

# Officers and Professional Advisors

## DIRECTORS

R F Thorne (Chairman)

F G De Angelis

A R MacKenzie

## SECRETARY

A G Aldridge

## REGISTERED OFFICE

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## AUDITORS

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## Chairman's Statement



2003 began with the Company having just raised £3.45 million, after expenses, from its shareholders at 3.5p and ended 2003 with a further £1 million net of expenses being raised by way of a placing at 10p.

The year was difficult, not least of all because some significant opportunities failed to materialise within the year and there were problems identified with the mm745 that impeded its readiness for market. This necessitated significant internal changes and a redirection of the Company to address our view of the development of the market for videophones.

Our costs needed to be reduced; operating costs fell by almost a half compared with 2002 and we concentrated on improving the performance of the mm745 and on introducing new products in the telehealth and security markets.

We now have an established and improved product portfolio addressing all three of our targeted markets that should enable us to capitalise on the portfolio of industry-leading products and 'significant' partner relationships that we have developed during the last quarter of the year.

In videotelephony, the mm745 is now a ground-breaking product, with its start up problems overcome, that has been accepted by the Cisco AVID Partner Program in the IP videotelephony category following successful completion of comprehensive independent testing. The mm156 IP/PSTN videophone and newly launched mm150 set-top box are providing entry-level IP solutions, to complete our IP portfolio. Despite the increased awareness of the press regarding the expectations about IP, we have enjoyed another stable year of sales with our well-established ISDN products, the mm225 videophone and the associated mm120 set-top box. In our Custom Solutions business, we gained a notable contract for the Mexican Government in a distance learning application utilising our technology in this field.

In the telehealth market, we have made significant advances in both product and partnerships. A major decision has been taken to focus on working with solution providers, initially addressing the tele-homecare market. We now have global relationships in-place working closely with Healthcare Vision

Inc, AMD Telemedicine, and AxSys Technologies who combine our CareStation® hardware and software into their end-to-end tele-homecare solutions. 2003 also saw the CareStation 126s and 156s become the first videophones to receive the USA Food and Drug Administration's 510k approval as a Class II medical device.

In security and surveillance, we continued to expand our existing channel structure and began to make inroads into the Central Station Monitoring market alongside remote monitoring with our eyesite® portfolio.

Whilst the turnover was slightly down on the previous year, gross margins improved.

In summary, we have built on existing relationships, enhanced our product portfolio and extended our market reach. With an improving global economic environment we enter 2004 with lower operating costs, a clear direction and new focus that we believe should see a long awaited increase in sales.

We are further delighted to announce our proposed acquisition of SCOTTY Tele-Transport Corporation Radio- und Video Elektronik AG, which offers significant potential to expand our future sales and penetrate and develop the military market as well as our existing areas of telecommunications, medical and security. In the event that the acquisition of SCOTTY did not take place, the Company would have to seek further funding.

Finally, I would like to thank our shareholders, for their continued and patient support, together with our employees for their determined efforts in supporting the Company under such difficult circumstances.

**Rex Thorne, OBE**

Executive Chairman

16 June 2004

# Operating and Financial Review

## RESULTS

- Revenues for 2003 were £1.91 million (2002 £2.15 million) reflecting a number of factors including the delayed availability of the mm745 and major internal restructuring.
- Headcount reduced from 53 at the start of 2003 to 37 at the end of 2003.
- Administration expenses (excluding restructure costs) for 2003 reduced to £4.3 million compared to £7.4 million in 2002.
- Share placing in December 2003 raised £1.1 million.
- Gross margin increased from 33.7% in 2002 to 38.1% in 2003, reflecting the change in product mix.

2003 was a year of product line expansion and consolidation across all three vertical target markets with new products added and significant enhancements made to existing offerings. Channel development continued with the addition of more territories and some significant solution providers including AMD Telemedicine, FVC M.E. and SEESA in Mexico, that offer significant potential to expand our sales.

## MARKET FOCUS AND CUSTOMERS

Again, 2003 saw all effort and resources focused on three main target markets with a 'bonus' move into custom solutions in the latter stages of the year as direct result of a significant order from the Mexican government. Advances have been made in Videotelephony, Security & Surveillance but it is Telehealth where most progress has been made.

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

2003 was a year of challenges for Motion Media in this market, as initial limitations with the mm745 were identified and addressed, and channel relationships consolidated with new targets identified.

Demand for our ISDN products continued across the European and Middle East areas through established traditional A/V channel partners addressing markets such as education, Government and projects within the international Deaf community in the UK, Norway and The Netherlands.

In IP we saw the Motion Media mm745 added to the Cisco® AVVID Partner Program in the IP videotelephony category following the successful completion of comprehensive independent testing. The difficulties encountered with the initial release of this new product have been addressed in-line with its future applications. The mm146 entry-level IP videophone has been joined by the mm156, that adds PSTN capability to the feature list, and the mm150 set-top box that provides a popular addition to this entry-level IP video communications range.

In the last year the addition of new products to the Motion Media portfolio has seen an extension to the established global channel network that includes FVC M. E., ADL, VidComGroup, ALLTEL, Talk & Vision, ReView Video UK and Canadian Technical Development Limited.

