   | Ordinary shares<br>31 December 2001<br>1p shares | 1 January 2001<br>1p shares |
|-----------------------------------|--|-----------------------------|
| G D Brown                         | -  | -                           |
| I C Silvester                     | -  | -                           |
| R F Thorne (non-executive)        | 1,100,800  | 1,100,800                   |
| A R MacKenzie (non-executive) (1) | 1,010,000  | 1,010,000                   |

(1) A R MacKenzie's interest in non-beneficial.

There have been no changes to the above interests at 19 April 2002

## Director's Report continued



### SUBSTANTIAL SHAREHOLDINGS

The company has been notified or is aware of holdings of 3% or more of the ordinary share capital as at 19 April 2002:

|                 | Ordinary shares | Percentage of existing ordinary share capital |
|-----------------|-----------------|---|
| Mr C Blackburn  | 7,135,000       | 7.00%   |
| Mr K N Burgin   | 9,167,390       | 8.99%   |
| Mr J D Martin   | 4,926,503       | 4.83%   |
| Mr S J Maudsley | 4,391,970       | 4.31%   |
| Mr G R Nunan    | 5,086,800       | 4.99%   |
| Mr N G Sturge   | 5,568,750       | 5.47%   |
| Mr S D Turner   | 5,463,040       | 5.36%   |

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

### AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will 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 26 April 2002

## Statement of Directors' Responsibilities

United Kingdom 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 as at the end of the financial year 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;
- state whether applicable accounting standards have been followed; and

- 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 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditors' report to the members of Motion Media PLC

We have audited the financial statements of Motion Media PLC for the year ended 31 December 2001 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, 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 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 the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the

implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

## 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 circumstances of the company and the group, 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 mis-statement, 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 company's affairs as at 31 December 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE  
Chartered Accountants and  
Registered Auditors

26 April 2002

## Consolidated profit and loss account

| For the year ended 31 December 2001                |      | 2001<br>£'000 | 2000<br>£'000 |
|--|------|---------------|---------------|
|  | Note |               |               |
| Turnover   | 2    | 2,722         | 2,837         |
| Cost of sales                                      |      | (1,291)       | (1,099)       |
| <b>Gross profit</b>                                |      | 1,431         | 1,738         |
| Administrative expenses                            |      | (8,877)       | (4,830)       |
| Other operating Income                             | 3    | 214           | 35            |
| <b>Operating loss</b>                              | 4    | (7,232)       | (3,057)       |
| Interest receivable                                | 6    | 344           | 579           |
| Interest payable and similar charges               | 7    | (1)           | (2)           |
| <b>Loss on ordinary activities before taxation</b> |      | (6,889)       | (2,480)       |
| Tax credit on loss on ordinary activities          | 8    | 175           | -             |
| <b>Loss for the financial year</b>                 |      | (6,714)       | (2,480)       |
| Loss per share (basic)                             | 20   | 6.6p          | 2.57p         |

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

All the above results relate to continuing activities.

## Consolidated statement of total recognised gains and losses

| For the year ended 31 December 2001                              | 2001<br>£'000 | 2000<br>£'000 |
|--|---------------|---------------|
| Loss for the financial year                                      | (6,714)       | (2,480)       |
| Currency translation differences on foreign currency investments | (52)          | -             |
| <b>Total recognised gains and losses relating to the year</b>    | (6,766)       | (2,480)       |

# Consolidated Balance Sheet

| As at 31 December 2001                         | Note | 2001<br>£'000 | 2000<br>£'000 |
|--|------|---------------|---------------|
| <b>Fixed Assets</b>                            |      |               |               |
| Intangible assets                              | 9    | 94            | –             |
| Tangible assets                                | 10   | 5,050         | 1,830         |
|  |      | 5,144         | 1,830         |
| <b>Current Assets</b>                          |      |               |               |
| Stocks   | 12   | 2,781         | 1,275         |
| Debtors due within one year                    | 13   | 1,704         | 1,200         |
| Cash at bank and in hand                       |      | 2,058         | 13,328        |
|  |      | 6,543         | 15,803        |
| Creditors: amounts falling due within one year | 14   | (1,694)       | (952)         |
| <b>Net current assets</b>                      |      | 4,849         | 14,851        |
| <b>Total assets less current liabilities</b>   |      | 9,993         | 16,681        |
| <b>Net assets</b>                              |      | 9,993         | 16,681        |
| <b>Capital and reserves</b>                    |      |               |               |
| Called up share capital                        | 16   | 1,019         | 1,013         |
| Share premium account                          | 17   | 22,045        | 21,973        |
| Capital redemption reserve                     | 17   | 183           | 183           |
| Profit and loss account                        | 17   | (13,254)      | (6,488)       |
| Equity Shareholders' funds                     |      | 9,993         | 16,681        |

