THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, or the contents of this document, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities.

If you have sold or otherwise transferred all of your Existing Ordinary Shares in Motion Media PLC, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Existing Ordinary Shares you are referred to the instructions set out in paragraph 3 of Part II of this document and in the Application Form.

A copy of this document, which comprises a prospectus prepared in accordance with the POS Regulations, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations. This document has been drawn up in accordance with the POS Regulations and the AIM Rules.

The Directors and the Proposed Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Concert Party, whose names appear in Part VII of this document, accept responsibility for the information contained in this document which relates to each of them as members of the Concert Party. To the best of the knowledge and belief of the members of the Concert Party (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

In accordance with the AIM Rules, trading in the Existing Ordinary Shares on AIM will be cancelled in connection with the Proposals and application will be made for the Existing Ordinary Shares to be re-admitted, and for the New Ordinary Shares to be admitted to trading on AIM. **AIM is a market designed primarily for emerging or smaller companies, to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risk of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.** The AIM Rules are less demanding than those of the Official List. In particular, prospective investors should consider the contents of Part VI of this document entitled "Risk Factors". **Further, neither London Stock Exchange plc nor UKLA have examined or approved the contents of this document.** The Existing Ordinary Shares and the New Ordinary Shares will not be dealt on any other recognised investment exchange and no other such applications will be made.

MOTION MEDIA PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 2908288)

Proposed acquisition of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG

Proposed change of name to SCOTTY Group plc and change of year end to 31 July

Placing of up to 114,475,000 Ordinary Shares at 4p per share

Open Offer of up to 50,000,000 Ordinary Shares at 4p per share

Admission of the Enlarged Share Capital to trading on AIM

Notice of Extraordinary General Meeting

Nominated Adviser	Broker
ARM Corporate Finance Limited	**Charles Stanley & Co. Limited**

The New Ordinary Shares do not qualify for distribution under any of the relevant securities laws of the United States, South Africa, Canada, Australia, Japan or Ireland nor has a prospectus in relation to the New Ordinary Shares been lodged or registered with any statutory or regulatory bodies in those countries. Accordingly, the New Ordinary Shares may not be directly or indirectly, offered, sold, taken up, delivered, or transferred in or into the United States, South Africa, Canada, Australia, Japan or Ireland. Shareholders with a registered address in any territory outside the United Kingdom are referred to paragraph 7 of Part II. This document is being distributed to Shareholders who have registered addresses in the United States, South Africa, Canada, Australia, Japan or Ireland solely for the purpose of giving notice of the Extraordinary General Meeting and providing information in connection with that meeting.

The latest time for application and payment in full under the Open Offer is 3.00 p.m. on 26 July 2004 and the procedure for application and payment is set out in paragraphs 3 and 4 of Part II of this document and in the Application Form which accompanies this document. Applications under the Open Offer may only be made on the Application Form which is personal to the person(s) named thereon and may not be sold, assigned or transferred except to satisfy bona fide market claims.

A notice convening an Extraordinary General Meeting of Motion Media to be held at the Motion Media Technology Centre, Severn Bridge, Aust, Bristol, BS35 4BL at 2.30 p.m on 28 July 2004 (or, if later, as soon as practicable after the Annual General Meeting of the Company convened for 2.00 p.m on the same date has been concluded or adjourned) is set out at the end of this document. The Form of Proxy for use in connection with the EGM should be completed and returned by post to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible and, to be valid, must arrive not less than 48 hours before the time fixed for the EGM. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the EGM should they so wish.

ARM and Charles Stanley, both of which are authorised and regulated by the Financial Services Authority, are acting as Motion Media's nominated adviser and broker respectively and no one else and will not be responsible to anyone other than Motion Media for providing the protections afforded to the customers of ARM or Charles Stanley or for providing advice in relation to the contents of this document or any other matter in connection with the Proposals. ARM's responsibilities as Motion Media's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to Motion Media or to any Director or Proposed Director.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Suspension of dealings in the Existing Ordinary Shares on AIM	26 March 2004
Record Date for the Open Offer	1 July 2004
Restoration of dealings in the Existing Ordinary Shares on AIM	8.00 a.m. on 7 July 2004
Latest time and date for splitting Application Forms (to satisfy *bona fide* market claims only)	3.00 p.m. on 23 July 2004
Latest time and date for receipt of Forms of Proxy	**2.30 p.m. on 26 July 2004**
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	**3.00 p.m. on 27 July 2004**
EGM	2.30 p.m. on 28 July 2004
Completion	8.00 a.m. on 29 July 2004
Admission	8.00 a.m. on 29 July 2004
CREST accounts credited in respect of New Ordinary Shares in uncertificated form	2 August 2004
Definitive share certificates in respect of New Ordinary Shares in certificated form despatched by	2 August 2004

ISSUE STATISTICS

Placing Price	4p
Number of Placing Shares (including up to 14,475,000 Open Offer Shares)	114,475,000
Number of Open Offer Shares*	50,000,000
Number of Initial Consideration Shares**	262,500,000
Number of Ordinary Shares in issue immediately following Admission**	613,568,935
Percentage of the Enlarged Share Capital represented by the Placing Shares (including 14,475,000 Open Offer Shares)**	18.66
Percentage of the Enlarged Share Capital represented by the Initial Consideration Shares**	42.78
Market capitalisation of the Company immediately following Admission at the Placing Price**	£24.54 million
Gross proceeds of the Placing and Open Offer**	£5 million
Estimated net proceeds of the Placing and Open Offer**	£4.1 million

* assuming full subscription of the Open Offer
** assuming full acceptance of the Offer

DIRECTORS, SECRETARY AND ADVISERS

Directors	Rex Francis Thorne OBE, BSc, FIM, MCIM *(Executive Chairman)* Francis Garey De Angelis (USA) *(Global Sales and Marketing Director)* Alan Richard MacKenzie BSc (Econ.), FSI *(Non-executive Director)* all of whose business address is Motion Media Technology Centre, Severn Bridge, Aust, Bristol BS35 4BL
Proposed Directors	Kurt Kerschat *(Proposed Chief Executive Officer)* Georg Weber *(Proposed Finance Director)* Dr. Hans Peter Sauerzopf *(Proposed Non-executive Director)* Dr. Ernst Georg Wustinger *(Proposed Non-executive Director)* all of whose business address is A-8074 Grambach, Teslastrasse 4, Austria
Company Secretary and Registered Office	Anthony Graham Aldridge BA (Hons.), ACMA Motion Media Technology Centre Severn Bridge Aust Bristol BS35 4BL
Nominated Adviser	ARM Corporate Finance Limited 12 Pepper Street London E14 9RP
Broker	Charles Stanley & Co. Limited 25 Luke Street London EC2A 4AR
Reporting Accountants & Auditors	Deloitte & Touche LLP Queen Anne House 69-71 Queen Square Bristol BS1 4JP
Solicitors to the Company	Burges Salmon LLP Narrow Quay House Narrow Quay Bristol BS1 4AH
Solicitors to the Placing and the Open Offer	Osborne Clarke Hillgate House 26 Old Bailey London EC4M 7HW
Principal Bankers	The Royal Bank of Scotland PLC London City Office 62-63 Threadneedle Street London EC2R 8LA
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Receiving Agent	Capita IRG Plc Corporate Actions PO Box 166 The Registry 34 Beckenham Road Beckenham Kent BR3 4TH

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Acquisition"	the proposed acquisition by Motion Media of the entire issued share capital of SCOTTY pursuant to the SCOTTY Agreement and the Offer
"Act"	the Companies Act 1985, as amended
"Admission"	the re-admission of the Existing Ordinary Shares and the admission of the Placing Shares (including the Open Offer Shares) and the Initial Consideration Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
"AGM"	the Annual General Meeting of the Company to be held at the Motion Media Technology Centre, Severn Bridge, Aust, Bristol BS35 4BL at 2.00 p.m. on Wednesday, 28 July 2004
"AIM"	the AIM Market of the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange governing admission to and the operation of AIM
"Application Form"	the application form relating to the Open Offer, which accompanies this document
"ARM"	ARM Corporate Finance Limited
"Articles"	the articles of association of the Company, as amended from time to time
"Capita Registrars"	a trading name of Capita IRG Plc
"Charles Stanley"	Charles Stanley & Co. Limited
"City Code"	the City Code on Takeovers and Mergers
"Closing Price"	the average closing middle market quotation of an Ordinary Share (as derived from the Daily Official List) over the calendar month ending on 31 January 2005
"Company" or "Motion Media"	Motion Media PLC
"Completion"	completion of the SCOTTY Agreement in accordance with its terms
"Concert Party"	the Proposed Directors and certain other SCOTTY Shareholders, further details of which are set out in Part VII of this document
"Consideration Shares"	the Initial Consideration Shares and the Deferred Consideration Shares
"CREST"	the relevant system (as defined in the CREST Regulations) of which CRESTCo Limited (as defined in the CREST Regulations), is the operator, in accordance with which securities may be held and transferred in uncertificated form
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
"Daily Official List"	the Daily Official List of the London Stock Exchange
"Deferred Consideration"	the consideration which, in accordance with the provisions of the SCOTTY Agreement, may be payable by Motion Media to the Vendors and such Remaining SCOTTY Shareholders whose SCOTTY Shares are acquired by Motion Media pursuant to the Offer, calculated by reference to the Deferred Consideration Profit

"Deferred Consideration Profit"	the pre-tax profit of SCOTTY for the 12 month period ending on 31 December 2004, as calculated in accordance with the provisions set out in the SCOTTY Agreement
"Deferred Consideration Shares"	up to 350,000,000 new Ordinary Shares which may be issued in satisfaction of the Deferred Consideration
"Directors" or "Board"	the directors of the Company as at the date of this document
"EGM"	the Extraordinary General Meeting of the Company to be held at 2.30 p.m. (or, if later, as soon as practicable after the AGM has been concluded or adjourned) on 28 July 2004, notice of which is set out at the end of this document
"EGM Resolutions"	the resolutions contained in the Notice of Extraordinary General Meeting set out at the end of this document
"Enlarged Share Capital"	the issued ordinary share capital of the Company following the Placing and Open Offer and the Acquisition
"Existing Group"	the Company and its subsidiaries as at the date of this document
"Existing Ordinary Shares"	the issued Ordinary Shares as at the date of this document
"Form of Proxy"	the form of proxy for use at the EGM set out at the end of this document
"FSA"	The Financial Services Authority
"Group"	Motion Media and its existing subsidiaries
"Initial Consideration"	the consideration payable to the Vendors and those remaining SCOTTY shareholders whose SCOTTY Shares are acquired by Motion Media pursuant to the Offer, in each case to be satisfied by the issue of the Initial Consideration Shares
"Initial Consideration Shares"	up to 262,500,000 New Ordinary Shares to be issued credited as fully paid to the Vendors at Completion
"Investors"	all or any of the subscribers for the Open Offer Shares pursuant to the Open Offer
"ITU"	International Telecommunications Union, a body which defines international telecommunications standards
"London Stock Exchange"	London Stock Exchange plc
"New Group"	the Company and its subsidiaries immediately following Admission
"New Ordinary Shares"	together the Initial Consideration Shares, the Placing Shares and the Open Offer Shares
"Offer"	the offer made by the Company to acquire all of the SCOTTY Shares held by the Remaining SCOTTY Shareholders
"Open Offer Shares"	50,000,000 Ordinary Shares being 14,475,000 of the Placing Shares, the subject of the Open Offer, 10,525,000 New Ordinary Shares and 25,000,000 Initial Consideration Shares, the subject of the Vendor Consideration Shares Agreement

"Open Offer"	the invitation by the Company to Qualifying Shareholders to subscribe for the Open Offer Shares at the Placing Price on the terms and conditions set out in Part II of this document and in the Application Form
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Panel"	the Panel on Takeovers and Mergers
"Placing"	the conditional placing by Charles Stanley of the Placing Shares at the Placing Price in accordance with the Placing Agreement
"Placing Agreement"	the conditional agreement dated 6 July 2004 between Motion Media, the Directors, the Proposed Directors, Charles Stanley and ARM, further details of which are set out in paragraph 8A(e) of Part VIII of this document
"Placing Price"	4p per Placing Share
"Placing Shares"	up to 114,475,000 New Ordinary Shares to be subscribed pursuant to the Placing and the Open Offer
"POS Regulations"	the Public Offers of Securities Regulations 1995, as amended
"Prospectus"	this document
"Proposals"	the Acquisition, the Placing, the Open Offer and the proposed change of the Company's name
"Proposed Directors"	Kurt Kerschat, Georg Weber, Peter Sauerzopf and Ernst Wustinger
"Qualifying Shareholders"	Shareholders whose names appear on the register of members of the Company on the Record Date (save as otherwise provided in Part II in relation to certain overseas Shareholders)
"Record Date"	the record date for the Open Offer, being the close of business on 1 July 2004
"Remaining SCOTTY Shareholders"	the shareholders of SCOTTY other than the Vendors
"Share Option Schemes"	the 1997 Scheme, the 2000 Approved Scheme, the 2000 Unapproved Scheme, the 2001 Incentive Stock Option Scheme (US) and the 2002 EMI Scheme
"Shareholders"	holders of Ordinary Shares
"SCOTTY"	SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft
"SCOTTY Agreement"	the conditional agreement dated 6 July 2004 between the Vendors and Motion Media, further details of which are set out in paragraph 8A(f) of Part VIII of this document
"SCOTTY Group"	SCOTTY and its subsidiaries
"SCOTTY Shareholders"	the Vendors and the Remaining SCOTTY Shareholders
"SCOTTY Shares"	up to 185,983 shares in SCOTTY to be acquired by Motion Media pursuant to the SCOTTY Agreement and the Offer, representing the entire issued share capital of SCOTTY

"UKLA"	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"Vendors"	the vendors of SCOTTY Shares pursuant to the SCOTTY Agreement
"Vendor Consideration Shares Agreement"	the agreement dated 6 July 2004 between the Company and certain of the Vendors referred to in paragraph 13.20 of Part VIII of this document
"Warrantors"	the Proposed Directors, Mr Walter Müller and Mr Andreas Bödenauer
"Warranty Deed"	the deed dated 6 July 2004 between the Company and the Warrantors containing warranties and indemnities about SCOTTY and its business
"Zydacron"	Zydacron Inc., the SCOTTY subsidiary based in Manchester, New Hampshire (US)
"1997 Scheme"	the employee share option scheme adopted by the Company on 27 March 1997
"2000 Approved Scheme"	the approved employee share option scheme adopted by the Company on 5 May 2000
"2000 Unapproved Scheme"	the unapproved employee share option scheme adopted by the Company on 5 May 2000
"2001 Incentive Stock Option Scheme (US)"	the incentive stock option scheme adopted by the Company on 8 May 2001 for the benefit of US employees, being a sub-plan of the 2000 Unapproved Scheme
"2002 EMI Scheme"	the Enterprise Management Incentive share option schemes adopted by the Company on 30 May 2002

GLOSSARY OF TERMS

In this document the following expressions have the following meanings:

Beta Tests	the last stage of testing of a new product before it is officially released
BNC	a bayonet-locking connector for slim coaxial cables
Broadband	a service or connection allowing a considerable amount of digital information to be conveyed over cable or xDSL modems on high speed networks. Generally defined as a bandwidth greater than 128 kbps
Browser	web browser
CCTV	closed circuit television
Codec	coder/decoder, a device that encodes or decodes a signal
DVR	Digital Video Recorder
Equator MAP-CA processor	a high performance central processor developed and marketed by Equator Technologies Inc. used for data processing. Specifically for audio and video compression and decompression
FDA	the United States Food and Drug Administration
H.263	an ITU standard for video compression and decompression
H.264	ITU standard regarding advanced video coding for high-quality motion video applications. H.264 provides quality superior to MPEG2 at about 30 per cent of the bit rate or less. It is expected to fully replace MPEG2 over time
H.320	the recognised standard of the ITU for video telephone and video conferencing systems for use on ISDN public telephone networks
H.323	the ITU video conferencing standard intended to run over IP networks
H.324	the ITU video conferencing standard intended to run over PSTN lines
Inmarsat	Inmarsat Limited which operates a constellation of geostationary satellites designed to extend phone, fax and data communications world-wide
IP	Internet Protocol, a communications protocol used on the Internet as well as on many private networks which enables a packet of data to traverse multiple networks on the way to its final destination
IPR	intellectual property rights
ISDN	Integrated Services Digital Network, a network which provides digital links to customers and end-to-end digital connectivity between them. ISDN is provisioned in multiples of 64 Kbps channels, typically provided to the consumer as two channels

Java	a computer programming language developed by Sun Microsystems, Inc.
Kbps	kilobits per second, meaning one thousand bits per second
Matrix Switch	a device that allows multiple channels to be connected under operator control and routed to designated remote or local circuits or interfaces
Mbps	megabits per second, being one million bits per second
MCU	multipoint control unit, a bridging or switching device used in support of multipoint video conferencing
Multiplexor/Demultiplexor	electronic equipment which allows two or more signals to pass over one communications circuit, typically a telephone line
OEM	original equipment manufacturer
POTS	plain old telephone service, the basic service supplying standard single telephone line access to the public switched network, typically able to provide a data rate of up to 33 Kbps for videotelephony
PSTN	a standard, analogue telephone line
PTZ	pan tilt zoom. Indicating the degrees of freedom associated with the control of a video camera
QoS	Quality of Service
RS232	a set of standards specifying three types of interfaces, electrical, functional, and mechanical, used for communicating between computers, terminals and modems
Tempest	abbreviation of **T**ransient **E**lectro**m**agnetic **P**ulse **E**manation **St**andard, which is a standard for electromagnetic shielding for computer equipment. It was created in response to the fact that information can be read from computer radiation (e.g. from a computer monitor) at quite a distance and with little effort
T.120	the ITU standard for data transfer used within video calls
UDP	User Datagram Protocol. A transport layer protocol in the protocol suite used in the Internet. UDP is used at the two ends of a data transfer. It does not establish a connection or provide reliable data transfer
VSAT	very small aperture terminal, an earthbound station used in satellite communications of data, voice and video signals, excluding broadcast television
xDSL	a generic term for Digital Subscriber Line equipment and services that includes ADSL

KEY INFORMATION

The following summary of key information should be read in conjunction with the full text of this document from which it is derived. In particular, attention is drawn to Part VI of this document, entitled 'Risk Factors'.

SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG

SCOTTY was founded in 1995 by a team that was involved in setting up the videoconferencing system for the MIR Space Station. It is headquartered near Graz, Austria, with operations based in Norcross, near Atlanta, Georgia (US), Manchester, New Hampshire (US), Manila (Philippines) and Wokingham (UK). It develops and supplies ruggedised videoconferencing systems that enable real-time audio, video and data communication between two or more geographically remote sites via the Inmarsat satellite network and other broadband networks.

SCOTTY has extensive expertise in terrestrial/satellite networks, encryption and video communications technologies and has built up a strong niche position in the provision of mobile systems to the military and defence related satellite communications market. SCOTTY also supplies products for a diverse range of applications including news reporting, broadcasting, maritime, disaster relief and aviation.

SCOTTY products are primarily geared towards military use and they therefore meet the most stringent military requirements. The flagship product, SCOTTY Mobile, has undergone vibration tests, is protected from physical damage and versions which have undergone Tempest testing are available. Furthermore, SCOTTY video communication systems are compatible with existing military encryption technologies.

SCOTTY currently supplies to customers in Europe, the Middle East and Asia, North America and Australasia which include the German Army, the Austrian Army, the Turkish Army, the Royal Navy, and in the US, the Army, Navy, Air Force, Marine Corps and various government agencies and organisations.

Financial information on SCOTTY

The following table summarises the financial record of SCOTTY for the three years ended 31 December 2003.

	2001	*2002*	*2003*
	€'000	*€'000*	*€'000*
Turnover	2,850	11,476	10,204
Operating profit	125	2,435	777
Profit on ordinary activities before taxation	104	2,476	720
Extraordinary items	7	(2,114)	–
Profit for the financial period	97	132	360
Net assets (as at the end of the period)	1,000	1,145	1,566

SCOTTY has not been required to prepare consolidated accounts for the periods above, however accounts for 2003 and comparisons for 2002 were compiled to International Financial Reporting Standards. The consolidated figures for 2001 are prepared from SCOTTY management accounts. Further financial information on SCOTTY can be found in Part III of the document and in the Appendix.

SCOTTY experienced a strong increase in sales from 2001 to 2002 accentuated by an order for the German Army, which was expected to be delivered in 2001 but which slipped into 2002.

SCOTTY purchased Zydacron on 31 October 2002 for a consideration of US$1 million. Zydacron produces the codecs upon which SCOTTY's products are based. At the time SCOTTY purchased the business Zydacron's existing codec was coming to the end of its life, Zydacron therefore only contributed approximately US$1.1 million to SCOTTY's external sales in 2002 and approximately US$1.63 million in 2003. SCOTTY recognised an extraordinary write-off of €2.1 million of goodwill relating to Zydacron in 2002 and overheads increased substantially on the integration of Zydacron, while SCOTTY funded the development of the new Z470 codec intended for introduction in June 2004. These costs should decline significantly from thereon and operating margins should consequently return to higher levels. The tax charge is anticipated to remain relatively low for the immediate future.

Benefits of the Acquisition

Motion Media's acquisition of SCOTTY will enable a significant reduction in costs to occur as the combined group currently maintains four engineering centres. The two companies have a common technological background having developed their products based upon the Agere AVP III audio video processor, they have utilised the same audio codecs and IP drivers. There is therefore a significant commonality of knowledge of each other's technologies. SCOTTY's subsidiary, Zydacron, has come to the end of a major development programme as its new generation Z470, H.264 based, codec is now intended for launch in July and Motion Media's Bristol engineering group has come to the end of the major development of the mm745. As a consequence, both sites would in any case require a significant adjustment in the nature of their engineering teams which, with the merger, provides an opportunity to rationalise the engineering functions to a greater degree and thereby concentrate application development in Austria and platform development in Wilmington, US with little or no loss in the engineering capability required for the future development of the New Group.

SCOTTY's development of its new H.264 codec based on the TI processor provides an excellent opportunity for Motion Media to adopt this new platform for its future products and save significant development cost. SCOTTY also brings its experience in satellite communications to Motion Media whilst Motion Media's expertise in PSTN and IP (particularly with its Packet Buddy™ protocol) and its echo cancellation techniques, has application in SCOTTY products.

No significant product overlap exists between the two companies and it is envisaged that all products will continue to be supported. In certain areas the opportunity to offer customers solution packages will be enhanced, such as in telehealth where Motion Media's patient orientated Carestation products can be augmented by SCOTTY's PC-based systems which can be targeted at the hospital or call station end of the system. Motion Media's CareStation videophones are the only videophones with FDA certification and are being offered by companies utilizing the CareStation videophone as part of a solutions package. SCOTTY has identified target customers amongst service providers in mainland Europe for the mm745 and has already supplied mm745s to its existing military customers for soldiers on duty abroad to be able to communicate with their families back home. The Directors and Proposed Directors believe that as well as cross-selling opportunities SCOTTY's reputation with government defence departments should lead to additional opportunities for identifying government related sales for Motion Media products, particularly in the health sector.

The Directors and Proposed Directors estimate that the New Group can achieve a combined cost reduction of about 30%. It is anticipated that a proportion of the savings to be made in engineering and other common overheads will be allocated to building a stronger sales and marketing team, refocusing what have in the past been predominantly engineering led companies into an international sales driven group. The annualised net savings even after this proposed increase in sales and marketing overhead is estimated at £1 million.

In particular, Motion Media is likely to be able to reach profitability far more quickly on the much lower cost base now anticipated. However the New Group is budgeting for a significant increase in sales, with SCOTTY expected to contribute about three-quarters to the total, which will naturally lead to additional overhead requirement as those sales are realised however margins and cash flow are anticipated to remain good.

The New Group aims to become the third force in video conferencing, after the market leaders, Polycom and Tandberg. However it is not the intention to try and compete with those companies in the market area in which they dominate (group conferencing) but to target niche growth markets in military, telehealth and security where the New Group can dominate areas where demand for videotelephony is already evident, in a way that has made SCOTTY already successful. The general market for desktop videotelephony has not yet developed, however Motion Media will remain well positioned to take advantage when it does. In addition, the New Group will seek to acquire businesses which can provide added growth in niche areas or add to the group's strengths.

The Acquisition

Under the terms of the SCOTTY Agreement, Motion Media has agreed to acquire from the Vendors 183,095 SCOTTY Shares, representing approximately 98.45 per cent. of the issued share capital of SCOTTY, and has offered to acquire 2,888 SCOTTY Shares from the Remaining SCOTTY Shareholders, constituting in aggregate the entire issued share capital of SCOTTY. Assuming full acceptance of the Offer, the Initial Consideration payable by Motion Media will be £10,500,000 to be satisfied by the issue to the SCOTTY Shareholders of 262,500,000 Initial Consideration Shares at the Placing Price of 4p per share and, depending upon the audited results of SCOTTY for the financial year ending 31 December 2004, Deferred Consideration of up to £38,500,000 may be payable, to be satisfied at Motion Media's sole discretion either in cash or by the issue of Deferred Consideration Shares at the higher of 11p per share or the Closing Price.

Due to the costs related to a compulsory buy-out of minority shareholders under Austrian law, it is not currently envisaged that the Company will undertake a compulsory buy-out of any outstanding SCOTTY Shares.

The Warrantors have given warranties and indemnities to Motion Media concerning SCOTTY and its business pursuant to the Warranty Deed.

The Placing and Open Offer

The Placing and Open Offer consists of a Placing of 114,475,000 New Ordinary Shares and the Open Offer of up to 50,000,000 New Ordinary Shares. Pursuant to the terms of the Placing Agreement, Charles Stanley and ARM have jointly conditionally agreed, as agents for the Company, to use their respective reasonable endeavours to place 100,000,000 of the Placing Shares firm with institutional and other investors at the Placing Price. These Placing Shares are not available for subscription under the Open Offer.

14,475,000 of the Placing Shares have been conditionally placed with institutional and other investors at the Placing Price, subject to a right of recall to the extent required to satisfy valid applications under the Open Offer.

Save as set out in paragraph 13.3 of Part VIII of this document neither the Placing nor the Open Offer has been underwritten.

The Open Offer

The Open Offer comprises 50,000,000 Open Offer Shares. Of these, 10,525,000 Open Offer Shares are being made available by the Company at the Placing Price to meet applications from Qualifying Shareholders under the Open Offer and the proceeds will be utilised to provide up to £421,000 of additional working capital for the New Group.

To the extent that applications from Qualifying Shareholders exceed 10,525,000 Open Offer Shares, the Company has agreed to make available up to 25,000,000 Initial Consideration Shares at the Placing Price on behalf of certain of the Vendors to meet further applications under the Open Offer. To the extent that valid applications under the Open Offer are received for more than 35,525,000 Open Offer Shares, valid applications from Qualifying Shareholders will be satisfied by those Placing Shares placed subject to the right of recall as described above.

The Placing Price of the New Ordinary Shares represents a discount of 69 per cent. to the market price of 12.75 pence per Existing Ordinary Share as derived from the AIM Appendix of the Daily Official List of the London Stock Exchange on 26 March 2004, being the date when the Company's shares were suspended from dealings on AIM.

Your attention is drawn to the Chairman's Letter set out in Part I and to Parts III to VIII of this document. This letter and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

2. Open Offer

The Company invites Qualifying Shareholders to apply, on and subject to the terms and conditions set out in Part II and in the accompanying Application Form, for Open Offer Shares at the Placing Price, free of all expenses, payable in full in cash on application on the following basis:

(a) 1 Open Offer Share for every 4.5213787 Existing Ordinary Shares held by such Qualifying Shareholders and registered in their names on the Record Date, and so in proportion for any other number of Existing Ordinary Shares then held (the "**Basic Entitlement**"); and

(b) further Open Offer Shares in excess of their Basic Entitlement (although such Open Offer Shares will only be allotted to the extent that not all Qualifying Shareholders apply for their Basic Entitlement).

Holdings of Ordinary Shares in certificated form and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Fractions of Open Offer Shares are not included in Qualifying Shareholders' entitlements. Fractional entitlements will be aggregated and sold for the benefit of the Company in the Placing.

Qualifying Shareholders who so wish, may apply for Open Offer Shares in excess of their Basic Entitlement. Applications in excess of the Basic Entitlement will only be satisfied to the extent that applications by other Qualifying Shareholders are made for less than their Basic Entitlements and may therefore be scaled down. However, allocation of Open Offer Shares in respect of these excess applications will be entirely at the absolute discretion of the Directors.

The Open Offer Shares will be allotted and credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares in issue including the right to receive all dividends and other distributions declared, made or paid thereon following Admission.

Further details of the Open Offer are set out in Part II of this document.

Dividend Policy

The Directors and the Proposed Directors propose to consider the payment of dividends on the Ordinary Shares in the light of the results for the year to 31 July 2005, the cash requirements of the combined group going forward at that time and any restructuring of the balance sheet which may be required.

PART I

LETTER FROM THE EXECUTIVE CHAIRMAN OF MOTION MEDIA

Motion Media PLC

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

Directors:
R. F. Thorne *(Executive Chairman)*
F. G. De Angelis (US) *(Global Sales and Marketing Director)*
A.R. MacKenzie *(Non-executive Director)*

Registered Office:
Motion Media Technology Centre
Severn Bridge
Aust
Bristol BS35 4BL

To Shareholders and, for information only, to holders of options over Ordinary Shares pursuant to the Share Option Schemes

Dear Shareholder,

6 July 2004

Proposed acquisition of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG
Proposed change of name to SCOTTY Group plc and change of year end to 31 July
Placing of up to 114,475,000 Ordinary Shares at 4p per share

Open Offer of up to 50,000,000 Ordinary Shares at 4p per share
Admission of the Enlarged Share Capital to Trading on AIM
Notice of Extraordinary General Meeting

1 Introduction

On 22 April 2004 your Board announced that the Company had conditionally agreed to acquire approximately 82.7 per cent. of the share capital of SCOTTY, prior to which, the Existing Ordinary Shares had been, in accordance with AIM rules, suspended from trading on AIM. On 21 June 2004 your Board announced that the terms of the Acquisition had been revised. As at the date of this document Motion Media has conditionally agreed, pursuant to the SCOTTY Agreement, to acquire 183,095 SCOTTY shares, representing approximately 98.45 per cent. of the share capital of SCOTTY and has offered to acquire from the Remaining SCOTTY Shareholders those SCOTTY Shares not comprised within the SCOTTY Agreement. The terms of the Offer are identical to the terms upon which SCOTTY Shares are to be acquired pursuant to the SCOTTY Agreement. In addition, the Warrantors have provided certain warranties and indemnities to the Company concerning SCOTTY and its business.

Assuming full acceptance of the Offer, Motion Media will acquire the entire issued share capital of SCOTTY for an Initial Consideration of £10,500,000 to be satisfied by the issue of 262,500,000 Initial Consideration Shares at the Placing Price of 4p per share and, depending upon the audited results of SCOTTY for the financial year ending 31 December 2004, a Deferred Consideration of up to £38,500,000 (as calculated by reference to the SCOTTY Agreement), which may be satisfied at Motion Media's sole discretion either in cash or by the issue of Deferred Consideration Shares at the higher of 11p per share or the Closing Price.

Further details of the terms of the SCOTTY Agreement, the Warranty Deed and the Offer are set out in section 5 below entitled "The Acquisition" and in paragraphs 8A(f), (g) and (h) of Part VIII of this document.

This document explains the background to and reasons for the Acquisition, provides you with information in respect of SCOTTY, the Placing and the Open Offer, and explains why the Board considers that the Proposals are in the best interests of the Company and recommends that Shareholders vote in favour of the EGM Resolutions and the resolutions to be proposed at the AGM.

Following Admission, I will continue as Chairman but in a non-executive capacity and the following SCOTTY directors, will join the Board in the following capacities: Kurt Kerschat *(Chief Executive Officer);* Georg Weber *(Finance Director),* Peter Sauerzopf *(Non-executive Director)* and Ernst Wustinger *(Non-executive Director)*. Garey De Angelis and Alan MacKenzie will continue to serve as Global Sales and Marketing Director and Non-executive Director, respectively.

It is further proposed that the Company change its name to SCOTTY Group plc in order to benefit from the strong brand reputation established by SCOTTY in its markets. The Company also intends to change its accounting year end to 31 July in order to take account of the reorganisation which will occur as a consequence of the merger and demonstrate to Shareholders the benefits of the merger at the earliest opportunity.

Due to the size of SCOTTY, the Acquisition is deemed a reverse takeover for the purposes of the AIM Rules. Accordingly, the proposals are conditional, *inter alia,* upon the approval of Shareholders. Such approval is being sought at the EGM, notice of which is set out at the end of this document. On the posting of this document to Shareholders the suspension of the Existing Ordinary Shares from trading on AIM is expected to be lifted and trading should recommence with effect from 7 July 2004. However, because the Acquisition is a reverse takeover under AIM Rules, in the event that the EGM Resolutions are duly passed, trading in the Existing Ordinary Shares will be cancelled and application will be made to the London Stock Exchange for the Existing Ordinary Shares to be re-admitted, and for the New Ordinary Shares to be admitted, to trading on AIM with effect from 29 July 2004.