## Operating and Financial Review continued

**Telehealth** – our focus is *Tele-Homecare*, the ability to remotely monitor patients in their homes.

Our approach to this market has changed significantly in the last year as we move away from traditional channel partnerships to working with solution providers where our products are an integral part of a complete solution offered to the end-user.

The CareStation portfolio has been expanded to include videophones incorporating unique features designed specifically for telehealth including integrated stethoscopy and medical peripheral compatibility. CareStation for Windows® software has been developed and integrated into a number of solutions making our technology an essential part of a number of end-to-end solutions.

We believe that the CareStation range will ultimately be sold almost exclusively through Solution Providers that offer integrated medical monitoring solutions, where vital sign tests and measurements are taken from the patient at a distance and transmitted via a telephone line or the Internet, to the care provider who can view the live results before they are stored directly into the patient's electronic record. In this way we maximise the benefits of our unique features and avoid competing with manufacturers selling standard equipment into this market sector, as the cost of our equipment is absorbed into the complete solution.

In the US, Partners that have already integrated our products and technology include:

- Healthcare Vision Inc., who offer an end-to-end solution with our technology adding video capability to their Rendezvous™ system.
- AMD Telemedicine, the worldwide leading supplier of medical devices and related peripherals used in telemedicine is using the CareStation I 26s as part of their CareCompanion™ solution.

In Europe, we have established relationships with Proxihealth Technics in Belgium and AxSys Technologies to deliver telehealth solutions to the UK and Europe.



*CareStation I 26s, the first videophone to receive FDA 510(k) clearance as a class II medical device.*

In 2004 we plan to increase the number of solution providers on our list of partners, particularly by expanding our geographical coverage and adding more peripheral compatibility to enable monitoring and homecare as a part of the treatment for more diseases and conditions.

**Security and Surveillance** – specifically remote monitoring solutions and central stations.

In the US, this business has continued to grow and we are enjoying an increasing order book from existing partners including CSSS, NS Microwave, Checkpoint and Southeastern Leasing.

The eyesite portfolio has been extended to offer remote monitoring and visual verification that can be delivered over PSTN or IP lines, again addressing an area with considerable growth potential.

New channel outlets have been added in the US, Canada and Mexico, including Centra-Larm who specialise in central station monitoring of remote sites and Accu-tech who is a leading supplier of cabling solutions in buildings for the voice, data, sound, security, and broadband applications.

In Europe, we continue to work with Partners including Tyco and Essa who deliver traffic monitoring systems and central station monitoring equipment respectively.

**Custom Solutions**– Motion Media has sold various OEM boards and cards for many years and we pride ourselves on being able to work closely with partners to deliver customised technology for specific applications.

2003 was an encouraging year for this business with an upturn in OEM board sales to key partners including



*7E Talking Head® satellite video phone as used by broadcast media.*

7E® Communications Limited who saw increased demand for their ruggedised satellite videophone from the broadcast media.

Motion Media products were ordered by the Mexican Government as a significant part of a nationwide distance-learning program for use within the Mexican Higher Education system. To this end we made a significant addition to our capability portfolio in the form of a new custom solution called the "Distance Learning Conferencing System" (DLCS) that incorporates Motion Media videoconferencing hardware and software technologies into a large IP and PSTN video and audio conference bridging platform. The innovation behind the DLCS platform enables universities throughout Mexico to engage in state of the art distance learning programs in an affordable, reliable and extremely flexible manner. The DLCS is now under consideration by a number of higher education establishments and the technology is proving popular with applications beyond the distance learning market.

## PRODUCTS AND TECHNOLOGIES

**mm-family Portfolio** – This portfolio offers systems integrators an entry-level and premium solution for desktop videotelephony with the ability to operate over any network whether quality can be guaranteed or not.

**mm745** – Resulting from modifications made following field trials, the mm745 is now as easy-to-use as a standard telephone. It has a 12" fold-away screen, a powerful dual processor system and a hands free full-duplex acoustic echo canceller. It delivers video up to 2Mbps, incorporates a full web browser, a Java™ virtual machine and intuitive touch screen operating facility.

The mm745 has recently been accepted into the CISCO AVVID (Architecture for Voice, Video and Integrated Data) Partner Program within the IP videotelephony category.

**mm146** – The mm146 operates through IP networks using either the industry standard H.323 communications protocol or Motion Media's proprietary Packet Buddy™ protocol that delivers unchallenged quality video over uncontrolled broadband networks such as the Internet.

**mm156** – Whilst similar to the mm146, this is the world's first videophone to deliver IP functionality with the addition of H.324 (PSTN) to enable calls over ordinary telephone lines.

**mm150** - This entry-level IP and H.324 set-top box is targeted at domestic broadband service providers and SMEs. Like the mm156, it offers a choice of communications protocol, intuitive user-interface and easy installation.

### **mm225 videophone and mm120 set-top box**

– These both remain popular, cost effective and easy-to-use ISDN solutions.

**CareStation® Portfolio** – Products that have been designed and developed in conjunction with our Partners to provide an integral part of end-to-end telehealth solutions.

*mm156 entry-level IP / PSTN videophone enabling video calls over ordinary telephone lines and broadband connections.*



## Operating and Financial Review continued

**CareStation 110** – a PSTN-based set-top box now being utilised in Europe to add two-way video facilities to a healthcare solution providing patient monitoring to remote areas.