These financial statements were approved by the Board of Directors on 26 April 2002

Signed on behalf of the Board of Directors

**G D Brown**  
Director

# Company balance sheet

| As at 31 December 2001                         | Note | 2001<br>£'000 | 2000<br>£'000 |
|--|------|---------------|---------------|
| <b>Fixed Assets</b>                            |      |               |               |
| Investments                                    | 11   | 21,950        | 7,751         |
| <b>Current Assets</b>                          |      |               |               |
| Debtors due within one year                    | 13   | 6             | 38            |
| Debtors due after more than one year           | 13   | -             | 2,664         |
| Cash at bank and in hand                       |      | 1,995         | 13,305        |
|  |      | 2,001         | 16,007        |
| Creditors: amounts falling due within one year | 14   | (73)          | (36)          |
| <b>Net current assets</b>                      |      | 1,928         | 15,971        |
| <b>Net assets</b>                              |      | 23,878        | 23,722        |
| <b>Capital and reserves</b>                    |      |               |               |
| Called up share capital                        | 16   | 1,019         | 1,013         |
| Share premium account                          | 17   | 22,045        | 21,973        |
| Capital redemption reserve                     | 17   | 183           | 183           |
| Profit and loss account                        | 17   | 631           | 553           |
| Equity Shareholders' funds                     |      | 23,878        | 23,722        |

These financial statements were approved by the Board of Directors on 26 April 2002

Signed on behalf of the Board of Directors

**G D Brown**  
Director

## Consolidated cash-flow statement

| Year ended 31 December 2001   | Note | 2001<br>£'000 | 2000<br>£'000 |
|---|------|---------------|---------------|
| <b>Net cash outflow from operating activities</b>                   | 21   | (8,092)       | (3,850)       |
| <b>Returns on investments and servicing of finance</b>              |      |               |               |
| Interest received   |      | 344           | 579           |
| Interest paid   |      | -             | (1)           |
| Interest element of finance lease and hire purchase rental payments |      | (1)           | (1)           |
|   |      | 343           | 577           |
| <b>Capital expenditure and financial investment</b>                 |      |               |               |
| Purchase of intangible fixed assets                                 |      | (103)         | -             |
| Purchase of tangible fixed assets                                   |      | (3,542)       | (1,865)       |
| Sale of tangible fixed assets                                       |      | 102           | 49            |
|   |      | (3,543)       | (1,816)       |
| <b>Management of liquid resources</b>                               |      |               |               |
| Decrease/(Increase) in short term deposits                          |      | 12,500        | (12,500)      |
| <b>Net cash inflow/(outflow) before financing</b>                   |      | 1,208         | (17,589)      |
| <b>Financing</b>  |      |               |               |
| Issue of ordinary share capital                                     |      | 78            | 19,394        |
| Share issue costs   |      | -             | (873)         |
| Capital element of finance lease and hire purchase rental payments  |      | (4)           | (5)           |
|   |      | 74            | 18,516        |
| <b>Increase in cash in the year</b>                                 | 22   | 1,282         | 927           |

# Notes to the accounts

Year ended 31 December 2001

## I. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

### Accounting convention

The financial statements are prepared under the historical cost convention.

### Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries for the year ended 31 December 2001 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.

### 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 of 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.

### Investments

Investments held as fixed assets are stated at cost less provision for impairment.

### Turnover

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

### Intangible fixed assets

Licences relating to IPR acquired from C-Phone Corporation, which is core to current Telehealth and Security products being sold in the US, will be amortised on a straight line basis over the expected future product sales to which the IPR relates.

