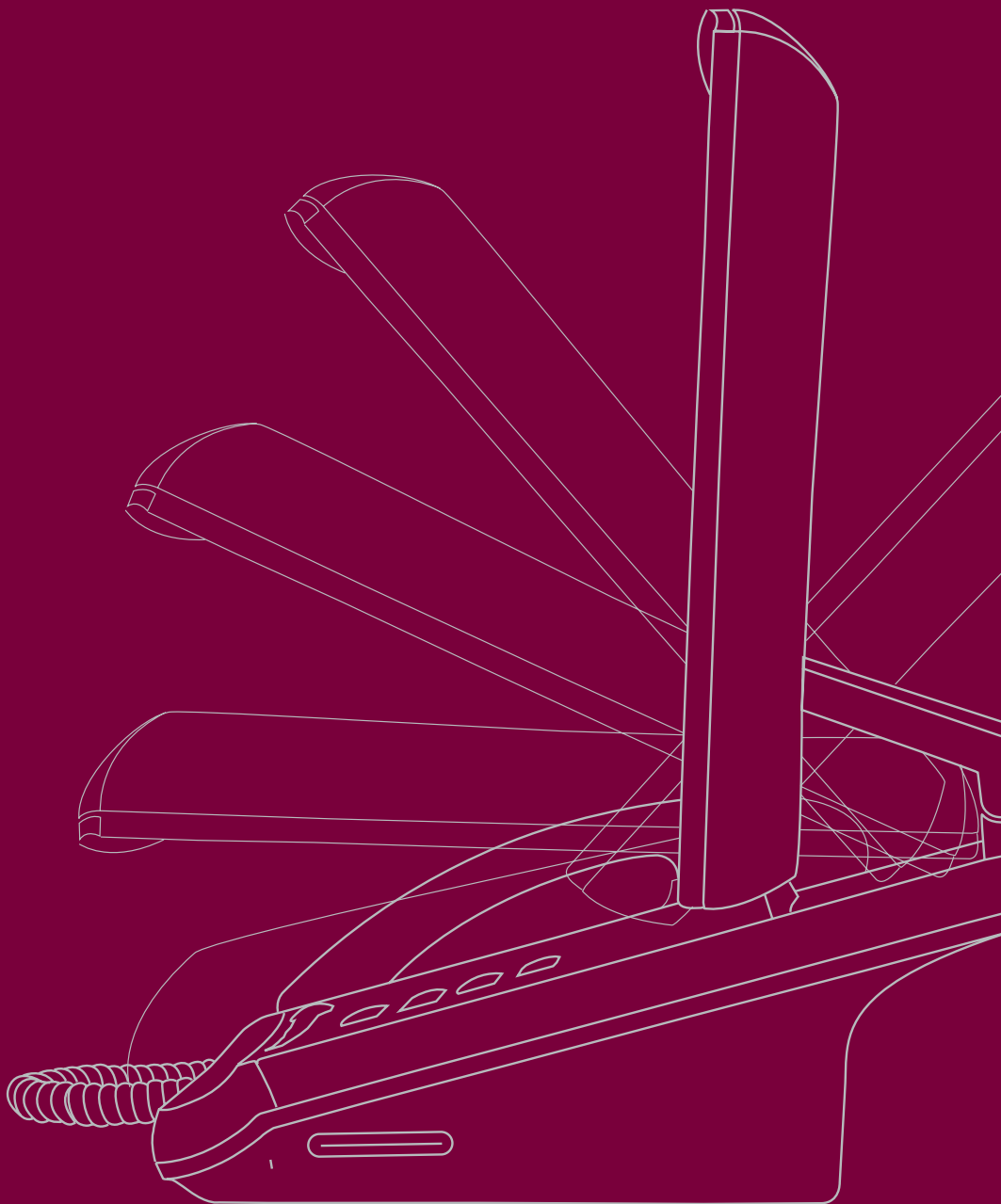




Motion Media

Innovation with vision™

Annual Report 2002



Videotelephony



Telehealth



Security & 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

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AUDITORS

Deloitte & Touche

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NOMINATED ADVISER

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Chairman's Statement



Motion Media experienced a year of significant highs and lows. The Company entered 2002 with much optimism since we had ended 2001 with a strong final quarter, expanded our portfolio of major customers and partners and the BT trial of the mm215 was well under way. Sadly, this early optimism turned to an extended period of consolidation and retrenchment, particularly as the general ravaging of the telecommunication industry worldwide continued. We then exited the year on the back of a well supported Placing and Offer for Subscription raising £3.4 million net of expenses, based on the management's belief that the Company is on the cusp of making real inroads into the video communications market. At the same time the Company took the opportunity to move trading in the shares to AIM which the Board views as a more appropriate market for Motion Media.

In amongst its general turmoil, the telecommunications market experienced a major transition from the requirement for ISDN based products to IP (Internet Protocol) based products which impacted our revenues as our key IP products were not to be available until the first half of 2003. Our telehealth sales were also negatively impacted by some quality issues experienced mid-year, but this situation was fully rectified and put back on track.

The market became aware of our cash requirements in the second half of the year, leading to the loss or postponement of sales opportunities. With the successful fundraising at the end of the year, we have been able to retrieve most of these opportunities.

The Board took decisive actions to reduce costs through the course of the year. Expenses have been reduced entering 2003 to approximately £5 million pa, having entered 2002 with expenses of £8.9 million pa. The Group's headcount now stands at 53 having entered 2002 with 130. This has been done in a way that enables the Company to continue to maximise the opportunities in its core markets whilst it is now much better aligned to its current stage of development, though we will continue to concentrate on lowering costs wherever possible.

Considerable progress has been made in our product developments, the most notable being the availability in April 2003 of the mm745, the IP browser videophone, and the availability of the CareStation 126 in Q2 2003. With these two key products the Company should maintain its position at the forefront of its chosen markets and it believes significant penetration of those markets is achievable.

Despite a number of challenges such as aggressive competitor activity, we believe the first orders for the CareStation 126 from the US based telecare opportunity should materialise in the coming months. The mm745 opportunity in the US is subject to our partner's funding needs being successfully completed, although we have outline order schedules already placed with us.