**CareStation 126s** – is the first videophone to receive the Federal Drug Administration of the USA (FDA) 510k approval as a Class II medical device. It is a PSTN videophone with integrated digital stethoscopy.

**CareStation 156s** – also approved by the FDA as a Class II medical device, the CareStation 156s delivers a PSTN capability similar to the CareStation 126s but with the addition of IP functionality too.

Both the CareStation 126s and CareStation 156s support a range of peripherals from individual suppliers including Nonin<sup>®</sup>, Criticare<sup>™</sup>, A&D Medical, Therasense, Ferraris and Analogic, addressing tests and measurement monitoring requirements for Congestive Heart Failure (CHF), Diabetes and Asthma.

**CareStation for Windows<sup>®</sup>** – this PC-based software development platform enables the care provider to see what medical peripherals are connected to the distant patient and to take readings that may then be stored with the patient's electronic medical record on a remote server, via the Internet or VPN (virtual private network). The platform has been developed to enable Motion Media to easily modify the functionality of its products to work effectively with partners and to deliver complete solutions for tele-homecare.

**eyesite Portfolio** – These products are an essential element of increasing numbers of security installations across the USA and as visual verification of alarms becomes an increasing prerequisite of Police departments, the eyesite range is ideally suited to this application.

**eyesite 110** – PSTN based video transmission unit for remote monitoring and surveillance of commercial and private premises.

**eyesite 140** – IP based video transmission unit for remote monitoring using a proprietary communications protocol.



eyesite for Windows<sup>®</sup> PRO software viewer for remote surveillance.

**eyesite for Windows<sup>®</sup> Pro** – this software viewer, when used in conjunction with the eyesite 110 and eyesite 140, enables remote monitoring of multiple locations, including personnel from the convenience of a laptop or PC.

### PEOPLE

The global headcount has been reduced to 37 with 24 in the UK and 13 in the US, focused on delivering the Company's products on time and to the highest standard.

### MANAGEMENT TEAM

2003 saw the departure of the Managing Director Graham Brown, Finance Director Iain Silvester and the Technical Director of Motion Media Technology Limited John Martin. Tony Aldridge was promoted to Finance Director of Motion Media Technology Limited and Company Secretary of Motion Media PLC. Gary De Angelis was given global responsibility for Sales and Marketing and appointed a Director of Motion Media PLC. Rex Thorne's role moved from non-Executive to Executive Chairman and has provided stability and experienced leadership in this period of significant change.

## MANUFACTURING

We now have turnkey relationships with Catalyst Manufacturing in North Carolina and Herald Electronics and TT ems in the UK. We continue to work with Flextronics in North Carolina to achieve full turnkey operation. This spread of manufacturing partners gives us the most reliable and cost-effective sources for our products, with the flexibility to scale production.

## FACILITIES

The Horton Hall lease ended in accordance with contract on 18 March 2004 and the property was returned to the landlord. The anticipated cost of dilapidations and handover, which was fully provided at 31 December 2003 is expected to cover the actual spend.

The Motion Media Technology Centre continues to serve well as our Worldwide HQ and the income from tenants has increased through the selling of more services and re-negotiating the head-lease to allow further sub-letting.

There have been no changes to the arrangements at the Wilmington, North Carolina facility.

## OUTLOOK

The Company exits 2003 with confidence in the future, having survived a testing 12 months. It looks forward to the remainder of 2004, being well positioned to significantly impact its target markets. With greatly reduced operating costs and two years of significant development and investment, the Company now has the opportunity to penetrate and develop the video market in the telecommunications, security and medical sectors. This is further substantiated by the proposed acquisition of SCOTTY as discussed in note 23 to the financial statements.

## 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 2003 of £3.6 million (2002 - £5.7 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 £1.1 million (2002 - £1.6 million) was invested in research and development.

### Working capital and stock provisions

Working capital financing has increased by £284,000 during 2003.

In 2000 Motion Media Technology Limited 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 manufacture the Nero based products and the new Equator based platform (as used in the new mm745 IP browser videophone). In 2002 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 Nano platforms and accordingly took a one-time charge of £357,000 against the book value of components not used in those platforms, which sales forecasts indicate will be surplus. This charge was included within administrative expenses in the profit and loss account for 2002. The only change in 2003 was to increase the stock provision by £45,000, representing potential obsolescence of some additional components.

## Operating and Financial Review continued

### Proceeds of share issue

On 25 November 2003 the Board approved the issue of 10,646,400 new ordinary shares for gross proceeds of £1.1 million, pursuant to the Placing and Offer for Subscription document dated 10 December 2003. Expenses of the issue amounting to £50,000 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 £39,000 (2002-£247,000). The land of £370,000 was sold in 2003, the loss on disposal of £70,000 has been recorded in 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 arrange 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

## Corporate Governance

In June 1998 Corporate Governance guidelines ("The Hampel 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 Hampel Code, the Directors have decided to review the Company's compliance with the principles set out in Section I 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 2003 with the provisions set out in Section I of the Code. The exceptions to this compliance with the Code are set out below:

### Post of Chairman and Chief Executive

The Hampel Code provision A2.1 states that the post of Chairman and Chief Executive should only be combined where this can be justified. Given the current focus on saving cost in the business, it is felt appropriate that these posts should be combined.

This will be monitored and should circumstances change, the posts will be separated in the future.