### Tangible fixed assets

Depreciation is not provided on freehold land. On other assets it 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:

|   |             |
|---|-------------|
| Freehold buildings                      | 2% on cost  |
| Fixtures, fittings, tools and equipment | 25% on cost |

The re-development of the freehold land and buildings was completed in August 2001. On 19 March 2002 the freehold building and part of the freehold land was sold and subsequently leased back to the Group.

### Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

### Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation 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 crystallise in the future.

### Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate.

### Leases

Assets held under hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

### Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group. Contributions are charged to the profit and loss account as they fall due.

### Research and development

Research and development expenditure is written off in the year in which it is incurred.

### UK Government and European Union grants

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

## 2 ANALYSIS OF TURNOVER, OPERATING LOSS AND NET ASSETS

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

|                                   | Turnover |       | Operating loss |         | Net assets |        |
|-----------------------------------|----------|-------|----------------|---------|------------|--------|
|                                   | 2001     | 2000  | 2001           | 2000    | 2001       | 2000   |
| Geographical analysis by location | £'000    | £'000 | £'000          | £'000   | £'000      | £'000  |
| UK                                | 1,844    | 2,837 | (5,878)        | (3,057) | 11,346     | 16,681 |
| US                                | 878      | -     | (1,354)        | -       | (1,353)    | -      |
|                                   | 2,722    | 2,837 | (7,232)        | (3,057) | 9,993      | 16,681 |

|  | 2001  | 2000  |
|--|-------|-------|
| Geographical analysis of turnover by destination | £'000 | £'000 |
| United Kingdom                                   | 956   | 1,731 |
| Other European Countries                         | 814   | 879   |
| Rest of the World                                | 952   | 227   |
|  | 2,722 | 2,837 |

## 3 OTHER OPERATING INCOME

Other operating income relates to EU grants received in connection with research into the use of videophone technology for the deaf community.

## 4 OPERATING LOSS

|  | 2001  | 2000  |
|--|-------|-------|
| Operating loss is arrived at after charging: | £'000 | £'000 |
| Director's emoluments                        | 361   | 355   |
| Director's pension contributions             | 32    | 8     |
| Depreciation:                                |       |       |
| - owned assets                               | 243   | 174   |
| - assets held under finance leases           | -     | 3     |
| Amortisation of intangible asset             | 9     |       |
| Auditors' remuneration:                      |       |       |
| - Group audit fees                           | 20    | 10    |
| - Company audit fees                         | 5     | -     |
| - non-audit services                         | 15    | 4     |
| Operating leases - land and buildings        | 84    | 72    |
| Profit on disposal of tangible fixed assets  | (22)  | (25)  |
| Research and development                     | 2,213 | 1,381 |

Research and development costs include the costs of staff employed in those activities. Further details of director's remuneration are provided on pages 11 to 12.

## 5 STAFF NUMBERS AND COSTS

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

|                       | 2001 | 2000 |
|-----------------------|------|------|
| Management and office | 108  | 61   |

The aggregate payroll costs of these persons were as follows:

|                       | 2001  | 2000  |
|-----------------------|-------|-------|
|                       | £'000 | £'000 |
| Wages and salaries    | 4,051 | 1,881 |
| Social security costs | 377   | 197   |
| Other pensions costs  | 245   | 50    |
|                       | 4,673 | 2,128 |

## 6 INTEREST RECEIVABLE AND SIMILAR CHARGES

|                          | 2001  | 2000  |
|--------------------------|-------|-------|
|                          | £'000 | £'000 |
| Bank interest receivable | 344   | 579   |

## Notes to the accounts continued

### 7 INTEREST PAYABLE AND SIMILAR CHARGES

|                       | 2001<br>£'000 | 2000<br>£'000 |
|-----------------------|---------------|---------------|
| Bank interest         | -             | 1             |
| Finance lease charges | 1             | 1             |
|                       | 1             | 2             |

### 8 TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

The corporation tax credit relates to a research and development repayment in relation to 2000, received after the year end.