Excellent progress has been made with building a high quality channel to market for our key products including agreements already signed with companies such as Review Video UK, FVC ME and Talk and Vision. With the imminent availability of the mm745 and the CareStation126, we believe our routes to market will be further strengthened in the coming months.

In summary, the Company enters 2003 with greatly reduced expenses, a successful fundraising behind it, key products on the verge of market readiness and significant opportunities in front of it. We must however demonstrate this year that the Company's products and markets provide a foundation for the future.

Finally, I would like to thank all of our shareholders for their continued and patient support and all of our outstanding employees for remaining so committed, dedicated and focused through very trying circumstances.

Rex Thorne, OBE

Chairman

25 March 2003

Operating and Financial Review

RESULTS

- Sales and operating loss in line with forecast.
- Operating expenses, before restructuring costs, reduced to £7.4 million in 2002 from £8.9 million in 2001. Group operating expenses for 2003 expected to be less than £5 million.
- Headcount reduced from 130 at the start of 2002 to 53 at the end of 2002.
- The much heralded IP browser videophone, the mm745, was launched in December 2002.
- Progress was made during the year with the first major customer for the CareStation in the US.
- £3.4m after expenses raised through a successful Placing and Offer for Subscription in December 2002.
- Admission of the Company's shares to trading on AIM.

The average gross margin in 2002 reduced from 53% to 34%, reflecting aggressive pricing on the mm215 for the UK consumer market and greater price pressures from Far Eastern competitors for the ISDN and PSTN products.

- Sales for 2002 were £2.15 million, (2001: £2.7 million), reflecting a number of factors:
 - General market conditions continuing to impact partners and customers.
 - The market's move from ISDN to IP and the non-availability of key IP products until 2003.
 - CareStation quality problems in the middle of the year.
 - A key European customer for ISDN boards experienced financial difficulties and ultimately liquidation.
 - The market's awareness of the Company's need to raise funds impacted confidence and a number of opportunities were lost or delayed.

Good progress has been made with developing channels to market. With the launch of the mm745, a number of well established and successful channel partners have been signed up including Review Video UK, FVC Middle East and North Africa and Talk and Vision in Holland.

MARKET FOCUS AND CUSTOMERS

Much effort has been put into ensuring focus on key market sectors with the most opportunity for the Company. All resources and product development efforts have been aligned with this focus, predominantly on the videotelephony and telecare sectors.

Videotelephony – *specifically personal videotelephony for businesses, remote workers and consumers.*

As intimated in the Interim report, it became increasingly apparent that the market was moving rapidly from ISDN to IP through the course of 2002. While this should ultimately prove beneficial for the Company, our key IP products were not available in 2002 and consequently our revenues were inevitably impacted.

The benefits of IP telephony are considerable and are evidenced by the dramatic growth of the VoIP (Voice over IP) market. The greatest benefits being the substantial savings a business can enjoy through greatly reduced call charges and lower infrastructure costs and the increased video quality over broadband compared with lower bandwidth networks. An independent report shows that there were some 6 million VoIP ports worldwide in businesses at the end of 2002, which is anticipated to grow to 10 million by the end of 2003. Another report shows that there are approximately 3.5 million IP lines in Europe already, and this is expected to grow at 25-30% over the next 2 years. This means that there is already a great deal of the necessary infrastructure in place, therefore customers looking to add videotelephony should find it relatively straightforward. Unlike with ISDN, the Company will not be held back by the lack of penetration of the technology and bandwidth necessary to support videotelephony. Enterprises and consumers alike have woken up to the benefits of IP/broadband which should provide excellent opportunity for the mm745 and the mm146.

The Placing and Offer for Subscription document issued in November 2002 referred to a possible agreement

Operating and Financial Review continued

with 'a small US based company' that could lead to sales of approximately £1.5 million within the first 12 months of the mm745 being available. The US company was very confident of completing a fundraising and therefore placing orders ahead of production units of the mm745 being available in April. However, as yet funding has not been finalised and while they remain confident, the exact timing is currently unclear. The companies agreed commercial terms in January 2003 and would commence rollout following completion of fundraising.

Largely on the back of the mm745, the Company has signed some commercial agreements with a number of significant partners to add to the relationships we already have with BT and NextiraOne in Italy.

Review Video UK is the international headquarters of Review Video LLC in the US, believed to be the largest Value Added Distributor of video, audio and web conferencing products worldwide. We are already seeing the benefits of partnership with Review Video UK and their 400 resellers. The mm745 has already been introduced into a number of opportunities with some major institutions. Additionally, we will be able to expand our telehealth channel through this relationship.

FVC ME (Middle East and North Africa) is focused on bringing IP/broadband expertise to the region as well as providing a sales and support operation to the US based First Virtual Corporation in this territory. Motion Media has signed an agreement with FVC ME appointing them as our Master Distributor in the region. FVC has more than 70% market share and includes government organisations and institutions amongst their customer base.

The Company has also appointed Talk and Vision as a partner in Benelux. Talk and Vision is the largest video conferencing specialist in the area. Talk and Vision intends to expand the video communications market by migrating videoconferencing out of the meeting room and onto the desktop.

Recently, Motion Media supplied the Education Ministry of a Central American government, through the Company's local partner, 500 IP based set top box products for a distance learning application. If the initial

installations are successful this could lead to further product sales.

In the US and Canada, we are close to distribution agreements with partners who will give us access to hundreds of VARS (value added resellers) and resellers across North America.

The Company believes that with the availability of the mm745, further commercial agreements with key partners will be completed. This is vital to the Company's future, extending our 'virtual' salesforce will help ensure the future revenues of the Group.

The directors believe that current ISDN product sales will continue at a similar level to those experienced in recent years but that the real growth in the videotelephony sector will come from the new IP based products.

Telehealth – *specifically telecare, the ability to remotely monitor patients and the elderly in their homes.*

Having shipped a number of CareStations that were put into trials and pilots in the early part of the year, the Company anticipated more programme rollouts later in the year. However, some quality issues were experienced with this product in the middle of the year as a result of a combination of design, component and manufacturing problems. Having identified and fixed the faults, the Company put into place its "Platinum Process" which ensured that all further production units of CareStations were thoroughly tested before being deployed in the field. Additionally, most units that had been deployed prior to the Platinum Process were recalled and put through this testing. The Company is now confident that the quality of these products meets the high standards expected by partners and customers in this sector.