This document also contains financial information on SCOTTY and on Motion Media, a pro forma statement of net assets of the New Group and the notice of EGM. You will also find at the end of this document a Form of Proxy for use in connection with the EGM.

Also enclosed with this document is the notice of AGM and associated Form of Proxy. Further information on the AGM and the EGM is set out in paragraph 17 of this Part I.

2 Background

Motion Media, which is based near Bristol, was formed in January 1993 by a team of engineers which had specialised in the design of image processing semiconductors at Inmos (now part of ST Microelectronics).

Since 1993 the Company has become recognised as one of the world leaders in the design, development and supply of video telephony technology and products. The Group's products have now been sold into more than 40 countries worldwide. These products centre on three main markets: Video Conferencing, Telehealth, and Security and Surveillance.

In May 2000 the Company's shares were admitted to the Official List and in January 2003, in conjunction with a placing of new shares to raise approximately £3.45 million, the Company transferred from the Official List to AIM. In December 2003 another £1 million of working capital was raised by way of a further placing of new shares.

Over the last four years Motion Media has continued the development of its visual communication product base and core technology platforms, with particular emphasis on its ***CareStation***® for telehealth products and new IP based desktop and security codecs.

The Directors believe that the acquisition of SCOTTY represents an exciting opportunity to bring together two highly complementary businesses operating in similar but non-competing markets, with the prospect of sharing technology, achieving greater market penetration for a more broadly based product offering in each of the markets served by the two groups, and significant economies of scale.

Products

i) Video Telecommunications

Motion Media's videotelephony range includes the following products:

mm745 IP Browser videophone: this product represents a new generation of IP based multi-media platforms which enables an 'always-on' system to deliver high quality real time video calls at up to 2Mbps. The ***mm745*** features a laptop sized screen and has additional features such as multipoint call compatibility and web browsing.

mm156 videophone: the mm156 operates over both IP and PSTN networks and supports broadband IP connections through two 10/100 Ethernet ports. Individual calls can be dialled, and adaptively scaled to any bandwidth between 32 and 384 kbps, working in synergy with the variable bandwidth available from broadband (cable or ADSL) and corporate inter-network links. The ***mm156*** features two different IP video protocols. Motion Media's own Packet Buddy™ protocol enables communication through non H.323-ready firewalls and routers and over non QoS networks, such as the public Internet. The H.323 protocol is implemented to allow IP calls to other H.323 videophones, personal systems and group conferencing systems. The ***mm156*** contains a regular analogue telephone line connection capable of supporting audio and video calls over PSTN. The phone can be plugged into the line, or a PBX with an appropriate interface, and can simply dial out. The telephone line connection also gives the flexibility to call devices that do not support IP such as telephones, mobile phones, and H.324 only videophones.

mm145/6 videophones: the ***mm145*** was the Company's first videophone to operate over an IP network for business or home communication. The ***mm145*** was replaced by the ***mm146*** in 2003. The ***mm146*** has an image transmission rate of up to 15 frames per second at 384 Kbps; it uses the Packet Buddy™ and H.323 video communications protocol, incorporating the H.263 video compression standard, as well as incorporating echo-cancelling technology.

mm225 videophone: this is a fully integrated ISDN desktop videophone with video conferencing functionality such as far end camera control and MCU compatibility. The ***mm225*** uses established international standards for videotelephony. Once connected to an ISDN line the ***mm225*** can make calls to both H.320 and H.324, systems such as PC terminals and group video conferencing systems.

ii) Telehealth

The Group has specifically targeted the tele-home care sector of the telehealth market. Tele-home care is the remote provision of care to patients in their homes enabling care providers to make video visits rather than physical visits and to collect patient vital sign data remotely. Importantly, in the main the healthcare providers, and not the patients, fund these solutions. The CareStation solution is shown to substantially reduce the cost of care, improve the quality of care and ease the burden of care for both provider and patient. It can be applied to the monitoring and management of patients with disorders like diabetes, asthma, congestive heart failure and psychological impediments as well as wound care, high risk pregnancies and many others. The CareStation® range of products interoperates with a broad range of medical devices that enable remote contact and monitoring of a patient by a medical professional. The range supports medical devices to monitor blood pressure, pulse rate, heart, lung, bowel and foetal sounds, blood oximetry, blood glucose, weight and temperature. These products are relevant in medical situations where regular outpatient monitoring is required but where frequent home or hospital visits are costly or impractical. In addition, they are suited to the needs of the elderly where immediate round the clock help or contact with a doctor or other medical professional may be required. The CareStation 126s and CareStation 156s are, at present, the only videoconferencing products with FDA certification.

CareStation® 126s: this videophone connects over a standard telephone line (PSTN) and has a dial-up keypad, speed dial and hands-free operation. Digital stethoscopy and pulse oximetry has been integrated into the design of the CareStation. The stethoscope ear piece and chest piece connect directly to the care provider and patient videophones, respectively. Using visual information, the care provider guides the patient in accurate placement of the chest piece then listens to heart and lung sounds through the ear piece to make a rapid assessment of the patient's condition.

CareStation 156s: this videophone is identical to the CareStation 126s but operates over both broadband IP and PSTN networks. It uses two protocols: H.323 which delivers interoperability with other standards based conferencing equipment, and Motion Media's PacketBuddy™ protocol which permits use over the most basic broadband networks including the Internet.

CareStation 110: this set top unit connects via a standard telephone line (PSTN) and contains a built-in colour camera and microphone. Video is displayed on any standard television with an external input jack whilst a simple remote control includes a configurable one-touch button allowing simple connection to the providers' call centre. The ***CareStation110*** provides plug-in compatibility to a wide variety of medical and vital signs devices.

CareStation for Windows®: this Windows-based software application provides simple to use, peripheral device management and patient record keeping to the CareStation range of videophones. Accurate information on a patient's weight, pulse, blood pressure, blood glucose, temperature, blood oxygen etc. is brought to the care provider. It is an ideal solution for in-home patient monitoring and management. It provides accurate, fast and secure storage and retrieval of vital signs data collected via CareStation 156s, 126s, 125 and 110 models. Patient records can be saved locally for stand alone operation and/or sent directly to secure server for client-server operation.

iii) Security & Surveillance

The ***eyesite® 110, 140, 300,*** and ***400*** are stand alone remote video surveillance products, which provide superior quality real time transmission of video from remote locations and operate over PSTN, IP or ISDN. Eyesite devices use standard RS232 data ports to connect external devices switches, DVR's, security cameras, sensors or motion detectors. ***eyesite for Windows PRO*** is a comprehensive software application that supports both IP and PSTN connections. It provides digital video recording, multiple site viewing and a host of other features such as: simultaneous full colour motion video from multiple remote sites; live video footage; streaming video to hard disk; e-mail notification of events and many others.

Technology

Motion Media's core areas of technological expertise include video compression, audio compression, software development, and a fundamental understanding of real time systems design. The Group's IPR is incorporated into products providing high levels of reliability, meeting demanding standards requiring continuous two-way real time transmission of both video and audio (as distinct from video streaming which involves one-way transmission, often with significant delays).

Of particular interest to telephone and cable operators is Motion Media's Packet Buddy™ communications protocol. It is Motion Media's proprietary protocol for delivering high quality video over non-QoS managed networks. It utilises the best aspects of the H.323 IP standard but eliminates some of the complexity and overhead of H.323. Packet Buddy™ dynamically adjusts for varying network conditions and automatically corrects for packet jitter, packet loss, or packet mis-ordering and unlike H.323 moves the audio and video information together within a single UDP stream. Along with the dynamic benefits of Packet Buddy™, it also is able to tunnel through fire-walls and routers using a single UDP port and thus is much simpler to configure for use over a variety of networks. Packet Buddy™ yields the highest benefits when used on networks that are bandwidth challenged, especially at around 128 Kbps or less as is found with Broadband (for example, xDSL or cable modems) connections.

Motion Media relies for the protection of its IPR mainly on the fact that the complexity of the embedded software and the structure of its systems design would take many years of effort to unravel, and even then there is no guarantee that a high quality reproduction of its designs could be manufactured. The Directors believe that the continuing development of the Group's products will maintain its market position, and will continue to be the main protection for its technology. The Group will seek to patent key IPR where it is deemed appropriate to do so.

3 Information on SCOTTY

SCOTTY was founded in 1995 by a team that was involved in setting up the videoconferencing system for the MIR Space Station. It is headquartered near Graz, Austria, with operations based in Norcross near Atlanta, Georgia (US), Manchester, New Hampshire (US), Manila (Philippines) and Wokingham (UK). It develops and supplies ruggedised videoconferencing systems that enable real-time audio, video and data communication between two or more geographically remote sites via the Inmarsat satellite network and other broadband networks.

SCOTTY has extensive expertise in terrestrial/satellite networks, encryption and videoconferencing technologies and has built up a strong niche position in the provision of mobile communication systems to the military and defence related satellite communications market. SCOTTY also supplies products for a diverse range of applications including news reporting, broadcasting, maritime, disaster relief and aviation.

SCOTTY currently supplies to customers in Europe, the Middle East and Asia, North America and Australasia, which include the German Army, the Austrian Army, the Turkish Army, the Royal Navy, and in the US, the Army, Navy, Air Force, Marine Corps and various government agencies and organisations.

SCOTTY Products

SCOTTY manufactures equipment which enables communication to any location in the world where terrestrial or satellite networks are available. These products are predominantly PC-based and aimed towards military use meeting the most stringent military requirements. The SCOTTY Mobile, ProMax, I-Adapters, COMMANDER and APL-B are the company's main military products, whilst the Warp 2, ClassMate and codecs are mainly aimed at commercial markets.

SCOTTY products include:

SCOTTY Mobile Video-Communication Unit: a deployable system designed to provide comprehensive communication in the field. The unit features an industrial PC, a high speed data transfer system, digital video recording, videoconferencing and data conferencing in a robust, waterproof and military tested shock resistant format. It operates through satellite phone, VSAT, ISDN, and IP. The unit features multiple standard network interfacing, high resolution camera, speaker, microphone, echo cancellation and DC power supply. All transmissions can be encrypted by the addition of various encryption devices and the unit enables troops deployed in the field to download battlefield maps and other information in real time.

SCOTTY ProMax Video-Communication System: a 19inch rack-mounted unit for offices, business and operational headquarters and onboard maritime installations. ProMax offers communications solutions over Satcom, ISDN, leased lines and IP.

SCOTTY I-Adapters: these provide an interface between ISDN systems and various encryption or Inmarsat setups.

SCOTTY COMMANDER: a portable unit, designed for armed forces as a means to connect various kinds of end-devices to various types of network. Typically the SCOTTY Commander is used as a base station to communicate with and coordinate the activities of units in the field equipped with SCOTTY Mobiles.

SCOTTY APL-B: a portable, multi-functional office/communication centre designed for secure speech, data and video communication over Inmarsat to standard NATO encryption, in peace-keeping applications.

SCOTTY Warp 2: a multi-tasking PC and videoconferencing unit designed for multi-national commerce.

SCOTTY ClassMate: a roll-about unit for tele-training, containing audio, video and data communications, video projector, speakers and retractable camera arm.

Zydacron Video Codecs and Comboards: for systems integrators, this hardware is used in communications boards, group/room systems and mobile videoconferencing systems developed by SCOTTY and takes analogue signals, digitises and compresses them and transmits them via a network to distant locations. Zydacron has developed a new generation H264 Video Codec, intended to be released in July this year, that will allow SCOTTY to stream TV quality video through its SCOTTY Mobile unit.

SCOTTY's military products are both portable and compatible with portable satellite terminals and NATO standard encryption. Certifications include:

Certified Solutions Provider: Inmarsat Organization (satellite fleet owner and manager)
Certified Solutions Provider: NERA Satcom A/S (manufacturer of satcom equipment)
Certified Solutions Provider: Thrane & Thrane A/S (manufacturer of satcom equipment)
Member: Mobile Satellite User's Association
Researcher: European Space Agency
US Government Services Administration (GSA) schedule number GSF-03F-0024K
NATO stock number 58 95 17 113 5503
National Security Administration (NSA) tested.

Sales and Marketing

SCOTTY sells its products directly and through a worldwide network of 32 distributors located in more than 30 countries. SCOTTY's products are also featured in the NATO approved products list.

SCOTTY maintains a close working relationship with its resellers and complements its marketing efforts with regular participation at trade shows and similar public relations activities. In addition, several NATO military organisations, particularly the German and US armed forces, promote SCOTTY products at international military "interoperability demonstrations". Currently 9 people are engaged in sales and marketing and business development, four of which are assigned to Europe, Middle East and Africa, two to the North American market, two to Asia and Australasia and one to the UK.

Research and Development

SCOTTY's research and development activity is conducted in-house and integration of its sales and marketing teams with its research and development activities has led to customer-led product innovation. Together these teams assess product life cycles, utilisation and future applications for SCOTTY's current technology. Additionally, SCOTTY continuously analyses the defence and intelligence markets to anticipate the needs of its existing customers so as to be able to continue to enhance existing products and develop new products that maintain technological competitiveness.

Competition

The market for commercial videoconferencing is competitive. However, there is only a small number of suppliers who meet the rigorous requirements of military, defence and government agencies. Military and governmental contracts require extensive experience in satellite, encryption and videoconferencing technologies. Penetrating military procurement lists is very challenging and, typically entry costs to these markets are high and present a significant barrier for new entrants.

SCOTTY has successfully established its niche position in its niche markets but nevertheless faces direct competition from domestic and foreign companies such as Tandberg ASA (Norway/US); 7E Communications (UK); Aethra s.r.l (Italy); GCS Inc. (US) and VCON Limited (Israel).

4 Financial Information on SCOTTY

The following table summarises the financial record of SCOTTY for the three years ended 31 December 2003.

	2001	*2002*	*2003*
	€'000	*€'000*	*€'000*
Turnover	2,850	11,476	10,204
Operating profit	125	2,435	777
Profit on ordinary activities before taxation	104	2,476	720
Extraordinary items	7	(2,114)	–
Profit/(loss) for the financial period	97	132	360
Net assets (as at the end of the period)	1,000	1,145	1,566

SCOTTY has not been required to prepare consolidated accounts for the periods above, however accounts for 2003 and comparisons for 2002 were compiled to International Financial Reporting Standards. The consolidated figures for 2001 are prepared from SCOTTY management accounts. Further financial information on SCOTTY can be found in Part III of the document and in the Appendix.

SCOTTY experienced a strong increase in sales from 2001 to 2002 accentuated by an order for the German Army, which was expected to be delivered in 2001 but which slipped into 2002. SCOTTY purchased Zydacron on 31 October 2002 for a consideration of US$1 million. Zydacron produces the codecs upon which most of SCOTTY's products are based. At the time SCOTTY purchased the business Zydacron's existing codec was coming to the end of its life, Zydacron therefore only contributed approximately US$1.1 million to SCOTTY's external sales in 2002 and approximately US$1.6 million in 2003. SCOTTY recognised an extraordinary write-off of €2.1 million of goodwill relating to Zydacron in 2002 and overheads increased substantially on the integration of Zydacron, while SCOTTY funded the development of the new Z470 codec intended for introduction in June 2004. These costs should decline significantly from there on. The tax charge is anticipated to remain relatively low for the immediate future.

5 The Acquisition

Under the terms of the SCOTTY Agreement Motion Media has agreed to acquire from the Vendors 183,095 SCOTTY Shares, representing approximately 98.45 per cent. of the issued share capital of SCOTTY for an Initial Consideration of £56.46 per SCOTTY Share to be satisfied by the issue to the Vendors, in aggregate, of 258,423,821 Initial Consideration Shares at Completion at the Placing Price of 4p per share.

Under the terms of the Offer Motion Media has offered to acquire 2,888 SCOTTY Shares (being those SCOTTY Shares not comprised within the SCOTTY Agreement) from the Remaining SCOTTY Shareholders. The initial consideration payable under the Offer is also £56.46 per SCOTTY Share. In the event of full acceptance of the Offer the aggregate Initial Consideration payable by Motion Media for the entire issued share capital of SCOTTY will be £10,500,000, which will be satisfied by the issue to the Vendors and the Remaining SCOTTY Shareholders of an aggregate of 262,500,000 New Ordinary Shares.

Depending upon the audited results of SCOTTY for the 12 months ending 31 December 2004, Deferred Consideration will also be payable by Motion Media to the Vendors and those Remaining SCOTTY Shareholders who accept the Offer. Assuming full acceptance of the Offer the maximum amount of Deferred Consideration payable will be £38,500,000, which may be satisfied at Motion Media's sole discretion either in cash or by the issue of Deferred Consideration Shares at the higher of 11p per share or the Closing Price.

The Deferred Consideration shall be calculated in accordance with the provisions set out in the SCOTTY Agreement, based on Deferred Consideration Profit, as follows:

a) *where the Deferred Consideration Profit is equal to or below £1.428 million:*

   the Deferred Consideration will equate to a multiple of 12.25 times the Deferred Consideration Profit less the Initial Consideration; or

b) *where the Deferred Consideration Profit exceeds £1.428 million:*

   the Deferred Consideration will equate to a multiple of 14 times the Deferred Consideration Profit less the Initial Consideration, subject to a maximum of £38.5 million.

Accordingly, should the Deferred Consideration Profit be below £857,143 no Deferred Consideration would be payable. The maximum Deferred Consideration of £38.5 million would be payable if Deferred Consideration Profit is £3.5 million or more.

In the event that the maximum Deferred Consideration becomes payable and assuming full acceptance of the Offer, the total consideration for SCOTTY would amount to £49 million.

In the event that not all SCOTTY Shares held by Remaining SCOTTY Shareholders are acquired by Motion Media pursuant to the Offer any Deferred Consideration payable in accordance with the formula set out above be reduced pro rata.

For the purposes of calculating the Deferred Consideration Profit the prevailing exchange rate as at 31 December 2004 will be applied.

The Initial Consideration Shares and the Deferred Consideration Shares (if any) will on issue rank *pari passu* with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared or made after the date of their issue. Application will be made for the Existing Ordinary Shares, the Initial Consideration Shares, and any Deferred Consideration Shares, to be admitted to trading on AIM.

The Warrantors have given warranties and indemnities to Motion Media (concerning SCOTTY and its business) pursuant to the Warranty Deed.

Further details of the terms of the SCOTTY Agreement, the Warranty Deed (including the ability of Motion Media to recover under it) and the Offer are set out in paragraph 8A(f), (g) and (h) of Part VIII of this document.

6 The Placing

The Placing and Open Offer

The Placing and Open Offer consists of a Placing of 114,475,000 New Ordinary Shares and the Open Offer of up to 50,000,000 New Ordinary Shares. Pursuant to the terms of the Placing Agreement, Charles Stanley and ARM have jointly conditionally agreed, as agents for the Company, to use their respective reasonable endeavours to place 100,000,000 of the Placing Shares firm with institutional and other investors at the Placing Price. These Placing Shares are not available for subscription under the Open Offer.

14,475,000 of the Placing Shares have been conditionally placed with institutional and other investors at the Placing Price, subject to a right of recall to the extent required to satisfy valid applications under the Open Offer.

Save as set out in paragraph 13.3 of Part VIII of this document neither the Placing nor the Open Offer has been underwritten.

The Open Offer

The Open Offer comprises 50,000,000 Open Offer Shares. Of these, 10,525,000 Open Offer Shares are being made available by the Company at the Placing Price to meet applications from Qualifying Shareholders under the Open Offer and the proceeds will be utilised to provide up to £421,000 of additional working capital for the New Group.

To the extent that applications from Qualifying Shareholders exceed 10,525,000 Open Offer Shares, the Company has agreed to make available up to 25,000,000 Initial Consideration Shares at the Placing Price on behalf of certain of the Vendors to meet further applications under the Open Offer. To the extent that valid applications under the Open Offer are received for more than 32,525,000 Open Offer Shares, valid applications from Qualifying Shareholders will be satisfied by those Placing Shares placed subject to the right of recall as described above.

The Placing Price of the New Ordinary Shares represents a discount of 69 per cent. to the market price of 12.75 pence per Existing Ordinary Share as derived from the AIM Appendix of the Daily Official List of the London Stock Exchange on 26 March 2004, being the date when the Company's shares were suspended from dealings on AIM.

Your attention is drawn to the Chairman's Letter set out in Part I and to Parts III to VIII of this document. This letter and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

7. Open Offer

The Company invites Qualifying Shareholders to apply, on and subject to the terms and conditions set out in this letter and in the accompanying Application Form, for Open Offer Shares at the Placing Price, free of all expenses, payable in full in cash on application on the following basis:

(a) 1 Open Offer Share for every 4.5213787 Existing Ordinary Shares held by such Qualifying Shareholders and registered in their names on the Record Date, and so in proportion for any other number of Existing Ordinary Shares then held (the "**Basic Entitlement**"); and

(b) further Open Offer Shares in excess of their Basic Entitlement (although such Open Offer Shares will only be allotted to the extent that not all Qualifying Shareholders apply for their Basic Entitlement).

Holdings of Ordinary Shares in certificated form and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Fractions of Open Offer Shares are not included in Qualifying Shareholders' entitlements. Fractional entitlements will be aggregated and sold for the benefit of the Company in the Placing.

Qualifying Shareholders who so wish, may apply for Open Offer Shares in excess of their Basic Entitlement. Applications in excess of the Basic Entitlement will only be satisfied to the extent that applications by other Qualifying Shareholders are made for less than their Basic Entitlements and may therefore be scaled down. However, allocation of Open Offer Shares in respect of these excess applications will be entirely at the absolute discretion of the Directors.

The Open Offer Shares will be allotted and credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares in issue including the right to receive all dividends and other distributions declared, made or paid thereon following Admission.

Further details of the Open Offer are set out in Part II of this document.

The Open Offer Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared or made after the date of their issue.

The Open Offer is not being made to certain Shareholders (including those resident in the United States, South Africa, Canada, Australia, Japan or Ireland) and, accordingly, Application Forms are not being sent to such Shareholders. Overseas Shareholders are referred to paragraph 7 of Part II of this document.

Further information on the Open Offer, including the detailed procedure for application and payment, is set out in Part II of this document.

8 Reasons for the Proposals

The Directors believe that the acquisition of SCOTTY represents an exciting opportunity to bring together two highly complementary businesses operating in similar but non-competing markets, with the prospect of sharing technology, achieving greater market penetration for a more broadly based product offering in each of the markets served by the two groups, and significant economies of scale. The Directors believe that these factors, coupled with new opportunities which, together with Proposed Directors, they have identified for the New Group, represent an opportunity to enhance shareholder value significantly in the future.

9 Financial effects of the Acquisition, the Placing and the Open Offer

An illustrative unaudited pro forma statement of net assets of the New Group, reflecting on a pro forma basis the impact of the Acquisition, the Placing and the Open Offer on the net assets of Motion Media, is set out in Part V of this document.

The illustrative statement shows pro forma net assets of £31.1 million including goodwill arising on the transaction of £21.7 million.

10 The effects of the Acquisition, the Placing and the Open Offer on shareholdings in Motion Media

Due to the size of SCOTTY, and the number of Consideration Shares to be issued, the Acquisition is classed as a reverse takeover for the purposes of the AIM Rules. Accordingly, the Proposals are conditional upon, *inter alia,* the approval of Shareholders, which is being sought at the EGM, notice of which is set out at the end of this document.

Under the terms of the Placing, the Open Offer, the SCOTTY Agreement and the Offer, the Proposed Directors and certain other SCOTTY shareholders, who are deemed to be acting in concert in relation to Motion Media for the purposes of the City Code, may acquire more than 30 per cent. of the issued share capital of the New Group depending upon the number of new Ordinary Shares to be issued as part of the Deferred Consideration. The Panel has, accordingly, been consulted with a view to it granting a waiver of the provisions of Rule 9 of the City Code, under which, in the absence of such waiver, the Concert Party would be obliged to make a mandatory cash offer to all other holders of Ordinary Shares. Further information on the potential maximum shareholding of the Concert Party and on Rule 9 of the City Code is set out in section 13 below entitled "The City Code".

11 Current trading and prospects

The Directors and the Proposed Directors, having regard to the performance of Motion Media and SCOTTY respectively, consider that the prospects for the New Group for the future are very attractive.

Turnover for the first quarter at SCOTTY is close to budget though some slippage of deliveries has occurred from the second quarter into the third quarter. Nonetheless, new order prospects for the year as a whole appear good. The first five months of sales at Motion Media are below budget, as are the operating costs, resulting in a net loss below budget. The Directors remain optimistic, particularly in regard to prospects in the Telehealth market, the potential for the Company's range of IP videophones and for sales of security products in the US which appear good as a major competitor has recently withdrawn one of its directly competing products. The Telehealth market continues to offer growth opportunities evidenced by some significant proposals which have been indicated in recent months and where Motion Media's CareStation videophones have an advantage in being the only videophones with FDA certification.

Accordingly, the Directors and the Proposed Directors view the future growth prospects for the New Group with confidence.

12 Benefits of the Acquisition

Motion Media's acquisition of SCOTTY will enable a significant reduction in costs to occur as the combined group currently maintains four engineering centres. The two companies have a common technological background having developed their products based upon the Agere AVP III audio video processor, they have utilised the same audio codecs and IP drivers. There is therefore a significant commonality of knowledge of each other's technologies. SCOTTY's subsidiary, Zydacron, has come to the end of a major development programme as its new generation Z470, H.264 based, codec is now intended for launch in July and Motion Media's Bristol engineering group has come to the end of the major development of the mm745. As a consequence, both sites would in any case require a significant adjustment in the nature of their engineering teams which, with the merger, provides an opportunity to rationalise the engineering functions to a greater degree and thereby concentrate application development in Austria and platform development in Wilmington, US with little or no loss in the engineering capability required for the future development of the New Group.

SCOTTY's development of its new H.264 codec based on the TI processor provides an excellent opportunity for Motion Media to adopt this new platform for its future products and save significant development cost. SCOTTY also brings its experience in satellite communications to Motion Media whilst Motion Media's expertise in PSTN and IP (particularly with its Packet Buddy™ protocol) and its echo cancellation techniques, has application in SCOTTY products.

No significant product overlap exists between the two companies and it is envisaged that all products will continue to be supported. In certain areas the opportunity to offer customers solution packages will be enhanced, such as in telehealth where Motion Media's patient orientated Carestation products can be augmented by SCOTTY's PC-based systems which can be targeted at the hospital or call station end of the system. SCOTTY has identified target customers amongst service providers in mainland Europe for the mm745 and has already supplied mm745s to its existing military customers for soldiers on duty abroad to be able to communicate with their families back home. The Directors and Proposed Directors believe that as well as cross-selling opportunities SCOTTY's reputation with government defence departments should lead to additional opportunities for identifying government related sales for Motion Media products, particularly in the health sector.

The Directors and Proposed Directors estimate that the New Group can achieve a combined cost reduction of about 30%. It is anticipated that a proportion of the savings to be made in engineering and other common overheads will be allocated to building a stronger sales and marketing team, refocusing what have in the past been predominantly engineering led companies into an international sales driven group. The annualised net savings even after this proposed increase in sales and marketing overhead is estimated at £1 million.

In particular, Motion Media is likely to be able to reach profitability far more quickly on the much lower cost base now anticipated. However the New Group is budgeting for a significant increase in sales, with SCOTTY still expected to contribute about three-quarters to the total, which will naturally lead to additional overhead requirement as those sales are realised - margins and cash flow are anticipated to remain good.

The New Group aims to become the third force in video conferencing, after the market leaders, Polycom and Tandberg, however it is not the intention to try and compete with those companies in the market area in which they dominate (group conferencing) but to target niche growth markets in military, telehealth and security where the New Group can dominate areas where demand for videotelephony is already evident, in a way that has made SCOTTY already successful. The general market for desktop videotelephony has still not yet developed, however Motion Media will remain well positioned to take advantage when it does. In addition, the New Group will seek to acquire businesses which can provide added growth in niche areas or add to the group's strengths.

13 The City Code

Under Rule 9 of the City Code ("Rule 9"), any person who acquires shares which, when taken together with shares already held by him or shares held or acquired by persons acting in concert with him, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, is normally obliged to make a general offer in cash to all shareholders at the highest price paid by him, or any person acting in concert with him, within the preceding 12 months.

Rule 9 also provides that, where any person, together with persons acting in concert with him, holds shares carrying not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company which is subject to the City Code, and such person, or any person acting in concert with him, acquires additional shares carrying voting rights in such company, that person is normally obliged to make a general offer in cash to all shareholders at the highest price paid by him, or any person acting in concert with him, within the preceding 12 months.

Upon completion of the Acquisition, the Offer, the Placing and the Open Offer, the members of the Concert Party, who together constitute a concert party for the purposes of the City Code, will together own 265,923,811 Ordinary Shares, representing 43.34 per cent. of the voting rights of Motion Media immediately following Admission. However, in accordance with the terms of the SCOTTY Agreement and the Offer, depending upon the audited profit before taxation of SCOTTY for the year ending 31 December 2004, further Ordinary Shares to a value of £38,500,000 could be issued as part of the Deferred Consideration and, in certain circumstances this could result in the Concert Party being issued with up to a further 344,565,088 New Ordinary Shares, bringing their aggregate voting rights in the New Group to approximately 63.36 per cent.

The Panel has agreed, subject to Resolution 1 being passed on a poll of Shareholders at the EGM, to waive the obligation on the Concert Party to make a general offer to Shareholders under Rule 9 which would otherwise arise as a result of the issue of the Initial Consideration Shares and any further new Ordinary Shares in satisfaction of any of Deferred Consideration. If any member of the Concert Party has any shares in the Company at the time of the EGM they will not be entitled to vote on this resolution.

Following the completion of the Acquisition, the Offer, the Placing and the Open Offer, the members of the Concert Party will between them hold more than 30 per cent. (but not more than 50 per cent.) of the company's voting share capital and (for so long as they continue to be treated as acting in concert) any further increase in that aggregate shareholding (apart from in satisfaction of any Deferred Consideration) will be subject to the provisions of Rule 9.

If the Deferred Consideration Shares are issued, following such issue, the members of the Concert Party will between them hold more than 50 per cent. of the company's voting share capital and (for so long as they continue to be treated as acting in concert) may accordingly increase their aggregate shareholding without incurring any further obligations under Rule 9 to make a general offer, provided that no member of the Concert Party's holding exceeds 30 per cent.

Further information on the Concert Party and, in particular, details of their individual holdings of Ordinary Shares as they will be, assuming completion of the Acquisition, the Placing and the Open Offer and assuming full acceptance of the Offer, are set out in Part VII of this document. No member of the Concert Party has ever, directly or indirectly, held or dealt in any Ordinary Shares. The waiver to which the Panel has agreed will be invalidated if any purchases of Ordinary Shares are made by any member of the Concert Party in the period between the date of this document and the EGM.

14 Directors, Proposed Directors and Key Employees

Brief biographies of the Directors and the Proposed Directors are set out below. Paragraphs 5.7 and 5.8 of Part VIII of this document contains further details of current and past directorships and certain other important information regarding the Directors and the Proposed Directors.

The Directors

Rex Thorne *– Executive Chairman (aged 77)*

Mr Thorne 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. Between 1968 and 1991 he held the following appointments: Marketing Director, Standard Telephones and Cables (1968-1972); Chief Executive, ITT Business Systems UK (1972-1975); Chief Executive EMI Industrial Electrics Limited (1975-1981); Chairman and Chief Executive, Bradenburg Limited (1981-1987); and Executive Director, Astec (BSR) Plc (1987-1991). He was appointed Non-executive Chairman of the Company in 1993 and Executive Chairman from June 2003. He is also Non-executive Chairman of Advanced Power Components PLC and Non-executive Chairman of Marcom Limited. He has a degree in telecommunications from the University of London and was awarded an OBE in 1990 for services to the Radio Communications industry.

Garey De Angelis *– Global Sales and Marketing Director (aged 53)*

Mr De Angelis joined Motion Media Technology, Inc., the Company's wholly-owned subsidiary based in the US, in 2001, having previously worked as Director of European Business Development at Softbank Venture Capital and at Apple Computer, Inc. where he held several roles including Director of OEM licensing and Strategic Alliances. He is the CEO of Motion Media Technology Inc., Global Sales and Marketing Director and also acts as the key account manager for the Group's Telehealth business. He holds a degree in Electrical Engineering from the University of Delaware.

Alan MacKenzie *– Non-executive Director (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 Grieveson 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, which acts as financial and Nominated Adviser to Motion Media, is regulated by the Financial Services Authority, is a UKLA Registered Sponsor, AIM Nominated Adviser and a Member of OFEX.

The Proposed Directors

Kurt Kerschat *– Proposed Chief Executive Officer (aged 41)*

Mr Kerschat is a co-founder of SCOTTY and the chief executive officer of its worldwide operations. He also acts as the key account manager for German and Dutch military forces. Prior to founding SCOTTY he worked at the Joanneum Research Institute on the Multipoint Videoconference System for the European Space Agency and designed and implemented the videoconference networks for the AUSTROMIR 91, MIR 92, Euromir 94 and Euromir 95 missions. He is a graduate of the Technical University of Graz, Austria, where he read Electrical Engineering.