No tax charge arises in respect of the year end 31 December 2001 (2000: £nil). The group tax losses of approximately £ 8.3million (2000:£5.3 million) available for offset against future trading profits arising from the same trade.

### 9 INTANGIBLE FIXED ASSETS

| Group                           | Licences<br>£'000 |
|---------------------------------|-------------------|
| <b>Cost</b>                     |                   |
| At 1 January 2001               | -                 |
| Additions                       | 103               |
| At 31 December 2001             | 103               |
| <b>Accumulated amortisation</b> |                   |
| At 1 January 2001               | -                 |
| Charge for the year             | 9                 |
| At 31 December 2001             | 9                 |
| <b>Net book value</b>           |                   |
| At 31 December 2001             | 94                |
| At 31 December 2000             | -                 |

The additions in 2001 relate to Licences of IPR acquired from C-Phone Corporation, which is core to current Telehealth and Security products being sold in the US.

### 10 TANGIBLE FIXED ASSETS

| Group                           | Land and buildings<br>£'000 | Fixtures, fittings,<br>tools and equipment<br>£'000 | Totals<br>£'000 |
|---------------------------------|-----------------------------|---|-----------------|
| <b>Cost</b>                     |                             |   |                 |
| At 1 January 2001               | 1,466                       | 894   | 2,360           |
| Additions                       | 2,790                       | 752   | 3,542           |
| Disposals                       | (78)                        | (160)   | (238)           |
| At 31 December 2001             | 4,178                       | 1,486   | 5,664           |
| <b>Accumulated depreciation</b> |                             |   |                 |
| At 1 January 2001               | 38                          | 492   | 530             |
| Provisions                      | 76                          | 167   | 243             |
| Disposals                       | (78)                        | (81)  | (159)           |
| At 31 December 2001             | 36                          | 578   | 614             |
| <b>Net book value</b>           |                             |   |                 |
| At 31 December 2001             | 4,142                       | 908   | 5,050           |
| At 31 December 2000             | 1,428                       | 402   | 1,830           |

The company held no fixed assets during the year.

#### Hire purchase agreements

Included within the net book value of £5,050,000 is £nil (2000: £5,416) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £nil (2000: £2,640).

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| Capital commitments                             |               |               |
| Contracted but not provided for in the accounts | -             | 2,677         |

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

## 11 INVESTMENTS: COMPANY

|                       | Shares in<br>subsidiary<br>undertakings<br>£'000 | Loans to<br>subsidiary<br>undertakings<br>£'000 | Total<br>£'000 |
|-----------------------|--|---|----------------|
| At 1 January 2001     | 7,751  | -   | 7,751          |
| Transfer from debtors | -  | 2,664   | 2,664          |
| Additions             | 6,000  | 5,535   | 11,535         |
| at 31 December 2001   | 13,751   | 8,199   | 21,950         |
| at 31 December 2000   | 7,751  | -   | 7,751          |

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 £6,000,000 were capitalised.

The company holds the entire share capital of Motion Media Technology Inc, a company registered in the state of Delaware, USA. Its principal activity is the marketing and sale of videotelecommunications equipment.

The presentation of long term loans made by the Company to subsidiaries has been changed in 2001 as it is considered more appropriate, given the nature of the loans, to reflect these amounts within the cost of investment in subsidiaries.

## 12 STOCKS

|                                     | Group         |               | Company       |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
|                                     | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000 | 2000<br>£'000 |
| Raw materials and consumables       | 1,774         | 457           | -             | -             |
| Finished goods and goods for resale | 1,007         | 818           | -             | -             |
|                                     | 2,781         | 1,275         | -             | -             |

## 13 DEBTORS

|                                    | Group         |               | Company       |               |
|------------------------------------|---------------|---------------|---------------|---------------|
|                                    | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000 | 2000<br>£'000 |
| Trade debtors                      | 1,050         | 689           | -             | -             |
| Amounts owed by group undertakings | -             | -             | -             | 2,664         |
| Other debtors                      | 380           | 437           | 6             | 32            |
| Prepayment and accrued income      | 274           | 74            | -             | 6             |
|                                    | 1,704         | 1,200         | 6             | 2,702         |

Included within amounts owed by Group undertakings is £nil (2000:£2,664,000) due after more than one year (see note 11).