The Placing and Offer for Subscription document issued in November 2002 referred to a large telecare customer opportunity with possible orders of approximately £5 million over the coming year. Delays to this were caused by a number of factors including the late arrival of an aggressively priced competitor attacking the



opportunity. However, the directors still believe that this should be a significant opportunity for the Company and expect to see the first sizeable orders in the coming months.

Our key partner in the US, Telemedicine Solutions, has the CareStation in trials and pilots in a number of other opportunities, some of which could prove significant.

The telecare opportunity will happen faster in the US than in Europe, predominantly because healthcare is private as opposed to publicly funded. However, we are beginning to see early signs of opportunities in Europe, including a small trial with a large private healthcare provider, a homecare pilot with an NHS Trust, a trial by the telehealth division of a European PTT and a trial by a key children's hospital in the UK.

The CareStation 126 and CareStation for Windows software solution should help maintain our differentiation over the competition and ensure our success in this sector.

Security & Surveillance

This is mainly a US based opportunity for the Company. We have an excellent partnership with Security & Surveillance Inc, one of the leading systems integrators in this field which has led to a steadily growing level of sales of a derivative of the eyesite 110. We have developed partnerships with a number of other channels to market in the US. This is a highly competitive market that understands the benefit of video but competition, pricing and margin pressure is fierce. However it is a market that continues to deliver steady repeat orders of the Group's current products.

PRODUCTS & TECHNOLOGIES

The total focus of the UK engineering team in 2002 was completing the highly complex IP browser videophone, the mm745. This product has taken much longer to bring to market than was originally anticipated, a problem experienced by much larger companies than

CareStation 125
PSTN based videophone with facility to attach a variety of medical devices for the telecare market.



Motion Media. However, with the launch of the product in December 2002 and its subsequent availability in April 2003, the early market feedback is extremely encouraging. The IP videophone development has not just brought a new product to market but has given us a completely new technology platform that will enable us to bring specific models or customer spins to market at a much more rapid pace than has been achievable historically.

The US engineers have been focused on completing the CareStation 126 and mm146, but during 2002 also completed eyesite for Windows, the mm145 and CareStation for Windows.

Our main products and associated engineering focus for 2003 are:

mm745 - IP based videophone and communications platform offering very high quality video, audio and multipoint calls featuring web browsing capability for corporate directories, meeting services, e-mail retrieval and regular web browsing. It is Java enabled, allowing integrators to tailor the product for specific applications, and also includes a smart media slot and 14 ports to facilitate a multitude of expansion capabilities.

mm146 - entry level IP/broadband videophone for consumers and businesses.

mm225 - ISDN based videophone with additional functionality for business users and consumers.

CareStation 125 - PSTN based videophone with the facility to attach a variety of medical devices for the telecare market.

CareStation 126 - an enhanced PSTN based videophone with all the functionality of the 125 but with a powerful new feature, an integrated digital stethoscope.

CareStation for Windows - PC based software that will enable physicians or nurses to monitor on a PC

Operating and Financial Review continued

screen peripherals such as heart rate monitors, blood pressure monitors and other medical peripherals, remotely via a videophone call.

eyesite 110 – PSTN based video transmission unit for remote monitoring and surveillance of businesses and homes.

eyesite 140 – Proprietary IP based video transmission unit for remote monitoring of enterprises.

eyesite for Windows – software viewer which enables the operator to remotely monitor premises, in conjunction with the eyesite 110/140 from a laptop or PC, when away from the business site.

Additionally the Group continues to sell various OEM boards and cards to key OEM partners such as 7e Communications Ltd for integration into their ruggedized satellite videophone, which has recently seen increased demand by broadcast media given the current hostilities in the Middle East.

The Company is very cognisant of competition, particularly from the Far East, and remains committed to investing in Research and Development in order to maintain its lead in its chosen markets. While we continue to look for all ways of driving cost out of the products, including the benefits of higher volumes, the goal is to provide high quality products with enhanced benefits that address the higher end of our markets, rather than just competing on price at the lower end.

PEOPLE

Motion Media Technology Ltd has reduced its headcount during 2002 from the 98 at the start of the year to 38 entering 2003.

In Motion Media Technology Inc., the US operation, our headcount has been reduced from 32 to 15.

The total one-time cost of this headcount reduction, amounting to £434,000, has been charged to the profit and loss account in the year.

While retaining our key staff, headcount is now aligned to the current stage of growth of the Group. Significant effort has been put into motivating the remaining staff through performance related bonuses and share option allocations.

Management Team

The management team now numbers five, with Graham Brown having taken direct responsibility for sales and marketing and Nick Sturge adding manufacturing to his responsibilities.

Engineering Team

In 2002 the UK based engineers were totally focused on bringing the mm745 to market. Now this has been achieved they will be able to contribute to the development of the CareStation products as well as further develop the IP platform and products.

Sales and Marketing Team

The sales and marketing teams are small, highly professional and focused on building sales through a leveraged model, working through single and two tier channel partners. This enables the company to address more opportunities through a 'virtual' sales force without building large teams in-house.

MANUFACTURING

Through TT Electronics Manufacturing Services Ltd in the UK (formerly AB Electronic Assemblies Ltd), we have established a fully turnkey relationship that has borne fruit through the production of high quality products, notably the mm745.

Our relationship with Flextronics in North Carolina should achieve full turnkey status in the first half of 2003. Given our expectations for the CareStation products predominantly for the US telehealth market, this relationship is important.

Both our manufacturing partners enable the Group to produce and support products of the highest quality and have the capacity to increase volumes to meet our market needs.

FACILITIES

The Company has now considerably reduced the amount of space utilised by its staff in the Motion Media Technology Centre at Aust and has let all the surplus space permitted under the head lease agreement. Negotiations with the landlord have recently gained permission to let additional space originally intended for our own staff. This will mean that the vast majority of Motion Media staff will be in one open plan office. The Company also retains the warehouse and shares the use of various meeting rooms around the building with the sub-tenants. The income from sub-tenants means we are able to offset approximately 65% of our rent and related costs.

Negotiations continue with the landlord of Horton Hall to surrender the facility ahead of the lease expiry date of March 2004. The full cost of the lease was provided for in the accounts in 2001.

In Wilmington North Carolina, we have reduced the amount of space we lease within the same facility leading to a reduction in facilities cost of some 35%.