Georg Weber *– Proposed Finance Director (aged 38)*

Mr Weber is the Chief Financial Officer of SCOTTY. Prior to joining SCOTTY he managed and developed several leisure centres. He also carried out studies for tourism development within Steirmärkische Landesholding GmbH and was involved as Financial Director in the development of several technology companies. He is a management consultant and quality manager and a graduate of the University of Graz, where he studied Economics.

Dr. Hans Peter Sauerzopf *– Proposed Senior Non-executive Director (aged 43)*

Dr. Sauerzopf is the chairman of SCOTTY'S supervisory board. He is a director of the Vienna based Tristan and Walkre private foundations and a director of a number of private companies. Since 2003 he has been a partner of Sauerzopf and Partner attorneys at law and prior to that he was a partner of Hopmeier, Sauerzopf and Partner attorneys at law. In 1993 Dr. Sauerzopf entered the Chamber of Lawyers list in Austria. He is a law faculty graduate from the University of Vienna and was promoted to Doctor of Law in 1986.

Dr. Ernst Wustinger – *Proposed Non-executive Director (aged 50)*

Dr. Wustinger was appointed to the Board in 1998. He has been chairman of the board of Pankl Racing Systems AG (which is quoted on the Frankfurt Stock Exchange) since February 2003, having previously been vice president of finance from 1996 to 2003. Prior to that he directed the finance department at the Austrian brewery, Schladming Brauerei GmbH between 1993 and 1996. From 1991 to 1997 he headed several projects at Stoelzle Oberglas AG in Styria, Austria. Between 1985 and 1991 he was CEO of Madison Werbeagentur (an advertising agency), between 1980 and 1991, he was Director, Styrian Trade Association, Management Cluband from 1979 to 1980 he was Director of the Mureck Municipal Authority. He graduated as Doctor in Jurisprudence in 1979, having studied Jurisprudence at the Universities of Vienna and Graz.

Key Employees of the New Group

Andreas Bödenauer, *(aged 40)*

Mr Bödenauer was a co-founder SCOTTY in 1994 and serves as the US Chief Executive Officer. He was responsible for designing and leading the installation of "Radio Max" and "Radio Bipa", twin satellite-based radio stations for a large food chain in Austria. He previously managed the Vienna office of Schwabel & Co, a professional partner of Sony Corporation from 1989 to 1994. He is a graduate of the Weiner Neustadt Engineering School in Austria.

Walter Müller, (aged 42)

Mr Müller is SCOTTY'S Development Director, with responsibility for the electronic and software design of the company's communication systems. Prior to joining SCOTTY in 1995, he was responsible for the software development of the Multipoint Videoconferencing System used by the European Space Agency. Walter was a visiting engineer at the Rutherford Appleton Laboratory working on ATM interfaces and videoconferencing equipment for the EU funded Charisma Project. He is a graduate of the Technical University of Graz, Austria, where he read Telematics.

Stuart Ross, *(aged 44)*

Mr Ross is Chief Technical Officer of Motion Media Tehnology Inc. Prior to joining Motion Media he served as Vice President of Engineering and Director for C-Phone Corporation, a videocommunications business quoted on NASDAQ from 1994 to 2001. Mr Ross joined C-Phone from New Potato Technologies, Inc., a consultancy firm he founded in 1986. Between 1984 and 1986 he was Manager of Research and Development at GridComm Inc., a local area network manufacturer and previously was employed at the CBS Technology Center. He holds a B.S.E.E with High Distinction from Worcester Polytechnic Institute.

15 Dividend Policy

The Directors and the Proposed Directors propose to consider the payment of dividends on the Ordinary Shares in the light of the results for the year to 31 July 2005 and the cash requirements of the New Group going forward at that time and any restructuring of the balance sheet which may be required.

16 Corporate Governance

The Directors and the Proposed Directors intend, so far as is practicable and to the extent appropriate with regard to the size of the Company, that the Company will comply with the main provisions of the Combined Code: Principles of Corporate Governance and Code of Best Practice as set out in the Listing Rules of UKLA ("Combined Code").

Following Admission the audit and remuneration committees of the Company will be comprised exclusively of non-executive directors. The remuneration committee will determine the terms and conditions of service, including the remuneration and grant of options over Ordinary Shares (pursuant to the Share Option Schemes) to executive directors of the Company. The audit committee will have primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounts and internal controls.

The directors of the Company will also consider the guidance published by the Institute of Chartered Accountants in England and Wales (commonly referred to as the Turnbull Report) concerning the internal control requirements of the Combined Code and will regularly review and manage the key business risks in addition to the financial risks facing the New Group in the operation of its business.

The Company has adopted and will continue to operate a share dealing code for directors of the Company and applicable employees in accordance with the restrictions on such dealings contained in Rule 19 of the AIM Rules.

17 Extraordinary General Meeting

You will also find set out at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held 2.30 p.m. (or, if later, as soon as practicable after the AGM has been concluded or adjourned) on 28 July 2004. A form of proxy for use in respect of the EGM is also set out at the end of this document.

The business to be conducted at the AGM, notice of which is included in the Report and Accounts, consists of ordinary business required or ordinarily dealt with at annual general meetings, together with five items of special business not directly related or dependent upon the Proposals.

AGM

The resolutions to be proposed at the AGM will include those which appear in paragraph 2.6 of Part VIII. Certain of the AGM resolutions will be superseded by those to be passed at the EGM.

EGM

The following resolutions will be proposed at the EGM:

Resolution 1 will be proposed as an ordinary resolution to be taken on a poll of the Shareholders to approve the waiver by the Panel of the obligation of the Concert Party to make a general offer under Rule 9 of the Code.

Resolution 2 will be proposed as an ordinary resolution to approve the Acquisition (and associated arrangements) for the purposes of the AIM Rules.

Resolution 3 will be proposed as an ordinary resolution to increase Motion Media's authorised share capital by £11,000,000 to £15,000,000 by the creation of 1,100,000,000 Ordinary Shares.

Resolution 4 will be proposed as an ordinary resolution to grant the Directors authority to allot relevant securities up to an aggregate nominal amount of £8,625,000, provided that £7,375,000 of such authority shall be restricted to the allotment of the Placing Shares 10,525,000 Open Offer Shares, the Initial Consideration Shares and the Deferred Consideration Shares. The authority sought by this resolution would be in substitution for the authority sought by Resolution 7 at the AGM.

Resolution 5 will be proposed as an ordinary resolution to authorise the Directors to issue securities pursuant to the sub-plan of the Company's Unapproved Executive Share Option Scheme for employees resident in the United States.

Resolution 6 will be proposed as a special resolution to grant the Directors authority pursuant to section 95 of the Act to allot equity securities on a non pre-emptive basis for cash, provided that such authority is limited to:

i) a rights issue or open offer;

ii) the allotment of the Placing Shares and up to 10,525,000 of the Open Offer Shares;

iii) other than as set out above for cash up to an aggregate nominal amount equal to approximately 15 per cent of the Enlarged Share Capital.

The authority sought by this resolution would be in substitution for the authority sought by Resolution 9 at the AGM.

Resolution 7 will be proposed as a special resolution for the purpose of changing the Company's name, for the reasons set out above, to SCOTTY Group plc. This Resolution will be conditional on Admission.

18 United Kingdom Taxation

Your attention is drawn to paragraph 11 of Part VIII of this document which gives information in relation to United Kingdom taxation including the potential effect on Enterprise Investment Scheme (EIS) relief. If Investors are in any doubt as to their tax position they should consult their professional adviser without delay.

19 Action to be taken

a) Open Offer

Qualifying Shareholders who wish to apply for Open Offer shares under the Open Offer must complete the accompanying Application Form in accordance with the instructions printed thereon and return it, together with their remittance for the number of Open Offer Shares applied for, so as to arrive at the Company's Receiving Agents, Capita IRG Plc, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 3.00 p.m. on 26 July 2004.

b) Extraordinary General Meeting

Shareholders will find set out at the end of this document a Form of Proxy for use at the EGM. Whether or not you propose attending the EGM, Shareholders are requested to complete and sign the Form of Proxy and return it by post to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible and, in any event, so as to arrive no later than 48 hours before the time of the EGM. The return of a Form of Proxy will not prevent a Shareholder from attending the EGM and voting in person if he or she so wishes.

20 Additional information

Your attention is drawn to the additional information set out in Parts II to VIII of this document, the Appendix thereto and the Application Form.

21 Pricing of the Placing

When the Company's shares were suspended on 26 March 2004, following the announcement of the proposed acquisition of SCOTTY, the share price on AIM was 12.75p. In the last few weeks your Board, in conjunction with ARM and Charles Stanley, has undertaken a broadly based test marketing with a number of institutional and other investors to gauge the level of support for the Placing and to establish the basis for pricing it successfully.

It has become clear that in order to raise £4.1 million, being the minimum amount, net of expenses, required to meet the working capital requirements of the New Group, the placing price would have to represent a significant discount to the suspension price. From marketing feedback your Board has found it necessary to fix the Placing Price at 4p to ensure the success of the Placing. Your Board believes that the trading and financial merits of the Proposals provide the commercial justification for this.

22 Importance of the Proposals

The Placing would, on becoming unconditional in all respects, raise sufficient additional working capital for the New Group's projected requirements for at least the next 12 months. However, to the extent that the Placing is conditional, *inter alia,* on the passing of the EGM Resolutions, the Proposals would not proceed as envisaged if Shareholders do not approve any of the EGM Resolutions. In these circumstances the Company would have to seek further funding. Accordingly, your Board strongly urges Shareholders to vote in favour of the EGM Resolutions.

23 Recommendation

Your Directors, who have been so advised by ARM, consider that the Proposals and the waiver of Rule 9 in respect of the Concert Party are in the best interests of the Company and its Shareholders as a whole.

Accordingly, your Directors unanimously recommend Shareholders to vote in favour of each of the EGM Resolutions and each of the resolutions to be proposed at the EGM as they have irrevocably undertaken to do in respect of their own beneficial shareholdings amounting to 2,820,658 Existing Ordinary Shares, representing 1.03 per cent. of the existing issued ordinary share capital of the Company.

Yours faithfully,

Rex Thorne OBE
Chairman

PART II

TERMS AND CONDITIONS OF THE OPEN OFFER

Open Offer to Qualifying Shareholders

1. Introduction

As explained in the letter from your Chairman which is set out in Part I of this document, the Company has conditionally agreed to acquire approximately 98.45 per cent. of the share capital of SCOTTY. In order to provide the New Group with additional working capital, the Company proposes to raise up to £5 million (before expenses) by the issue of the New Ordinary Shares at the Placing Price pursuant to the Placing and Open Offer.

The Placing and Open Offer

The Placing and Open Offer consists of a Placing of 114,475,000 New Ordinary Shares and the Open Offer of up to 50,000,000 New Ordinary Shares. Pursuant to the terms of the Placing Agreement, Charles Stanley and ARM have jointly have conditionally agreed, as agents for the Company, to use their respective reasonable endeavours to place 100,000,000 of the Placing Shares firm with institutional and other investors at the Placing Price. These Placing Shares are not available for subscription under the Open Offer.

14,475,000 of the Placing Shares have been conditionally placed with institutional and other investors at the Placing Price, subject to a right of recall to the extent required to satisfy valid applications under the Open Offer.

Save as set out in paragraph 13.3 of Part VIII of this document neither the Placing nor the Open Offer has been underwritten.

The Open Offer

The Open Offer comprises 50,000,000 Open Offer Shares. Of these, 10,525,000 Open Offer Shares are being made available by the Company at the Placing Price to meet applications from Qualifying Shareholders under the Open Offer and the proceeds will be utilised to provide up to £421,000 of additional working capital for the New Group.

To the extent that applications from Qualifying Shareholders exceed 10,525,000 Open Offer Shares, the Company has agreed to make available up to 25,000,000 Initial Consideration Shares at the Placing Price on behalf of certain of the Vendors to meet further applications under the Open Offer. To the extent that valid applications under the Open Offer are received for more than 35,525,000 Open Offer Shares, valid applications from Qualifying Shareholders will be satisfied by those Placing Shares placed subject to the right of recall as described above.

The Placing Price of the New Ordinary Shares represents a discount of 69 per cent. to the market price of 12.75 pence per Existing Ordinary Share as derived from the AIM Appendix of the Daily Official List of the London Stock Exchange on 26 March 2004, being the date when the Company's shares were suspended from dealings on AIM.

Your attention is drawn to the Chairman's Letter set out in Part I and to Parts III to VIII of this document. This letter and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

2. Open Offer

The Company, hereby invites Qualifying Shareholders to apply, on and subject to the terms and conditions set out in this letter and in the accompanying Application Form, for Open Offer Shares at the Placing Price, free of all expenses, payable in full in cash on application on the following basis:

(a) 1 Open Offer Share for every 4.5213787 Existing Ordinary Shares held by such Qualifying Shareholders and registered in their names on the Record Date, and so in proportion for any other number of Existing Ordinary Shares then held (the "**Basic Entitlement**"); and

(b) further Open Offer Shares in excess of their Basic Entitlement (although such Open Offer Shares will only be allotted to the extent that not all Qualifying Shareholders apply for their Basic Entitlement).

Holdings of Ordinary Shares in certificated form and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Fractions of Open Offer Shares are not included in Qualifying Shareholders' entitlements. Fractional entitlements will be aggregated and sold for the benefit of the Company in the Placing.

Qualifying Shareholders who so wish, may apply for Open Offer Shares in excess of their Basic Entitlement. Applications in excess of the Basic Entitlement will only be satisfied to the extent that applications by other Qualifying Shareholders are made for less than their Basic Entitlements and may therefore be scaled down. However, allocation of Open Offer Shares in respect of these excess applications will be at the absolute discretion of the Company.

The Open Offer Shares will be allotted and credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares in issue including the right to receive all dividends and other distributions declared, made or paid thereon following Admission.

The Placing and Open Offer is conditional, *inter alia*, upon:

(i) the passing of the Resolutions numbered 1 to 7 at the Extraordinary General Meeting;

(ii) the Placing Agreement having become unconditional in all respects (save only in respect of any condition relating to the Acquisition Agreement becoming unconditional in all respects and Admission) and not having been terminated in accordance with its terms on or before 8.00 a.m. on 29 July 2004 (or such later time and/or date as Charles Stanley, ARM and the Company may agree (being not later than 8.00 a.m. on 9 August 2004);

(iii) the Acquisition Agreement having become unconditional in all respects (save only in respect of any condition relating to the Placing Agreement becoming unconditional in all respects and Admission); and

(iv) Admission becoming effective by not later than 8.00 a.m. on 29 July 2004 or such later time and/or date as Charles Stanley, ARM and the Company may agree (being not later than 8.00 a.m. on 9 August 2004).

The New Ordinary Shares are not being made available in whole or in part nor have they been marketed to the public except under the terms of the Placing and Open Offer.

Further details of the Placing Agreement are set out in paragraph 8A(e) of Part VIII of this document.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and, accordingly, Open Offer Shares not applied for will not be sold in the market for the benefit of those Shareholders who do not apply under the Open Offer.

3. Procedure for application under the Open Offer

If you are in any doubt as to the action to be taken, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

The Application Form accompanying this document shows the number of Existing Ordinary Shares registered in your name on the Record Date and also shows your Basic Entitlement under the Open Offer. You may apply for your Basic Entitlement or more or less than your Basic Entitlement should you so wish.

Valid applications up to your Basic Entitlement will be accepted in full. Valid applications for more than your Basic Entitlement will be treated as valid applications for your Basic Entitlement, but the application for the excess will be satisfied only to the extent that applications by other Qualifying Shareholders are made for less than their Basic Entitlements and may therefore be scaled down. Allocation of Open Offer Shares in respect of these excess applications will be at the absolute discretion of the Directors.

If no number is inserted in Box 2 of the Application Form (or if a number is inserted in Box 2 which is inconsistent with the amount of remittance which is accompanying the Application Form and shown in Box 3) you shall be deemed to have applied for the lesser of (a) the number of Open Offer Shares shown in Box 2 or (b) such number of Open Offer Shares which could be subscribed by you at the Placing Price with such remittance which accompanies the Application Form.

Any monies paid in respect of applications for Open Offer Shares in excess of Basic Entitlements that are scaled down will be returned to the applicant by crossed cheque (at the applicant's risk) without interest.

The instructions and other terms set out in the accompanying Application Form form part of the terms of the Open Offer.

If you wish to apply for all or any of your Open Offer Shares, you should complete and sign the accompanying Application Form in accordance with the instructions thereon and return it, together with your payment for the full amount in accordance with the instructions on the Application Form, by hand or by post, to the Receiving Agents, Capita IRG Plc, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive as soon as possible but in any event not later than 3.00 p.m. on 27 July 2004, after which time applications may not be valid. A reply paid addressed envelope accompanies this document for your convenience. Applications, once made, will be irrevocable and will not be acknowledged. If you post your Application Form, you are recommended to allow at least four days for delivery. All documents and remittances sent by or to an applicant, or as the applicant may direct, will be sent through the post at the applicant's own risk.

Application may be made only on the accompanying Application Form, which represents a right (personal to the Qualifying Shareholder(s) named therein) to apply for Open Offer Shares. The Application Form is not a document of title and cannot be traded. Application Forms may not be assigned or transferred except to satisfy bona fide market claims in relation to purchases through the market of Existing Ordinary Shares, pursuant to the rules of the London Stock Exchange, prior to their being marked "ex" the entitlement to participation in the Open Offer. If you have sold some only of your Existing Ordinary Shares, split applications are required to be received by not later than 3.00 p.m. on 23 July 2004. Qualifying Shareholders who have recently sold or otherwise transferred all or part of their registered shareholding of Existing Ordinary Shares are therefore advised to consult their stockbroker or other professional adviser duly authorised under the Financial Services and Markets Act 2000 as soon as possible, as the invitation to apply for Open Offer Shares may represent a benefit which can be claimed by purchasers or transferees under the rules of the London Stock Exchange. Your attention is drawn to paragraph 7 below regarding the forwarding of the Application Form to Overseas Shareholders.

The Company reserves the right to treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged, even if it is not completed in accordance with the relevant instructions or is not accompanied by the required remittance or a valid power of attorney (where required) or verification of identity satisfactory to Capita IRG Plc to ensure that the Money Laundering Regulations 1993 (as supplemented or amended by the Money Laundering Regulations 2001 and the Money Laundering Regulations 2003) (together "**Money Laundering Regulations**") would not be breached by acceptance of the payment submitted in connection with the Application Form or if it otherwise does not strictly comply with the terms and conditions set out in this document or on the Application Form.

The Company reserves the right, but shall not be obliged, to accept applications accompanied by the required remittance which are received after 3.00 p.m. on 27 July 2004 but not later than 10.00 a.m. on 28 July 2004, provided that the cover bears a legible post-mark not later than 3.00 p.m. on 27 July 2004. The Company reserves the right, but shall not be obliged, to accept applications in respect of which remittances are received prior to 3.00 p.m. on 27 July 2004 from an authorised person (as that term is defined in the Financial Services and Markets Act 2000) specifying the number of Open Offer Shares concerned and undertaking to lodge the relevant Application Form in due course.

By completing and delivering an Application Form, you (as the applicant(s)):

(a) agree that all applications, contracts and obligations resulting from such application shall be governed by, and construed in accordance with, English law; and

(b) confirm that, in making the application, you have not relied on any information or representation other than such as may be contained in this document or the Application Form and you accordingly agree that no person responsible solely or jointly for this document or any part thereof shall have any liability for any such information or representation.

If you do not wish to apply for Open Offer Shares please do not complete or return the Application Form. You are nevertheless requested to complete and return the Form of Proxy for use at the Extraordinary General Meeting. Completing and returning a Form of Proxy will not preclude you from attending and voting at the Extraordinary General Meeting if you so wish.

4. Procedure for Payment

All payments must be made in pounds sterling by cheque or banker's draft made payable to **"Capita IRG Plc A/C Motion Media PLC" and crossed "Account Payee"**.

Cheques and banker's drafts must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank or building society which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by either of those companies or those committees (and must bear the appropriate sorting code number in the top right hand corner). An application may be rejected unless these requirements are fulfilled. Once submitted, applications cannot be withdrawn. Cheques and banker's drafts representing application monies will be presented for payment upon receipt and it is a term of the Open Offer that cheques shall be honoured on first presentation. If any cheque is not so honoured, the relevant application will be deemed invalid.

The Company reserves the right to instruct Capita IRG Plc to seek special clearance of cheques to allow Motion Media and/or the Vendors (as the case may be) to obtain full value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque warrants that the cheque will be honoured on first presentation. The Company may elect at its sole discretion to treat as invalid any acceptance in respect of which the remittance is notified to it as not having been so honoured.

All enquiries in relation to the Application Form should be addressed to the Receiving Agents, Capita IRG Plc, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, telephone number 08701623100 or, if calling from outside the UK, +44 208 639 2157.

Application monies will be held in a separate bank account pending fulfillment or waiver of the conditions of the Open Offer. If the conditions of the Open Offer are not fulfilled or waived (as the case may be) on or before 8.00 a.m. on 29 July 2004 or such later time and/or date as the Company and ARM may agree, being not later than 8.00 a.m. on 9 August 2004, the Open Offer will lapse and all monies will be returned without interest to applicants as soon as possible and in any event within 21 days from that date. All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her own risk.

5. Money Laundering Regulations

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations and the Proceeds of Crime Act 2002, the Company's Receiving Agents, Capita IRG Plc, may require, at its absolute discretion, verification of identity from any person lodging an Application Form (which requirements are referred to below as "verification of identity requirements"). Any person (the "**Acceptor**") who, by lodging an Application Form with payment, as described above, applies for Open Offer Shares shall thereby be deemed to agree to provide Capita IRG Plc and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements. If it appears to Capita IRG Plc that the Acceptor is acting on behalf of some other person, verification of the identity of any person on whose behalf the Acceptor appears to acting may be required.

If Capita IRG Plc determines that the verification of identity requirements apply to any application, Capita IRG Plc may in its absolute discretion (notwithstanding any other term of the Open Offer) retain an Application Form lodged by an Acceptor and/or the cheque or other remittance relating thereto and/or not enter the Open Offer Shares to which it relates in the register of members or issue any share certificates in respect of them. If, within a reasonable period of time following a request for verification of identity and in any event before 3.00 p.m. on 27 July 2004, Capita IRG Plc has not received evidence satisfactory to it as aforesaid, the Company may (at its absolute discretion) elect to treat as invalid the relevant application in which case the monies payable by the applicant will be returned without interest to the drawee bank or building society from which such monies were originally debited.

By lodging an Application Form with the appropriate remittance, the Acceptor undertakes that the Money Laundering Regulations will not be breached by the acceptance of the remittance and the Acceptor undertakes to provide such evidence of identity at the time of lodging or, in the absolute discretion of the Company, within a reasonable time thereafter (to be determined at the discretion of the Company) as may be requested to ensure compliance with the Money Laundering Regulations.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance being treated as invalid or in delays in the despatch of certificates for Open Offer Shares, or in crediting your CREST stock account.

The verification of identity requirements may not apply if:

(a) the Acceptor is authorised to carry on regulated activities under the Financial Services and Markets Act 2000, or is an intermediary acting as agent (but not merely as an introducing broker) and in either case is itself subject to the Money Laundering Regulations or the Money Laundering Sourcebook of the Financial Services Authority; or

(b) the Acceptor is a credit institution or other financial institution required to comply with the EU Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (91/308/EEC)); or

(c) the Acceptor makes payment from an account in the name of such Acceptor held at an institution which is a credit institution, as defined in article 1(1) of the Banking Consolidation Directive or a firm authorised by the Financial Services Authority to accept deposits and the payment has been or will be sent or confirmed by post or electronically. Where payment is made by building society cheque or bankers' draft, the building society or bank should endorse the cheque or draft with the Acceptor's name and the number of an account held in the Acceptor's name at such building society or bank, such endorsement being validated by a stamp and authorised signature; or

(d) the aggregate subscription price for the relevant Open Offer Shares is less than €15,000 (£9,914).

In order to confirm the acceptability of any written assurance required in order to satisfy the verification of identity requirements, the Acceptor should contact Capita IRG Plc.

Capita IRG Plc is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any Acceptor and whether such requirements have been satisfied. The nature of the information required in order to satisfy the verification of identity requirements may vary depending upon whether the Acceptor is, among others, a private individual or a corporate entity.

Neither the Company nor Capita IRG Plc shall be responsible for or have any liability for any loss or damage (whether actual or alleged) arising from the election by the Company to treat an Application Form lodged by an Acceptor as invalid, as a result of Capita IRG Plc not having received from the Acceptor evidence reasonably satisfactory to it as to the identity of the person(s) lodging the Application Form within a reasonable period of the time of request for such, but in any event not later than 3.00 p.m. on 27 July 2004.

6. CREST

Although the Open Offer will be processed outside CREST, for the purpose of calculating entitlements under the Open Offer, CREST and non-CREST shareholdings will be treated independently and separate Application Forms will be issued in respect of each. If a Qualifying Shareholder has both a certificated and an uncertificated shareholding in the Company, there will be two separate Application Forms despatched in respect of such holdings.

Qualifying Shareholders holding their Existing Ordinary Shares in certificated form will be allotted all Open Offer Shares to which they are entitled (and for which they validly apply) in certificated form to the extent their entitlement arises as a result of their holding of Existing Ordinary Shares in certificated form. Qualifying Shareholders holding their Existing Ordinary Shares in uncertificated form will be allotted all Open Offer Shares to which they are entitled (and for which they validly apply) in uncertificated form to the extent that their entitlement arises as a result of their holding Existing Ordinary Shares in uncertificated form.

Qualifying Shareholders who currently hold their Existing Ordinary Shares in certificated form but who wish to hold all or part of their holding of Ordinary Shares in uncertificated form will need to comply separately with the relevant CREST procedures for conversion of such shares into uncertificated form following receipt of their certificates.

Notwithstanding any other provision of this document or of the Application Form, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or break down of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's Registrars in connection with CREST. This right may also be exercised if the correct details in respect of *bona fide* market claims (such as the Member Account ID and Participation ID details) are not provided as requested on the Application Form.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken with this document and the Open Offer.

For more information as to the procedure for application in each case, Qualifying Shareholders are referred to the Application Form.

7. Overseas Shareholders

The making of the Open Offer to Shareholders resident in any jurisdiction outside of the UK ("**Overseas Shareholder**") may be affected by the laws or regulatory requirements of relevant jurisdictions.

No person receiving a copy of this document and/or Application Form in any territory other than the UK may treat the same as constituting an offer or invitation to him or her to subscribe for Open Offer Shares, nor should he or she in any event use such Application Form, unless in the relevant territory such an offer or invitation could lawfully be made to him or her and such Application Form could lawfully be used without compliance with any unfulfilled registration or other legal or regulatory requirements.

Receipt of an Application Form and/or copy of this document will not constitute an invitation or offer to Overseas Shareholders in those jurisdictions in which it would be illegal to make such an invitation or offer and in such circumstances this document (except for the Notice of EGM) and the Application Form are being sent for information only.

Any person (including, without limitation, nominees, custodians and trustees) outside the UK wishing to apply for Open Offer Shares must satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining all requisite governmental or other consents, observing all other requisite formalities and paying all issue, transfer or other taxes due in such territory. Such Overseas Shareholders should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for their entitlement to Open Offer Shares.

Persons (including, without limitation, nominees, custodians and trustees) receiving this document and/or an Application Form in connection with the Open Offer, must not distribute or send it into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominee of such a person, he or she must not seek to apply for Open Offer Shares except pursuant to an express agreement with the Company. Any person who does forward this document or an Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph 7. The Company reserves the right to reject an application from or in favour of Shareholders in any such jurisdiction or persons who are acquiring Open Offer Shares for resale in or into any such jurisdiction.

The Company reserves the right to treat as invalid any application for Open Offer Shares which appears to the Company or its agents to have been executed, effected or despatched in a manner which may involve a breach of the securities laws of any jurisdiction or if they believe the same may violate applicable legal or regulatory requirements or if it provides an address for the delivery of definitive share certificates for the Open Offer Shares in the United States, Canada, South Africa, the Republic of Ireland, Australia or Japan, or any other jurisdiction outside the UK in which it would be unlawful to deliver such definitive share certificates. The attention of Shareholders who are not resident in, or who have registered addresses outside, the UK is drawn to sub-paragraphs (a) to (f) below.

Notwithstanding the provisions set out in this paragraph 7, the Company reserves the right to accept applications from Overseas Shareholders if the applicant is able to demonstrate that all applicable laws and regulations have been complied with without observance by the Company of any requirement which it (in its absolute discretion) regards as unduly burdensome.

Overseas Shareholders who wish, and are permitted, to take up their Basic Entitlement should note that payments must be made in pounds sterling. Specific restrictions relating to certain jurisdictions are set out below.

(a) ***United States and Canada***

The Open Offer Shares have not been nor will they be registered under the United States Securities Act 1933 (as amended), or under the securities law of any state of the United States and no securities commission or similar regulatory authority of any province of Canada has reviewed or passed upon this document or the merits of the Open Offer Shares and such Open Offer Shares have not been and are not expected to be qualified under a prospectus qualified in any province of Canada. The Open Offer Shares may not be offered, sold, taken up, delivered, or transferred directly or indirectly in or into the United Sates or Canada or to or for the account of any person in the United States or Canada, except in certain transactions exempt from any prospectus and registration requirement. The distribution of Application Forms will not be made pursuant to a prospectus in Canada nor, except in certain limited cases, pursuant to any applicable prospectus or registration exemptions under the securities legislation of any province of Canada.

Accordingly, no offer of Open Offer Shares is being made by means of this document to any Shareholder with a registered address in the United States or Canada and Application Forms will not be sent to, and applications will not be accepted from, any Shareholders with registered addresses in the United States and Canada. Subject as provided below, the Company reserves the right to treat as invalid any application that appears to the Company or its agents to have been executed in or despatched from the United States or Canada, or that provides an address in the United States or Canada for the delivery of definitive certificates for Open Offer Shares or which does not make the warranty set out in the Application Form to the effect that the person making the application does not have a registered address (and is not otherwise located) in the United States or Canada and is not acquiring rights to Open Offer Shares with a view to the offer, sale, resale, transfer, delivery, or distribution directly or indirectly of any such Open Offer Shares in the United States or Canada.

(b) ***Australia***

No prospectus in relation to the Open Offer Shares has been or is intended to be lodged with, or registered by, the Australian Securities and Investments Commission. A person may not:

(a) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell any Open Offer Shares; or

(b) distribute any draft or definitive document in relation to any such offer, invitation or sale,

in the Commonwealth of Australia, its states, territories or possessions ("**Australia**") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporate or entity located outside Australia).

Application Forms will not be sent and no offer of the Open Offer Shares is being made by means of this document or the Application Form to any Shareholder with a registered address in Australia.

Envelopes containing Application Forms should not be postmarked in Australia or otherwise despatched from Australia and all subscribers for Open Offer Shares must provide addresses outside Australia for the delivery of definitive certificates for Open Offer Shares. The Company reserves the right to treat as invalid any Application Form that appears to the Company to have been executed in, or despatched from, Australia or that provides an address in Australia for delivery of a definitive share certificate for the Open Offer Shares allotted pursuant to the Open Offer, or does not make the representation and warranty set out in the Application Form to the effect that such person is not in Australia and is not acting on a non-discretionary basis for a person in Australia.

(c) ***South Africa***

Shareholders resident in South Africa may require approval of the South African Exchange Control Authorities if they wish to take up their entitlements under the Open Offer.

(d) ***Republic of Ireland***

No document in relation to the Open Offer Shares has been or will be lodged for registration with the Registrar of Companies in the Republic of Ireland. Accordingly, Application Forms will not be sent and no offer of Open Offer Shares is being made by means of this document or the Application Form to any Shareholder with a registered address in the Republic of Ireland. All applicants for Open Offer Shares must provide addresses outside the Republic of Ireland for the receipt of certificates for Open Offer Shares. Persons will be deemed to have made an invalid application if their Application Form appears to the Company or its agents to have been executed in or despatched from the Republic of Ireland, or if they provide an address in the Republic of Ireland for registration, or if they are unable to make the representations and warranties set out in the Application Form.

(e) ***Japan***

No prospectus in relation to the Open Offer Shares has been or will be lodged for registration with the relevant authorities in Japan. Accordingly, the Open Offer is not being made in Japan and Application Forms are not being sent to Shareholders who have registered addresses in Japan. Envelopes containing Application Forms should not be postmarked in Japan or otherwise dispatched from Japan and all subscribers for Open Offer Shares must provide addresses outside Japan for the delivery of definitive certificates for Open Offer Shares. The Company reserves the right to treat as invalid any Application Form that appears to the Company to have been executed in, or dispatched from, Japan or that provides an address in Japan for delivery of definitive share certificates for the Open Offer Shares allotted pursuant to the Open Offer, or does not make the representation and warranty set out in the Application Form to the effect that such person is not in Japan and is not acting on a non-discretionary basis for a person in Japan.

(f) ***Other overseas territories***

Qualifying Shareholders resident in other overseas jurisdictions should consult their professional advisers about whether they require any government or other consents or need to observe any other formalities to enable them to participate in the Open Offer.