### Senior independent non-executive Director

The Hampel 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.

### Independent Directors

The Hampel Code provision A3.2 requires that the majority of non-executive directors should be independent. Currently there is only one non-executive director and he does not

## Corporate Governance continued

meet the definition of independent. This will be monitored and should circumstances change, independent director positions will be established.

### **Audit Committee**

The Audit Committee comprises one non-executive director and the Chairman. The Hampel Code provision D.3.1 states that the Audit Committee should comprise at least three directors, all non-executive. The current structure of the Audit Committee is considered appropriate for the Company at the present time.

### **Remuneration Committee**

The Remuneration Committee is chaired by Alan MacKenzie, non-executive director and includes Rex Thorne, executive chairman. The Hampel code provision B2.1 states that the Remuneration Committee should comprise only independent non-executive directors. Due to the current composition of the Board, this is not possible. The current composition of the Remuneration Committee 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 2003 the Board comprised one non executive director and two executive directors, one of whom is the Chairman.

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 of previous meetings are distributed to all directors in advance of Board meetings.

## **BOARD COMMITTEES**

### **Audit Committee**

The audit committee is chaired by Alan MacKenzie, non-executive director and includes Rex Thorne, executive chairman. The committee meets annually with 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 is chaired by Alan MacKenzie, non-executive director and includes Rex Thorne, executive chairman. 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 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 Financial Statements.

## Corporate Governance continued

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 2003. The Group's business plan was last updated in January 2004. 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 conference 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 with 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, with the specific responsibility of the Business Services Director to ensure legal responsibilities are met, in conjunction with appropriate professional advice.

### 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

On 22 April 2004, Motion Media PLC announced the proposed acquisition of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG ("SCOTTY") and the anticipated equity fundraising of over £4 million after expenses to provide working capital for the enlarged group. The reverse takeover transaction is reviewed in note 23 to the financial statements.

On the basis of the information currently available to directors concerning future sales opportunities of the combined Motion Media and Scotty group and likely restructuring activities, the directors have prepared working capital forecasts which demonstrate that, following the transaction, no further funding will be required for at least the next twelve months.

However, in the event that the acquisition of SCOTTY does not go ahead, the company would have to seek further funding in order to continue as a going concern. In light of the conditional acceptances already received from the shareholders of SCOTTY, the directors have formed the judgement that they expect the transaction and fundraising to proceed to be completed during 2004.

Furthermore, the working capital forecasts include sales from new orders which are not committed at the date of approving the financial statements. Having given careful consideration to the timing and likelihood of these sales opportunities coming to fruition, the directors have formed the judgement that they will be able to secure the orders and subsequent invoiced sales which will allow the enlarged group to meet the working capital forecasts.

As a result, at the time of approving the financial statements, the directors have formed the view that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

The financial statements do not include any adjustments that would be necessary had they been prepared on a basis other than going concern. This statement forms part of the operating and financial review.

# Report on Directors' Remuneration

The remuneration committee is chaired by Alan MacKenzie, non-executive director and includes Rex Thorne, executive chairman. 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. None of the information contained within the directors' remuneration report has been audited. (excepted as described in Note 4 to the financial statements).

## **Basic salary and benefits**

Salaries and benefits are reviewed with effect from 1 January each year. The executive director receives certain benefits-in-kind, including medical expenses insurance.

## **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. 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 exercise of options related to financial targets of the Group over a three year period. The performance targets for the main options scheme established in 2000 relate to sales growth.

## **Pensions**

With the exception of the Chairman, the executive directors are members of the Group Personal Pension Plan or equivalent in the USA. 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 director 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**

The executive Chairman and non-executive director are currently on three months entitlement to notice by either party. The executive director, Mr De Angelis is on 6 months notice by the Company and no notice on his part.

During the year, ex-gratia payments of £30,000 were made to each of G D Brown and I C Silvester, who resigned from the Board on 18 June 2003. 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 (including compensation for loss of office) are as follows:

	Salary	Fees	Benefits in kind	Total emoluments excluding pension contributions		Pension contributions		
				Bonus	31 Dec 2003	31 Dec 2002	31 Dec 2003	31 Dec 2002
	£	£	£	£	£	£	£	£
<b>Executive directors</b>								
F G De Angelis (1)	50,547*	-	3,970*	-	54,517*	-	3,465*	-
R F Thorne (1)	20,000	-	-	-	20,000	17,500	-	583
G D Brown (3)	99,946*	-	2,928*	-	102,874*	135,280	3,876*	10,800
I C Silvester (3)	68,859*	-	2,604*	-	71,463*	72,280	3,000*	5,200
<b>Non-executive directors</b>								
A R MacKenzie (2)	-	15,000	-	-	15,000	12,500	-	-
	239,352	15,000	9,502		263,854	237,560	10,341	16,583

(1) F G De Angelis was not a director of the Group, and R F Thorne was a non-executive director until June 2003.

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

(3) Part year to June 2003

\* for six months

### Interest in share options

The Company has three share option schemes by which 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 2002	Granted number	At 31 December 2003	Exercise price per share	Date from which exercisable	Expiry date
Rex Thorne	-	600,000	600,000	12.0p	18 December 2006	18 December 2013
Alan MacKenzie	-	500,000	500,000	12.0p	18 December 2006	18 December 2013
F G De Angelis	245,400	-	245,400	86.5p	23 May 2004	23 May 2011
F G De Angelis	100,000	-	100,000	25.0p	7 June 2005	7 June 2012
F G De Angelis	-	600,000	600,000	12.0p	26 November 2006	26 November 2013
	345,400	1,700,000	2,045,400			

The directors may only exercise the options if certain performance targets related to the Group's financial performance are achieved. The performance criteria are discussed in the share option section at the beginning of the remuneration report.