OUTLOOK

General global market, political and economic conditions permitting, the Company exits 2002 with optimism, having survived an incredibly testing 12 months. It enters 2003 with greatly reduced expenses, funding issues addressed and the CareStation 126 and the mm745 due in the first half of the year. Following two years of significant development and investment, the Group now has compelling product offerings, which are well positioned to significantly impact the IP videotelephony and telecare markets.

FINANCIAL REVIEW

Operating cash flow

The statement of cash flows shows that there was a net cash outflow from operating activities in the year ended 31 December 2002 of £5.7 million (2001 - £8.1 million).



mm745 - IP based videophone and communications platform offering very high quality video, audio and multipoint calls featuring web browsing capability for corporate directories, meeting services, e-mail retrieval and regular web browsing.

It is Java enabled, allowing integrators to tailor the product for specific applications, and also includes a smart media slot and 14 ports to facilitate a multitude of expansion capabilities.



eyesite for Windows – software viewer which enables the operator to remotely monitor premises, in conjunction with the eyesite 110/140 from a laptop or PC, when away from the business site.

Operating and Financial Review continued

This decrease in operating cash outflow was achieved despite a reduction in sales and gross profit in 2002 compared with 2001, and is a result of significant cost reductions undertaken during the year and a reduction in working capital financing. The net cash outflow in the six-month period to 31 December 2002 was approximately £1 million.

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 £1.6 million (2001 - £2.2 million) was invested in research and development.

Working capital and stock provisions

Working capital financing has decreased by just under £1 million during 2002.

In 2000 Motion Media Technology Ltd had to commit to "last time buy" purchases of two components critical to the production of its then current ISDN products on its "Nero" platform. The commitment had to take into account planned production volumes anticipated at that time, and the time to migrate the Nero based products to the new Equator based platform, (as used in the new mm745 IP browser videophone). In 2001 the Company acquired certain assets and IPR of C-Phone, including C-Phone's "Nano" platform which now forms the basis of the CareStation and eyesite range of products. The Nano platform uses one, but not both, of the last time buy components committed to in 2000. The Directors believe the future success of the Group lies predominantly with products based on the Equator and Nero platforms and accordingly have taken a one-time charge of £357,000 against the book value of components not used in those platforms. This charge has been included within administrative expenses in the profit and loss account for the year.

Proceeds of share issue

On 30 December 2002 the Board approved the issue of 108,558,363 new ordinary shares for gross proceeds of £3.8 million, pursuant to the Placing and Offer for Subscription document dated 29 November 2002.

Expenses of the issue amounting to £449,000 have been taken to the share premium account in the year.

Freehold land and buildings

The total expenditure on fixed assets during the year was £247,000 (2001-£3.5 million) including £157,000 on freehold buildings. On 19 March 2002 the Group completed the sale and leaseback of its freehold buildings and substantially all of its freehold land for proceeds of just over £4 million. The total book value of the freehold land and buildings, subject to the sale and leaseback, was approximately £3.9 million. The profit on disposal of £111,000 has been credited to the profit and loss account in the year.

Treasury

The Group's financial instruments, other than derivatives, comprise cash and liquid resources, 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 are 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 guidelines ("The Code" or "The Combined Code") were 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. Although AIM listed companies are not required to report on the Combined Code, the Directors have decided to review the Company's compliance with the principles set out in Section 1 of the Code and provide appropriate disclosures.

Statement by the Directors on compliance with the provisions of the Combined Code

The Board believes the Company has complied throughout the accounting period ended 31 December 2002 with the provisions set out in Section 1 of the Code. The exceptions to the Code are set out below:

Senior independent non-executive director

The Combined Code provision A2.1 states that the Board should appoint a senior independent non-executive director. The Board believes that, given the current structure, appointing a senior independent non-executive director 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 non-executive 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. The current structure of the Board is considered appropriate for the Company at the present time.

BOARD OF DIRECTORS

The Directors bring a range of relevant expertise and experience to the Board. At 31 December 2002 the Board comprised the independent non-executive Chairman, two executive directors and one other non-executive director.

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 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. The committee meets annually with the Finance Director and a representative of the Company's auditors. 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.

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.

Corporate Governance continued

RELATIONS WITH SHAREHOLDERS

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

INTERNAL CONTROL

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

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board, in accordance with the Turnbull guidance.

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 2002. The Group's business plan was last updated in February 2003.

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 accounting and business software has delivered 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 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. The Group has an appropriately qualified Human Resources department, which reports to the Business Services Director to ensure legal responsibilities are met.

Regulatory Compliance

Motion Media is a small Company and does not have a dedicated legal, secretarial and compliance function. However the Board and Company Secretary have 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

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

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.

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

Basic salary and benefits

Salaries and benefits are reviewed with effect from 1 January each year.

The executive directors receive certain benefits-in-kind, including medical expenses insurance and car allowance.

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.

Share options

Share options are awarded to executive directors and other employees of the Group. The Company's Inland Revenue approved and unapproved option schemes were adopted at the 2000 EGM and amended at the 2002 AGM. The Company adopted an Enterprise Management Incentives (EMI) option scheme at the 2002 AGM. All option schemes comply fully with the Association of British Insurers (ABI) guidelines apart from the percentage of equity which has been made available under the schemes in the first three years. This amount is five per cent rather than three per cent as recommended by the ABI in order to assist the

Company's ability to attract new employees during the next few years.

The remuneration committee has set performance targets for the exercise of options related to financial targets of the Group over a three year period.

Pensions

The non-executive Chairman was, and the executive directors are, members of the Group Personal Pension Plan. During the year, the Group contributed up to eight per cent of each individual's basic salary to their pension.

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 three months' entitlement to notice by either party.

During the year, an ex-gratia payment of £30,000 was made to Mr. Ken Burgin, who resigned from the Board on 30 October 2001. This cost has been included in restructuring expenses in the profit and loss account.