The comments set out in this paragraph 7 are intended as a guide only and do not constitute definitive statements of the specific laws affecting Shareholders. If you are in any doubt about your eligibility to apply for Open Offer Shares, you should consult your professional adviser without delay. It is the responsibility of all persons resident outside the UK who wish to take up New Ordinary Shares to satisfy themselves as to the full observance of the laws of the relevant territory in connection therewith.

8. Taxation

General comments on the taxation implications of acquiring and holding Open Offer Shares for Shareholders resident in the UK, based on current UK legislation, are set out in paragraph 11 of Part VIII of this document. However, the precise tax treatment will depend on each Shareholder's individual circumstances.

If you are in any doubt as to your tax position or if you require more detailed information than that outlined in this document, you should consult an appropriate professional adviser immediately.

9. Admission, Settlement and Dealings

Application will be made for the Existing Ordinary Shares to be readmitted and the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence at 8.00 a.m. on 29 July 2004. The New Ordinary Shares will be in registered form and will be capable of being held in uncertificated form.

The Company's Existing Ordinary Shares are already admitted to CREST. Accordingly, no further application for admission to CREST is required for the New Ordinary Shares. All of such shares, when issued and fully paid, may be held and transferred by means of CREST.

Subject to the conditions of the Open Offer being satisfied (or waived, if capable of waiver), Open Offer Shares are expected to be credited to the appropriate CREST stock accounts by 2 August 2004, unless the Company exercises the right to issue such Open Offer Shares in certificated form, in which case definitive certificates are expected to be despatched by post on or before 2 August 2004. Subject as aforesaid, definitive certificates of any Open Offer Shares to be issued in certificated form are expected to be despatched by post on or before 2 August 2004. In the case of joint holders, dispatch will be to the address of the joint holder whose name stands first in the register of members of the Company in respect of the joint holding concerned. No temporary documents of title will be issued. Pending despatch of definitive share certificates (if any), transfers of the Open Offer Shares will be certified against the share register. All documents or remittances sent by or to an applicant (or his agent as appropriate) will be sent through the post at the risk of the applicant. Qualifying CREST Shareholders should note that they will be sent no confirmation of the credit of the Open Offer Shares to their CREST stock account nor any other written communication by the Company in respect of the issue of the Open Offer Shares.

10. Share Option Schemes

The Open Offer is not being extended to the holders of options under the Share Option Schemes, save to the extent that any such options are or have been validly exercised and Ordinary Shares have been allotted in consequence of such exercise prior to the Record Date. The terms under which the options under the Share Option Schemes have been granted are subject to adjustment in the event of certain variations in the Company's share capital. Subject to certain limits, the adjustments concerned (if any) are those certified by the Company's auditors as fair and reasonable and agreed where appropriate with the Inland Revenue.

11. Additional information

Your attention is drawn to the additional information set out in Parts I and III to VIII of this document and the terms and conditions set out in the Application Form.

PART III

FINANCIAL INFORMATION ON SCOTTY GROUP

Further financial information on SCOTTY Group is set out in the Appendix to this document

The following financial information represents an English translation of the unaudited consolidated financial statements for the SCOTTY Group for the two years ended 31 December 2003 which were approved by the SCOTTY management on 21 May 2004. They comprise consolidated balance sheets at 31 December 2002 and 2003 and consolidated statements of income, cash flows and changes in equity for the two years ended 31 December 2003 and associated notes. The consolidated financial statements incorporate the results of each of the companies in the SCOTTY Group and have been prepared under International Financial Reporting Standards.

Review report

We have reviewed the accompanying consolidated balance sheet of SCOTTY AG at 31 December 2003 and 2002, and the related consolidated statements of income, consolidated cash flows and consolidated statement of changes in equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurances as to whether the consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements are not presented fairly, in all material respects, in accordance with International Reporting Standards.

Vienna, 21 May 2004

Deloitte & Touche GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

(Mag. Erich Kandler)
Certified Public Account

(ppa. Dr. Christoph Waldeck)
Certified Public Account

CONSOLIDATED BALANCE SHEET

	Notes	*31.12.2003* *EUR*	*31.12.2002* *EUR*	*01.01.2002* *EUR*
Assets:				
Cash and cash equivalents	6	572.167,04	759.903,14	121.304,81
Trade receivables		1.048.625,57	3.317.900,88	878.167,06
Inventories	4	1.416.323,38	1.246.644,41	708.527,38
Other receivables and other assets	5	283.526,27	726.799,06	90.129,78
Total current assets		***3.320.642,26***	***6.051.247,49***	***1.798.129,03***
Property and equipment, net	2	487.924,32	264.315,37	92.099,60
Intangible assets	1	1.082.322,38	298.301,73	9.626,12
Long term investments	3	1.847,20	2.065,22	218,02
Deferred taxes	11	22.620,87	17.414,95	1.091,26
Other assets		212.083,12	23.023,44	5.644,62
Total non-current assets		***1.806.797,89***	***605.120,71***	***108.679,62***
Total assets		**5.127.440,15**	**6.656.368,20**	**1.906.808,65**
Liabilities and Stockholders' Equity:				
Liabilities				
Short term borrowings	9	–195.873,58	–114.005,84	–140.240,27
Accounts payable		–581.078,46	–1.806.149,97	–613.541,95
Income taxes		–73.078,00	–169.691,00	–10.636,83
Other accrued liabilities	10	–1.850.238,22	–2.713.075,31	–120.615,58
Total current liabilities		***–2.700.268,26***	***–4.802.922,12***	***–885.034,63***
Long-term debt	9	–97.148,51	–58,858,20	–9.187,17
Employee benefits	8	–309.919,67	–577.271,37	–12.819,20
Deferred taxes	11	–454.175,39	–72.069.41	0,00
Total non-current liabilities		***–861.243,57***	***–708.198,98***	***–22.006,37***
Stockholders' Equity:				
Common stock	7	–175.000,00	–175.000,00	–175.000,00
Additional paid-in capital	7	–2.235.696,90	–2.235.696,90	–2.235.696,90
Exchange rate difference	7	–73.662,49	–13.170,29	0,00
Retained earnings		918.431,07	1.278.620,09	1.410.929,25
Total Stockholders' equity		**–1.565.928,32**	**–1.145.247,10**	**–999.767,65**
Total Liabilities and Stockholders' equity		**5.127.440,15**	**6.656.368,20**	**1.906.808,65**

CONSOLIDATED INCOME STATEMENT

	Notes	2003 EUR	2002 EUR
Revenue		10.203.769,66	11.476.391,72
Cost of sales	4	–5.297.884,98	–6.154.639,94
Gross profit		**4.907.884,68**	**5.321.951,77**
Other operating income		30.496,87	7.000,67
Research and development expenses	14	–430.992,24	–420.642,90
Distribution and administrative expenses	14	–3.161.123,18	–2.426.456,83
Other operating expenses	14	569.585	–46.579,06
Profit from operations		**776.680,38**	**2.435.243,65**
Other interest and similar income	17	2.208.37	52.598,03
Other interest and similar expenses	16	–59.215.18	–12.168,20
Financing costs		**–57.006,81**	**–40.429,83**
Profit before tax		**719.673,57**	**2.475.673,48**
Extraordinary item		0.00	–2.114.426.70
Income tax expense	12	–359.484,24	–228.936,72
Net profit for the year		**360.189,33**	**132.310,07**
Basic and diluted earnings per share (euro)		2,06	0,76

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2003 EUR	2002 EUR
Operating activities			
Net profit for the year		360.189,33	132.301,06
Depreciation (including exceptional goodwill amortisation)	1, 2	413.814,94	2.251.378,56
Changes in employee benefits	8	–267.351,70	564.452,17
Gains/losses from disposals of fixed assets		0,00	11.707,58
Changes in long-term assets		–189.059,68	–17.378,82
Changes in short-term assets		2.543.087,15	–3.616.367,33
Changes in short-term liabilities and provisions		–2.102.653,86	3.917.887,49
Changes in deferred taxes		376.900,06	55.745,72
Cash flows from operating activities		**1.134.926,24**	**3.299.735,43**
Investing activities			
Acquisition of intangible and fixed assets		–1.464.046,47	–2.719.686,59
Proceeds from disposal of equipment		0,00	19.008,19
Cash flows from investing activities		**–1.464.046,47**	**–2.700.678,40**
Financing activities			
Differences in currency conversion		103.093,82	–10.129,73
Increase in loans		45.278,69	55.423,88
Interest paid		–6.988,38	–5.752,85
Cash flows from financing activities		**141.384,13**	**39.541,30**
Net increase in cash and cash equivalents		–187,736,10	638.598,33
Cash and cash equivalents at 1 January		759.903,14	121.304,81
Cash and cash equivalents at 31 December		**572.167,04**	**759.903,14**

CHANGES IN EQUITY

Reconciliation from Scotty AG individual financial statement to IFRS consolidated financial statements:

	31.12.2002 *TEUR*	*01.01.2002* *TEUR*
Results of Scotty USA since formation	–730	–730
Results of the subsidiaries in the year 2002	217	
Differences in currency conversion	27	4
Restatement of fiscal preferential treatments	11	11
Restatement of a capital increase in return for intangible assets	–151	–165
Capitalisation of deferred tax	–55	1
Transfer of severance obligations to measurement according to IAS 19	–72	–3
Capitalisation of development expenses, to which capitalisation is not permitted according to Austrian commercial code	149	–
Changes in depreciation, because of capitalisation	–9	–
Amortisation of goodwill resulting from the acquisition of investments	–2.114	–
Changes reflected in the equity	**–2.727**	**–882**
Equity of the individual financial statement of Scotty Österreich according to Austrian commercial code	**3.872**	**1.881**
Equity of the Scotty Group according to IFRS	**1.145**	**999**

Changes in Equity according to IFRS

	Share capital *TEUR*	*Share premium account* *TEUR*	*Retained earnings and net profit* *TEUR*	*Currency conversion* *TEUR*	*Total* *TEUR*
Balance at 01.01.2002	**175**	**2.235**	**–1.410**	**–**	**1.000**
Net profit for the year	–	–	132	–	**132**
Currency translation	–	–	–	13	**13**
Balance at 31.12.2002	**175**	**2.235**	**–1.278**	**13**	**1.145**
Net profit for the year	–	–	360	–	**360**
Currency translation	–	–	–	60	**60**
Balance at 31.12.2003	**175**	**2.235**	**–918**	**73**	**1.565**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

SCOTTY Tele-Transport Corporation Radio- und Videolektronik Aktiengesellschaft is a company domiciled in Austria. The consolidated financial statements of the Company for the year ended 31 December 2003 comprise the Company and its jointly controlled subsidiaries (together referred to as the "SCOTTY Group"). The Company is registered in the commercial register of the Country Court in Eisenstadt under Number 176545a. The registration occured on November 13, 1998.

The SCOTTY Group produces and develops telecommunication products and systems predominantly at its main location, which is in Austria. The SCOTTY Group distributes products as well as services worldwide.

2. Accounting Principles, Valuation and Financial Reporting Methods

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and in accordance with the Interpretations of the International Financial Reporting Interpretations Committee (IFRC).

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

IFRS 1 has been applied before its effective date in the preparation of the Group's consolidated financial statements.

2.2. Basis of preparation

The consolidated financial statements of the SCOTTY Group includes the parent company Scotty Tele-Transport Corporation AG, Graz, and the subsidiaries it controls:

- SCOTTY Tele-Transport Corporation of the Americas, Inc., Atlanta, USA,
- SCOTTY Tele-Transport Corporation of Asia, Inc., Pasay City, Philippines,
- Zydacron Inc., Manchester, USA
- Zydacron Europe Ltd., UK

Some information in the notes to the financial statements is presented in euro, rounded to the nearest thousand. The financial statements are prepared under the historical cost basis except for certain financial instruments that are revalued to their fair value. Provisions where the effect of the time value of money is material are discounted.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2002 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by Group entities.

2.3. Basis of consolidation

2.3.1 Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2.3.2. Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interested in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.4. Foreign currency

2.4.1. Foreign currency transactions

Transactions in foreign currencies are translated to euro at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the values were determined.

2.4.2. Financial statements of foreign communities

The Group's foreign operations are not considered as an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

Any differences that have arisen since 1 January 2002, the date of transition to IFRS, are presented as a separate component of equity. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

2.5. Derivative financial instruments

The Group does not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

2.6. Notes to the consolidated financial statements

2.6.1. Goodwill and negative goodwill resulting from Business Combinations

Goodwill resulting from business combinations and other forms of consolidation recorded in the balance sheet are amortised on a straight-line basis over a period of 10 years. In case of impairment, the carrying amount of goodwill is reduced to its recoverable amount.

To the extent that negative goodwill is attributable to future losses and expenses that are anticipated and can be measured reliably at the date of acquisition, it is realised to income in the period in which losses or expenses arise. If future charges are unknown, the negative goodwill is recognised in the income statement over the weighted average useful life of those assets that are depreciable. Negative goodwill in excess of the fair values of the identifiable assets acquired is recognised immediately in the income statement.

2.6.2. Intangible assets, property, plant and equipment

Intangible assets acquired are valued in the balance sheet at the acquisition cost less amortisation and impairment losses.

In the case of internally generated intangible assets, the period of production is allocated to a research phase and a development phase. Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditures during the development phase are recognised as intangible assets if certain recognition criteria supporting the future benefit of the expenditures made, particularly the technical feasibility of the product or process developed, are met. Internally generated intangible assets are valued at the cost of production less amortisation and impairment losses.

Tangible fixed assets are valued at acquisition or production costs less depreciation and impairment losses.

Expenditure on internally generated assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Subsequent costs are only capitalised if it is expected that the additional expenditure will yield additional economic benefits from use of the asset in the future.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Other intangible assets and depreciable tangible assets are depreciated on a straight-line basis over the expected economic life of the respective asset. The following periods of useful life were assumed, without change from the previous year, in determining the rates of depreciation:

	Useful life in years	
	from	*to*
Intangible assets		
Right of use of leased office space	5	15
Software	3	5
Development expenses	3	3
Tangible assets		
Buildings	25	50
Investments in leased buildings	10	20
Machines	5	10
Furniture and fixtures	5	10
Vehicles	5	5

In the case of assets commissioned during the first six months of the financial year, depreciation is according to Austrian income tax law for a whole financial year, otherwise the amount for a half-year is offset. Because of the small change in assets the difference between this method and the depreciation per accounting period is negligible.

Small-ticket items (acquisition costs below EUR 400) are written off in full in the year of purchase and are treated like an asset disposal.

2.6.3. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The present value of the lease payments is accounted for as financial liabilities.

2.6.4. Financial assets

Financial assets are not held for trading purposes. If the Group has the positive intent and ability to hold the securities to maturity *(held-to-maturity),* their value will be estimated at acquisition cost. Any existing difference between acquisition costs and the redemption payment (premium, discount) is distributed over the entire term of the securities based on the effective interest method. All other financial assets are classified as *available-for-sale.* They are valued on acquisition at acquisition cost, at later periods at the market value, which is applicable at the time. Changes in value are reported in the income statement. The market values of the securities are based on the stock market price at the balance sheet date.

Other investments, for which the market value cannot be determined without considerable effort, are recorded at the acquisition cost.

In the event that there are indicators for impairment, the value of the financial asset is assessed according to the method described under 2.6.5.

2.6.5. Impairment

At each balance sheet date the Group assesses whether there is any indicator that an asset may be impaired. If such indicators exist, the SCOTTY Group determines the recoverable amount which is the greater of value in use or net selling price for the assets affected. Should this value be lower than the book value of the asset, an impairment loss is recorded.

The value in use was calculated through the discount of future cash inflows and outflows originating from the continuing use of the asset. The interest rate for the discount amounting to 7% (previous year: 6.5%) was derived from the usual market interest rate. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cashgenerating unit to which the asset belongs.

The selling price corresponds to the attainable revenue less sale expenses that can be obtained from a third party for the object concerned.

Exceptional depreciation is expensed to income.

Goodwill was tested for impairment at 1 January 2002, the date of transition to IFRS, even though no indication of impairment existed.

2.6.6. Reversals of impairment

An impairment loss in respect of a available-for-sale security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.6.7. Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the sliding average price principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

2.6.8. Trade and other receivables and other assets

Trade and other receivables are stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Other assets are valued at acquisition cost less impairment losses.

2.6.9. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

2.6.10. Equity

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

2.6.11. Employee benefits

Severance obligations/defined benefit plans

Pursuant to legal provisions, SCOTTY AG is required to make a sole severance payment to an employee in the event of termination or on retirement. This is dependent on the number of years of service and on the salary at termination or retirement date and amounts to two to twelve months' salary. A provision is recorded for these obligations.

These provisions are determined on the basis of the *Projected Unit Credit Method.* The present value of future payments is thereby accumulated according to an actuarial procedure over the employee's estimated term of employment. The discount rate is the yield at balance sheet date on AAA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. Actuarial gains and losses are recognised as income and expense immediately.

On the basis of individual commitments the companies within the SCOTTY-Group are obliged to make severance payments to a total of 4 senior employees (board of managers) on termination of employment.

The calculations as at December 31, 2003, 2002 and 2001 are based on the following assumptions:

	2003	*2002*	*2001*
Interest rate	5.0%	5.75%	5.5%
Pension and salary increases	2.5%	2.5%	2.25%
Fluctuation	5 to 15%	5 to 15%	5 to 15%
Retirement age for women	61,5 years	60 years	58 years
Retirement age for men	62,5 years	62 years	60 years
Life expectancy schedules used	Pagler-Pagler	Pagler-Pagler	Pagler-Pagler

Defined contribution plans

For each employee who joined the company after the December 31, 2002 the Company requires the employees to pay 1,53% of his remuneration into a fund in support of employees. There exist no further obligations for the Company. These payments-in are recognised as an expense in the income statement.

Long-term service benefits

The SCOTTY Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Depending on the number of years employed (beginning with 15 years) this remuneration amounts to one to three months' salary. The obligation is calculated using the projected unit credit method. The actuarial assumptions are the same as the assumptions used for the defined benefit plans. Actuarial gains and losses are recognised as income and expense immediately.

2.6.12. Other accrued liabilities

Other accrued liabilities are recorded in the event that the Company has a legal or constructive obligation towards a third party on the basis of a past event and it is likely that this obligation will lead to an outflow of funds. Provisions are recorded based on the best estimate at the time of the preparation of the financial statements. If a reasonable estimate of the amount is not possible, no provision is recorded. Should the present value of the provisions that are determined on the basis of a generally accepted interest rate differ essentially from the nominal value, the present value of the liability is recorded.

2.6.13. Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

2.6.14. Accounts payable on account of trade

Trade accounts payable and other liabilities are valued at their nominal value.

2.6.15. Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to an assessment of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Government grants

Any government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Government grants related to assets are deducted from costs in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

2.6.16. Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

2.6.17. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and similar expenses and charges, realised interest, dividends and similar income on funds invested, and gains or losses on disposal or impairment of financial instruments.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Income from dividends is recognised in the income statement on the date that the dividend is declared.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

2.6.18. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

A tax rate of 34% in Austria, 30% in Asia and 30% in the USA has been used for the calculation of the deferred tax asset. The Austrian Federal Government announced a corporate income tax reduction from 34% to 25%. According to the provisions of IFRS the tax accrual and deferral, provided in these financial statements, is calculated at 34%. In using the new tax rate the balance of the deferred tax asset and liability will decline by approximately TEUR 91.

3. Notes on Balance Sheet and Income Statement Items

(1) Intangible Assets and Goodwill

	Computer software, licenses TEUR	*Development expenses TEUR*	*Goodwill TEUR*	*Total TEUR*
Cost				
Balance at January 1, 2002	30	–	–	30
Additions	154	204	2.114	2.472
Balance at December 31, 2002	**184**	**204**	**2.114**	**2.502**
Accumulated amortization				
Balance at January 1, 2002	20	–	–	20
Scheduled amortisation	15	54	–	69
Exceptional amortisation	–	–	2.114	2.114
Balance at December 31, 2002	**35**	**54**	**2.114**	**2.203**
Carrying amount at January 1, 2002	**10**	**–**	**–**	**10**
Carrying amount at December 31, 2002	**149**	**150**	**–**	**299**
Cost				
Balance at January 1, 2003	184	204	2.114	2.502
Additions	29	969	–	998
Translation adjustments	–18	–	–	–18
Balance at December 31, 2003	**195**	**1.173**	**2.114**	**3.482**
Accumulated amortisation				
Balance at January 1, 2003	35	54	2.114	2.203
Scheduled amortisation	21	175	–	195
Balance at December 31, 2003	**56**	**229**	**2.114**	**2.399**
Carrying amount at January 1, 2003	**149**	**150**	**–**	**299**
Carrying amount at December 31, 2003	**139**	**944**	**–**	**1,083**

The goodwill, resulting from the acquisition of Zydacron Inc., has been depreciated as an exceptional item because of the perceived diminution in value of Zydacron Inc. The appropriation of goodwill to the intangible assets and the development costs that are not yet capitalised was not allowed because of the degree of realisation and the product cycle. The goodwill in the local financial statements, according to Austrian Commercial Code (HGB), originated from a transaction under common control (accretion according to §142 HGB) in the year 1998 was totally eliminated at the first-time adoption of IFRS.

(2) Property, plant and equipment

	Equipment 2003 TEUR	*Equipment 2002 TEUR*
Cost		
Balance at January 1, 2003 respectively 2002	2.464	255
Additions	466	179
Disposals	–	–74
Transfers (increase in reporting entities)	–	2.113
Translation adjustments	–383	–9
Balance at December 31, 2003 respectively 2002	**2.547**	**2.464**
Accumulated depreciation		
Balance at January1, 2003 respectively 2002	2.200	163
Scheduled depreciation	218	68
Disposals	–	–55
Transfers (increase in reporting entities)	–	2.030
Translation adjustments	–359	–6
Balance at December 31, 2003 respectively 2002	**2.059**	**2.200**
Carrying amount at January 1, 2003 respectively 2002	**264**	**92**
Carrying amount at December 31, 2003 respectively 2002	**488**	**264**

The transfers due to an increase in reporting entities result from the acquisition of Zydacron.

(3) Financial assets

Securities consist of shares in investment funds. Their purpose is to cover provisions for severance payments and pensions in keeping with the rules of § 14 and 116 of Austrian income tax law. The current market values of the securities are largely equal to their carrying amount. The securities are assessed with market values.

(4) Inventories

	31.12.2003 in TEUR	*31.12.2002 in TEUR*	*31.12.2001 in TEUR*
Raw and auxiliary materials and operating supplies	758	995	176
Unfinished goods	74	120	81
Finished goods	584	132	451
	1.416	**1.247**	**708**

The cost of sales recorded in the income statement breaks down as follows:

	2003 TEUR	*2002 TEUR*
Cost of materials	4.535	5.494
Cost of personnel	426	419
Cost of purchased services	336	242
	5.297	**6.155**

(5) Receivables and other assets

The receivables and other assets are not reduced by general value adjustments.

(6) Cash and cash equivalents

	31.12.2003 TEUR	*31.12.2002 TEUR*	*31.12.2001 TEUR*
Balances with financial institutions	571	759	121
Cash on hand	1	1	–
Liquidity (net) for purposes of the cash flow statement	**572**	**760**	**121**

(7) Equity

The issued capital did not change during 2002 and 2003; it amounts to TEUR 175 and corresponds with the nominal capital for the previous year of SCOTTY Tele-Transport Corporation AG. Issued capital is broken down into 175.000 bearer shares (non-par individual share certificates), with a nominal value of 1 EURO.

The shares are held as follows:

	Number	*%*
Dipl. Ing. Walter Müller	25.200	14
Dipl. Ing. Kurt Kerschat	25.200	14
Ing. Andreas Bödenauer	23.380	13
Omicron, Brolstrasse 39, 6844	8.540	5
Altach diverse investors	92.680	54
	175.000	**100**

The registered and bearer shares allow those rights that stockholders own according to the Austrian Stock Corporation Law. These rights include the right to receive a dividend as well as the right to exercise share-voting rights at the stockholders' meeting.

The capital reserve results from the share premium arising on the capital increases in 1998 and 1999.

In accordance with § 130 para 4 of the Austrian Stock Corporation Law the restricted capital reserves as well as the revenue reserves can be reduced for the purpose of balancing what otherwise would have been posted as a net loss in the annual accounts of the parent company. It is not allowed to payout dividends exceeding the disclosed balance sheet profit (31.12.2003: TEUR 543; 31.12.2002: TEUR 1.246; 31.12.2001: TEUR –745) in the local financial statements of the parent company.

The currency translation reserve includes all currency exchange differences arising from the conversion of the annual accounts of the subsidiaries, which are in a foreign currency.

(8) Employee benefits

The net liability recognised in the balance sheet has changed as follows:

	31.12.2003 in TEUR	*31.12.2002 in TEUR*
Present value of defined benefit commitment (DBO) 1.1.	577	13
Expenses recognised in the income statement	–267	156
Changes in basis of consolidation	–	420
Payments	–	–12
Present value of defined benefit commitment (DBO) 31.12.	**310**	**577**

Expenses recognised in the income statement

	2003 TEUR	*2002 TEUR*
Current service costs	249	161
Interest on commitment	3	1
Actuarial gain/loss	–519	–6
	–267	**156**

(9) Financial liability

The market values and essential terms of the financing liabilities are as follows:

Type of financing and currency	*Market value 31.12.2003 TEUR*	*Market value 31.12.2002 TEUR*	*Carrying amount 31.12.2003 TEUR*	*Carrying amount 31.12.2003 TEUR*	*Effective rate for 2003 %*	*Effective rate for 2002 %*	*Interest fixed/ variable*	*Maturity*
Financing in EUR								
Capital investment loan	2	6	–	3	6.25	6.25	fix	21.07.04
Capital investment loan	11	22	3	14	–	–	fix	08.05.05
Capital investment loan	38	–	25	–	6.00	–	fix	21.10.06
Capital investment loan	40	–	41	–	4.91	–	fix	01.03.07
Capital investment loan	9	16	16	23	4.91	5.81	variable	01.04.05
Capital investment loan	4	12	12	19	4.91	5.81	variable	01.08.04
	104	56	97	59				

The market value is the present value of the lease payments in consideration of the current market rate.

The capital investment loans (finance lease contracts) are collateralised by the rightful ownership on the part of the lessor. The amount is the present value, which is experience-based with the best possible estimate.

(10) Accounts payable other

This balance includes liabilities relating to the acquisition of Zydacron Inc (31.12.03: TEUR 952, 31.12.02: TEUR 1.019).

(11) Deferred taxes

The major deferred tax assets and liabilities are as follows:

Deferred taxes on the asset side	*2003 in TEUR*	*2002 in TEUR*	*2001 in TEUR*
Property, plant and equipment	4	1	–
Employee benefits	16	16	1
Tax value of loss carryforward	3	–	–
Total deferred taxes on the asset side	**23**	**17**	**1**
Deferred taxes on the liabilities side			
Intangible assets	136	51	–
Tax incentives and limited tax deductible expenses	122	4	–
Employee benefits	11	–	–
Trade payables	1	1	–
Accounts payable other	184	16	–
Total deferred taxes on the liabilities side	**454**	**72**	**–**

According to the current tax law the fiscal loss in Austria and the deductible temporary differences are not liable to time limits.

According to the business plan and the connected tax plan of the Company it is probable that deferred tax assets can be recovered within the next seven years.

The capitalised research and development expenses of Zydacron Inc. Manchester, USA have no bearing on the deferred taxes on the asset and liabilities side, because of the loss situation only those deferred taxes on the asset side are going to change, where a full valuation adjustment was made.

(12) Income tax

Tax benefit expenditure consists of the following:

	2003 in TEUR	*2002 in TEUR*
Corporate income tax for the fiscal year (current taxes)	–17	173
Deferred taxes	377	56
	360	229

Reconciliation of effective tax rate:

	2003 in TEUR	*2002 in TEUR*
Profit before tax	720	361
Income tax using the domestic corporation tax rate (34%)	246	123
Effect of tax rates in foreign jurisdictions	–	–
Non-deductible expense	16	7
Transfer depreciation without effects on tax	–	726
Non taxable income and tax incentives	–66	–66
Non-deductible loss carryforward	223	39
Amounts not yet eligible for capitalisation carried forward	–59	–600
	360	229

It can be assumed on the basis of the currently applicable tax provisions that the temporary differences (resulting from retained profits) associated with investments in subsidiaries and associates essentially remain untaxed. Therefore no deferred tax liability was recorded in this respect.

A deferred tax asset was recognised on losses carried forward where it is probable that taxable profit will be available against which the tax losses can be utilised. According to Austrian and German tax law, losses can be carried forward indefinitely. In the USA losses can be carried forward for 15 years.

(13) Segmental reporting

Segmental information is presented in respect of the Group's business (primary format) and geographical (secondary format) areas. Segmentation according to business areas consists of internal reporting. Assets and liabilities as well as expenditures and revenues include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are accounted in the "other" column and comprise mainly assets and expenditures of the Group management and long-term financing. Inter-segment pricing is determined on an arm's length basis.

Primary segmentation comprises the following main business segments:

Codecs Systems: Development; Production and selling
Video Systems: Development; Production and selling

In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers. Segmental assets are based on the geographical location of the assets.

Business segments

	Codecs Systems		*Video Systems*		*Consolidation*		*Consolidated Company*	
	2003 TEUR	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*
Revenue from external customers	1.180	1.042	9.026	10.435	–	–	10.206	11.477
Inter-segment revenue	331	187	1.899	1.425	2.230	1.612	–	–
Total revenue	**1.511**	**1.229**	**10.925**	**11.860**	**2.230**	**1.612**	**10.206**	**11.477**
EBIT	**–552**	**–102**	**1.329**	**2.537**			**777**	**2.435**
Net financing costs	–53	–4	–4	44			–57	40
Income tax	–	–	–359	–229			359	–229
Extraordinary item	–	–2.100	–	–14			––	2.114
Net profit for the year	–605	–2.206	965	2.338			**360**	**132**
Segment assets								
Investment in associates	1.592	2.075	3.535	4.581			5.127	6.656
Expense to be capitalised	609	109	855	428			1.464	537
Depreciation	69	2.114	345	137			414	137
Impairment	–	2.114	–	–				

Geographical Segments

	Europe		*Asia*		*America*		*Consolidated Company*	
	2003 TEUR	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*	*2003 TEUR*	*2002 TEUR*
Revenue from external customers	5.508	7.784	375	–	4.323	3.693	10.206	11.477
Segment assets								
Investment in associates	3.506	3.812	247	41	1.374	2.803	5.127	6.656
Expense to be capitalised	650	358	67	10	747	169	1.464	537

(14) Operating expenses

The research and development expenses and distribution and administration expenses consist of:

	2003 TEUR	*2002 TEUR*
Purchases	217	74
Personnel expenses	179	290
Other operating expenses	35	57
Research and development expenses	**431**	**421**
Purchases	693	473
Personnel expenses	1.505	1.353
Other operating expenses	963	600
Distribution and administrative expenses	**3.161**	**2.426**
Expenses because of dissolution of CFO Zydacron	246	–
IPO-expenses	125	–
Other operating expenses (<TEUR 100)	199	47
Other operating expenses	**570**	**47**

(15) Personnel expenses

The average number of employees was:

	2003	*2002*
White-collar worker	47	45
Blue-collar worker	1	3
	48	**48**

Part-time employees have been included pro-rata.

(16) Interest and similar expenses

	2003	*2002*
	TEUR	*TEUR*
Interest expense	59	12
Net foreign exchange loss	–	–
Others	–	–
	59	**12**

(17) Interest and similar income

	2003	*2002*
	TEUR	*TEUR*
Interest income	2	53
(Loss)/gain derived form trading investments	–	–
Others	–	–
	2	**53**

4. Other information

4.1. Financial instruments

The financial instruments only include original financial instruments.

Included in the primary financial instruments are financial investments, trade accounts receivable, balances with financial institutions, financial liabilities and trade accounts payable.

Risk of change in interest rate

Risks of changes in the level of interest rates essentially only exist in connection with longterm external financing. A summary of all significant interest-related liabilities, the effective interest and the maturities are included in the notes.

Risk of currency changes

The foreign currency risk on the assets side results from the billing in foreign currencies, particularly in USD. The USD receipts are basically used for raw materials payable in USD, so that the total risk is not material. A deviation of +/- 10% based on the budgeted sales volume produces a positive effect of circa 5%. The net result changes about 6,5%, based on the same approach.

Credit risks

The amounts that are recorded as assets represent the maximum risks in credit rating and default as no agreements exist regarding off-setting. The risks related to receivables from customers can be assessed as minimal, as the credit ratings of new and existing customers are constantly monitored. The risk of default of other financial assets can be assessed as being limited, as the contracting parties are mainly banks with high credit ratings.

Market values

The market values of the financial investments and financing liabilities are presented in their respective notes. The fair value of long-term financial instruments is shown in the chart above. The market value of the other original financial instruments mainly corresponds to the book value because of their daily or short-term maturities.

4.2. Contingent liabilities

Property agreements

The SCOTTY Group has entered into operating rental and leasing agreements with several contracting parties. The agreements mainly cover the rental of offices and information technology (hardware and software). The minimum payments to be made in the future as stipulated in the existing agreements amount to:

	TEUR
2004	245
2005 till 2008	373
Afterwards	–

The total rental and leasing expenses amounted to TEUR 239 (2002: TEUR 272) for the year 2003.