## 14 CREDITORS: amounts falling due within one year

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000 | 2000<br>£'000 |
| Trade creditors  | 1,092         | 746           | 38            | 23            |
| Other creditors  | 42            | 1             | -             | 1             |
| Other taxes and social security                              | 102           | 86            | -             | -             |
| Accruals and deferred income                                 | 458           | 115           | 35            | 12            |
| Obligations under finance leases and hire purchase contracts | -             | 4             | -             | -             |
|  | 1,694         | 952           | 73            | 36            |

## Notes to the accounts continued

### 15 DEFERRED TAXATION

| Group                          | 2001              |                     | 2000              |                     |
|--------------------------------|-------------------|---------------------|-------------------|---------------------|
|                                | Provided<br>£'000 | Unprovided<br>£'000 | Provided<br>£'000 | Unprovided<br>£'000 |
| Accelerated capital allowances | -                 | (189)               | -                 | (93)                |
| Other timing differences       | -                 | (480)               | 4                 | -                   |
| Tax losses carried forward     | -                 | (2,490)             | (4)               | (1,054)             |
|                                | -                 | (3,159)             | -                 | (1,147)             |

### 16 SHARE CAPITAL

|  | 2001<br>£'000 | 2000<br>£'000 |
|--|---------------|---------------|
| <b>Authorised</b>                      |               |               |
| 200,000,000 Ordinary shares of 1p each | 2,000         | 2,000         |
| <b>Allotted and fully paid</b>         |               |               |
| 101,896,314 Ordinary shares of 1p each | 1,019         | 1,013         |

During the year employee options over 580,760 new ordinary shares of 1p each were exercised.

At 31 December 2001, the following options over ordinary share capital have been granted, but not exercised:

| Number of shares | Exercise price | Exercise period                           |
|------------------|----------------|---|
| 90,000           | 14.5p          | Between April 2001 and April 2008         |
| 100,000          | 10.5p          | Between August 2001 and August 2008       |
| 780,000          | 6.0p           | Between March 2002 and March 2009         |
| 182,344          | 140.0p         | Between April 2003 and April 2010         |
| 185,000          | 140.0p         | Between May 2003 and May 2010             |
| 19,736           | 152.0p         | Between September 2003 and September 2010 |
| 720,000          | 75.0p          | Between April 2004 and April 2011         |
| 549,388          | 85.0p          | Between May 2004 and May 2011             |
| 332,000          | 86.5p          | Between May 2004 and May 2011             |
| 192,930          | 44.25p         | Between October 2004 and October 2011     |
| 50,000           | 43.5p          | Between October 2004 and October 2011     |

## 17 COMBINED RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

| Group                         | Called up share capital<br>£'000 | Share premium account<br>£'000 | Capital redemption reserve<br>£'000 | Profit and loss account<br>£'000 | Total<br>2001<br>£'000 | Total<br>2000<br>£'000 |
|-------------------------------|----------------------------------|--------------------------------|-------------------------------------|----------------------------------|------------------------|------------------------|
| At the beginning of the year  | 1,013                            | 21,973                         | 183                                 | (6,488)                          | 16,681                 | 640                    |
| Shares issued                 | 6                                | 72                             | -                                   | -                                | 78                     | 19,394                 |
| Share issue costs             | -                                | -                              | -                                   | -                                | -                      | (873)                  |
| Unrealised exchange losses    | -                                | -                              | -                                   | (52)                             | (52)                   | -                      |
| Loss for the year             | -                                | -                              | -                                   | (6,714)                          | (6,714)                | (2,480)                |
| <b>At the end of the year</b> | <b>1,013</b>                     | <b>22,045</b>                  | <b>183</b>                          | <b>(13,254)</b>                  | <b>9,993</b>           | <b>16,681</b>          |