Report on Directors' Remuneration continued

Directors' emoluments

The emoluments of the directors are as follows:

	Salary £	Fees £	Benefits in kind £	Bonus £	Total emoluments excluding pension contributions		Pension contributions	
					31 Dec 2002 £	31 Dec 2001 £	31 Dec 2002 £	31 Dec 2001 £
Executive directors								
G D Brown	135,000	-	280	-	135,280	111,304	10,800	5,088
I C Silvester	65,000	-	4,280	3,000	72,280	68,418	5,200	5,200
Non-executive directors								
R F Thorne	-	17,500	-	-	17,500	17,500	583	1,400
A R MacKenzie (1)	-	12,500	-	-	12,500	12,500	-	-
	200,000	30,000	4,560	3,000	237,560	209,722	16,583	11,688

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

Interest in share options

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

The interests of the directors were as follows:

	At 31 December 2001	Granted number	At 31 December 2002	Exercise price per share	Date from which exercisable	Expiry date
G D Brown	720,000	-	720,000	75p	2 April 2004 (1)	1 April 2011
	-	200,000	200,000	25p	7 June 2005 (1)	6 June 2012
	-	1,000,000	1,000,000	3.5p	24 December 2005 (1)	24 December 2012
	720,000	1,200,000	1,920,000			
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
	-	150,000	150,000	25p	7 June 2005 (1)	6 June 2012
	-	500,000	500,000	3.5p	24 December 2005 (1)	24 December 2012
	685,000	650,000	1,335,000			

(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 2002 was 3.5p per share. The high and low share prices during the year were 44p and 3p respectively.

Directors' Profiles

NON-EXECUTIVE DIRECTORS



Rex Thorne, OBE
Chairman
Aged 75

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 46

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 44

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 41

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.

OTHER SENIOR MANAGEMENT



Garey De Angelis
Chief Executive Officer
US Operations
Aged 52

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.



John Martin
Technical Director
Aged 37

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 Immos in 1989 working on image processing, still and moving image compression and motion estimation control.



Nick Sturge
Business Services Director
Aged 36

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 Immos in its Image Processing Group, where he worked on image compression technology and CAD hardware and software systems specification.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

The Group's loss for the year on ordinary activities before taxation was £6.8 million (2001: £6.9 million). Costs of research and development undertaken in the year totalling £1.6 million (2001: £2.2 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 3-8.

The directors do not recommend the payment of a dividend (2001: nil) at this stage in the Company's development.

TANGIBLE FIXED ASSETS

On 19 March 2002, the Group sold substantially all of its freehold land and buildings for the gross proceeds of £4 million, generating a profit of £111,000 after costs. On that date Motion Media Technology Limited 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 five 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. 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 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 Groups 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 that all trading terms and conditions have been complied with. This policy is not based on any specific code or standard payment practice.

The average number of days purchases included within trade creditors of the Group at the year-end was 64 (2001: 30).

The average number of days purchases included within trade creditors of the Company at the year-end was 115 (2001: 53). Trade creditors of the Company were £167,000 at the year-end, including £111,000 of costs incurred in December 2002 relating to the Placing and Offer for Subscription.

DIRECTORS AND THEIR INTERESTS

The interests of the directors of the Company in the ordinary share capital of the Company at 31 December 2002, and 1 January 2002 were:

	31 December 2002 1p shares	1 January 2002 1p shares
G D Brown	2,035,000	-
I C Silvester	535,000	-
R F Thorne (non-executive)	1,167,800	1,100,800
A R MacKenzie (non-executive) (1)	3,152,858	1,010,000

(1) A R MacKenzie's interest is in shares held by ARM Corporate Finance Ltd of which he is a shareholder.

There have been no changes to the above interests at 25 March 2003.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of or is aware of holdings of 3% or more of the issued ordinary share capital as at 18 March 2003:

	Ordinary shares	Percentage of existing ordinary share capital
Mr C Blackburn	13,602,500	6.4%
Mr K N Burgin	8,287,390	3.9%

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

ANNUAL GENERAL MEETING

A Notice of the Annual General Meeting of the Company, which is to be held on 12 May 2003, is set out at the end of these financial statements. In addition to the Ordinary business to be conducted at the meeting, the following Special business is to be considered:

Resolution 4 – General authority to allot

At the annual general meeting of the Company held on 30 May 2002, the Directors were given authority to allot

relevant securities (as defined in section 80 of the Companies Act 1985 (the "Act") up to an aggregate nominal amount of £340,154 representing approximately one-third of the Company's then issued share capital. This authority expires at the end of the 2003 Annual General Meeting. The Directors consider it appropriate that a further similar authority to allot relevant securities up to an aggregate nominal amount of £620,724 (representing the authorised but un-issued share capital as at 25 March

Directors' Report continued

2003, being lower than one third of the Company's issued share capital at that date) be granted in the period up to the conclusion of the Company's annual general meeting in 2004. The Directors have no present intention to exercise this authority except in relation to the exercise of options.

Resolution 5

– Disapplication of statutory pre-exemption rights

This resolution will empower the Directors to issue equity securities (as defined in the Act) for cash on a non-pre-emptive basis. This authority is limited to:

- (a) allotments of the equity securities to existing holders of ordinary shares;
- (b) allotments of shares pursuant to any share option scheme, subject to a maximum nominal of £212,927 representing approximately 10 per cent. of the Company's issued share capital as at 31 December 2002; and
- (c) otherwise pursuant to (a) or (b) above, allotments up to a maximum of £106,464, representing approximately 5 per cent. of the Company's issued share capital as at 31 December 2002.

Resolution 6 - US Share Options

The purpose of this resolution is to set a limit on the number of Ordinary Shares which can be issued to Group employees resident in the United States pursuant to the relevant sub-plan of the 2000 Unapproved Executive Share Option Scheme, as required by Section 422 of the United States Inland Revenue Code 1986 (as amended). The Directors believe that 500,000 ordinary shares is an appropriate level for these purposes.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

I C Silvester

Secretary

25 March 2003

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.

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 2002 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 and auditing standards.