4.3. Business Relations with Related Parties

The Managing Board of the SCOTTY Group comprises:

Management of SCOTTY Tele-Transport Corporation AG, Graz

Dipl. Ing. Walter Müller
Dipl. Ing. Kurt Kerschat
Mag. Georg Weber

Management of SCOTTY Tele-Transport Corporation of the Americas, Inc., Atlanta, USA

Ing. Andreas Bödenauer

Supervisory Board of Scotty Tele-Transport Corporation AG, Graz

Mr. Dr. Hans Peter Sauerzopf, Wien (Chairman)
Mr. Dr. Norbert Frömmer, Wien (Chairman deputy)
Mr. Dr. Ernst Wustinger, Graz

The members of the board of management and their close relatives hold 45% of the registered capital of the parent company.

The members of the board of management obtained benefits amounting to TEUR 610 in the year 2003 and in the year 2002 TEUR 628. The members of the top management of the group obtained advance payments amounting to TEUR 31 in the year 2003, in the year 2002 TEUR 90 and in the year 2001 TEUR 0. These payments accrue interest at 4,5% per annum. The benefits of the members of the supervisory board amount to TEUR 29 for the year 2003 and for the year 2002 TEUR 29.

The Company placed a consultancy contract with Dr. Peter Sauerzopf, member of the supervisory board.

4.4. Earnings Per Share

The undiluted earnings per share can be calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year.

	2003	*2002*
Net profit of the year (TEUR)	360	132
Weighted number of shares	175.000	175.000
Earnings per share (EUR)	2,06	0,76

The diluted earnings per share equals the undiluted earnings per share, as no financial instruments with a diluting effect have been issued.

5. Subsequent event

With effect from January 2004 the Venture for "Business Beteiligungs AG" was admitted as a dormant partner of SCOTTY. The fully paid up capital is TEUR 2.000. The silent partner is entitled to a profit in the amount of 14% p. a., of the nominal value of its investment and renounces the right to cancel within the period of 4 years. In the case of an initial public offering, or the sale of more than 50% of the Company's stocks or material assets, the silent partner has an extraordinary right to cancel. As a consequence the silent partner would obtain a payment equivalent to a return on capital employed amounting to 20% p.a., managed on an open item basis, less received portion of profits.

On March 25, 2004 82,7 % of the shareholders agreed to the offer of a takeover from Motion Media PLC. This offer is still subject to certain conditions in addition to the necessary attainment of the level of acceptances of 76%. This reverse take-over needs also the agreement of the Motion Media PLC shareholders.

According to the sale and purchase agreement, Motion Media PLC will acquire all the shares of SCOTTY in exchange for the issue of new ordinary shares in Motion Media PLC.

6. Additional information in accordance with 245a Austrian Commercial Code Differences between the International Financial Reporting Standards and Austrian accounting regulations

6.1. Leasing

While in the allocation criteria laid down by the Austrian Commercial Code, leasing contracts are usually qualified as operating leases with the leased object continuing to be owned by the lessor, IAS 17 (revised 1997) calls for a valuation from a commercial viewpoint and not a valuation based solely on the contractual relationship. The allocation results from the classification of all-important risks and opportunities that are connected with the property, which is the subject of the lease.

6.2. Inventories

According to IAS 2 the lower value of acquisition or manufacturing costs and net sales price has to be chosen, whereby the manufacturing costs include all fixed and variable costs of production. According to Austrian accounting regulations inventories have to be assessed at the lower value of acquisition and manufacturing costs, replacement costs and net sales price.

6.3. Deferred taxes

In accordance with IAS, deferred tax assets and liabilities should be recognised for all temporary differences arising between the tax base and the financial reporting base of assets and liabilities. Furthermore, IAS/IFRS requires recognition of deferred tax assets for operating tax loss carry-forwards, as long as it is probable that they can be used against future taxable income.

As per Austrian accounting regulations, deferred tax liabilities should be recognised for expected future tax liabilities resulting from timing differences. Deferred tax assets may be recognised for expected future tax returns resulting from timing differences.

6.4. Foreign currency valuation

IAS 21 requires the recognition of unrealised profits and losses. Austrian Accounting principles require different treatment for unrealised profits and unrealised losses arising from the valuation of foreign exchange items as at the balance sheet date. According to Austrian GAAP, the principle of realisable value allows only unrealised losses to be recorded.

6.5. Securities

According to IAS 39 securities are valued depending on purpose of use.

6.6. Provisions

Pursuant to the IAS, the recording of provisions is based on differing criteria relating to the fundamental payment obligation and the likelihood of it being paid. The value of the provision is determined by the value that has the highest probability, and not – as is the case in Austrian Accounting principles – the value arising from applying the principle of commercial caution.

6.7. Recognition and measurement of financial instruments

In accordance with IAS 39, financial instruments are defined as contracts, which are reported by one company as a financial asset and by the other partner as a debt. The financial instruments consist of financial assets, liabilities as well as contractual agreements about the exchange respectively the transfer of financial assets. Financial instruments are divided into original and derivative financial instruments. The original financial instruments consist of financial assets such as securities, loans receivable and investments, trade receivables and liquid funds. On the liabilities side they correspond to liabilities. The derivative financial instruments consist of swaps, options and futures. The IFRS divides the financial instruments into four categories. This distinction is not scheduled under Austrian accounting regulations.

Long-term investments are included in the investments available for sale category. Valuation takes place at market values and in line with IAS 39, value changes are reported under equity as profit neutral. Short-term investments are included in the trading instruments category. Valuation takes place at market values, however changes in value are reported as profit or loss. By contrast to the Austrian accounting regulations, the lower of cost or market principle is not applied.

According to IAS 39, swaps are regarded as trading investments. They are reported under other receivables or as a debt. Valuation takes place at market values, changes in value are reported as profit. Under the Austrian accounting regulations only swap-related interest deferrals and pre-paid expenses are booked. Provisions are formed for negative market values. Positive market values from profits not taken are not reported.

6.8. Revenue recognition

Revenues from the sale of goods and services are recognised when the significant risks and potential rewards of ownership have been transferred, or when services have been rendered.

6.9. Consolidation method

Capital consolidation is carried out using the book value method. The acquisition cost of purchased shares is netted against the book values at the point in time of purchase of the proportion of equity in the purchased subsidiary. Differences arise as assets from first-time consolidations are carried as goodwill and are subject to scheduled linear depreciation depending on the length of their useful life. Differences arising as liabilities from capital consolidation are shown as negative goodwill.

Internal group receivables and liabilities, expenses and revenues and company results are eliminated, except when immaterial.

6.10. Foreign Currency Translation

Foreign currency transactions

The affiliated companies record transactions in foreign currency based on the exchange rate of the day of transaction. The monetary assets and liabilities are translated using the closing rate on the balance sheet day. Exchange gains and losses resulting from this are therefore recognized as income or expense.

Foreign currency translation

Group currency is the EURO. Affiliated companies that are outside of the EURO-zone operate independently from a financial, economic and organisational standpoint. Based on the functional currency method the assets and liabilities including goodwill stated and resulting value matching because of the first consolidation are translated using the closing rate on the balance sheet day. Expense and revenue items are translated at the average exchange rate for the year. Resulting currency translation differences are offset against the translation reserve with no impact on the income statement.

Graz, May 21, 2004

DI Kurt Kerschat e.h.
DI Walter Müller e.h.
Mag. Georg Weber e.h.

PART IV

FINANCIAL INFORMATION ON MOTION MEDIA IN RESPECT OF THE THREE YEARS ENDED 31 DECEMBER 2003

CONTENTS

Company Registration No. 2908288

MOTION MEDIA PLC

Report and Financial Statements

Year ended 31 December 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R F Thorne (Chairman)
F G De Angelis
A R MacKenzie

SECRETARY

A G Aldridge

REGISTERED OFFICE

Motion Media Technology Centre
Severn Bridge
Aust
Bristol BS35 4BL

BANKERS

The Royal Bank of Scotland Plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

Singer & Friedlander Limited
21 New Street
London EC2M 4HR

SOLICITORS

Burges Salmon LLP
Narrow Quay House
Prince Street
Bristol BS1 4AH

AUDITORS

Deloitte & Touche LLP
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

NOMINATED ADVISER

ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

STOCKBROKERS

Charles Stanley & Company Limited
25 Luke Street
London EC2A 4AR

REGISTRARS

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

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 AVVID 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.

Telehealth – our focus is Tele-Homecare, the ability to remotely monitor and manage 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 CareStation126s 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.

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® 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 features 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 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.

- **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®, Criticare™, A&D Medical, Therasense™, Ferraris and Analogic, addressing tests and measurement monitoring requirements for Congestive Heart Failure (CHF), Diabetes and Asthma.

- **CareStation for Windows® –** 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® 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.

Windows® is a registered trademark of Microsoft Corporation. Cisco® is a registered trademark of Cisco Systems Inc. Java™ is a trademark of Sun Microsystems. 7E® and Talking Head® are registered trademarks of 7E Communications Limited. CareStation and eyesite are registered trademarks of Motion Media Technology Limited.

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. Garey 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 £1.1million (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 believed 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 obsolence of some additional components.

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 corporation taxation exposure is continually reviewed to mitigate adverse risk.

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 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 2003 with the provisions set out in Section 1 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 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 19 and a statement on going concern is given on page 11. 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 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. 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 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. 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 (except 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.

Directors' emoluments

The emoluments of the directors (including compensation for loss of office) are as follows:

	Salary	*Fees*	*Benefits in kind*	*Bonus*	*Total emoluments excluding pension contributions 31 December 2003*	*31 December 2002*	*Pension contributions 31 December 2003*	*31 December 2002*
	£	£	£	£	£	£	£	£
Executive directors								
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
Non-executive directors								
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 Number	*Granted Number*	*At 31 December 2003 Number*	*Exercise price per share*	*Date from which exercisable*	*Expiry date*
R F Thorne	–	600,000	600,000	12.0p	18 December 2006	18 December 2013
A R 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, OBE – Chairman (aged 76)

Mr Thorne was appointed non-executive Chairman of Motion Media Technology Limited 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 where he held a number of senior executive directorships with various major companies in the communications industry. He is also non-executive chairman of APC plc and Marcom Limited. He was awarded an OBE in 1990 for services to the Radio Communications industry.

Garey De Angelis – Global Sales and Marketing Director and Chief Executive Officer of 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, Mr De Angelis spent many years as an executive at Apple Computer Inc., where he served as Director of OEM Licensing & 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 Grieveson 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

Nick Sturge – Business Services Director of UK Operations (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 and CAD hardware and software systems specification.

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 both large and small companies in the manufacturing, service and high-tech sectors. He took over the director role in June 2003.

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 to 7.

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 31áDecember 2003 and 1 January 2003 or date of appointment were:

	31 December 2003 1p shares	*1 January 2003 or appointment 1p shares*
R F Thorne	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 Blackbourn	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.

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 disclosures 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 these uncertainties, 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

Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
TURNOVER	2	1,911	2,150
Cost of sales		(1,183)	(1,426)
Gross Profit		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
OPERATING LOSS	4	(3,610)	(6,997)
(Loss)/profit on sale of freehold land and buildings		(70)	111
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(3,680)	(6,886)
Interest receivable	6	56	37
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,624)	(6,849)
Tax credit on loss on ordinary activities	7	293	330
LOSS FOR THE FINANCIAL YEAR		(3,331)	(6,519)
Loss per share (basic and diluted)	18	1.6p	6.4p

All of the activities of the group are classed as continuing

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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)
Total recognised gains and losses relating to the year	(3,488)	(6,851)

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Intangible assets	8	49	71
Tangible assets	9	427	1,050
		476	1,121
CURRENT ASSETS			
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
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(1,278)	(1,549)
NET CURRENT ASSETS		3,708	5,471
TOTAL ASSETS LESS CURRENT LIABILITIES		4,184	6,592
NET ASSETS		4,184	6,592
CAPITAL AND RESERVES			
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)
EQUITY SHAREHOLDERS' FUNDS		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
Execitive Chairman

COMPANY BALANCE SHEET

As at 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	10	26,731	23,544
CURRENT ASSETS			
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
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(124)	(437)
NET CURRENT ASSETS		1,222	3,470
NET ASSETS		27,953	27,014
CAPITAL AND RESERVES			
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
EQUITY SHAREHOLDERS' FUNDS		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
Net cash outflow from operating activities	19	(3,603)	(5,723)
Returns on investments and servicing of finance			
Interest received		56	37
		56	37
Taxation			
Corporation Tax credit		41	505
		41	505
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(39)	(247)
Sale of tangible fixed assets		323	4,051
		284	3,804
Management of liquid resources			
Increase in short term deposits		(210)	–
Net cash outflow before financing		(3,432)	(1,377)
Financing			
Issue of ordinary share capital		1,115	3,824
Share issue costs		(405)	(19)
		710	3,805
(Decrease)/increase in cash in the year	20	(2,722)	2,428

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

1. 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 conditional 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*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Geographical analysis by origin:						
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*
	£'000	*£'000*
Geographical analysis of turnover by destination:		
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 directors' 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 the 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:

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

6. INTEREST RECEIVABLE

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

7. TAX CREDIT ON 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.

ii) Factors Affecting Tax Charge for the Current Period

	2003	*2002*
	£'000	*£'000*
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 £16m (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

	Licences *£'000*
Group	
Cost	
At 1 January 2003	103
Translation difference	(19)
At 31 December 2003	84
Accumulated amortisation	
At 1 January 2003	32
Translation difference	(13)
Charge for the year	16
At 31 December 2003	35
Net book value	
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 and Surveillance products being sold in the US.

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings *£'000*	*Fixtures, fittings tools and equipment* *£'000*	*Total* *£'000*
Group			
Cost			
At 1 January 2003	370	1,392	1,762
Additions	–	39	39
Disposals	(370)	(27)	(397)
At 31 December 2003	–	1,404	1,404
Accumulated depreciation			
At 1 January 2003	–	712	712
Charge for the year	–	277	277
Disposals	–	(12)	(12)
At 31 December 2003	–	977	977
Net book value			
At 31 December 2003	–	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
At 31 December 2003	17,751	8,980	26,731
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 video telecommunications 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.

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*
Authorised		
275,000,000 Ordinary shares of 1p each	2,750	2,750
Allotted and fully paid		
225,118,935 (2002: 212,927,535) Ordinary shares of 1p each	2,251	2,129

14. SHARE CAPITAL (continued)

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

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

	Called up share capital £'000	*Share premium account £'000*	*Capital redemption reserve £'000*	*Profit and loss account £'000*	*Total 2003 £'000*	*Total 2002 £'000*
Group						
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)
At the end of the year	2,251	25,343	183	(23,593)	4,184	6,592
COMPANY						
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)
At the end of the year	2,251	25,343	183	176	27,953	27,014

Included in the profit and loss account is goodwill totalling £755,082 (2002: £755,082) which 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	*2002*
	£'000	*£'000*
Operating leases which expire:		
Within one year	12	–
In two to five years	400	450
	412	450

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 not been met at 31 December 2003 and are therefore not dilutive.

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

	2003	*2002*
	£'000	*£'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)
Net cash outflow from operating activities	(3,603)	(5,723)

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

	2003	*2002*
	£'000	*£'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
Net funds at 31 December	1,275	4,154

21. ANALYSIS OF NET FUNDS

	31 December 2002	*Cash flow*	*Exchange movement*	*31 December 2003*
	£'000	*£'000*	*£'000*	*£'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	*2002*
	£'000	*£'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.

Company Registration No. 2908288

MOTION MEDIA PLC

Report and Financial Statements

Year ended 31 December 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R F Thorne *(Chairman)*
G D Brown
A R MacKenzie
I C Silvester

SECRETARY

I C Silvester

REGISTERED OFFICE

Motion Media Technology Centre
Severn Bridge
Aust
Bristol BS35 4BL

BANKERS

The Royal Bank of Scotland Plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

Singer & Friedlander Limited
21 New Street
London EC2M 4HR

SOLICITORS

Burges Salmon
Prince Street
Bristol BS1 4AH

AUDITORS

Deloitte & Touche
Bristol

NOMINATED ADVISER

ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

STOCKBROKERS

Charles Stanley Ltd
25 Luke Street
EC2A 4AR

REGISTRARS

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

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 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 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 videoconferencing 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 CareStation 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 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, email 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 business.

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

CareStation 125 – PSTN based videophone with 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 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 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.

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). 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 18 and a statement on going concern is given on page 3 to 7. 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 reelection at least every three years.

RELATIONS WITH SHAREHOLDERS

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

INTERNAL CONTROL

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

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 Groups 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.

Directors' emoluments

The emoluments of the directors are as follows:

	Salary £	Fees £	Benefits in kind £	Bonus £	Total emoluments excluding pension contributions 31 Dec 2002 £	31 Dec 2001 £	Pension contributions 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 Number	*Granted Number*	*At 31 December 2002 Number*	*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]	23 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]	23 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 44 p and 3 p respectively.

DIRECTORS' PROFILES

Non-executive directors

Rex Thorne, OBE – Chairman (aged 75)
Mr Thorne was appointed non-executive Chairman of Motion Media Technology Limited in 1993. He became nonexecutive 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 Limited 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 for Softbank Inc. Prior to joining Softbank, Mr De Angelis spent many years as an executive at Apple Computer Inc., where he served as Director of OEM Licensing & 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 36)

Mr Martin joined Motion Media Technology Limited in 1993 as a co-founder and has been responsible for image compression architecture and image processing and graphics display. He became Technical Director in 1998. He previously worked for GPT and joined Inmos in 1989 working on image processing, still and moving image compression and motion estimation control.

Nick Sturge – Business Services Director (aged 35)

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, Manufacturing and other business infrastructure and services. He previously worked for Inmos in its Image Processing Group, where he worked on image compression technology and CAD hardware and software systems specification.

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 to 7.

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 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 Blackbourn	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 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-preemptive 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 Employee 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 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 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 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.

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

Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
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 recognised gains and losses are included in the profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2002

	2001 £'000	2000 £'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, are 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 FRS 19 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*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Geographical analysis by location:						
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*
	£'000	*£'000*
Geographical analysis of turnover by destination:		
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 £'000	2001 £'000
Operating loss is arrived at after charging:		
Directors' emoluments	238	361
Directors' 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 directors' remuneration are provided in the report on directors' remuneration on pages 11 to 13.

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 No.	2001 No.
Management and office	82	108

The aggregate payroll costs of these persons were as follows:	£'000	£'000
Wages and salaries	3,932	4,051
Social security costs	294	377
Other pension costs	186	245
	4,412	4,673

6. INTEREST RECEIVABLE

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

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Finance lease charges	–	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.

ii) Factors Affecting Tax Charge for the Current Period

	2002 *£'000*	*2001* *£'000*
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: £8.3 million). 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 in 2001, which is core to current Telehealth and Security and Surveillance products being sold in the US.

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	*Fixtures, fittings tools and equipment £'000*	*Total £'000*
Group			
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.

Capital commitments

	2002 £'000	*2001 £'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 2001	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 video telecommunications 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	–	–

13. DEBTORS

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

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'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	2001
	£'000	£'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	1,013

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 of 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 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

	Called up share capital £'000	*Share premium account £'000*	*Capital redemption reserve £'000*	*Profit and loss account £'000*	*Total 2002 £'000*	*Total 2001 £'000*
GROUP						
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						
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	*2001*
	£'000	*£'000*
Operating leases 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 Limited, a Company in which A R MacKenzie is a director and shareholder. Fees 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 not been met at 31 December 2002 and are therefore not dilutive.

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

	2002	*2001*
	£'000	*£'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	*2001*
	£'000	*£'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 December 2001 £'000	*Cash flow £'000*	*Exchange movement £'000*	*31 December 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.

Company Registration No. 2908288

MOTION MEDIA PLC

Report and Financial Statements

Year ended 31 December 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS
R F Thorne (Chairman)
G D Brown
A R MacKenzie
I C Silvester

SECRETARY
I C Silvester

REGISTERED OFFICE
Motion Media Technology Centre
Severn Bridge
Aust
Bristol BS35 4BL

BANKERS
The Royal Bank of Scotland Plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

SOLICITORS
Burges Salmon
Narrow Quay House
Prince Street
Bristol BS1 4AH

AUDITORS
Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

PUBLIC RELATIONS
Buchanan Communications Limited
107 Cheapside
London EC2V 6DN

FINANCIAL ADVISER
ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

STOCKBROKERS
Teather & Greenwood Limited
Beaufort House
15 St Botolph House
London EC3A 7QR

REGISTRARS
Capita IRG plc
Balfour House
390-398 High Road
Ilford
Essex IG1 1NQ

CHAIRMAN'S STATEMENT

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

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

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

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

The Board continually reviews strategy and the Group's cost structure to ensure net expenditure is contained within available resources whilst continuing development of new technologies and sales opportunities. We took action in January 2002 to reduce our cost base which, unfortunately, led to 21 redundancies. The Board has subsequently approved a plan to restructure it's US and UK operations to ensure the Company maximises efficiencies across its operations. The restructure will be concluded by June 2002. On the basis of the reduced cost base, our projections show that the Group has sufficient available resources to deliver its business plan over the coming year.

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

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

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

Rex Thorne, OBE *Chairman*

26 April 2002

OPERATING AND FINANCIAL REVIEW

OPERATING REVIEW

Results

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

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

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

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

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

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

Market Focus and Customers

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

Videotelephony – specifically the business desktop and the consumer sectors.

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

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

Based on the success of the initial trial, BT ordered 1,000 mm215 videophones, designed specifically for the consumer market, for a marketing trial. A key factor in this escalation of the trial is that the initial trialists were found to be spending 20 minutes on the average call, as opposed to the national average of 3 minutes for a speech call. BT has backed this second phase with a number of marketing activities including road shows around various major shopping centres, demonstration facilities at a number of key locations, exhibiting at the Ideal Home Show and featuring the videophone in one of their corporate television advertisements.

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

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

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

Telehealth – specifically the telecare or homecare sector.

This is the remote provision of care to patients in their homes. Video communications provide a demonstrable cost-effective solution to the many challenges health services around the world face today, including long waiting lists, hospital bed shortages, staff shortages, milllions of house bound patients and an ageing population. The ablity to deliver healthcare remotely and virtually provides Motion Media with a massive global opportunity. As an example of the compelling business case for our product solutions, a recent trial in the US showed that the average number of visits made by care providers in the community could be increased 5-6 times through the use of 'virtual' visits. The healthcare provider can not only see and talk to the patient, but a wide range of medical devices, such as ECG and blood pressure monitors, can be connected to facilitate remote diagnosis. This opportunity does not need to be funded by the patients themselves but by healthcare organisations, both public and private, that have the business incentive to do so.

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

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

Security & Surveillance – specifically the remote video surveillance sector.

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

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

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

Product Solutions and Technologies

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

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

The major products for our target markets are currently:

mm215 **–** ISDN based videophone for consumers.
mm225 **–** ISDN based videophone for business customers with additional functionality.

Carestation*™ *125 **–** PSTN based videophone with special facility to attach a wide variety of medical devices for the telecare market. CarestationÖ 110 – PSTN based set top box with special facility to attach a wide variety of medical devices for the telecare market.

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

eyesite*™ *140 **–** Proprietary IP based video transmission unit for remote monitoring and surveillance of enterprises.

eyesite*™ *300/400 **–** ISDN based video transmission unit for remote monitoring and surveillance of enterprises.

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

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

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

People

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

Management Team

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

Engineering Team

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

Sales Team

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

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

Manufacturing

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

Facilities

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

We are in the process of reviewing the options with the Horton Hall site, on which we have two years of the lease remaining, which may include sub-letting. The cost of this future lease commitment has been provided for in the accounts.

Our US operation is headquartered in Wilmington, North Carolina.

Outlook for the Future

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

Following the establishment of the US operations, the Group's cost base is in the process of being substantially reduced to approximately £5.5 million per annum and the organisation now has a much greater focus on its target vertical markets. Cost control remains a core focus for the Group to ensure that net expenditure remains within available resources. The current range of technology and product solutions are gaining greater market acceptance. Products, such as the next generation IP and PSTN videophones, are receiving a very high level of international interest. As a result of the investment in key sales personnel the quality of the opportunities in Europe and US have been significantly enhanced.

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

OPERATING AND FINANCIAL REVIEW

FINANCIAL REVIEW

Liquidity

The statement of cash flows shows that there was a decrease in cash from operating activities in the year ended 31 December 2001 of £8.1 million (2000 – £3.9 million.) This increase in operating cash outflow for the year was largely as planned and reflects the Group's investment in research and development to support the development of next generation technology and products, an increase in activity in the sales and marketing departments and the Group's investment in its US operation. It is the Group's policy to write off all research and development expenditure as incurred, including all software. During the year a total of £2.2 million was invested in research and development. Total payroll costs for the Group in 2001 are £4.7 million (2000 – £2.1 million) or 53% of the total expenses of the Group.

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

The net outflow of cash from capital expenditure was £3.5 million (2000 – £1.8 million). This includes an investment of £2.8 million in the redevelopment of the Group's freehold premises, the new Motion Media Technology Centre, which was completed in August 2001. The total investment in freehold land and buildings at 31 December 2001 was just under £4.2million. On 19 March 2002 the Group completed the sale and lease back of substantially all the freehold land and buildings for £4 million, before expenses. The total book value of the freehold land and buildings at 31 December 2001, subject to the sale and leaseback, is just under £3.8 million.

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

Treasury

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

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

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

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

CORPORATE GOVERNANCE

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

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

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

Board balance

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

Senior independent non-executive director

The Combined Code provision A2.1 states that the Board should appoint a senior non-executive director. The Board believes that, given the current structure, appointing a senior independent 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 director, it will do so in the future.

Audit Committee

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

BOARD OF DIRECTORS

The directors bring a range of relevant expertise and experience to the Board. At 31 December 2001 the Board comprised the independent non-executive Chairman, two executive directors and one other non-executive director. On 13 March 2001 Graham Brown was appointed Managing Director and Ken Burgin, who was previously Managing Director, was appointed Chief Executive Officer by the Board. D E Sykes resigned on 8 May 2001. On 12 June 2001 two founder directors, John Martin and Nick Sturge, resigned from the Board of the Company but remain on the Board of Motion Media Technology Limited. On 30 October 2001 Ken Burgin resigned from the Board and commenced a 12 month unpaid sabbatical. He remains an employee of the Group.

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 20 and a statement on going concern is given on page 12. 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. On at least one occasion during the year, the committee meets with the auditors without any executive directors present. The committee is responsible for ensuring that arrangements for the independent audit of the annual report and financial statements are appropriate and effective. The committee also monitors the controls that are in force to ensure the integrity of the information reported to shareholders and compliance with the rules of the Financial Services Authority.

Remuneration Committee

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

Nomination Committee

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

RELATIONS WITH SHAREHOLDERS

The Company is committed to maintaining good relations with its shareholders through the provision of interim and annual reports, press releases, through its web site www.motion-media.com 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.

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

- **Strategy**

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

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

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

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

- **Financial Controls**

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

- **IT Systems**

  The Group has established controls and procedures over the security of data held on IT systems, including daily back-up routines. The Group has put in place appropriate disaster recovery arrangements.

- **Internal Audit**

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

- **Personnel**

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

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

- **Technology and production**

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

  The Board has established a clear business strategy and product road map, based on market requirements and expectations. These processes have been significantly enhanced following the senior level commercial appointments in 2001, which will help ensure the technical leadership is translated into commercial success.

  A review of the technical departments development processes was undertaken during 2001, led by John Martin, Technical Director with the assistance of external consultants, and process improvements and documentation were completed.

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

- **Regulatory Compliance**

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

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

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

REPORT ON DIRECTORS' REMUNERATION

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

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

Basic salary: Salaries and benefits are usually reviewed annually with effect from 1 January. The executive directors' basic salaries were last reviewed in January 2002, and no director received an increase in basic salary for the next financial year.

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

Share options: Share options are awarded to executive directors and other employees of the Group. The Company's existing approved and unapproved option schemes were adopted at the 2000 EGM and comply fully with the Association of British Insurers (ABI) guidelines apart from the percentage of equity which has been made available under the schemes in the first three years. This amount is five 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.

Under the existing scheme rules, the maximum value of options that may be awarded is an amount equating to four times the annualised total earnings of the employee in a 10-year period, consistent with the guidance provided by the ABI at the time the scheme rules were adopted. A resolution will be put to the shareholders of the Company at the 2002 AGM to amend this rule in light of the current guidance from the ABI to permit annual grants to executive directors and other employees of the Group.

The exercise price is the average mid-market quotation for a share in the five dealing days preceding the date of grant. The remuneration committee has set performance targets for the exercise of options related to financial targets of the Group over a three-year period.

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

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

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

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

Director's emoluments

The emoluments of the directors are as follows:

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

(1) Appointed 13 March 2001
(2) Resigned 30 October 2001
(3) Resigned 12 June 2001
(4) Resigned 8 May 2001
(5) A R MacKenzie's fees are paid to ARM&Co.

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

The interests of the directors were as follows:

	At 31 December 2000 Number	Granted Number	At 31 December 2001 Number	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
I C Silvester	500,000	–	500,000	6p	26 March 2002	25 March 2009
	185,000	–	185,000	140p	5 May 2003 (1)	4 May 2010
	685,000	–	685,000			

(1) The directors may only exercise the options if certain performance targets related to the Group's financial performance are achieved.

No other directors have been granted options over the shares of the Company or other Group companies.

The market price of the Company's shares on 31 December 2001 was 43.0p per share. The high and low share prices during the year were 171.5p and 37.0p respectively.

DIRECTORS' PROFILES

Non-executive directors

Rex Thorne – Chairman (aged 74)

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

Alan MacKenzie – (aged 45)

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

Executive directors

Graham Brown – Managing Director (aged 43)

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

Iain Silvester – Finance Director and Company Secretary (aged 40)

Mr Silvester joined Motion Media Technology Limited 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 51)

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

Evan Maindonald – Vice President Sales (aged 33)

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

John Martin – Technical Director (aged 35)

Mr Martin joined Motion Media Technology Limited in 1993 as a co-founder and has been responsible for image compression architecture and image processing and graphics display. He became Technical Director in 1998. He previously worked for GPT and joined Inmos in 1989 working on image processing, still and moving image compression and motion estimation control.

Nick Sturge – Information Technology and Quality Director (aged 34)

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

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

The Group's loss for the year on ordinary activities before taxation was £6.89 million (2000: £2.48 million loss). Costs of research and development undertaken in the year totalling £2.2 million (2000: £1.4 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 to 8.

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

POST BALANCE SHEET EVENTS

On 19 March 2002, the Group sold substantially all of its its freehold land and buildings for the gross proceeds of £4 million. The book value of the property subject to the sale was just under £3.8 million at 31 December 2001. On that date Motion Media Technology 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. Existing disabled employees, and employees who may become disabled during employment, are provided with training and such assistance as is necessary to allow them to develop their careers with the Group.

EMPLOYEE INVOLVEMENT

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

ENVIRONMENTAL POLICY

The Group recognises its obligation to stakeholders and the environment to be responsible for environmental issues. The Group's environmental policy document sets out its obligations to ensure its employees are trained and provided with the necessary facilities to protect the environmental impact of their employment. This includes the use of video telephony 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 30 (2000: 61).

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

DIRECTORS AND THEIR INTERESTS

The interests of the directors of the Company in the ordinary share capital of the Company at 31 December 2001 and 1 January 2001 were:

	31 December 2001 1p shares	*1 January 2001 1p shares*
G D Brown	–	–
I C Silvester	–	–
R F Thorne (Non-executive)	1,100,800	1,100,800
A R MacKenzie (Non-executive) (1)	1,010,000	1,010,000

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

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

SUBSTANTIAL SHAREHOLDINGS

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

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

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

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to 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

26 April 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, ; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for 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 financial statements of Motion Media PLC for the year ended 31 December 2001 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 24. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent 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.