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 2003 was 11.5p per share. The high and low share prices during the year were 20.5p and 1.75p respectively.

### Approval

The remuneration report was approved by the Board of Directors on 12 May 2004 and signed on its behalf by:

Alan MacKenzie

Chairman of the Remuneration Committee

# Directors' Profiles

## EXECUTIVE DIRECTORS



**Rex Thorne**

Chairman

Aged 76

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 a degree in telecommunications and is a Fellow of the Institute of Management and has an extensive career background in the telecommunications and electronics industries extending over 50 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.



**Garey De Angelis**

Worldwide Sales and Marketing Director  
and Chief Executive Officer, US Operations

Aged 53

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 an executive 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. He was appointed as a director of Motion Media PLC on 18 June 2003.

## NON-EXECUTIVE DIRECTORS



**Alan MacKenzie**

Aged 47

Mr MacKenzie is a graduate of the London School of Economics. He has extensive experience in stockbroking, mergers and acquisitions, and corporate finance, gained over a number of years with firms including Grieseson Grant and Co., and CL Alexanders Laing and Cruickshank. In 1985 he joined Laing and Cruickshank to establish a new electronics research team, becoming an associate partner in 1986 and a director in 1987. He was a member of the London Stock Exchange between 1987 and 1988 and became a member of the Securities Institute in 1994. In 1988 he formed ARM & Co., specialising in mergers and acquisitions and in 1994 formed ARM Corporate Finance Limited to specialise in corporate finance activities. ARM Corporate Finance, which acts as Financial Adviser to Motion Media, is regulated by the Financial Services Authority, is a UKLA Registered Sponsor, AIM Nominated Adviser and a Member of OFEX.

## OTHER SENIOR MANAGEMENT



**Tony Aldridge**

Finance Director of Motion Media  
Technology Limited and of Motion Media  
Technology Inc and Company Secretary for  
Motion Media PLC

Aged 54

Mr Aldridge joined Motion Media Technology Limited in August 2001 as Financial Controller. He has over 30 years experience of senior financial, commercial and Board positions in large and small corporates in the manufacturing, service and high-tech sectors. He took over the director role in June 2003.



**Nick Sturge**

Business Services Director of Motion  
Media Technology Limited

Aged 37

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, Human Resources, and Facilities in the UK and Manufacturing and Quality Worldwide. He previously worked for Inmos in its Image Processing Group, where he worked on image compression technology, software development and CAD hardware and software systems specification.

# Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2003.

## 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 £3.6 million (2002: £6.8 million). Costs of research and development undertaken in the year totalling £1.1 million (2002: £1.6 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 (2002: nil) at this stage in the Company's development.

## TANGIBLE FIXED ASSETS

On 30 June 2003, the Group sold the remainder of its freehold land for the gross proceeds of £300,000, generating a loss of £70,000 after costs.

## 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 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 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 47 (2002: 64).

The average number of days purchases included within trade creditors of the Company at the year-end was 183 (2002: 115). Trade creditors of the Company were £79,000 at the year-end.

## DIRECTORS AND THEIR INTERESTS

The current membership of the Board is set out on page 1.

The directors who served during the year and to date were as follows:

R F Thorne

A R Mackenzie

F G De Angelis (appointed 18 June 2003)

G D Brown (resigned 18 June 2003)

I C Silvester (resigned 18 June 2003)

The interests of the directors of the Company in the ordinary share capital of the Company at 31 December 2003, and 1 January 2003 or date of appointment were:

	Ordinary shares 31 December 2003 1p shares	Ordinary shares 1 January 2003 1p shares
R F Thorne (non-executive)	1,167,800	1,167,800
A R MacKenzie (non-executive) (1)	1,652,858	3,152,858
F G De Angelis (appointed 18 June 2003)	-	-

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

## SUBSTANTIAL SHAREHOLDINGS

The Company has been notified or is aware of holdings of 3% or more of the issued ordinary share capital as at 25 March 2004.

	Ordinary shares	Percentage of existing ordinary share capital
Mr C Blackburn	20,250,000	8.96

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

## Directors' Report continued

### AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

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

**A G Aldridge**  
**Secretary**  
16 June 2004

## 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; and
- 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 the system of internal control 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 consolidated financial statements of Motion Media PLC for the year ended 31 December 2003 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 misstatements 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Going concern**

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the proposed acquisition of Scotty and the requirement to generate major new orders. In view of the significance of this uncertainty, we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

## **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 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## **DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors  
Bristol 18 June 2004

## Consolidated profit and loss account

For the year ended 31 December 2003		2003 £'000	2002 £'000
	Note		
<b>Turnover</b>	2	1,911	2,150
Cost of sales		(1,183)	(1,426)
<b>Gross profit</b>		728	724
Restructuring expenses		(141)	(434)
Other administrative expenses		(4,296)	(7,400)
Administrative expenses		(4,437)	(7,834)
Other operating income	3	99	113
<b>Operating loss</b>	4	(3,610)	(6,997)
(Loss) / Profit on sale of freehold land and buildings		(70)	111
<b>Loss on ordinary activities before interest</b>		(3,680)	(6,886)
Interest receivable	6	56	37
<b>Loss on ordinary activities before taxation</b>		(3,624)	(6,849)
Tax credit on loss on ordinary activities	7	293	330
<b>Loss for the financial year</b>		(3,331)	(6,519)
Loss per share (basic and diluted)	18	1.6p	6.4p

All the activities of the group are classed as continuing.