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 regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

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 affairs of the Company and the Group as at 31 December 2002 and of the loss for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and
Registered Auditors
Bristol

25 March 2003

Consolidated profit and loss account

For the year ended 31 December 2002		2002 £'000	2001 £'000
	Note		
Turnover	2	2,150	2,722
Cost of sales		(1,426)	(1,291)
Gross profit		724	1,431
Restructuring expenses		(434)	-
Other administrative expenses		(7,400)	(8,877)
Administrative expenses		(7,834)	(8,877)
Other operating income	3	113	214
Operating loss	4	(6,997)	(7,232)
Profit on sale of freehold land and buildings		111	-
Loss on ordinary activities before interest		(6,886)	(7,232)
Interest receivable	6	37	344
Interest payable and similar charges	7	-	(1)
Loss on ordinary activities before taxation		(6,849)	(6,889)
Tax credit on loss on ordinary activities	8	330	175
Loss for the financial year		(6,519)	(6,714)
Loss per share	19	6.4p	6.6p

All the above results relate to continuing activities.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2002		2002 £'000	2001 £'000
Loss for the financial year		(6,519)	(6,714)
Currency translation differences on foreign currency investments		(332)	(52)
Total recognised gains and losses relating to the year		(6,851)	(6,766)

Consolidated balance sheet

As at 31 December 2002	Note	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	9	71	94
Tangible assets	10	1,050	5,050
		1,121	5,144
Current assets			
Stocks	12	1,879	2,781
Debtors due within one year	13	987	1,704
Cash at bank and in hand		4,154	2,058
		7,020	6,543
Creditors: amounts falling due within one year	14	(1,549)	(1,694)
Net current assets		5,471	4,849
Total assets less current liabilities		6,592	9,993
Net assets		6,592	9,993
Capital and reserves			
Called up share capital	15	2,129	1,019
Share premium account	16	24,385	22,045
Capital redemption reserve	16	183	183
Profit and loss account	16	(20,105)	(13,254)
Equity Shareholders' funds		6,592	9,993

These financial statements were approved by the Board of Directors on 25 March 2003

Signed on behalf of the Board of Directors

G D Brown
Director

Company balance sheet

As at 31 December 2002	Note	2002 £'000	2001 £'000
Fixed assets			
Investments	11	23,544	21,950
Current assets			
Debtors due within one year	13	5	6
Cash at bank and in hand		3,902	1,995
		3,907	2,001
Creditors: amounts falling due within one year	14	(437)	(73)
Net current assets		3,470	1,928
Net assets		27,014	23,878
Capital and reserves			
Called up share capital	15	2,129	1,019
Share premium account	16	24,385	22,045
Capital redemption reserve	16	183	183
Profit and loss account	16	317	631
Equity Shareholders' funds		27,014	23,878

These financial statements were approved by the Board of Directors on 25 March 2003

Signed on behalf of the Board of Directors

G D Brown
Director

Consolidated cash-flow statement

Year ended 31 December 2002	Note	2002 £'000	2001 £'000
Net cash outflow from operating activities	20	(5,723)	(8,092)
Returns on investments and servicing of finance			
Interest received		37	344
Interest element of finance lease and hire purchase rental payments		-	(1)
		37	343
Taxation			
Corporation tax credit		505	-
		505	-
Capital expenditure and financial investment			
Purchase of intangible fixed assets		-	(103)
Purchase of tangible fixed assets		(247)	(3,542)
Sale of tangible fixed assets		4,051	102
		3,804	(3,543)
Management of liquid resources			
Decrease in short term deposits		-	12,500
Net cash (outflow)/inflow before financing		(1,377)	1,208
Financing			
Issue of ordinary share capital		3,824	78
Share issue costs		(19)	-
Capital element of finance lease and hire purchase rental payments		-	(4)
		3,805	74
Increase in cash in the year	21	2,428	1,282

Notes to the accounts

Year ended 31 December 2002

1 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 2002 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, the Company's loss after tax for the year was £314,251, (2001: profit £77,522).

Goodwill

Goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves on acquisition as a matter of accounting policy. 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 redevelopment 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 in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted. The Company adopted FRS19 during 2002. This has no impact on the Group accounts.

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 are taken direct to reserves.

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, including all software tools, 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.

Share issue costs

Costs related to the issue of new shares are charged to the share premium account.

2 ANALYSIS OF TURNOVER, LOSS BEFORE TAX AND NET ASSETS

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

	Turnover		Loss before tax		Net assets	
	2002	2001	2002	2001	2002	2001
Geographical analysis by location	£'000	£'000	£'000	£'000	£'000	£'000
UK	1,475	1,844	(4,794)	(5,535)	9,871	11,346
US	675	878	(2,055)	(1,354)	(3,279)	(1,353)
	2,150	2,722	(6,849)	(6,889)	6,592	9,993
					2002	2001
Geographical analysis of turnover by destination					£'000	£'000
United Kingdom					1,228	956
Other European Countries					183	814
Rest of the World					739	952
					2,150	2,722

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

	2002	2001
	£'000	£'000
Operating loss is arrived at after charging:		
Director's emoluments	238	361
Director's pension contributions	17	32
Depreciation:		
- owned assets	306	243
Amortisation of intangible asset	23	9
Auditors' remuneration:		
- Group audit fees	20	20
- Company audit fees	5	5
- non-audit services	39	15
Operating leases - land and buildings	369	84
Loss/(Profit) on disposal of tangible fixed assets	1	(22)
Research and development costs	1,634	2,213

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

Further details of director's remuneration are provided in the report on Director's remuneration on pages 11 and 12.

In addition to the amounts disclosed above, the auditor's remuneration for the year includes £30,000 of non-audit fees in relation to the Placing and Offer for Subscription, which have been charged against the share premium account.

5 STAFF NUMBERS AND COSTS

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

	2002	2001
	No.	No.
Management and office	82	108

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£'000	£'000
Wages and salaries	3,932	4,051
Social security costs	294	377
Other pensions costs	186	245
	4,412	4,673

6 INTEREST RECEIVABLE

	2002	2001
	£'000	£'000
Bank interest receivable	37	344

Notes to the accounts continued

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Finance lease charges	-	1
	-	1

8 TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

i) Analysis of tax charge on ordinary activities

The corporation tax credit of £330,000 (2001: £175,000) relates to a research and development tax credit received in the period amounting to £38,000 in relation to 2000 and £292,000 in relation to 2001. No provision has been made in the profit and loss account for the tax credit in relation to 2002, which is anticipated to be received in 2003.