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 2001 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

26 April 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Note	*2001* *£'000*	*2000* *£'000*
TURNOVER	2	2,722	2,837
Cost of sales		(1,291)	(1,099)
Gross profit		1,431	1,738
Administrative expenses		(8,877)	(4,830)
Other operating income	3	214	35
OPERATING LOSS	4	(7,232)	(3,057)
Interest receivable	6	344	579
Interest payable and similar charges	7	(1)	(2)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,889)	(2,480)
Tax credit on loss on ordinary activities	8	175	–
LOSS FOR THE FINANCIAL YEAR		(6,714)	(2,480)
Loss per share (basic)	20	6.6p	2.57p

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

All the above results relate to continuing activities.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2001

	2001 *£'000*	*2000* *£'000*
Loss for the financial year	(6,714)	(2,480)
Currency translation differences on foreign currency investments	(52)	–
Total recognised gains and losses relating to the year	(6,766)	(2,480)

CONSOLIDATED BALANCE SHEET

As at 31 December 2001

	Note	*2001* *£'000*	*2000* *£'000*
FIXED ASSETS			
Intangible assets	9	94	–
Tangible assets	10	5,050	1,830
		5,144	1,830
CURRENT ASSETS			
Stocks	12	2,781	1,275
Debtors due within one year	13	1,704	1,200
Cash at bank and in hand		2,058	13,328
		6,543	15,803
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(1,694)	(952)
NET CURRENT ASSETS		4,849	14,851
TOTAL ASSETS LESS CURRENT LIABILITIES		9,993	16,681
NET ASSETS		9,993	16,681
CAPITAL AND RESERVES			
Called up share capital	16	1,019	1,013
Share premium account	17	22,045	21,973
Capital redemption reserve	17	183	183
Profit and loss account	17	(13,254)	(6,488)
EQUITY SHAREHOLDERS' FUNDS		9,993	16,165,681

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

Signed on behalf of the Board of Directors

G D Brown
Director

COMPANY BALANCE SHEET

As at 31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Investments	11	21,950	7,751
CURRENT ASSETS			
Debtors due within one year	13	6	38
Debtors due after more than one year	13	–	2,664
Cash at bank and in hand		1,995	13,305
		2,001	16,007
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(73)	(36)
NET CURRENT ASSETS		1,928	15,971
NET ASSETS		23,878	23,722
CAPITAL AND RESERVES			
Called up share capital	16	1,019	1,013
Share premium account	17	22,045	21,973
Capital redemption reserve	17	183	183
Profit and loss account	17	631	553
EQUITY SHAREHOLDERS' FUNDS		23,878	23,722

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

Signed on behalf of the Board of Directors

G D Brown
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

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

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

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 2001 and exclude all intra-Group transactions. The acquisition method of accounting has been used and the results of the subsidiaries are included from the date of acquisition. The Company has taken advantage of the exemption provided by section 230 of the Companies Act 1985 from presenting its own profit and loss account.

Goodwill

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

Investments

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

Turnover

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

Intangible fixed assets

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

Tangible fixed assets

Depreciation is not provided on freehold land. On other assets it is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset, as follows:

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

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

Foreign exchange

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

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate 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 is written off in the year in which it is incurred.

UK Government and European Union grants

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

2. ANALYSIS OF TURNOVER, OPERATING LOSS AND NET ASSETS

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

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

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

Items appearing in the consolidated profit and loss account below the operating loss line are not analysed by geographic segment.

3. OTHER OPERATING INCOME

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

4. OPERATING LOSS

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

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

Further details of directors' remuneration are provided in the report on directors' remuneration on pages 13 to 15.

5. STAFF NUMBERS AND COSTS

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

	2001 No.	2000 No.
Management and office	108	61

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	4,051	1,881
Social security costs	377	197
Other pension costs	245	50
	4,673	2,128

6. INTEREST RECEIVABLE AND SIMILAR CHARGES

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

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000	2000 £'000
Bank interest	–	1
Finance lease charges	1	1
	1	2

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

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

No tax charge arises in respect of the year ended 31 December 2001 (2000: £nil).

The Group has tax losses of approximately £8.3 million (2000: £5.3 million) available for offset against future trading profits arising from the same trade.

9. INTANGIBLE FIXED ASSETS

Group	*Licences £'000*
Cost	
At 1 January 2001	–
Additions	103
At 31 December 2001	103
Accumulated amortisation	
At 1 January 2001	–
Charge for the year	9
At 31 December 2001	9
Net book value	
At 31 December 2001	94
At 31 December 2000	–

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

10. TANGIBLE FIXED ASSETS

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

The Company held no fixed assets during the year.

Hire purchase agreements

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

Capital commitments

	2001	*2000*
	£'000	*£'000*
Contracted but not provided for in the accounts	–	2,677

The capital commitment related to a building contract to redevelop the Group's freehold premises.

11. INVESTMENTS – COMPANY

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

The company holds the entire share capital of Motion Media Technology Limited, a company registered in England. Its principal activity is the design and marketing of video telecommunications equipment. During the year inter company loans totalling £6,000,000 were capitalised.

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

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

12. STOCKS

	Group		*Company*	
	2001	*2000*	*2001*	*2000*
	£'000	*£'000*	*£'000*	*£'000*
Raw materials and consumables	1,774	457	–	–
Finished goods and goods for resale	1,007	818	–	–
	2,781	1,275	–	–

13. DEBTORS

	Group		*Company*	
	2001	*2000*	*2001*	*2000*
	£'000	*£'000*	*£'000*	*£'000*
Trade debtors	1,050	689	–	–
Amounts owed by Group undertakings	–	–	–	2,664
Other debtors	380	437	6	32
Prepayments and accrued income	274	74	–	6
	1,704	1,200	–	2,702

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

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

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

15. DEFERRED TAXATION

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

16. SHARE CAPITAL

	2001	*2000*
	£'000	*£'000*
Authorised		
200,000,000 Ordinary shares of 1p each	2,000	2,000
Allotted and fully paid		
101,896,314 Ordinary shares of 1p each	1,019	1,013

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

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

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

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

GROUP

	Called up share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total 2001*	*Total 2000*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At the beginning of the year	1,013	21,973	183	(6,488)	16,681	640
Shares issued	6	72	–	–	78	19,394
Share issue costs	–	–	–	–	–	(873)
Exchange losses	–	–	–	(52)	(52)	–
Loss for the year	–	–	–	(6,714)	(6,714)	(2,480)
At the end of the year	1,019	22,045	183	(13,254)	9,993	16,681

COMPANY

	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At the beginning of the year	1,013	21,973	183	553	23,722	4,783
Shares issued	6	72	–	–	78	19,394
Share issue costs	–	–	–	–	–	(873)
Profit for the year	–	–	–	78	78	418
At the end of the year	1,019	22,045	183	631	23,878	23,722

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

18. COMMITMENTS UNDER OPERATING LEASES

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

	Land and buildings 2001	*2000*
	£'000	*£'000*
Operating leases which expire:		
Within one year	17	29
In two to five years	48	48

19. TRANSACTIONS WITH RELATED PARTIES

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

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

20. LOSS PER SHARE

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

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

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

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

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

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

23. ANALYSIS OF NET FUNDS

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

24. FINANCIAL INSTRUMENTS

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

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

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

	2001	2000
	£'000	£'000
US Dollar	(114)	(162)
Euro	–	433

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

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

PART V

PRO FORMA STATEMENT OF NET ASSETS OF THE NEW GROUP

The following unaudited pro forma statement of net assets has been prepared for illustrative purposes only in order to given an indication of the effect of the Acquisition and the Placing and Open Offer on the net assets of the Group as at 31 December 2003 had the Acquisition and the Placing and Open Offer been completed on 31 December 2003. The pro forma statement, because of its nature, may not give a true picture of the financial position of the New Group. The statement, which is under UK GAAP, is based on the audited balance sheet of the Motion Media Group as at 31 December 2003 and the unaudited consolidated balance sheet of the Scotty Group as at 31 December 2003, as extracted from Part III of this document and has been adjusted for the matters referred to in the notes below.

	Motion Media Group at 31 December 2003 £'000	*SCOTTY at 31 December 2003 €'000*	*Translation Note 1 £'000*	*Pro forma adjustments Note 2 £'000*	*Pro forma New Group £'000*
Fixed assets					
Intangible assets	49	1,082	762	21,716	22,527
Tangible assets	427	488	344		771
Investments	–	2	2		2
	476	1,572	1,108	21,716	23,300
Current assets					
Stocks	2,026	1,416	998		3,024
Debtors	1,475	1,567	1,104		2,579
Investments	210	–	–		210
Cash in bank and in hand	1,275	572	403	4,100	5,778
	4,986	3,555	2,505	4,100	11,591
Creditors: amounts due within one year	(1,278)	(2,700)	(1,903)		3,181
Net current assets	3,708	855	602	4,100	8,410
Total assets less current liabilities	4,184	2,427	1,710	25,816	31,710
Creditors: amounts due after more than one year	–	(861)	(607)		(607)
Net assets	4,184	1,566	1,103	25,816	31,103

Notes

Translation

The Scotty net assets have been translated into sterling at €1.41925=£1, the rate ruling at the balance sheet date.

Pro forma adjustments – net consideration and other transaction adjustments

The unaudited pro forma consolidated financial information assumes that the circumstances around the acquisition of SCOTTY will be such that the Directors will be required to adopt reverse acquisition accounting with the excess of the fair value of Motion Media's shares over the fair value of its net assets being allocated to goodwill. The pro forma statement does not show the effect of any potential subsequent goodwill impairment.

The unaudited pro forma consolidated financial information assumes that Motion Media will pay £49,000,000 in the form of new Motion Media shares for the whole of the issued share capital of SCOTTY. This includes the maximum deferred consideration payable under the SCOTTY Agreement of £38,500,000. The estimated proceeds of the Placing and Open Offer are £5 million. Estimated transaction costs of £779,000 related to the Acquisition and the Placing and Open Offer are assumed to be accounted for as acquisition costs (£311,000) and share issue costs (£468,000). Allowance has also been made for the professional fees incurred by SCOTTY which are estimated at £121,000. These costs will be settled in cash. Allowance has also been made for further acquisition costs linked to the deferred consideration which it is assumed will be settled in shares of a maximum of £452,000.

The transaction adjustments are analysed below.

	£'000
a) Intangible assets	
The goodwill asset under reverse acquisition accounting has been estimated as follows:	
Fair value of Motion Media's shares at 31 December 2003	25,900
Less net assets of Motion Media at 31 December 2003	4,184
	21,716
b) Cash at bank and in hand	
Proceeds of Placing and Open Offer	5,000
Professional fees	900
	4,100

UK GAAP and fair value adjustments

The SCOTTY net assets as recorded in the unaudited consolidated balance sheet included in Part III of this document are stated under International Financial Reporting Standards ('IFRS'). No significant differences have been identified between IFRS as adopted by SCOTTY and UK GAAP as adopted by Motion Media and therefore no adjustments to align accounting treatment and policies have been made. No fair value adjustments have been made.

PART VI

RISK FACTORS

Potential investors should carefully consider the risks described below before making a decision to invest in the Company. It should be noted that the list is not exhaustive and other risks may be encountered and apply to an investment in the Company. If any of the following risks actually occur, the New Group's business, financial condition, results or future operations could be materially affected. In such circumstances, the price of the Ordinary Shares could decline and you could lose all or part of your investment. There can be no guarantee that the New Group will achieve and maintain significant revenues and profitability. This document contains forward-looking statements that involve risks and uncertainties. The New Group's results could actually differ materially from those forward-looking statements as a result of many factors, including the risks faced by the New Group, which are described below and elsewhere in this document. Nothing in this document constitutes, or is to be construed as, a projection or forecast.

Potential investors should particularly take into the account the following:

Motion Media

Operating Losses

The Company has incurred net losses to date. These losses have arisen mainly from the costs incurred in research and development, general administrative costs, sales and marketing expenditure and lower than anticipated sales. There can be no assurance that the Company will achieve profitable operations.

Timing and Level of Demand

There is no guarantee that there will be demand for adequate volumes of, or any demand at all, or demand at acceptable margins for present or future products and/or technologies. There can be no assurance that orders will be received in the anticipated volumes or within the time-scales currently envisaged by the Directors. The placing of orders could be materially delayed by circumstances such as delays in obtaining certification and approvals, customer evaluations taking longer than anticipated, customer development being later than envisaged, or components for the Group's products being delayed or unavailable.

Product Risk

To remain competitive, the New Group must continue successfully to develop technologies and introduce new competitive products on a timely basis that keep pace with rapid technological development and respond to customer requirements. There can be no assurance that the New Group will be able to do so.

Intellectual Property

The Directors consider that a proportion of the Existing Group's business is dependent upon the continuing maintenance of the Existing Group's proprietary technology. There can be no assurance that the Existing Group can meaningfully protect its right to unpatented proprietary technology or that others will not independently develop substantially equivalent or superior technology. Although the Existing Group has entered into confidentiality agreements with its consultants, representatives and certain of its employees, there can be no assurance that the confidentiality of trade secrets and proprietary know-how will be preserved, or that similar trade secrets or proprietary know-how will not be independently developed by others. The Existing Group seeks to take appropriate steps to ensure that it does not infringe intellectual property rights of third parties but due to the complexity of the products and the relevant technology such infringement cannot be ruled out.

Retention of Key Employees

The Company depends on its technical and management team. The departure from the Existing Group of any executive Director or certain senior employees could, in the short term, have a materially adverse effect on its business. Whilst the Existing Group has entered into service agreements or contracts of employment with all Directors and senior employees with the aim of securing their services, the retention of their services cannot be guaranteed.

Capacity to Meet Demand

Since the Existing Group does not itself directly manufacture the majority of its products there is a risk that production difficulties outside the Existing Group's control could affect the Existing Group's ability to meet demand.

Competition

It is possible that competitors may have projects which could render the Existing Group's products less competitive or obsolete. New entrants may emerge and competitors may develop more effective and more cost-competitive technologies than Motion Media or may produce products superior to, those of the Existing Group.

SCOTTY

Most of the above risk factors also apply to SCOTTY, including timing and level of demand, product risk, intellectual property, retention of key employees, capacity to meet demand and competition. The following specific risk factors also apply:

Future Revenue Visibility

It is often not possible to predict customer orders, particularly as government related orders tend to be concentrated at certain times of the year and hence it is difficult for SCOTTY's directors to project future revenues with certainty.

Key Customers

SCOTTY is dependent on a small number of significant customers and the loss of a key customer, such as the German or US armed forces, would have a material adverse effect on SCOTTY's business.

A reduction in the NATO members' defence budgets or a loss of SCOTTY's relationships with its NATO customer base would also have a material adverse effect on SCOTTY's business.

Military contracts are subject to competitive bidding and should SCOTTY fail to compete successfully in these bidding processes it could lose key contracts and/or key customers in the future.

Acquisitions and Future Products

SCOTTY could experience difficulties in integrating future acquisitions with a consequent material adverse effect on its business.

Newly developed products could fail to attract customers and/or SCOTTY could fail to develop the right channels to bring products to end-users in a timely fashion.

PART VII

INFORMATION ON THE CONCERT PARTY

SCOTTY is headquartered near Graz, Austria, with operations based in Norcross near Atlanta, Georgia (US), Manchester, New Hampshire (US), Manila (Philippines) and Wokingham (UK), Kurt Kerschat, Georg Weber and Walter Müller are all members of the management board of SCOTTY. Kurt Kerschat and Georg Weber will be joining the board of the New Group. Peter Sauerzopf, Ernst Wustinger and Norbert Froemmer are members of the SCOTTY supervisory board, Peter Sauerzopf and Ernst Wustinger will be joining the board of the New Group as non-executive directors. Further details of Kurt Kerschat, Georg Weber, Peter Sauerzopf and Ernst Wustinger are set out in Part I of this document under the section headed "Directors, Proposed Directors and Key Employees" and in paragraph 5 of Part VIII. Details of Andreas Böedenauer and Walter Müller are set out under the section Key Employees of the New Group in paragraph 14 of Part I.

(1) The Panel operates a rebuttal presumption that all shareholders of a private company are acting in concert. On this basis the Concert Party comprises the Proposed Directors and all other identified shareholders of SCOTTY, as detailed below.

Name	*Number of SCOTTY Shares*	*% of issued share capital of SCOTTY*
Kurt Kerschat	20,483	11.01
Andreas Bödenauer	21,753	11.70
Walter Müller	20,483	11.01
Georg Weber	3,313	1.78
Peter Sauerzopf	2,180	1.17
Ernst Wustinger	1,750	0.94
Thrice Capital Management Ltd*	22,234	11.95
Adrian Friend	13,209	7.10
Raiffeisen Centro Bank	12,280	6.60
EOS GEW Privatstiftung	11,743	6.31
Capital Invest	10,000	5.38
Richmond Capital Partners	9,182	4.94
Centrum Bank Vaduz	8,557	4.60
Omicron	8,470	4.55
Albert Ohandjianians	3,452	1.86
Gale Stiftung	2,550	1.37
Klaus Koeberl	2,500	1.34
Susanne Kerschat	2,100	1.13
Brigitte Gruber	1,700	0.91
Roger Cunningham	1,262	0.68
Norbert Froemmer	1,121	0.60
Francesca Garibaldi	1,000	0.54
Fabio Gneco	460	0.25
Josef Schuster	440	0.24
Patrick Verbeek	420	0.23
Guy Wilkes	317	0.17
Richard Russel Keith	136	0.07
Total	**183,095**	**98.45**

*Thrice Capital Management Ltd., which is a BVI corporation controlled by an independent board, is beneficially owned by Christopher Woodgate. It operates a private investment holding company which currently holds investments in four private companies and has agreed to subscribe for 7,500,000 Placing Shares, representing an additional 1.22 per cent. of the Enlarged Share Capital.

SCOTTY Shares are in bearer form. It has not been possible to trace SCOTTY shareholders representing 1.55% of the issued share capital of SCOTTY. For the purposes of the Offer the contact address is, SCOTTY's registered office in A-7000 Eisenstadt, Neusiedlerstraße 24-26 Austria.

(2) Following Admission and assuming full subscription under the Open Offer and full acceptance of the Offer the members of the Concert Party will each hold the following interests in the Enlarged Share Capital:

Name	*Number of Ordinary Shares immediately following Admission*	*Percentage of Enlarged Share Capital immediately following Admission*	*Number of Ordinary Shares assuming issue of the maximum number of Deferred Consideration Shares*	*Percentage of Enlarged Share Capital assuming issue of the maximum number of Deferred Consideration Shares*
Kurt Kerschat	28,910,102	4.71	67,456,904	7.00
Andreas Bödenauer	30,702,604	5.00	71,639,410	7.43
Walter Müller	28,910,102	4.71	67,456,904	7.00
Georg Weber	4,676,032	0.76	10,910,741	1.13
Peter Sauerzopf	3,076,894	0.50	7,179,419	0.75
Ernst Wustinger	2,469,983	0.40	5,763,295	0.60
Thrice Capital Management Ltd	38,881,497	6.34	80,723,493	8.38
Adrian Friend	18,643,437	3.04	43,501,354	4.51
Raiffeisen Centro Bank	17,332,229	2.82	40,441,868	4.20
EOS GEW Privatstiftung	16,574,297	2.70	38,673,359	4.01
Capital Invest	14,114,193	2.30	32,933,117	3.42
Richmond Capital Partners	12,959,652	2.11	30,239,188	3.14
Centrum Bank Vaduz	12,077,515	1.97	28,180,868	2.92
Omicron	11,954,721	1.95	27,894,350	2.89
Albert Ohandjianians	4,872,219	0.79	11,368,512	1.18
Gale Stiftung	3,599,119	0.59	8,397,944	0.87
Klaus Koeberl	3,528,548	0.58	8,233,279	0.85
Susanne Kerschat	2,963,980	0.48	6,915,954	0.72
Brigitte Gruber	2,399,412	0.39	5,598,629	0.58
Roger Cunningham	1,781,211	0.29	4,156,159	0.43
Norbert Froemmer	1,582,201	0.26	3,691,802	0.38
Francesca Garibaldi	1,411,419	0.23	3,293,311	0.34
Fabio Gneco	649,252	0.11	1,514,923	0.16
Josef Schuster	621,024	0.10	1,449,057	0.15
Patrick Verbeek	592,796	0.10	1,383,190	0.14
Guy Wilkes	447,419	0.07	1,043,979	0.11
Richard Russel Keith	191,953	0.03	447,890	0.05
Total	**265,923,811**	**43.34**	**610,488,899**	**63.36**

PART VIII

ADDITIONAL INFORMATION

1 The Company

1.1 The Company was incorporated in England and Wales on 14 March 1994 under the Act as a private limited company with registered number 2908288 and with the name Motion Media Limited.

1.2 On 19 April 1996, the Company changed its name to Motion Media PLC and was re-registered under the Act as a public limited company.

1.3 The Company's registered and head office is at Motion Media Technology Centre, Severn Bridge, Aust, Bristol, BS35 4BL.

1.4 The liability of the members of the Company is limited.

2 Share Capital

2.1 As at 5 July 2004 (being the latest practicable date prior to publication of this document), the authorised and issued share capital of the Company was:

	Authorised		*Issued (fully paid)*	
	£	*Number of Ordinary Shares*	*£*	*Number of Ordinary Shares*
Ordinary Shares	2,750,000	275,000,000	2,260,689.35	226,068,935

2.2 Assuming full subscription under the Placing and the Open Offer and full acceptance of the Offer and without taking into account any shares issued on exercise of outstanding options over Ordinary Shares granted pursuant to the Share Option Schemes, the issued share capital of the Company immediately following Admission will be as follows:

	Issued (fully paid) £	*Number of Shares*
Ordinary Shares	6,135,689.35	613,568,935

2.3 Assuming full subscription of the Open Offer, full acceptance of the Offer and that the maximum number of Deferred Consideration Shares are issued pursuant to the Acquisition and without taking into account any shares issued on exercise of outstanding options over Ordinary Shares granted pursuant to the Share Option Schemes the issued share capital of the Company will be as follows:

	Issued (fully paid) £	*Number of Shares*
Ordinary Shares	9,635,689.35	963,568,935

2.4 By resolution of the members of the Company passed at the annual general meeting of the Company held on 12 May 2003, *inter alia*:

i) the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities up to an aggregate of £620,724, such authority expiring on the date 15 months after the date of the resolution or the next annual general meeting (whichever occurs earlier) unless renewed or revoked before that date and that the Company may before such expiry make an offer or agreement which would or might require securities to be allotted after the authority has expired;

ii) the Directors were empowered pursuant to section 95 of the Act to allot equity securities for cash pursuant to and during the period of authority conferred by (a) above as if section 89(1) of the Act did not apply to such allotment provided that such power was limited to:

(1) an offer of securities by way of rights to holders of Ordinary Shares in proportion to their respective holdings;

(2) the terms of any share option schemes of the Company whether then in existence or adopted after the date of the resolution, up to an amount not exceeding £212,927;

(3) otherwise, an aggregate nominal amount of £106,464.

2.5 Since 31 December 2003, being the date to which the latest audited financial statements of the Company were made up:

(a) On 22 January 2004 the Company issued 900,000 Ordinary Shares (at a price of 2.675p per Ordinary Share) pursuant to the exercise of options under the Share Option Schemes;

(b) On 3 February 2004 the Company issued 50,000 Ordinary Shares (at a price of 3.5p per Ordinary Share) pursuant to the exercise of options under the Share Option Schemes.

2.6 The following resolutions will be proposed, *inter alia*, at the AGM

(a) To increase the authorised share capital of the Company from £2,750,000 to £4,000,000 by the creation of 125,000,000 additional Ordinary Shares.

(b) To grant the directors authority to allot relevant securities up to an aggregate nominal amount of £1,000,000 to such persons at such times and on such terms as they think fit.

(c) To empower the Directors (pursuant to section 95 of the Act) to allot equity securities pursuant to the authority given by (a) above as if section 89(1) CA 1985 did not apply to any such allotment, provided that this power is limited to:

(i) an offer of securities by way of rights to holders of Ordinary Shares in proportion to their respective holding; and

(ii) otherwise up to an aggregate nominal amount of £339,103.39.

(d) To amend the articles of association of the Company in order to increase the Company's borrowing powers to £10 million.

2.7 The following resolutions will be proposed, *inter alia,* at the EGM:

(a) to increase the authorised share capital of the Company from £4,000,000 to £15,000,000 by the creation of 1,100,000,000 additional Ordinary Shares;

(b) to grant the Directors authority to allot relevant securities up to an aggregate amount of £8,625,000, £7,375,000 of such authority being restricted to the issue and allotment of the Placing Shares, 10,525,000 Open Offer Shares, the Initial Consideration Shares and the Deferred Consideration Shares.

(c) to dis-apply statutory pre-emption rights in respect of the allotments of equity securities for cash pursuant to the authority conferred by (a) above as if section 89(1) of the Act did not apply to such allotment provided that such power is limited to :

(i) an offer of securities by way of rights to holders of Ordinary Shares in proportion to their respective holdings;
(ii) the allotment of the Placing Shares and up to 10,525,000 of the Open Offer Shares; and
(iii) otherwise an aggregate nominal amount of £1,445,350.

2.8 The Placing Price represents a premium of 3p over the nominal value of 1p per Ordinary Share.

2.9 All Ordinary Shares are in registered form.

2.10 As at 5 July 2004 (being the latest practicable date prior to publication of this document), there were outstanding options over 7,872,057 Ordinary Shares pursuant to the Share Option Schemes representing approximately 3.5 per cent. of the Company's issued share capital as at that date, as more particularly set out below:

Scheme	*Date of grant*	*Exercise Period*	*Exercise Price (pence)*	*Ordinary Shares Under Option*
1997	02/Apr/1998	02/Apr/2001 to 01/Apr/2008	14.50	40,000
	07/Apr/2000	08/Apr/2003 to 07/Apr/2010	140.00	26,569
				66,569
2000 Approved				
	21/May/2001	21/May/2004 to 20/May/2011	25.00	550,000
	23/May/2001	01/Jul/2003 to 02/Jul/2004	85.00	31,900
	23/May/2001	23/May/2004 to 22/May/2011	85.00	146,482
	21/May/2002	01/Jul/2003 to 02/Jul/2004	25.00	258,000
	24/Dec/2002	01/Jul/2003 to 02/Jul/2004	3.50	130,000
	24/Dec/2002	24/Dec/2005 to 23/Dec/2012	3.50	1,020,000
	18/Dec/2003	18/Dec/2006 to 17/Dec/2013	12.00	320,000
				2,456,382
2000 Unapproved				
	23/May/2001	23/May/2004 to 22/May/2011	85.00	4,506
	21/May/2002	01/Jul/2003 to 02/Jul/2004	25.00	12,000
	21/May/2002	21/May/2005 to 20/May/2012	25.00	50,000
	07/Jun/2002	07/Jun/2005 to 06/Jun/2012	25.00	100,000
	30/Jun/2003	01/Jul/2003 to 28/Dec/2006	2.68	750,000
	26/Nov/2003	26/Nov/2006 to 25/Nov/2013	12.00	1,200,000
	18/Dec/2003	18/Dec/2006 to 17/Dec/2013	12.00	1,100,000
				3,216,506
2002 EMI				
	07/Jun/2002	07/Jun/2005 to 06/Jun/2012	25.00	100,000
	24/Dec/2002	24/Dec/2005 to 23/Dec/2012	3.50	375,000
				475,000
US ISO				
	23/May/2001	23/May/2004 to 22/May/2011	86.50	282,600
	04/Oct/2001	04/Oct/2004 to 04/Oct/2011	44.25	50,000
	30/May/2002	30/May/2005 to 29/May/2012	26.25	325,000
	26/Nov/2003	26/Nov/2006 to 25/Nov/2013	12.00	1,000,000
				1,657,600

2.11 Save as mentioned in this paragraph 2 no unissued share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

3 Subsidiaries

3.1 The Company is the ultimate holding company of the Existing Group.

3.2 The Company has the following subsidiaries both of which are wholly-owned by the Company:

Subsidiary	*Place of Registration*	*Registered Office*	*Issued Share Capital*
Motion Media Technology Limited	England and Wales	Motion Media Technology Centre, Severn Bridge, Aust, Bristol, BS35 4BL	13,057,995 "A" Ordinary Shares of £1.00 each
Motion Media Technology Inc	Delaware, USA	The Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware 19801	$1,000 Common Stock

3.3 Set out below are details of SCOTTY and each of its subsidiaries, all of which are wholly-owned by SCOTTY:

Company	*Place of Registration*	*Registered Office*	*Issued Share Capital*
SCOTTY	Eisenstadt, Austria	Neusiedlerstrasse 24-26, 7000 Eiseenstadt	185,983 shares of zero par value
Zydacron (Europe) Limited	England and Wales	Grenville Court, Britwell Road, Burnham, Slough, Berkshire SL1 8DF	£10,000 in Ordinary shares of £1 each
Zydacron Inc	Manchester, USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801	1,500 shares no par value; additional paid in capital: 12,159,376 total stockholders deficit: $2,272,736
Scotty-Tele-Transport Corporation of the Americas, Inc	Delaware, USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801	common stock $1,000 additional paid in capital: $613,771 total stockholders equity: $432,584
Scotty-Tele-Transport Corporation of Asia, Inc	Philippines	Unit 203, Tower A, Antel Seaview Towers, 2626 Roxas Boulevard, Pasay City	2,500,000 Pesos (Philippines Pesos)

4 Summary of the Memorandum and Articles of Association

4.1 Memorandum of Association

The memorandum of association of the Company provides that the Company's principal object is to act as a general commercial company and without prejudice to the generality of the foregoing to carry on video-telephony and other telecommunication activities and to act as a holding and co-ordinating company of a group of companies. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company which is available for inspection as specified in paragraph 15 below.

4.2 Articles of Association

The Articles of Association of the Company (the "Articles") which were adopted by a special resolution of the Company passed on 5 May 2000 contain, inter alia, provisions to the following effect:

i) *Share capital*

(1) The authorised share capital may be increased by ordinary resolution and reduced by special resolution.

(2) The Board may decline to register a transfer of any share (not being a fully paid share).

(3) Subject to the Act the Company may issue shares which are or, at the option of the Company or the holder of such shares, are liable to be redeemed in accordance with the Articles.

ii) *Variation of rights*

Whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class of shares may be varied or abrogated either with the written consent of the holders of not less than three quarters of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of the class. To every separate meeting the provisions of the Articles relating to general meetings mutatis mutandis apply, but the necessary quorum is not less than two persons holding or representing by proxy one-third of the nominal amount paid up on the issued shares of the class. If at any adjourned meeting of such holders such quorum as aforesaid is not present, not less than one person holding shares of the class who is present in person or by proxy shall be a quorum.

iii) *Voting rights*

(1) Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote, and on a poll every member present in person or by proxy shall have one vote for every share of any class of which he is the holder.

(2) In the case of joint holders, the vote of the senior who tender a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

(3) Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at any separate meeting of the holders of any class of shares, (either in person of by representative or proxy) or on any poll or to exercise any other right conferred by membership unless all calls presently payable to him (in result of that share), whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company or if he or any other person appealing to be interested in such shares, has been issued with a notice pursuant to section 212 of the Act (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

iv) *General meetings*

The Board may make arrangements to control the level of attendance at any place of the holding of a general meeting and, in any such case, shall direct that the meeting be held at a specified place, where the chairman of the meeting shall preside, and make arrangements for simultaneous attendance and participation by members at other locations. The chairman of this general meeting has authority to adjourn the meeting if, in his opinion, it appears impractical to hold or continue the meeting because of weight of numbers.

v) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to create and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company, and shall exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to procure (as far as it can in relation to its subsidiary undertakings) that the aggregate principal amount outstanding in respect of moneys borrowed by the Group does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed a sum equal to the greater of twice the adjusted total of capital and reserves or £3,000,000. This restriction will be increased to £10 million if resolution 4 is passed at the AGM.

vi) *Dividends*

(1) Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

(2) Subject to the provisions of the Act, the Board may declare and pay such interim dividends (including dividends payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution.

(3) Subject to any special rights attaching to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. All dividends unclaimed for 12 years after having become due for payment (if the Board so resolves) shall be forfeited and shall revert to the Company. Unless otherwise provided by the rights attached to the share no dividend shall bear interest as against the Company.

(4) The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets and in particular of paid up shares or debentures of any other Company.

(5) The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

(6) Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of Ordinary Shares will be withheld if such shares represent at least 0.25% of their class and the holder, or any other person appearing to be interested in those shares, has been duly served with a notice under section 212 of the Act and has failed to supply the information required by such notice within 14 days. Furthermore such a holder shall not be entitled to elect to receive Ordinary Shares instead of a dividend.

vii) *Untraced shareholders*

In certain circumstances the Company will be entitled to sell the shares of a member or the shares to which a person is entitled by transmission if, inter alia, during a period of 12 years, all warrants and cheques sent to him during that period have remained uncashed.

viii) *Retirement of Directors*

The Directors are required to retire by rotation.

ix) *Non-United Kingdom shareholders*

There are no limitations in the Memorandum or Articles of Association on the rights of non-United Kingdom shareholders to hold, or exercise voting rights attached to the shares. However, non-United Kingdom shareholders are not entitled to receive notices of general meetings unless they have given an address in the United Kingdom to the Company to which such notices may be sent.

x) *Return of capital on winding up*

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trust for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

xi) *CREST*

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of Ordinary Shares in uncertificated form.

5 Interests of the Directors and the Proposed Directors

5.1 The Directors and the Proposed Directors and their respective functions are set out on page 4 of this document. The business address of each is also set out on page 4 of this document.