## Consolidated statement of total recognised gains and losses

For the year ended 31 December 2003		2003 £'000	2002 £'000
Loss for the financial year		(3,331)	(6,519)
Currency translation differences on foreign currency investments		(157)	(332)
<b>Total recognised gains and losses relating to the year</b>		(3,488)	(6,851)

## Consolidated balance sheet

As at 31 December 2003	Note	2003 £'000	2002 £'000
<b>Fixed Assets</b>			
Intangible assets	8	49	71
Tangible assets	9	427	1,050
		476	1,121
<b>Current Assets</b>			
Stocks	11	2,026	1,879
Debtors due within one year	12	1,475	987
Short term investments - treasury deposits		210	-
Cash at bank and in hand		1,275	4,154
		4,986	7,020
<b>Creditors: amounts falling due within one year</b>	13	(1,278)	(1,549)
<b>Net current assets</b>		3,708	5,471
<b>Total assets less current liabilities</b>		4,184	6,592
<b>Net assets</b>		4,184	6,592
<b>Capital and reserves</b>			
Called up share capital	14	2,251	2,129
Share premium account	15	25,343	24,385
Capital redemption reserve	15	183	183
Profit and loss account	15	(23,593)	(20,105)
<b>Equity Shareholders' funds</b>		4,184	6,592

These financial statements were approved by the Board of Directors on 16 June 2004.

Signed on behalf of the Board of Directors

**Rex Thorne**  
Executive Chairman

# Company balance sheet

As at 31 December 2003	Note	2003 £'000	2002 £'000
<b>Fixed Assets</b>			
Investments	10	26,731	23,544
<b>Current Assets</b>			
Debtors due within one year	12	18	5
Short term investments - treasury deposits		210	-
Cash at bank and in hand		1,118	3,902
		1,346	3,907
<b>Creditors: Amounts falling due within one year</b>	13	(124)	(437)
<b>Net current assets</b>		1,222	3,470
<b>Net assets</b>		27,953	27,014
<b>Capital and reserves</b>			
Called up share capital	14	2,251	2,129
Share premium account	15	25,343	24,385
Capital redemption reserve	15	183	183
Profit and loss account	15	176	317
<b>Equity Shareholders' funds</b>		27,953	27,014

These financial statements were approved by the Board of Directors on 16 June 2004

Signed on behalf of the Board of Directors

**Rex Thorne**  
Executive Chairman

## Consolidated cash flow statement

Year ended 31 December 2003	Note	2003 £'000	2002 £'000
<b>Net cash outflow from operating activities</b>	19	(3,603)	(5,723)
<b>Returns on investments and servicing of finance</b>			
Interest received		56	37
<b>Taxation</b>			
Corporation tax credit		41	505
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(39)	(247)
Sale of tangible fixed assets		323	4,051
		284	3,804
<b>Management of liquid resources</b>			
Increase in short term deposits		(210)	-
<b>Net cash outflow before financing</b>		(3,432)	(1,377)
<b>Financing</b>			
Issue of ordinary share capital		1,115	3,824
Share issue costs		(405)	(19)
		710	3,805
<b>(Decrease)/Increase in cash in the year</b>	20	(2,722)	2,428

# Notes to the financial statements

Year ended 31 December 2003

## I ACCOUNTING POLICIES

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

### Basis of preparation

On 22 April 2004, Motion Media PLC announced the proposed acquisition of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG ("SCOTTY") and the anticipated equity fundraising of over £4 million after expenses to provide working capital for the enlarged group. The reverse takeover transaction is reviewed in note 23 to the financial statements. On the basis of the information currently available to directors concerning future sales opportunities of the combined Motion Media and SCOTTY group and likely restructuring activities, the directors have prepared working capital forecasts which demonstrate that, following the transaction, no further funding will be required for at least the next twelve months.

However, in the event that the acquisition of SCOTTY does not go ahead, the company would have to seek further funding in order to continue as a going concern. In light of the number of acceptances already received from the shareholders of SCOTTY, the directors have formed the judgement that it is reasonable to expect the transaction and fundraising to be completed during 2004. Furthermore, the working capital forecasts include sales from new orders which are not committed at the date of approving the financial statements. Having given careful consideration to the timing and likelihood of these sales opportunities coming to fruition, the directors have formed the judgement that they will be able to secure the orders and subsequent invoiced sales which will allow the enlarged group to meet the working capital forecasts.

As a result, at the time of approving the financial statements, the directors have formed the view that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would be necessary had they been prepared on a basis other than going concern.

### 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 2003 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 £141,000, (2002: loss £314,000).

### 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 Intellectual Property Rights acquired from C-Phone Corporation, which is core to current Telehealth and Security products being sold in the US, are amortised on a straight line basis over the expected future product sales to which the Intellectual Property Rights 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: Fixtures, fittings, tools and equipment 25% on cost.