	2002 £'000	2001 £'000
ii) Factors affecting tax charge for the Current Period		
Losses on ordinary activities before tax	(6,849)	(6,889)
Tax at 30% thereon	(2,055)	(2,067)
Effects of:		
Expenses not deductible for tax purposes	55	119
Capital allowances in excess of depreciation	95	73
No relief for current year losses	1,905	1,875
Prior period adjustments in respect of R&D repayments	(330)	(175)
Current tax credit for period	(330)	(175)

iii) Factors that may affect the future tax charge

No deferred tax assets have been recognised in respect of timing differences relating to capital allowances in excess of depreciation and trading losses of £15m (of which £3m are in the US) (2001:£8.3m). The amount of the asset not recognised is £5m. These assets are recoverable on the generation of suitable future profits.

9 INTANGIBLE FIXED ASSETS

Group	Licences £'000
Cost	
At 1 January 2002	103
Additions	-
At 31 December 2002	103
Accumulated amortisation	
At 1 January 2002	9
Charge for the year	23
At 31 December 2002	32
Net book value	
At 31 December 2002	71
At 31 December 2001	94

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

10 TANGIBLE FIXED ASSETS

Group	Freehold Land and buildings £'000	Fixtures, fittings, tools and equipment £'000	Totals £'000
Cost			
At 1 January 2002	4,178	1,486	5,664
Additions	157	90	247
Disposals	(3,965)	(184)	(4,149)
At 31 December 2002	370	1,392	1,762
Accumulated depreciation			
At 1 January 2002	36	578	614
Charge for the year	12	294	306
Disposals	(48)	(160)	(208)
At 31 December 2002	-	712	712
Net book value			
At 31 December 2002	370	680	1,050
At 31 December 2001	4,142	908	5,050

The Company held no fixed assets during the year.

	2002	2001
Capital commitments	£'000	£'000
Contracted but not provided for in the accounts	-	-

11 INVESTMENTS: COMPANY

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2002	13,751	8,199	21,950
Additions/movements in the year	4,000	(2,406)	1,594
at 31 December 2002	17,751	5,793	23,544
at 31 December 2001	13,751	8,199	21,950

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 £4,000,000 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.

12 STOCKS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Raw materials and consumables	1,388	1,774	-	-
Finished goods and goods for resale	491	1,007	-	-
	1,879	2,781	-	-

Notes to the accounts continued

13 DEBTORS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade debtors	447	1,050	-	-
Other debtors	32	380	5	6
Prepayment and accrued income	508	274	-	-
	987	1,704	5	6

14 CREDITORS: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade creditors	774	1,092	167	38
Other creditors	6	42	6	-
Other taxes and social security	79	102	-	-
Accruals and deferred income	690	458	264	35
	1,549	1,694	437	73

15 SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised		
275,000,000 Ordinary shares of 1p each	2,750	2,000
Allotted and fully paid		
212,927,535 Ordinary shares of 1p each	2,129	1,019

On 24 December 2002 the authorised share capital of the company was increased from £2,000,000 to £2,750,000 by the creation of 75,000,000 additional ordinary shares at 1 pence each.

On 30 December 2002 108,558,363 new ordinary shares of 1p each were issued for cash at 3.5 pence per share and 2,142,858 ordinary shares of 1p each were issued to ARM Corporate Finance Ltd pursuant to the Placing and Offer for Subscription on terms and conditions and on the basis set out in the Prospectus of the Company dated 29 November 2002.

During the year employee options over 330,000 new ordinary shares of 1p each were exercised.

On 30 December 2002 the Company's listing on the Official list of the London Stock Exchange was cancelled, and on 2 January 2003 the existing and new ordinary shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange.

At 31 December 2002, the following options over ordinary share capital have been granted, but not exercised:

Number of shares	Exercise price	Exercise period
40,000	14.5p	Between April 2001 and April 2008
500,000	6.0p	Between March 2002 and March 2009
10,000	6.0p	Between March 2002 and June 2003
48,353	140.0p	Between April 2003 and April 2010
10,713	140.0p	Between December 2002 and June 2003
185,000	140.0p	Between May 2003 and May 2010
19,736	152.0p	Between May 2002 and May 2003
720,000	75.0p	Between April 2004 and April 2011
203,888	85.0p	Between May 2004 and May 2011
100,900	85.0p	Between February 2002 and February 2003
157,500	85.0p	Between June 2002 and June 2003
49,000	85.0p	Between December 2002 and December 2003
282,600	86.5p	Between May 2004 and May 2011
50,000	44.25p	Between October 2004 and October 2011
68,965	43.5p	Between June 2002 and June 2003
20,000	43.5p	Between December 2002 and December 2003
1,000,000	25.0p	Between May 2002 and May 2012
255,000	25.0p	Between December 2002 and December 2003
405,000	26.25p	Between May 2005 and May 2012
650,000	25.0p	Between June 2002 and June 2012
3,810,000	3.5p	Between December 2002 and December 2012

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

Group	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 2002 £'000	Total 2001 £'000
At the beginning of the year	1,019	22,045	183	(13,254)	9,993	16,681
Shares issued	1,110	2,789	-	-	3,899	78
Share issue costs	-	(449)	-	-	(449)	-
Exchange losses	-	-	-	(332)	(332)	(52)
Loss for the year	-	-	-	(6,519)	(6,519)	(6,714)
At the end of the year	2,129	24,385	183	(20,105)	6,592	9,993

Company	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 2002 £'000	Total 2001 £'000
At the beginning of the year	1,019	22,045	183	631	23,878	23,722
Shares issued	1,110	2,789	-	-	3,899	78
Share issue costs	-	(449)	-	-	(449)	-
(Loss)/Profit for the year	-	-	-	(314)	(314)	78
At the end of the year	2,129	24,385	183	317	27,014	23,878

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

17 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2002 £'000	2001 £'000
Operating lease which expire:		
Within one year	-	17
In two to five years	450	48
	450	65

18 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 £179,907 (2001 - £25,000) was paid to ARM Corporate Finance Ltd, a company in which A R MacKenzie is a director and shareholder. Fees paid in 2002 included £161,400 in connection with the placing and offer for subscription and the move to AIM and includes £75,000 which was paid by the issue of 2,142,858 new ordinary shares of 1 pence each to ARM Corporate Finance Limited.

19 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 102,059,928 (2001 - 101,505,087).

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 been met at 31 December 2002 and are therefore not dilutive.