| Company                       | Called up share capital<br>£'000 | Share premium account<br>£'000 | Capital redemption reserve<br>£'000 | Profit and loss account<br>£'000 | Total<br>2001<br>£'000 | Total<br>2000<br>£'000 |
|-------------------------------|----------------------------------|--------------------------------|-------------------------------------|----------------------------------|------------------------|------------------------|
| At the beginning of the year  | 1,013                            | 21,973                         | 183                                 | 553                              | 23,722                 | 4,783                  |
| Shares issued                 | 6                                | 72                             | -                                   | -                                | 78                     | 19,394                 |
| Share issue costs             | -                                | -                              | -                                   | -                                | -                      | (873)                  |
| Profit for the year           | -                                | -                              | -                                   | 78                               | 78                     | 418                    |
| <b>At the end of the year</b> | <b>1,019</b>                     | <b>22,045</b>                  | <b>183</b>                          | <b>631</b>                       | <b>23,878</b>          | <b>23,722</b>          |

Included in the profit and loss account is goodwill totalling £755,082 which has been written off against reserves.

## 18 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2001 the group had annual commitments under non-cancellable operating leases as follows:

|                               | 2001<br>£'000 | 2000<br>£'000 |
|-------------------------------|---------------|---------------|
| Operating lease which expire: |               |               |
| Within one year               | 17            | 29            |
| In two to five years          | 48            | 48            |

## 19 TRANSACTIONS WITH RELATED PARTIES

Motion Media PLC has taken advantage of the exemption under FRS 8, "Related Party disclosures", not to disclose any group transactions due to the preparation of these consolidated financial statements.

During the year, a total of £25,000 (2000 - £175,824) was paid to ARM Corporate Finance Ltd, a company in which A R MacKenzie is a director and shareholder. Fees paid in 2000 included £155,000 in connection with the flotation in May 2000 on the Official List of the London Stock Exchange.

## 20 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue during the period of 101,505,087 (2000 - 96,535,666).

There are no dilutive potential ordinary shares as defined in FRS 14 and therefore no diluted loss per share is disclosed. FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted EPS for out-of-the-money share options. In addition, share options that have been granted after April 2000 are subject to performance criteria, which have not been met at 31 December 2001 and are therefore not dilutive.

## Notes to the accounts continued

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

|   | 2001<br>£'000  | 2000<br>£'000  |
|---|----------------|----------------|
| Operating loss                                    | (7,232)        | (3,057)        |
| Amortisation of intangible asset                  | 9              | -              |
| Depreciation of tangible fixed assets             | 243            | 177            |
| Profit on disposal of tangible fixed assets       | (22)           | (25)           |
| Increase in stocks                                | (1,506)        | (742)          |
| Increase in debtors                               | (329)          | (622)          |
| Increase in creditors                             | 745            | 419            |
| <b>Net cash outflow from operating activities</b> | <b>(8,092)</b> | <b>(3,850)</b> |

### 22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

|   | 2001<br>£'000 | 2000<br>£'000 |
|---|---------------|---------------|
| Increase in cash in the year            | 1,282         | 927           |
| (Decrease)/increase in liquid resources | (12,500)      | 12,500        |
| Cash outflow from hire purchase         | 4             | 4             |
| Movement in net debt in the year        | (11,214)      | 13,431        |
| Translation difference                  | (52)          | -             |
| Net funds/(debt) at 1 January 2001      | 13,324        | (107)         |
| <b>Net funds at 31 December 2001</b>    | <b>2,058</b>  | <b>13,324</b> |

### 23 ANALYSIS OF NET FUNDS

|                          | 31 Dec<br>2000<br>£'000 | Cash flow<br>£'000 | Exchange<br>movement<br>£'000 | 31 Dec<br>2001<br>£'000 |
|--------------------------|-------------------------|--------------------|-------------------------------|-------------------------|
| Cash at bank and in hand | 828                     | 1,282              | (52)                          | 2,058                   |
| Short term deposits      | 12,500                  | (12,500)           | -                             | -                       |
| Hire purchase agreement  | (4)                     | 4                  | -                             | -                       |
|                          | 13,324                  | (11,214)           | (52)                          | 2,058                   |

### 24 FINANCIAL INSTRUMENTS

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):

|           | 2001<br>£'000 | 2000<br>£'000 |
|-----------|---------------|---------------|
| US Dollar | (114)         | (162)         |
| Euro      | -             | 433           |

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.

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Innovation with vision™



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