In 2003 the freehold land was sold.

### 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.

### 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	
	2003	2002	2003	2002	2003	2002
Geographical analysis by origin.	£'000	£'000	£'000	£'000	£'000	£'000
UK	1,015	1,475	(2,691)	(4,794)	7,977	9,871
US	896	675	(933)	(2,055)	(3,793)	(3,279)
	1,911	2,150	(3,624)	(6,849)	4,184	6,592

	2003	2002
Geographical analysis of turnover by destination	£'000	£'000
United Kingdom	804	1,228
Other European Countries	96	183
Rest of the World	1,011	739
	1,911	2,150

## 3 OTHER OPERATING INCOME

	2003	2002
	£'000	£'000
Grants receivable	99	113

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

	2003	2002
	£'000	£'000
Operating loss is arrived at after charging/(crediting):		
Directors' emoluments	264	238
Directors' pension contributions	10	17
Depreciation - owned assets	277	306
Amortisation of intangible assets	16	23
Auditors' remuneration:		
- Group audit fees	16	20
- Company audit fees	5	5
- non-audit services	18	39
Operating leases - land and buildings	450	369
(Profit)/Loss on disposal of tangible fixed assets	(2)	1
Research and development costs	1,072	1,634

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

Audited information concerning the highest paid director and the number of directors who are members of defined contribution pension schemes are provided in the report on Director's remuneration on pages 11 and 12.

In addition to the amounts disclosed above, the auditors' remuneration for 2002 includes £30,000 of non-audit fees in relation to Placing and Offer for Subscription, which were 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:

	2003	2002
	No.	No.
Management and office	43	82

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£'000	£'000
Wages and salaries	2,188	3,932
Social security costs	187	294
Other pensions costs	80	186
	2,455	4,412

## Notes to the financial statements continued

### 6 INTEREST RECEIVABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Bank interest receivable	56	37

### 7 TAX CREDIT LOSS ON ORDINARY ACTIVITIES

#### i) Analysis of tax charge on ordinary activities

The corporation tax credit of £293,000 (2002: £330,000) relates to a research and development tax credit received in the period all of which relates to 2002. No provision has been made in the profit and loss account for the tax credit in relation to 2003, which is anticipated to be received in 2004.

	2003 £'000	2002 £'000
<b>ii) Factors affecting tax charge for the Current Period</b>		
Losses on ordinary activities before tax	(3,624)	(6,849)
Tax at 30% thereon	(1,087)	(2,055)
Effects of:		
Expenses not deductible for tax purposes	2	55
Capital allowances in excess of depreciation	76	95
No relief for current year losses	774	1,905
Enhanced R&D relief	(92)	-
Chargeable gain	54	-
Loss utilised (R&D tax credit)	276	-
Prior period adjustments in respect of R&D repayments	(296)	(330)
Current tax credit for period	(293)	(330)

#### 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 £1.6m (of which £3m are in the US). The amount of the asset not recognised is £5m. These assets are recoverable on the generation of suitable future profits.

#### iv) Tax affect of exceptional items

A chargeable gain of £180,000 on the disposal of land. However, no tax charge occurs, as the gain is set off against trading losses.

### 8 INTANGIBLE FIXED ASSETS

Group	Licences £'000
<b>Cost</b>	
At 1 January 2003	103
Translations difference	(19)
At 31 December 2003	84
<b>Accumulated amortisation</b>	
At 1 January 2003	32
Translation difference	(13)
Charge for the year	16
At 31 December 2003	35
<b>Net book value</b>	
At 31 December 2003	49
At 31 December 2002	71

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

## 9 TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Fixtures, fittings, tools and equipment £'000	Totals £'000
<b>Cost</b>			
At 1 January 2003	370	1,392	1,762
Additions	-	39	39
Disposals	(370)	(27)	(397)
At 31 December 2003	-	1,404	1,404
<b>Accumulated depreciation</b>			
At 1 January 2003	-	712	712
Charge for the year	-	277	277
Disposals	-	(12)	(12)
At 31 December 2003	-	977	977
<b>Net book value</b>			
<b>At 31 December 2003</b>	-	427	427
At 31 December 2002	370	680	1,050

The Company held no fixed assets during the year.

## 10 INVESTMENTS: COMPANY

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2003	17,751	5,793	23,544
Additions/movements in the year	-	3,187	3,187
<b>at 31 December 2003</b>	<b>17,751</b>	<b>8,980</b>	<b>26,731</b>
at 31 December 2002	17,751	5,793	23,544

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.

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 design, marketing and sale of videotelecommunications equipment.

## 11 STOCKS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Raw materials and consumables	1,265	1,388	-	-
Work in progress	216	-	-	-
Finished goods and goods for resale	545	491	-	-
	2,026	1,879	-	-

There is no material difference between the balance sheet value of goods and their replacement value.