5.2 As at 5 July 2004 (being the latest practicable date prior to publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors and the Proposed Directors in the share capital of the Company pursuant to sections 324 or 328 of the Act (or which are required, pursuant to section 325 of the Act, to be entered into the register referred to in that section), including (to the extent known or which can with reasonable diligence be ascertained by the relevant Director or Proposed Director), the interests of persons connected with that Director or the Proposed Directors (within the meaning of Section 346 of the Act), which would, if the connected person were a director, be required to be disclosed pursuant to those provisions of the Act, and as these interests are expected to be immediately following Admission, are as follows:

Director/ Proposed Director	Number of Existing Ordinary Shares	% of issued share capital	Following Admission (assuming full acceptance of the Offer and full subscription of the Open Offer) Number of Ordinary Shares	% of Enlarged Share Capital
R F Thorne	1,167,800	0.52	1,292,800	0.21
F G De Angelis	Nil	Nil	Nil	Nil
A R MacKenzie	1,652,858	0.73	1,652,858	0.27
K Kerschat	Nil	Nil	28,910,102	4.71
G Weber	Nil	Nil	4,676,032	0.76
P Sauerzopf	Nil	Nil	3,076,894	0.50
E Wustinger	Nil	Nil	2,469,983	0.40

5.3 In addition options over Ordinary Shares have been granted to the Directors and, conditional on Admission, will be granted to the Proposed Directors pursuant to the Share Option Schemes as follows:

Name	Number of Ordinary Shares under Option	Share Option Scheme	Date of Grant	Expiry date of Option	Exercise price per Ordinary Share (£)
R F Thorne	600,000	2000 Unapproved Scheme	18/12/03	17/12/13	0.12
F G De Angelis	245,400	2001 Incentive Stock Option Scheme (US)	23/05/01	22/05/11	0.865
	100,000	2000 Unapproved Scheme	07/06/02	06/06/12	0.25
	600,000	2000 Unapproved Scheme	26/11/03	25/11/13	0.12
A MacKenzie	500,000	2000 Unapproved Scheme	18/12/03	17/12/13	0.12

5.4 As at 5 July 2004 (being the latest practicable date prior to publication of this document) and as they are expected to be immediately following Admission, insofar as known to the Directors and the Proposed Directors, the only persons in addition to the Directors and Proposed Directors who are interested directly or indirectly in 3 per cent. or more of the capital of the Company, together with the amount, expressed as a percentage, are as follows:

Shareholder	Number of Existing Ordinary Shares	% of issued share capital	Following Admission (assuming full acceptance of the Offer and the Open Offer) Number of Ordinary Shares	% of Enlarged Share Capital
C Blackbourn	20,250,000	8.96	20,250,000	3.30
A Bödenauer	Nil	Nil	30,702,604	5.00
A Friend	Nil	Nil	18,643,437	3.04
W Müller	Nil	Nil	28,910,102	4.71
Thrice Capital Management Ltd	Nil	Nil	38,881,497	8.38

5.5 Save as described above, the Directors and the Proposed Directors are not aware of any person who, directly or indirectly, is, or immediately following Admission, will be, interested (for the purposes of section 198 of the Act) in 3 per cent. or more of the Company's issued share capital or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

5.6 Save for the Acquisition or otherwise as disclosed in this document, no Director or Proposed Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Company or its subsidiaries and which were effected by any member of the Company or its subsidiaries in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

5.7 The directorships and partnerships of the Directors currently held and held over the past five years preceding the date of this document (in addition to being a director of the Company and other members of the Existing Group) are as follows:

Director	*Current*	*Past*
R F Thorne	Advanced Power Components plc Marcom Communications Limited	n/a
F G De Angelis	n/a	Evoke Communications BV
A R MacKenzie	ARM Corporate Finance Limited The Ilford County High School Oakfield Trust ARM & Co Investing in Enterprise Media 1999 A Limited Partnership Investing in Enterprise Media 1999 B Limited Partnership	n/a

5.8 The directorships and partnerships of the Proposed Directors currently held and held over the past five years preceding the date of this document (in addition to being a director of SCOTTY and other members of the SCOTTY Group):

Proposed Director	*Current*	*Past*
K Kerschat	n/a	n/a
G Weber	Weber&Weber Consulting GmbH	Tourismus Invest GmbH Converter Technology GmbH Wachauer Technology & Design GmbH Vitalresort Loipersdorf GmbH Gartler Weber und Partner GmbH
P Sauerzopf	Sauerzopf and Partner Franz Hofer Holzwerk GmbH Ahmed & Mayer, Global – Trade HandelsgmbH HOFER-BAU-HOLZ Ges.m.b.H. PRO-SKIN, Dermatologische Kosmetik	Hopmeier, Sauerzopf and PartnerVienna, Hoetzinger Familien-Privatstiftung Stiftungsvorstand Tristan und Walküre Privatstiftung
E Wustinger	Alfa Real Immobilien Bet. GmbH Grazer Stadtwerke AG Dr. Wustinger GmbH Tourismus Invest GmbH Pankl Racing Systems AG	NYSE Private Funds

5.9 Save as set out in this paragraph, none of the Directors or Proposed Directors;

(a) has any unspent convictions in respect of indictable offences;

(b) has been declared bankrupt or entered into an individual voluntary arrangement;

(c) was a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement;

(d) has owned an asset over which a receiver has been appointed;

(e) has been a partner of any partnership at the time of or within 12 months of receivership of any assets of the partnership;

(f) has ever been publicly criticised by any statutory or regulatory authority (including recognised professional bodies);

(g) has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;

(h) has been a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.

6. Interests and Dealings in Shares

6.1 *Interests and dealings in Existing Ordinary Shares*

(a) ARM is the registered holder of 1,652,858 Existing Ordinary Shares.

(b) During the 12 months preceding the date of this document, the dealings for value in Existing Ordinary Shares by ARM, the Company's nominated adviser were as follows:

Name	*Date*	*Transaction*	*Number of Existing Ordinary Shares*	*Price per Existing Ordinary Share(p)*
ARM	26.09.2003	sold	1,500,000	12.25

(c) Mr R Thorne has irrevocably undertaken to vote in favour of each of the resolutions to be proposed at the EGM in respect of his beneficial shareholding amounting to 1,167,800 Ordinary Shares.

ARM has irrevocably undertaken to vote in favour of each of the resolutions to be proposed at the EGM in respect of its shareholding amounting to 1,652,858 Ordinary Shares in which Mr A MacKenzie has a beneficial interest.

6.2 *Interests and dealings in SCOTTY Shares*

(a) The interests of the members of the Concert Party, the directors of SCOTTY, their immediate families, any related trust or any persons connected with them (within the meaning of section 346 of the Act) in SCOTTY Shares as at 5 July 2004 (being the latest practicable date prior to publication of this document) are set out in Part VII of this document.

(b) During the 12 months preceding the date of this document, the dealings for value in SCOTTY Shares by or on behalf of the members of the Concert Party, the directors of SCOTTY their immediate families, any related trust or any persons connected with them (within the meaning of section 346 of the Act) in SCOTTY Shares were as follows:

Name	*Date*	*Transaction*	*Number of SCOTTY Shares*	*Price per SCOTTY Share(€)*
K Kerschat	26.03.04	Gift	2,100	Nil
S Kerschat	26.03.04	Gift	2,100	Nil
K Kerschat	20.06.04	Subscription	1,313	40
A Bödenauer	20.06.04	Subscription	1,313	40
W Müller	20.06.04	Subscription	1,313	40
G Weber	20.06.04	Subscription	1,313	40
A Ohandjianians	20.06.04	Subscription	440	40
J Schuster	20.06.04	Subscription	440	40
P Sauerzopf	20.06.04	Subscription	2,180	40
E Wustinger	20.06.04	Subscription	1,750	40
N Froemmer	20.06.04	Subscription	921	40

Mr K Kerschat gifted 2,100 SCOTTY Shares to his wife Mrs S Kerschat on 26.03.04.

6.3 *General*

(a) Save as disclosed above, no member of the Concert Party, or SCOTTY, or any director of SCOTTY, their immediate families, any related trust or any persons connected with them (within the meaning of section 346 of the Act) nor any person acting in concert with them owns or controls or is interested in any relevant securities, nor has any such person dealt for value therein during the 12 months preceding the date of this document.

(b) Save as disclosed above, neither the Company, the Directors nor the Proposed Directors, their immediate families, any related trust nor any persons connected with them (within the meaning of section 346 of the Act) nor any person acting in concert with them owns or controls or is interested in any relevant securities, nor has any such person dealt for value therein during the 12 months preceding the date of this document.

(c) Save as disclosed above, none of the subsidiaries of the Company or any associated company of the Company nor any person falling within paragraph (B) of the definition of associate in sub-paragraph (e) below (other than exempt market makers) nor any person whose investments are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company, owns or controls any relevant securities, nor has any such person dealt for value therein during the 12 months preceding the date of this document in respect of each of them respectively.

(d) Neither the Concert Party, SCOTTY or the directors of SCOTTY their immediate families, any related trust nor any persons connected with them (within the meaning of section 346 of the Act) nor any person acting in concert with them nor the Company nor any of its associates has any arrangement in relation to relevant securities. For these purposes, "arrangement" includes any indemnity or option arrangement and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing.

(e) References in this paragraph 6 to:

(i) an "associate" are to:

(A) subsidiaries and associated companies of the Company and companies of which any such subsidiaries or associated companies are associated companies ("relevant companies");

(B) banks, financial and other professional advisers (including stockbrokers) to the Company, as the case may be, or any relevant company, including persons controlling, controlled by or under the same control as such banks, financial or other professional advisers;

(C) the directors of the Company or the directors of any relevant company (together in each case with their close relatives and related trusts); and

(D) the pension funds of the Company or of any relevant company;

(ii) a "bank" do not include a bank whose sole relationship with the Company or a relevant company is the provision of normal commercial banking services or such activities in connection with the Offer as handling acceptances and other registration work;

(iii) " derivative" include any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security but which does not include the possibility of delivery of such underlying securities; and

(iv) "relevant securities" mean Ordinary Shares and/or SCOTTY Shares and securities convertible into, or rights to subscribe for, Ordinary Shares and/or SCOTTY Shares, options (including traded options) in respect thereof and derivatives referenced thereto.

(f) For the purposes of this paragraph 6, ownership or control of 20 per cent. or more of the equity share capital is regarded as the test of associated company status and "control" means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holding gives *de facto* control.

(g) There is no agreement, arrangement or understanding whereby the beneficial ownership of any Ordinary Shares issued to any members of the Concert Party in connection with the Proposals will be transferred to any other person.

(h) Each member of the Concert Party has confirmed to the Directors that following completion of the Proposals, he has no intention other than to see the continuance of the Company's business and has no plans to introduce any major changes to the business, the fixed assets or the employment arrangements of the employees of the Company.

(i) No agreement, arrangement or understanding (including any compensation arrangement) exists between any member of the Concert Party or any person acting in concert with them for the purposes of the Proposals and any of the directors, or recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon or which is conditional on the outcome of, the Proposals.

(j) No arrangements exist whereby the Concert Party intends that the payment of interest on, repayment of, or security for any liability (contingent or otherwise) will depend to any extent on the business of the Company.

7 Directors' and Proposed Directors' service agreements

7.1 Service contracts (or in the case of the Chairman and non-executive directors, letters of appointment) have been entered into between the Company and the Directors, or are to be entered into between the Company and the Proposed Directors, (conditional on Admission) the principal terms of which are summarised below:

(a) The terms of R F Thorne's appointment as Executive Chairman are recorded in a letter of appointment dated 17 December 2003. The appointment is terminable on three months' notice from either party. A fee of £20,000 per annum is payable to Mr. Thorne in respect of his services, which he is contracted to provide for a minimum of 26 hours per week. He is entitled to additional remuneration in the event that he is called upon to provide any special duties or responsibilities outside of his ordinary duties as a director;

(b) The terms of A R MacKenzie's appointment as a non-executive Director are recorded in a letter of appointment dated 17 December 2003. The appointment is terminable on three months' notice from either party. A fee of £15,000 per annum plus VAT if appropriate is payable to ARM & Co in respect of the provision of Mr. MacKenzie's services, which he is contracted to provide for a minimum of 26 hours per week. He is entitled to additional remuneration in the event that he is called upon to provide any special duties or responsibilities outside of his ordinary duties as a director;

(c) The terms of FG De Angelis' appointment are pursuant to an employment agreement effective 7 May 2001. The employment is terminable on six months notice from the company and no notice from Mr. De Angelis. He is entitled to annual remuneration of $185,000 and to receive payments under the Company's discretionary annual bonus scheme. He also benefits from: life insurance equal to one times salary, short and long term disability benefit, pension contributions, medical and dental insurance;

(d) Conditional upon Admission:

(i) Kurt Kerschat will be appointed on Admission as Chief Executive Officer and Georg Weber will be appointed on Admission as Finance Director pursuant to the terms of their respective service agreements both dated 6 July 2004, the principal terms of which are summarised below:

(A) a salary of €155,000 per annum payable in 14 instalments.

(B) a review by the Company of salary annually, the first review taking place on 29 July 2005.

(C) each of the service agreements will continue unless and until terminated by not less than 12 months written notice by either party.

(D) entitlement to 25 days' holiday in addition to bank holidays.

(E) entitlement to full salary for the first 12 weeks' absence through sickness or injury in any period of 12 months.

(F) a requirement to work for the Company on a full time basis, with an estimated 40 per cent. of time spent at the Company's office in Austria.

(G) Contributions to the Austrian State Basic Pension Scheme are made automatically through social security contributions in respect of Mr. Kerschat and Mr. Weber.

(H) life assurance cover equal to four times salary.

(I) the service agreements include clauses on confidentiality and restrictive covenants. Mr. Kerschat and Mr. Weber are restricted from being concerned in any other undertaking without the prior sanction of the board, and restricted from competing with the company and from soliciting customers or particular staff for 12 months after termination of their employment.

(ii) Peter Sauerzopf will be appointed as a non-executive director of the Company. He will receive £20,000 per annum in respect of his services, which he is contracted to provide for a minimum of 12 days per year. He is entitled to additional remuneration in the event that he is called upon to provide any special duties or responsibilities outside of his ordinary duties as a director. The appointment is terminable on three months written notice from either party.

(iii) Ernst Wustinger will be appointed as a non-executive director of the Company. He will receive £20,000 per annum in respect of his services, which he is contracted to provide for a minimum of 12 days per year. He is entitled to additional remuneration in the event that he is called upon to provide any special duties or responsibilities outside of his ordinary duties as a director. The appointment is terminable on three months written notice from either party.

7.2 Except as stated, none of the agreements set out in paragraph 7.1 above have been amended during the six months prior to the date of this document.

7.3 Save as set out above there are no existing or proposed service agreements between any of the Directors or Proposed Directors and the Company.

7.4 Save as set out above there are no provisions for compensation payable upon early termination of any service agreement or letter of appointment between any of the Directors or Proposed Directors of the Company.

7.5 The aggregate remuneration and benefits in kind of the directors of the Company in respect of the financial year ended 31 December 2003 was £89,517. The aggregate remuneration and benefits in kind of the directors of the Company (including the Proposed Directors) in respect of the current financial year ending 31 December 2004 (under the arrangements in force at the date hereof) is expected to be £265,000 excluding a one-time termination payment of €240,000 to Mr G Weber under the terms of his existing SCOTTY contract.

7.6 There are no loans or guarantees provided by any member of the Group for the benefit of any Director or Proposed Director.

8 Material Contracts

Set out below is a summary of the principal contents (including particulars of dates, parties terms and conditions, any consideration passing to or from the Company or any other member of the Group) of each contract (not being a contract entered into in the ordinary course of business) entered into by any member of the New Group within the two years immediately preceding the publication of this document or to be entered into prior to Admission and which are or may be material:

(A) The Existing Group

(a) Sale and Leaseback Agreement

By a lease dated 8 March 2002 between the Company (1) and Motion Media Technology Limited ("MMT") (2) (the "Lease"), the freehold property known as Motion Media Technology Centre, Severn Bridge, Aust, Bristol (the "Property") was leased by MMT to the Company for a term of 20 years at a basic rent of £400,000 per annum payable (plus VAT) quarterly in advance. The rent is subject to review at five yearly intervals. Such reviews will be upward only. The review in 2007 will be for a minimum of £463,710. The Company is responsible for all outgoings relating to the Property and to keep the Property in good repair and condition and decorated to a high standard. The Lease is not assignable unless expressly permitted under the terms of the Lease.

By an agreement dated 19 March 2002 between MMT (1), IM Properties Finance Limited ("IM") (2) and the Company (3), MMT sold the Property (subject to the Lease) to IM for £4,000,000, subject to certain retentions. As at the date of this document no such retentions are outstanding.

(b) Sub-letting Contracts

Following the sale and leaseback of the Property, MMT has entered into the following under leases in relation to the Property, all of which are excluded from the provisions of the Landlord and Tenant Act 1954:

(i) an underlease dated 17 May 2002 with Commercial Vehicle Direct Insurance Services Limited ("CVDIS") for a period expiring on 25 March 2007 at an annual rent of £91,147 (payable from 18 August 2002) with both parties having the right to terminate the underlease on 25 March 2005, subject to six months' prior written notice being given;

(ii) an underlease dated 30 October 2003 with Environment Agency for the period 27 May 2003 to 24 May 2007 at an initial annual rent of £32,016, with an upwards only rent review on 27 May 2005. The Environment Agency has the right to terminate the underlease on 27 May 2005 , subject to six months' prior written notice being given;

(iii) an underlease dated 27 May 2002 with ASP Fencing Contractors Limited for a period of three years at an annual rent of £2,407;

(iv) an underlease dated 19 May 2002 with Kofax Image Products Incorporated ("Kofax") for a period of two years at an annual rent of £9,295 (payable from 8 June 2002). Kofax have a right to terminate the underlease on the first anniversary of the lease, subject to three months' prior written notice being given. As at the date of this document, this underlease is due to be renewed for the period to 25 March 2007 at an annual rent of £9743;

(v) an underlease dated 14 June 2002 with Arrow Electronics (UK) Limited for a period of three years at an annual rent of £14,544 (payable from 14 July 2002);

(vi) an underlease dated 1 July 2002 with Concept 4 Limited for a period of three years at an annual rent of £11,513. Concept 4 Limited have a right to terminate the underlease on the second anniversary of the lease, subject to three months' prior written notice being given;

(vii) an underlease dated 5 September 2003 with Reliance Secure Task Management Limited ("RSTM") for a period of 10 years at an initial annual rent of £95,730 with upwards only rent reviews on 7 March 2007 and 7 March 2012. Both parties have the right to terminate the lease on 25 March 2005 and 25 March 2008 subject to six months' prior written notice being given. RSTM have the right to terminate the lease on 5 September 2008 subject to six months' prior written notice being given. MMT has given up its right to break the lease. As at the date of this document, an additional underlease is to be entered into for additional space on an initial rent of £13,170 with the same terms, break clauses and termination date as the initial underlease to RSTM.;

(viii) a deed of variation to the Lease, dated 11 July 2003 whereby 25% of rent received from the underletting of space occupied subsequently by RSTM is payable to IM.

Certain of the underleases grant the relevant tenant certain car parking rights.

(c) Placing and Offer Agreement 2002

Under the terms of an agreement between the Company and ARM dated 29 November 2002 (the "Placing and Offer Agreement 2002") ARM acted as agent for the Company in relation to an offer for subscription and placing.

The Placing and Offer Agreement 2002 provided for the payment by the Company to ARM of a fee of £150,000, together with a commission of 4 per cent on any monies raised pursuant to the placing and offer for subscription, payable to intermediaries, except in respect of placing shares subscribed by persons introduced by the Company or offer shares subscribed by existing shareholders. All sums are exclusive of VAT.

(d) On 27 November 2003, pursuant to the authority conferred on the Directors by the special resolution passed on 12 May permitting the Directors to allot ordinary shares up to an aggregate nominal value of £106,464, the Company issued 10,646,400 new ordinary shares of 1p at a price of 10p per share (the "2003 Placing").

The Company engaged ARM to act as its agent for the purpose of the 2003 Placing. The terms of the engagement provided for the payment by the Company to ARM of a fee of £15,000, together with a commission of 3 per cent payable to intermediaries. All sums are exclusive of VAT.

(e) the Placing Agreement dated the same date as this document and made between the Company (1), the Directors (2), the Proposed Directors (3), Charles Stanley and ARM (4), pursuant to which Charles Stanley has agreed subject *inter alia* to the passing of the resolutions referred to in paragraph 2.7 above, to use its reasonable endeavours to place 100,000,000 of the Placing Shares firm with institutional and other investors at the Placing Price. A further 14,475,000 Placing Shares have been conditionally placed with institutional and other investors at the Placing Price, subject to a right of recall to the extent required to satisfy valid applications under the Open Offer.

The Placing Agreement provides, *inter alia*, for payment by the Company to Charles Stanley of a fee of £25,000, together with a commission of 4 per cent. on any monies raised pursuant to the Placing, out of which commission Charles Stanley will pay any commissions payable to intermediaries. All sums are exclusive of VAT.

The Placing Agreement also contains normal warranties and indemnities given by the Company and/or the Directors and the Proposed Directors in favour of Charles Stanley and ARM, including in relation to the information given in this document.

(f) the SCOTTY Agreement dated 6 July 2004 as amended by an addendum agreement dated 6 July 2004 both of which are made between the Company (1) and the Vendors pursuant to which the Company will acquire approximately 98.45% of the share capital of SCOTTY. The initial consideration amounts to £10,500,000 to be satisfied by the issue of 262,500,000 Initial Consideration Shares at a price of 4p per ordinary share. A Deferred Consideration of up to £38,500,000 may be payable to the Vendors by reference to the audited results of SCOTTY for the 12 months ending 31 December 2004. Any such Deferred Consideration shall be satisfied either in further New Ordinary Shares or cash, at the option of the Company.

The SCOTTY Agreement is conditional upon:

(i) the re-admission of the Company to trading on AIM;

(ii) the completion by the Company (on terms acceptable to the Company) of a fundraising giving rise to net proceeds for the Company (excluding any directly related costs) of no less than £4.1m;

(iii) approval by the shareholders of the Company in general meeting of:

  (a) the fundraising referred to in paragraph (ii) above; and

  (b) the Company entering into and the performance of its obligations under the SCOTTY Agreement;

(iv) the Panel having agreed that, subject to a poll of a resolution of the shareholders of the Company in accordance with paragraph 2(d) of Appendix 1 to the Code ("the Whitewash Resolution"), the allotment of shares to the Concert Party will not give rise to an obligation on the Concert Party to make an offer for all or part of the issued and to be issued share capital of the Company pursuant to Rule 9 of the Code.

(v) the Whitewash Resolution being duly approved by the shareholders of the Company in general meeting;

(vi) not less than 76% of the share capital of SCOTTY being transferred to the Company on the terms of the SCOTTY Agreement;

(vii) the Warrantors entering into the Warranty Deed.

(g) A letter (the "Offer Letter") from Motion Media to the Remaining SCOTTY Shareholders dated 30 June 2004, by which Motion Media made an offer to acquire all of the SCOTTY Shares held by them, on the same terms as the SCOTTY Agreement;

(h) The Warranty Deed dated 6 July 2004 and made between the Company and the Warrantors pursuant to the SCOTTY Agreement. The Warranty Deed contains warranties and indemnities given by the Warrantors in favour of the Company and concerning the SCOTTY Group, including in relation to the information given in this document.

(i) Under the terms of an agreement between the Company and ARM dated 11 February 2004 (the "ARM Agreement 2004") the Company engaged ARM as its exclusive financial adviser in connection with the Proposals. The ARM Agreement 2004 provided for the payment by the Company to ARM of a documentation fee of £70,000 (exclusive of VAT) plus a mergers and acquisitions fee of £205,000 (exclusive of VAT), on completion of the Proposals. A further fee equating to 1% of the Deferred Consideration will be payable in cash or shares, at the Company's option. If the Proposals do not proceed to completion, a fee of £50,000 (exclusive of VAT) is payable.

(j) Under the terms of an agreement between the Company and SCOTTY dated 4 March 2004 (the "Costs Agreement") SCOTTY has covenanted to pay all transactional and professional costs incurred by the Company in relation to the Proposals on a full and unqualified indemnity basis without any set-off or counterclaim whatsoever and free and clear of any deductions or withholdings. The indemnity referred to shall be of no effect in the event that the Acquisition completes on terms that Motion Media (or any associate of Motion Media) becomes or is unconditionally entitled to become the registered holder of any shares in the capital of SCOTTY, or the necessary resolutions required to allow the Proposals to take place are not validly passed (by the requisite majority) at a general meeting of Motion Media convened for the purposes of considering the same.

(k) The Vendor Consideration Shares Agreement referred to in paragraph 13.20 below.

(l) The Agreements with ARM and Ocean Consulting GmbH described in paragraph 13.3 below.

(B) SCOTTY

(a) The Costs Agreement referred to at paragraph 8(A)(j) above.

(b) An Agreement and plan of merger dated 17 September 2002 and made between SCOTTY (1), SCOTTY Acquisition Corporation (2) and Zydacron (3) pursuant to which SCOTTY acquired Zydacron (the "Merger Agreement"). The Merger Agreement provided for (inter alia) the following:

(i) payment to the former stockholders of Zydacron of $1 million cash on 31 December 2003;

(ii) up to $1 million cash on each of 31 December 2004 and 31 December 2005 dependent upon the aggregate adjusted net income of Zydacron for the two years ended 31 December 2003 (nil was payable);

(iii) conditional upon (ii) above being achieved $9,000,000 in SCOTTY Shares in the event that SCOTTY completed an initial public offering on a recognised investment exchange prior to the end of 2004 (nil payable);

(c) The Offer Letter referred to at paragraph 8 (A) (g) above;

(d) Under the terms of a consulting agreement dated 12 August 2003 and made between SCOTTY (1) and Ocean Consulting GmbH ("Ocean") (2), on Admission Ocean will be entitled to a success fee. The success fee shall be equal to 2% of the transaction volume if the transaction volume is below €10 million and 1.5% if the transaction volume is above €10 million. On 15 December 2003 the parties entered into a supplemental agreement to cap Ocean's fee in relation to the Deferred Consideration at €100,000. On 6 July 2004 the parties entered into a supplemental letter of agreement pursuant to which Ocean agreed, in the event that applications from Qualifying Shareholders are received for less than 10,525,000 Open Offer Shares, that they will subscribe in cash along with ARM at the Placing Price in aggregate in agreed proportions for any shortfall up to 10,525,000 Open Offer Shares in lieu of a like amount of their respective fees.

(e) SCOTTY entered into an atypical silent partnership agreement (*atypische stille Gesellschaft*) with Venture for Business Beteiligungs AG ("Venture") in January 2004 (as amended by a subsequent side letter also dated January 2004). The terms of the agreement provide for the subscription by Venture as silent partner to a fully paid up silent participation in the amount of €2,000,000. Venture is entitled to a non-performance related profit equal to 14% per annum of this contribution. The agreement further provides that Venture is entitled to terminate the agreement for good cause with immediate effect if more than 50% of SCOTTY's shares are sold to a third party, in the case of a stock market offering or, an initial public offering. In the event of such extraordinary termination SCOTTY must repay Venture's contribution of €2,000,000 together with interest of 20% per annum. If Venture does not exercise this right to terminate within 6 weeks from receiving written notice, then the non-performance related anticipated profits of the contribution will decrease to EURIBOR plus 1% per annum. Certain transactions, as detailed in the agreement cannot be carried out without Venture's consent. Venture will not participate in any losses of SCOTTY. The silent partnership has been established for an indefinite term.

(l) The Agreements with ARM and Ocean Consulting GmbH described in paragraph 13.3 below.

9 Litigation

9.1 Save as mentioned in paragraph 9.2 below no member of the New Group is or has been involved in any legal or arbitration proceedings and, so far as the Directors and Proposed Directors are aware, no such proceedings which are pending or threatened which are having or may have or have had during the 12 months preceding the date of this document a significant effect on the New Group's financial position.

9.2 The Company has received a letter before action dated 23 June 2004 from solicitors acting on behalf of Agere Systems Limited ("Agere"). Agere are seeking payment for their product AV440B67HS-DB, pursuant to an invoice dated 6 January 2004 in the sum of US$126,561.60, and an invoice dated 3 February 2004 also in the sum of US$126,561.60. The Company is currently reviewing its position in relation to this claim.

10 Working Capital

The Directors and the Proposed Directors are of the opinion that, having made due and careful enquiry, the working capital available to the New Group will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

11 United Kingdom Taxation

The following comments are intended as a general guide for the benefit of holders of shares as to their tax law and Inland Revenue practice as at the date of this document. They are intended only for Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Existing Ordinary Shares as investments rather than trading stock and who are the beneficial owners thereof. Any Shareholder who is in any doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers without delay.

11.1 Taxation of Dividends

11.1.1 Under current United Kingdom law, the Company will not be required to withhold tax at source from dividend payments it makes.

11.1.2 Individual Shareholders resident in the United Kingdom for tax purposes should generally be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their total income tax liability. The amount of the tax credit is one ninth of the amount of the net cash dividend which is 10 per cent. Of the sum of the dividend and the tax credit. The amount of the dividend received by such an individual Shareholder and the associated tax credit are both included in calculating the individual Shareholder's income for United Kingdom tax purposes.

11.1.3 Individuals whose taxable income is within the starting rate or basic rate tax bands will be subject to income tax on dividends at the rate of 10 per cent. The tax credit will discharge the income tax liability in respect of the dividend income of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. Higher rate taxpayers will be liable to tax on such dividends at the rate of 32.5 per cent., so that an individual shareholder who is a higher rate taxpayer will have further tax to pay, after taking account of the tax credit, equal to 25 per cent. of the net cash dividend.

11.1.4 Generally, Shareholders who are not liable to United Kingdom income tax on dividend income (or any part of it) are no longer entitled to reclaim payment of the tax credit (or part of it) attaching to dividends paid by the Company.

11.1.5 A United Kingdom resident corporate Shareholder not carrying on a trade of dealing in shares will not normally be liable to corporation tax in respect of any dividend received.

11.1.6 Whether Shareholders who are resident for tax purposes in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom.

11.1.7 Individual Shareholders who are resident in countries other than the United Kingdom but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within section 278 of the Income and Corporation Taxes Act 1988 are entitled to the entire tax credit which they may set off against their total United Kingdom income tax liability, if any. Non-United Kingdom resident shareholders should consult their own tax advisers on the possible application of such provisions and the procedure for claiming any relief or credit in respect of such tax credit in their own jurisdictions. However, in general, no cash payment will be recoverable from the Inland Revenue in respect of the tax credit.

11.2 Capital Gains

11.2.1 A disposal of Ordinary Shares by a Shareholder who is either resident or, in the case of an individual, ordinarily resident for tax purposes in the United Kingdom, may, depending on the Shareholder's circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the United Kingdom for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable on his return to United Kingdom taxation of chargeable gains (subject to any available exemptions or reliefs).

11.2.2 For United Kingdom resident individual Shareholders, taper relief may be available to reduce the amount of the gain chargeable to tax. The availability and rate of taper relief will depend upon the period of ownership of the Ordinary Shares and on whether the Ordinary Shares qualify as business assets or not for the individual in question.

11.2.3 For Shareholders within the charge to United Kingdom corporation tax in respect of gains on the disposal of the Ordinary Shares, taper relief is not available but an indexation allowance should be available to reduce the amount of the chargeable gain realised on a disposal of the Ordinary Shares. Alternatively, depending on their circumstances, such shareholders may be entitled to substantial shareholdings relief which would enable them to dispose of their Ordinary Shares without giving rise to a liability to United Kingdom corporation tax in respect of any gain.

11.2.4 Section 574 of the Income and Corporation Taxes Act 1988 ("Taxes Act") permits a loss on subscription in ordinary shares in a qualifying trading company to be relieved against an investor's taxable income as an alternative to setting the loss against capital gains. Upon making the appropriate claim, relief is given against income in the tax year in which the loss arises, or the preceding year.

11.3 Stamp Duty and Stamp Duty Reserve Tax

Stamp duty and stamp duty reserve tax ("SDRT") treatment under the Placing and the Open Offer and in respect of the subsequent transfer of Ordinary Shares will be as follows:

In relation to Ordinary Shares issued by the Company pursuant to the Placing and the Open Offer, no liability to stamp duty or SDRT will arise on issue or on the issue of definitive share certificates by the Company.

11.3.1 The transfer or sale of Ordinary Shares will generally be liable to ad valorem stamp duty at the rate of £5 per £1000 of the amount or value of the consideration given rounded up (if necessary) to the nearest £5. An agreement to transfer Ordinary Shares will generally be subject to SDRT at 0.5 per cent. of the agreed consideration. However, if within the period of six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

11.3.2 No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out in 11.3.2 above.

11.3.3 A transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration.

Special rules apply to certain categories of person including intermediaries and persons connected with depository arrangements and clearance services.

11.4 Enterprise Investment Scheme ("EIS")

Based on outline information regarding the likely structure of the New Group following the Transaction it is unlikely that the Company will comply with the EIS legislation (Chapter III of Part VII of the Taxes Act and Sections 150 A-D, Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992). Consequently, UK taxpayers are unlikely to qualify for EIS relief on their share subscriptions in the Company. Similarly, UK taxpayers who have already claimed EIS relief on their Existing Ordinary Shares should be aware that following the Acquisition they are unlikely to continue to qualify for EIS relief.

11.4.1 If the Company ceases to comply with the EIS legislation there is a risk that income tax relief and capital gains tax deferral relief claimed by existing investors may be withdrawn. The exemption from capital gains tax that applies on the disposal of EIS shares may also be lost.

11.4.2 EIS income tax relief may be wholly withdrawn if the Company fails to satisfy the conditions of the scheme. Furthermore, any capital gain deferred on subscription of qualifying EIS shares with crystallise.