Notes to the accounts continued

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

	2002 £'000	2001 £'000
Operating loss	(6,997)	(7,232)
Amortisation of intangible asset	23	9
Depreciation of tangible fixed assets	306	243
Loss/(profit) on disposal of tangible fixed assets	1	(22)
Decrease/(increase) in stocks	902	(1,506)
Decrease/(increase) in debtors	542	(329)
(Decrease)/increase in creditors	(500)	745
Net cash outflow from operating activities	(5,723)	(8,092)

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2002 £'000	2001 £'000
Increase in cash in the year	2,428	1,282
Decrease in liquid resources	-	(12,500)
Cash outflow from hire purchase	-	4
Movement in net funds/(debt) in the year	2,428	(11,214)
Translation difference	(332)	(52)
Net funds at 1 January	2,058	13,324
Net funds at 31 December	4,154	2,058

22 ANALYSIS OF NET FUNDS

	31 Dec 2001 £'000	Cash flow £'000	Exchange movement £'000	31 Dec 2002 £'000
Cash at bank and in hand	2,058	2,428	(332)	4,154
	2,058	2,428	(332)	4,154

23 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 Group earns interest on cash balances at floating market rates.

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):

	2002 £'000	2001 £'000
US Dollar	(27)	(114)
Euro	4	-

There are no derivatives and it is and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. There is no material difference between the book value and the fair value of the Group's financial instruments.

Notice of Annual General Meeting

MOTION MEDIA PLC

(Incorporated in England and Wales under the Companies Act 1985)
(Registered No. 2908288)

Registered Office:

Motion Media Technology Centre,
Severn Bridge, Aust, Bristol, BS35 4BL

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Motion Media PLC (the "Company") will be held at Motion Media Technology Centre, Severn Bridge, Aust, Bristol, BS35 4BL on 12 May 2003 at 12 noon for the following purposes:

AS ORDINARY BUSINESS:

- 1) To receive and adopt the annual financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 2002.
- 2) To reappoint Mr R F Thorne, who, having attained the age of 70, retires in accordance with best practice guidelines published by certain Investor Protection Committees and who, being eligible, offers himself for re-election, as a director.
- 3) To reappoint Deloitte & Touche as auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company, and to authorise the directors to fix their remuneration.

AS SPECIAL BUSINESS:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions in the case of resolutions 4 and 6, and as special resolutions in the case of resolution 5.

- 4) That the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £620,724 provided that this authority shall expire 15 months from the date of this resolution or at the conclusion of the Company's next Annual General Meeting if earlier and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuant of such offer or agreement

notwithstanding that the authority conferred hereby has expired and in this resolution the expression "relevant securities" and references to the allotment of relevant securities shall bear the same respective meaning as in section 80 of the Act.

- 5) That subject to the passing of Resolution 4 above, the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities for cash pursuant to and during the period of the authority conferred by Resolution 4 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
 - (b) pursuant to the terms of any share option schemes of the Company whether currently in existence or adopted after the date of this resolution, up to an aggregate nominal amount not exceeding £212,927, representing approximately 10 per cent. of the issued ordinary share capital of the Company at 31 December 2002; and
 - (c) otherwise than pursuant to sub-paragraphs (a) and (b) above up to an aggregate nominal amount of £106,464 representing approximately 5 per cent. of the issued ordinary share capital of the Company at 31 December 2002.
- 6) That the maximum number of shares of the Company that may be issued pursuant to the sub-plan of the Company's unapproved Executive Share Option Scheme for employees resident in the United States upon exercise of options under Section 422 of the United States Internal Revenue Code 1986 (as amended) shall be 500,000 ordinary shares of 1p each.

Dated: 25 March 2003
By Order of the Board
I C Silvester, Secretary

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), holders of ordinary shares must be entered on the relevant register of securities by 12 noon on 10 May 2003. Changes to entries on the relevant register of securities after 12 noon on 10 May 2003 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member or the duly authorised representative of a corporation entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
3. A form of proxy is enclosed. To be effective, Shareholders are requested to complete and return the enclosed proxy card as soon as possible and, in any event, so as to be received by Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR, not later than 48 hours before the time appointed for holding the Annual General Meeting.
4. The Register of Directors' and their families' interests in the shares of the Company, and copies of the service agreements between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting.



Form of Proxy

I/We _____ (BLOCK CAPITALS) being (a) member(s) of Motion Media PLC
 and the holder of _____ ordinary shares hereby appoint the chairman of the meeting (Note 1);
 or _____ as my/our proxy to vote for me/us on my/our behalf at the Annual General
 Meeting of the Company to be held on 12 May 2003 and at any adjournment thereof.

The proxy will vote on the undermentioned resolutions as I/we have indicated by the insertion of an "X" in the appropriate column below.

RESOLUTIONS	FOR	ABSTAIN	OPPOSE
1 To receive the Annual Report and Accounts			
2 To re-appoint R F Thorne as a Director			
3 To re-appoint Deloitte & Touche as auditors			
4 To authorise the Directors to allot relevant securities			
5 Special resolution to disapply Section 89(1) of the Companies Act 1985 pursuant to rights issues, share option schemes or generally up to 5 per cent. of the Company's issued share capital			
6 To fix a maximum number of shares which may be issued to Group employees resident in the United States pursuant to the 2000 Unapproved Employee Share Option Scheme			

If this form is signed and returned without any indication as to how the proxy shall vote, he will exercise his discretion both as to how he votes and whether or not he abstains from voting in relation to the above resolutions and other business transacted at the meeting.

Names of Joint Holders (if any)

Signed _____

Date _____

Notes:

1. A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. If you wish to appoint a proxy other than the Chairman of the meeting then delete that reference and insert in the space provided the name and address of your proxy.
3. To be valid this form of proxy must be deposited at Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time for the commencement of the meeting and must be accompanied by any power of attorney under which it is signed or a notarially certified copy thereof.

4. In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names appear in the register of members in respect of the joint holding.
5. Where the member is a corporation this form must be under its common seal or signed by its attorney or a duly authorised officer.
6. Deposit of a form of proxy does not preclude you from attending and voting in person at the meeting or at any adjournment thereof.

BUSINESS REPLY SERVICE
Licence No. MB 122

Capita Registrars (Proxies)

PO Box 25

Beckenham

Kent

BR3 4BR



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Registered Number 2908288

Motion Media Technology Limited

is a subsidiary of Motion Media PLC

Designed by Tim Sexton

Printed by Superior Creative Services Ltd