## Notes to the financial statements continued

### 12 DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	590	447	-	-
Other debtors	343	32	15	-
Prepayments and accrued income	542	508	3	5
	1,475	987	18	5

### 13 CREDITORS: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	898	774	79	167
Other creditors	18	6	-	6
Other taxes and social security	32	79	-	-
Accruals and deferred income	330	690	45	264
	1,278	1,549	124	437

### 14 SHARE CAPITAL

	2003 £'000	2002 £'000
<b>Authorised</b>		
275,000,000 Ordinary shares of 1p each	2,750	2,750
<b>Allotted and fully paid</b>		
225,118,935 (2002: 212,297,535) Ordinary shares of 1p each	2,251	2,129

On 10 December 2003 10,646,400 new ordinary shares of 1p each were issued for cash at 10p per share.

During the year employee options over 1,545,000 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 Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange.

At 31 December 2003, the following options over ordinary share capital have been granted, but not exercised:

Number of shares	Exercise price	Exercise period
40,000	14.50p	Between April 2001 and April 2008
21,784	140.00p	Between April 2003 and January 2004
26,569	140.00p	Between April 2003 and April 2010
31,900	85.00p	Between July 2003 and July 2004
150,988	85.00p	Between May 2004 and May 2011
282,600	86.50p	Between May 2004 and May 2011
50,000	44.30p	Between October 2004 and October 2011
270,000	25.00p	Between July 2003 and July 2004
600,000	25.00p	Between May 2005 and May 2012
325,000	26.25p	Between May 2005 and May 2012
200,000	25.00p	Between June 2005 and June 2012
130,000	3.50p	Between July 2003 and July 2004
1,395,000	3.50p	Between December 2005 and December 2012
1,650,000	2.675p	Between July 2003 and December 2006
2,200,000	12.00p	Between November 2006 and November 2013
1,460,000	12.00p	Between December 2006 and December 2013

## 15 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 2003 £'000	Total 2002 £'000
At the beginning of the year	2,129	24,385	183	(20,105)	6,592	9,993
Shares issued	122	1,008	-	-	1,130	3,899
Share issue costs	-	(50)	-	-	(50)	(449)
Exchange losses	-	-	-	(157)	(157)	(332)
Loss for the year	-	-	-	(3,331)	(3,331)	(6,519)
<b>At the end of the year</b>	<b>2,251</b>	<b>25,343</b>	<b>183</b>	<b>(23,593)</b>	<b>4,184</b>	<b>6,592</b>

  

Company	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 2003 £'000	Total 2002 £'000
At the beginning of the year	2,129	24,385	183	317	27,014	23,878
Shares issued	122	1,008	-	-	1,130	3,899
Share issue costs	-	(50)	-	-	(50)	(449)
Loss for the year	-	-	-	(141)	(141)	(314)
<b>At the end of the year</b>	<b>2,251</b>	<b>25,343</b>	<b>183</b>	<b>176</b>	<b>27,953</b>	<b>27,014</b>

Included in the profit and loss account is goodwill totalling £755,082 (2002: £755,082) has been written off against reserves.

## 16 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2003 £'000	2002 £'000
Operating lease which expire:		
Within one year	12	-
In two to five years	400	450
	<b>412</b>	<b>450</b>

## 17 RELATED PARTY TRANSACTIONS

Motion Media PLC has taken advantage of the exemption under FRS 8, "Related Party Transactions" para 3(c), not to disclose any transactions within the Group due to the inclusion of all subsidiaries within these consolidated financial statements.

During the year, a total of £228,145 (2002: £179,907) was paid to ARM Corporate Finance Limited, a company in which A R MacKenzie is a director and shareholder. The fees relate to corporate finance services provided by ARM Corporate Finance Limited, including services in connection with the raising of new equity finance (which also involved the payment of commissions to other intermediaries).

## 18 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the year £3,331,000 (2002: £6,519,000), by the weighted average number of ordinary shares in issue during the period of 213,700,035 (2002: 102,059,928).

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 2003 and are therefore not dilutive.

## Notes to the financial statements continued

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

	2003 £'000	2002 £'000
Operating loss	(3,610)	(6,997)
Amortisation of intangible assets	16	23
Depreciation of tangible fixed assets	277	306
(Profit)/loss on disposal of tangible fixed assets	(2)	1
(Increase)/decrease in stocks	(147)	902
(Increase)/decrease in debtors	(221)	542
Increase/(decrease) in creditors	84	(500)
<b>Net cash outflow from operating activities</b>	<b>(3,603)</b>	<b>(5,723)</b>

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

	2003 £'000	2002 £'000
(Decrease)/Increase in cash in the year	(2,722)	2,428
Movement in net funds in the year	(2,722)	2,428
Translation difference	(157)	(332)
Net funds at 1 January	4,154	2,058
<b>Net funds at 31 December</b>	<b>1,275</b>	<b>4,154</b>

### 21 ANALYSIS OF NET FUNDS

	31 Dec 2002 £'000	Cash flow £'000	Exchange movement £'000	31 Dec 2003 £'000
Cash at bank and in hand	4,154	(2,722)	(157)	1,275

### 22 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):

	2003 £'000	2002 £'000
US Dollar	83	(27)
Euro	13	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.

### 23 POST BALANCE SHEET EVENT

The Group has negotiated to acquire, via reverse takeover, SCOTTY Tele-Transport Radio-und Video Elektronik AG, a company registered in Austria. At the time of approving these financial statements, the Group has reached agreement, with a sufficient proportion of the shareholders of SCOTTY, but the outcome of the negotiations is still dependent upon several contingent factors, which includes the approval of the transaction by the shareholders of Motion Media PLC.