The withdrawal of relief will apply as follows:

i. To shareholders who subscribed for their shares after 5 April 2000 and who have held them for less than three years (e.g. to those shareholders who subscribed for shares on 9 January 2003),

ii. To shareholders who subscribed for their shares before 5 April 2000 and who have held them for less than five years.

11.4.3 The exemption from capital gains tax that applies to shares qualifying for EIS relief will not apply to shares sold within the three or five year period as set out in 11.4.2 (i) and (ii) above.

11.4.4 The company is required to notify the Inland Revenue that an event has occurred that gives rise to a withdrawal of EIS relief. Notification must be made within 60 days of the event occurring.

The Company recommends that existing shareholders obtain professional advice in respect of the potential loss of income tax relief, capital gains deferral relief and capital gains tax exemptions.

11.5 Venture capital trust ("VCT")

Based on outline information regarding the likely structure of the New Group following the Transaction it is unlikely that the Company will comply with the VCT legislation (Section 842AA and Schedule 28B of the Taxes Act). Consequently, UK taxpayers are unlikely to qualify for VCT reliefs on their share subscriptions in the Company.

12 Market Quotations

The following table lists the closing middle market quotation for an Ordinary Share as derived from the AIM Appendix to the Daily Official List, on the first dealing day in each of the six months immediately prior to 26 March 2004, the date on which the Ordinary Shares were suspended from trading on AIM:

Date	*Price (Pence)*
Wednesday 1 October 2003	12.75
Monday 3 November 2003	14.75
Monday 1 December 2003	12.25
Friday 2 January 2004	11.5
Monday 2 February 2004	12.5
Monday 1 March 2004	12.5
Friday 26 March 2004 (date suspended from trading on AIM)	12.75

The SCOTTY Shares have never been publicly traded.

13 General

13.1 Save as disclosed in this document no person (other than professional advisers named in this document and trade suppliers) has:

(a) received, directly or indirectly, from the Company within the 12 months preceding the application for Admission; or

(b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

(i) fees totalling £10,000 or more;

(ii) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or

(iii) any other benefit with the value of £10,000 or more at the date of Admission.

13.2 No agreement, arrangement or understanding exists between any member of the Concert Party and any Director or Proposed Director, shareholder or recent shareholder of the Company having any connection with or dependence upon the Proposals.

13.3 The estimated amount of the Company's expenses in relation to the Proposals (all of which are payable by the Company), assuming the Open Offer is fully subscribed, is £900,000 (excluding VAT). This amount includes an estimated commission of £183,000 payable by the Company to Charles Stanley. The estimated net cash proceeds of the Placing and Open Offer (assuming full subscription) for the Company are £4,100,000. ARM and Ocean Consulting GmbH have agreed, in the event that applications from Qualifying Shareholders are received for less than 10,525,000 Open Offer Shares, that they will subscribe in cash at the Placing Price in aggregate in agreed proportions for any shortfall up to 10,525,000 Open Offer Shares in lieu of a like amount of their respective expenses.

13.4 There are no fixed dates on which entitlements to dividends or interest thereon arise.

13.5 For the purposes of the POS Regulations the minimum amount which in the opinion of the Directors must be raised by the Company by the Placing and Open Offer is £5 million before expenses.

13.6 Financial information contained in this document does not constitute statutory accounts within the meaning of Section 240(5) of the Act. This financial information has been prepared in accordance with the law and the Directors and Proposed Directors accept responsibility for it.

13.7 The Company's registrars are Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

13.8 ARM, of 12 Pepper Street, London, E14 9RP is regulated by the Financial Services Authority. ARM has given and not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

13.9 Deloitte & Touche GmbH Wirtschaftsprüfungs –und Steuerberatungsgesellschaft, of Akademiehof, Friedrichstraße 10, Po Box 250, A-1015 Vienna, accept responsibility for and have given and have not withdrawn their written consent to the inclusion of their report in respect of the statutory accounts of SCOTTY for the year ended 31 December 2003 in this document and the references thereto in the form and context in which they are included.

13.10 Deloitte & Touche LLP of Queen Anne House, 69–71 Queen Square, Bristol, BS1 4JP, the auditors of the Company accept responsibility for and, have given and have not withdrawn their written consent to the inclusion of their reports in respect of the accounts of the Company for the three years ended 31 December 2003 in this document have confirmed that they have not become aware since the date of their reports of any matter affecting the validity of such reports as at their dates.

13.11 Charles Stanley of 25 Luke Street, London EC2A 4AR, has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and letter in the form and context in which they appear and accepts responsibility for this document.

13.12 Bertl•Fattinger & Partner Wirtschaftsprüfungs- und Steuerberatungs GmbH of 8010 Graz, Schubertstraßer 62, Austria accept responsibility for and, have given and have not withdrawn their written consent to the inclusion of their reports in respect of the statutory accounts of SCOTTY for the two years ended 31 December 2002 in this document and have confirmed that they have not become aware since the date of any matter affecting the validity of such reports as at their dates.

13.13 E.P de Guzman & Co. of 2nd Floor PM Building, 134 Timog Avenue, Diliman, Quezon City, Philippines, have given and have not withdrawn their written consent to the inclusion of their report in respect of the statutory accounts of SCOTTY Tele-Transport of Asia, Inc. for the two years ended 31 December 2003 in this document and have confirmed that they have not become aware since the date of any matter affecting the validity of such reports as at their dates.

13.14 Save as disclosed in paragraph 11 of Part I of this document there has been no significant change in the financial or trading position of the Existing Group since 31 December 2003, the date to which the latest audited financial statements were made up.

13.15 Save as disclosed in paragraph 11 of Part I of this document there has been no significant change in the financial or trading position of SCOTTY, or any of its subsidiaries, since 31 December 2003, the date to which the latest audited financial statements were made up.

13.16 The accounting reference date of the Company is 31 December in each year.

13.17 Except as stated in this document, there are no patents or other intellectual property rights, licences or particular contracts that are of fundamental importance to the New Group's business.

13.18 Except as stated in this document, no exceptional factors have influenced the New Group's activities.

13.19 Except as stated in this document, there are no investments in progress which are significant to the New Group.

13.20 Under the terms of the Vendor Consideration Shares Agreement dated 6 July 2004, the Vendors whose names are shown below have agreed with the Company to make available in agreed proportions up to 25,000,000 Initial Consideration Shares at the Placing Price to meet applications from Qualifying Shareholders under the Open Offer. Under this agreement the Vendors will be responsible for the payment, *pro rata* to the number of Initial Consideration Shares applied for, of any applicable UK Stamp Duty arising on the sale of their shares under the Open Offer.

Name of Vendor	*Maximum number of Initial Consideration Shares to be made available under the Open Offer*
Georg Weber	3,750,000
Kurt Kerschat	7,083,350
Andreas Bödenauer	7,083,325
Walter Müller	7,083,325

14 Publication

Copies of this document will be available free of charge to the public at the offices of Burges Salmon at Holbrook House, 10th Floor, 14 Great Queen Street, London, WC2B 5DG during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document until Admission.

15 Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Burges Salmon at Holbrook House, 10th Floor, 14 Great Queen Street, London, WC2B 5DG during normal business hours, until the close of business one month from Admission:

(i) the Memorandum and Articles of Association of the Company and the Articles and Constitution of SCOTTY;

(ii) the published audited consolidated accounts of the Company for the financial years ending 31 December 2002 and 31 December 2003;

(iii) the published audited consolidated accounts of SCOTTY for the financial years ending 31 December 2002 and 31 December 2003;

(iv) the material contracts referred to in paragraph 8 of this Part VIII;

(v) the Vendor Consideration Shares Agreement referred to in paragraph 13.20 of this Part VIII;

(vi) the service agreements of the Directors and Proposed Directors referred to in paragraph 7 of this Part VIII;

(vii) the written consents referred to in paragraph 13 of this Part VIII;

(viii) the irrevocable undertakings to vote in favour of the EGM Resolutions and the resolutions to be proposed at the AGM given by the Directors and referred to in paragraph 6.1(c) of Part VIII of this document;

(ix) the rules of the Share Option Schemes referred to in paragraph 2 of this Part VIII.

Date: 6 July 2004

APPENDIX

FURTHER FINANCIAL INFORMATION ON SCOTTY GROUP

(This Appendix forms part of the Prospectus)

Contents

Accounts for the SCOTTY Group covering the three years to 31 December 2003

2003

SCOTTY Tele-Transport Radio- und Videoelektronik AG
SCOTTY Tele-Transport Corporation of the Americas, Inc. (includes accounts for 2002)
Zydacron, Inc.
SCOTTY Tele-Transport of Asia, Inc. (includes accounts for 2002)

2002

SCOTTY Tele-Transport Radio- und Videoelektronik AG
Zydacron, Inc.

2001

SCOTTY Tele-Transport Radio- und Videoelektronik AG
SCOTTY Tele-Transport Corporation of the Americas, Inc.

The audited accounts of SCOTTY's US subsidiaries, SCOTTY Tele-Transport of the Americas, Inc. (for the years ended 31 December 2002 and 2003) and Zydacron, Inc., (for the two months ended 31 December 2002 and the year ended 31 December 2003) are included in this Appendix. However, Part VIII of this document does not include a statement by the auditors that they consent to the inclusion of their reports as required under paragraph 45(2)(a)(iv) of Schedule One of the POS Regulations because the auditor of those companies was unable to give its consent to such inclusion within the requisite timescale. The accounts for SCOTTY Tele-Transport of the Americas, Inc for the year ended 31 December 2001 are included but were not required to be audited. A reconciliation between the unaudited balance sheet at 31 December 2001 and the opening balance sheet at 1 January 2002 as per the audited accounts for the year ended 31 December 2002 is also included.

The audited accounts for Zydacron Europe Limited for the years ended 31 December 2002 and 2001 are not included as Zydacron Europe Limited was a subsidiary of Zydacron Inc at the time and its results were included in the audited accounts of Zydacron Inc. The audited accounts for Zydacron Europe Limited for the year ended 31 December 2003 and the audited accounts for Zydacron Inc. prior to 31 October 2002 have not been included as, in accordance with paragraph 45(9A) of Schedule One of the POS Regulations, the Directors and the Proposed Directors are of the opinion that this information is not reasonably necessary for the purpose of making an informed assessment of the SCOTTY Group's assets and liabilities, financial position, profits and losses and prospects.

SCOTTY Tele- Transport Corporation
Radio- und Videoelektronik Aktiengesellschaft
17435 Ka

Balance sheet
as of December 31, 2003

Assets

	December 31, 2003 EUR	Dec. 31, 02 EUR
A. Fixed assets		
I. Intangible assets	184.342,09	190.210,95
II. Tangible assets	189.526,21	90.962,83
III. Investments	1.486.069,27	2.270.021,82
	1.859.937,57	**2.551.195,60**
B. Current assets		
I. Stocks		
1. Raw material and supplies	501.370,90	756.343,91
2. Work in progress	7.916,00	36.010,00
3. Finished goods and commodities	143.954,00	52.344,53
4. Down payment made	8.511,90	8.617,29
	661.752,80	853.315,73
II. Debtors and assets		
1. Accounts receivables	355.261,97	2.144.379,13
2. Accounts receivable group	1.271.776,19	1.177.772,67
3. Other receivables and assets	217.760,57	419.621,83
	1.844.798,73	3.741.773,63
III. Cash on hand, checks, bank balances		
1. Cash on hand	38,14	1.118,35
2. Bank balances	8.645,26	33.955,62
	8.683,40	35.073,97
	2.515.234,93	**4.630.163,33**
C. Deferred Expenses	**4.447,62**	**35.660,92**
	4.379.620,12	**7.217.019,85**

Liabilities and Shareholder's Equity

	December 31, 2003 EUR	Dec. 31, 02 EUR
A. Shareholder's equity		
I. Share capital	175.000,00	175.000,00
II. Additional paid-in capital		
1. Appropriate	2.451.025,13	2.451.025,13
2. Unappropriate	218,02	218,02
III. Retained earnings	- 543.205,18	1.245.632,57
(hereof profit carry forward EUR 1.245.632,57))		
	2.083.037,97	**3.871.875,72**
B. Untaxed reserves		
1. Valuation reserve for special depreciation	19.079,56	6.839,97
2. Other untaxed reservs		
a) investment tax credit persuant to § 10 EStG	2.204,60	10.343,59
	21.284,16	**17.183,56**
C. Accruals		
1. Accruals severance payment	42.700,81	85.103,36
2. Accruals for income taxes	67.064,00	169.691,00
3. Other accruals	241.619,86	387.044,08
	351.384,67	**641.838,44**
D. Liabilities		
1. Bank loans and overdrafts	173.328,77	101.397,54
2. Advance payments received for orders placed	0,00	76.501,72
3. Accounts payable	339.887,70	1.258.211,40
4. Accounts payable-group	84.896,48	144.757,30
5. Other liabilities	1.325.800,37	1.105.254,17
(hereof taxes EUR 56.312,52; 2002 TEUR 128)		
(hereof social security payables EUR 23.539,28; 2002 TEUR 25)	**1.923.913,32**	**2.686.122,13**
	4.379.620,12	**7.217.019,85**

SCOTTY Tele- Transport Corporation
Radio- und Videoelektronik Aktiengesellschaft
17435 Ka

Profit and loss account
for the business year
January 1, 2003 to December 31, 2003

	2003 EUR	2002 EUR
1. Sales revenue		
a) Sales revenue of trade goods 20%	14.513,37	9.742,38
b) Sales revenue (intra-Community supply of goods)	4.703.279,48	6.887.152,22
c) Sales revenue (third country)	3.018.705,08	2.463.485,22
d) Other sales revenue	0,00	34.679,59
	7.736.497,93	9.395.059,41
2. Increase or decrease in finished and unfinished goods	144.253,47	- 280.757,92
3. Other operating income		
a) Income from retirement of fixed assets	0,00	2.400,85
b) Income from the reversal of accruals	7.543,57	0,00
c) Other	17.390,73	988,44
	24.934,30	3.389,29
4. Cost of materials and services		
a) Cost of materials	- 3.788.069,40	- 4.566.570,63
b) Cost of purchased services	0,00	- 1.155,58
	- 3.788.069,40	- 4.567.726,21
5. Personnel expenses		
a) Wages	- 624,75	- 6.140,82
b) Salaries	- 1.222.231,09	- 1.221.483,92
c) For severance expenses	- 185.847,78	- 87.409,11
d) Expenses for statutory social security, payroll-related taxes and mandatory contributions	- 300.062,26	- 218.953,82
e) Other social benefits	- 23.751,96	- 22.600,45
	- 1.732.517,84	- 1.556.588,12
6. Depreciation and amortization of fixed intangible and tangible assets	- 126.365,50	- 92.363,51
7. Other operating expenses		
a) Taxes (other than income)	- 3.971,90	- 3.017,57
b) Further operating expenses	- 1.288.292,11	- 716.656,26
	- 1.292.264,01	- 719.673,83
8. Subtotal of lines 1-8 (operating profit)	**966.468,95**	**2.181.339,11**

9. Other interest and similar income	25.424,03	52.061,82
(thereof from affiliated companies: € 20.189,07, 2002: € 47.763,82)		
10. Expenses for financial assets		
a) Depreciation	- 806.060,11	0,00
b) Affiliated companies	- 1.704.008,69	0,00
	- 2.510.068,80	0,00
11. Interest and similar expenses	- 57.199,04	- 7.196,96
(therof from affiliated companies: € 0,00, 2002: €0,00)		
12. Subtotal of lines 9-11 (financial result)	**- 2.541.843,81**	**44.864,86**
13. Ordinary business result	**- 1.575.374,86**	**2.226.203,97**
14. Extraordinary expenses	- 124.536,29	- 69.051,83
15. Extraordinary result	**- 124.536,29**	**- 69.051,83**
16. Income taxes	- 84.826,00	- 173.191,00
17. Result of the year	**- 1.784.737,15**	**1.983.961,14**
18. Release of untaxed reserves	20.726,58	7.114,67
19. Appropriation to untaxed reserves	- 24.827,18	0,00
20. Profit/Loss carry forward	1.245.632,57	- 745.443,24
21. Cumulative losses/profit	- 543.205,18	1.245.632,57

NOTES

The Financial Statements for 2003 were drawn up according to the currently valid version of the regulations of the Austrian Comercial Code (HGB). In particular, the principles of accounting practice and the general standard set forth of the Austrian Commercial Code, according to which a true and fair view of the company's assets, earnings and financial position must be given, have been observed.

The accounting, the valuation and the information shown of the positions of the financial statement are carried out according to the general regulations pursuant to §§ 196 and 211 HGB with consideration of the special regulation for limited liability corporations pursuant to §§ 222 until 235 HGB.

1. Accounting and valuation principles

A. Fixed assets

Acquired intangible assets are recognized at cost depreciated according to plan.

The Goodwill that was established on occasion of the contribution of the partnership shares held in SCOTTY Tele-Transport Corporation Müller und Partner OEG (general partnership for professionals and other individuals not eligible for partnerships regulated by the Austrian Commercial Code) into SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft is shown as goodwill pursuant to § 202 (2) HGB. The actual value of the joint venturer share can be trace back to the existing goodwill. This is obvious from the paid in capital surplus, because of the capital increase, which was decided on December 4th 1998.

The goodwill is depreciated over a useful life of 15 years. This period complies with the expected useful life.

Tangible assets are valued at acquisition/manufacturing cost minus regular straight-line depreciation.
The depreciation is based on the regular straight-line depreciation. The depreciation rates for the tangible assets range between 33,33 % and 10 %.

Low valued assets are fully depreciated in the year of acquisition and are subjected to a value reserve, which is based on a useful life of 3 years.

The value reserves due to low valued assets kept until the year 2000 are dissolved over the remaining useful life of assets. In the years 2001 and 2002 the low valued assets are not subjected to a value reserve. In the year 2003 the low valued assets are again subjected to a value reserve.

Financial assets are stated at cost. If the expected impairment in value is permanent or if the value to be attributed on the balance sheet date is lower than the carrying amount, unscheduled depreciation is taken.

B. Current assets

Raw materials and supplies are valued at stock book taken on the record date allowing for the principle of lower of cost or market.

Particular information for simplification of assessments
For advertising materials a standard value is shown pursuant to § 209 Abs. 1 HGB. Material quantitative variation of actual stock was not detected.

Finished goods and work in progress are capitalized at manufacturing or acquisition cost.

Accounts receivable are valued at cost. Recognizable risks are considered by showing the lower fair value according to the imparity realization principle.

Foreign currency receivables are converted using the exchange rate at the date of initial recognition or the lower exchange rate at balance sheet date.

C. Accruals

Accrued severance payment for the members of the board is constituted according to the employment contract. They are calculated financial and apply an interest rate of 6 % and a pension age of 56,5 years for women and 61,5 years for men.

Other accruals cover all foreseeable risks and contingencies as of the balance-sheet cutoff. These are assessed using generally accepted accounting standards.

D. Liabilities

Liabilities are stated at repayment amounts following the concept of prudence.

Foreign currency liabilities are valued either at the exchange rate valid on the day of accrual, or at the higher foreign-exchange rate valid as per balance-sheet cutoff.

E. Changes in accounting and valuation principles

Low valued intangible and tangible assets are subjected to a value reserve, as the complete write-off has an essential scale.

The rate of depreciation of software and electronic equipment constitute 33,33 % because of the low physical life.

II. Notes to the Balance Sheet

Assets

A. Fixed assets

The detailed development of fixed assets is shown in the Analysis of Fixed Assets.

Investments, thereof group

Companies	Proportion of Equity capital in %	Equity capital	Result of the last fiscal year	Facts from the financial statement of the year
		€	€	
Scotty Tele-Transport Corp. America	100,00%	341.558,63	126.798,26	31.12.2003
Scotty Tele-Transport Corp. of ASIA	100,00%	-27.383,49	-55.390,28	31.12.2003
Zydacron Inc. USA	100,00%	-1.794.501,38	-641.973,15	31.12.2003
Zydacron Inc. UK	100,00%	-493.233,73	37.757,97	31.12.2003
Total:		-1.973.559,97	-532.807,20	

Scotty Tele-Transport Corporation of the Americas, Inc. based in Atlanta, USA

Scotty Tele-Transport Corporation of Asia based in Manila, Philippines

Zydacron, Inc. based in Manchester, USA

Zadacron, Inc. based in Wokingham, United Kingdom

B. Current assets

The remaining duration of accounts receivable posted in the balance sheet break down as follows.

Accounts receivable analysis			According to Balance sheet	Remaining duration until 1 year	Therof with a remaining duration of more than 1 year
1.	Accounts receivables	2003	355.261,97	355.261,97	
		2002	2.144.379,13	2.144.379,13	
2.	Accounts receivable group	2003	1.271.776,19	1.205.070,95	66.705,24
		2002	1.177.772,67	666.477,14	511.295,53
	thereof from goods and services	2003	877.462,75	877.462,75	
		2002	666.477,14	666.477,14	
3.	Other receivables and assets	2003	217.760,57	209.446,55	8.314,02
		2002	419.621,83	405.988,56	13.633,27
	Total	2003	1.844.798,73	1.769.779,47	75.019,26
		2002	3.741.773,63	3.216.844,83	524.928,80

Liabilities

A. Equity capital

The **share capital** is vested in 175.000 bearer shares – zero par value shares – in the value of EUR 1,00 each.

The appropriated reserves result from the capital surplus in connection with the capital increase. The minimum amount of the appropriated reserves according to § 130 Abs 3 AktG (10 % of share capital) is fulfilled.

B. Untaxed reserves

Development of value reserve:

Value reserve du to § 13 EStG	As at 1.1. €	Use €	Allocation €	As at 31.12. €
Intangible assets	0,00	472,98	1.418,94	945,96
Machines	0,00	3.884,30	11.652,92	7.768,62
Office equipment	6.839,97	8.230,31	11.755,32	10.364,98
	6.839,97	**12.587,59**	**24.827,18**	**19.079,56**

Development of other untaxed reserves:

Investment allowances due to § 10 EStG	As at 1.1. €	Release €	Allocation €	As at 31.12. €
1999	8.138,99	8.138,99	0,00	0,00
2000	2.204,60	0,00	0,00	2.204,60
	10.343,59	**8.138,99**	**0,00**	**2.204,60**

C. Accruals

The stock on the balance sheet date in comparison to the previous year is as follows:

Other accruals	2003 €	2002 €
Annual audit	21.350,00	20.000,00
Bonus	0,00	35.806,00
Management Bonus	77.000,00	191.000,00
Unconsumed vacation	64.822,29	88.690,25
Tax advice	20.000,00	5.000,00
Supervisory board payments	49.000,00	33.000,00
Others	3.500,00	0,00
Overtime	5.947,57	13.547,83
	241.619,86	**387.044,08**

D. Accounts payable

The accounts payable posted in the balance sheet need the following explanations.

Payables/receivables ageing report		Total	Remaining duration until 1 year	Remaining duration until 5 years	in rem amount	collateralized method
1. Bank loans and overdrafts	2003	173.328,77	173.328,77			
	2002	101.397,54	101.397,54			
2. Advance payments received for orders placed	2003	0,00	0,00			
	2002	76.501,72	76.501,72			
3. Accounts payable	2003	339.887,70	339.887,70			
	2002	1.258.211,40	1.258.211,40			
4. Accounts payable-group	2003	84.896,48	84.896,48			
	2002	144.757,30	144.757,30			
5. Other liabilities	2003	1.325.800,37	1.325.800,37			
	2002	1.105.254,17	1.105.254,17			
Total	**2003**	**1.923.913,32**	**1.923.913,32**			
	2002	2.686.122,13	2.686.122,13			

Affecting payment expenses amounting to € 280.194,72 are contained in the other accounts payable.

Other financial commitments

The amount of other financial commitments not shown in the balance sheet comes to:

for the following fiscal year:	round about EUR	97.000,00
and for the following five fiscal years:	round about EUR	369.500,00

Contingent liabilities

Contingent liabilities for affiliated companies that are not shown in the balance sheet exist on the one hand because of the employment contract between Scotty TeleTransport Corporation of the Americas, Inc. and the board of management of this company, through the takeover of all financial responsibilities and benefits as codebtor from this contract and on the other hand because of a lease contract, that is concluded by Scotty Americas, Inc.

III. Notes to the Income statement

The income statement is set up by the expenditure total cost format (§ 231 Abs. 2 HGB).

In the range of financial assets the investments thereof group "Zydacron Inc." was amortized about € 806.060,11 because of the negative results in the years 2002 and 2003.

Also the borrowing to "Zydacron Inc." was depreciated about € 1.704.008,69 because of no permanent recoverability.

Taxes on income

The company did not make use of the right to recognize deferred tax assets due to § 198 Abs 10 HGB. A sum of € 1.924,25 could be treat as an accrued item.

Tax burden after	
Ordinary result:	EUR 123.168,27
Extraordinary result:	EUR -42.342,27

The amortization of the investment tax credit 1999 was made effectless for taxes.

The extraordinary expenses result from initial privat offering (IPO) cost.

IV. Other information

SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft has been initially registered in the company register at the State Court (in the function as Commercial Court) in Eisenstadt on November 13, 1998 (no FN 176545 a).

Executive Bodies

Last year the Board of Management consist of the shareholders DI Kurt Kerschat, DI Walter Müller and Mag. Georg Weber.

The members of the Board of Management represent the company corporately with the other members of the Board of Management or with an authorized representative.

In the year 2003 the Supervisory Board consist of:

Herr Dr. Hans Peter Sauerzopf, chairman
Herr Dr. Ernst Wustinger, deputy chairman
Herr Dr. Norbert Frömmer, member

In the year under review, the emoluments paid to the members of the Supervisory Board totaled EUR 28.500,00.

EUR 610.250,57 were spent on the Board of Management emoluments (2002: EUR 628.398,00).

The expenses for severance payments and pension account € 177.982,56 for the members of the Board of management and € 7.865,22 for the remaining employees.

The members of the Board of management achieved advance money amounting to EUR 31.373,72. The interest calculation based on 4,5%. The allocation with the regular payments is stipulated.

In the year under review, SCOTTY employed an average of:

1 labour (in 2002: 3)

24 employee (in 2002: 21)

Graz, March 24, 2004

DI Kurt Kerschat e.h.

DI Walter Müller e.h.

Mag. Georg Weber e.h.

Analysis of fixed assets 2003

		Acquisition or Production Costs								
		as per Jan. 1, 2003 €	Additions €	Disposals €	Transfers €	as per Dec. 31, 2003	Accumulated depreciation €	Net book value as per Dec. 31, 2003 €	Net book value as per Jan. 31, 2002 €	Depreciation 2003 €
I.	**Intangible assets**									
	1. Concessions, patents, licences, trade marks and similar rights and assets	73.725,24	30.284,94	0,00	0,00	104.010,18	56.180,75	47.829,43	39.328,55	21.784,06
	2. Goodwill	215.546,25	0,00	0,00	0,00	215.546,25	79.033,59	136.512,66	150.882,40	14.369,74
	Subtotal	**289.271,49**	**30.284,94**	**0,00**	**0,00**	**319.556,43**	**135.214,34**	**184.342,09**	**190.210,95**	**36.153,80**
II.	**Tangible assets**									
	1. Machinery and equipment	12.968,14	11.652,91	0,00	0,00	24.621,05	16.851,95	7.769,10	0,49	3.884,30
	2. Fixtures, fittings and tools	210.167,32	177.122,17	24.592,13	0,00	362.697,36	180.940,25	181.757,11	90.962,34	86.327,40
	Subtotal	**223.135,46**	**188.775,08**	**24.592,13**	**0,00**	**387.318,41**	**197.792,20**	**189.526,21**	**90.962,83**	**90.211,70**
III.	**Financial assets**									
	1. Investments, thereof group	2.267.956,60	22.325,58	0,00	0,00	2.290.282,18	806.060,11	1.484.222,07	2.267.956,60	806.060,11
	2. Securities	2.065,22	0,00	218,02	0,00	1.847,20	0,00	1.847,20	2.065,22	0,00
	Subtotal	**2.270.021,82**	**22.325,58**	**218,02**	**0,00**	**2.292.129,38**	**806.060,11**	**1.486.069,27**	**2.270.021,82**	**806.060,11**
	Total	**2.782.428,77**	**241.385,60**	**24.810,15**	**0,00**	**2.999.004,22**	**1.139.066,65**	**1.859.937,57**	**2.551.195,60**	**932.425,61**

SCOTTY Tele-Transport Corporation
Radio- und Videoelektronik AG
Fn 176545a

MANAGEMENT REPORT 2003

The high tech products of SCOTTY prove themselves world-wide in innumerable missions, at most diverse customers. The areas of application have enhanced themselves from the core market military and broadcast to the domains desktop application and tele-learning.

Communication, satellite-based and including video conference, as an important component of the organisation of military as well as governmental institutions becomes generally accepted world-wide.

SCOTTY achieved in the last years a reputation as a supplier of robust, customer-oriented communication solutions. The demand for solutions, such as offered by SCOTTY, rises continuously. Starting in the year 2002 with the principal market Germany a showcase of communication solutions was developed which can be marketed world-wide.

The further target markets USA and in a row Asia advanced already in the year 2003.

In consequence of the acquisition of Zydacron the market of the conventional VC applications will be more important for the next years and accordingly this market tendency will have a relevant influence on new product groups, especially the new Codec. This product represents the basis for all SCOTTY video-based solutions and meets the state of art technology, required by the market leaders in this domain.

General Situation

Like in the year 2002 the sales cycle in new markets proceeded with a very slow but continuous business development.

Based on the broad clientele and the partially good progressed sales cycle also in 2003 a positive net operating profit could be realized in the regular markets. Research and development costs for the Zydacron Codec could be covered from the cash flow of the core business although the sales for this domain were far below budget.

The development of the new codec could be completed to 90% in 2003 and the official launch is intended in the coming weeks.

SCOTTY AG implemented internally a QM system and the entire process was documented. An audit can be performed in best time if necessary.

As consequence of the grate efforts made a lot of progresses in the field of human resources and organisational structure were achieved and were approved by the acceptance of the company's personnel.

As due to budget constraints customers deferred sales from the year 2003 into the year 2004 the intention to increase sales significantly could not be realized. However again a clearly positive income from operations was achieved and as a result of the delay of important projects from the year 2003 into the year 2004 the sales will increase significantly in 2004.

The launch of the new codec will result in additional sales and rising income for the group.

The strengthening of the sales and marketing area continuos and the course for an appropriate positioning also within the range of non-military customers was set.

Financial ratios of importance for 2003

In detail the following developments took place in relation to the year 2002:

- Sales adjusted by foreign currency effects – approx 40% of the sales are achieved in USD by the sales subsidiary SCOTTY US - could be held on a constant level
- Cost of materials could be kept constantly low at 48%. The negative effects of the USD development on the sales could be compensated by improved purchasing conditions.
- Productivity per worker is up to euro 299,000.
- Cash position of the company is stable and the entire development activity for the codec could be financed by the operating cash flow.
- In 2004 an atypical silent partnership was established with ÖVAG and additional capital of euro 2 million was raised.

Sales und Marketing

Marketing efforts were intensified in Asia; the new established subsidiary started with reassessing the business environment and established links to new distributors with a higher potential. Altogether the environment could be classified as positive but difficult, whereby the main issue lays within the dependency on the budget releases of the respective ministries since this causes continuously unexpected delays although the tenders were already won. This especially happened in the 4th quarter 2004 in the Turkish, Malaysian, Austrian and Belgian market.

Generally the basis of the single customers nearly redoubled in relation to 2002 and Scotty is already represented at least with a demo unit at nearly all strategically important customers.

Staff

The average number of employees in the year 2003 amounted to 26 persons with following distribution:

8 research and development
10 production
3 selling
1 part-time, cleaning
4 management, administration, secretariat, bookkeeping

Research & Development

SCOTTY AG additionally controlled the codec development.

Furthermore following products or parts of products and improvements were developed in the year 2003:

- SCOTTY Classmate
- APLB US
- MTK-2B
- S-Box
- Warp 2
- Digital Display Mobile System
- Update Teleporter
- Network adoptions

Invesments

In the reporting period 2003 Scotty AG invested about euro 100,000, basically an exhibition stand, data processing programs, hardware and low-value items for production.
Invested money was blow budget. In relation to the total sales of 7,779 million euro, this means a portion of 1,3 %.

Outlook for the year 2003

The first quarter 2004 developed better than expected within the US market, large orders shifted from the year 2003 to 2004 are still under examination at the procurement offices and are expected take place in the next weeks or months.
The cooperation with the leading offerer of satellite infrastructure for aviation added up in a new business segment video-conference in airplanes.
First demos of the operability at customers already took place with success. Diverse – paid – test installations are expected to take place in the first half-year 2004.
The new SCOTTY Classmate products are actually tested in the UK and if the test result will be positive a large order can be realized – sales of around 3 million euro are expected.

Until March 2004 no developments occurred, that would cause a negative effect on the financial year 2003.

Eisenstadt, February 2004

DI Kurt Kerschat, chairman of the management board, e.h.

Mag. Georg Weber e.h.

DI Walter Müller e.h.

Audit Opinion

on the Financial Statements as at December 31, 2003

of

SCOTTY Tele-Transport Corporation
Radio- und Videoelektronik Aktiengesellschaft,
Eisenstadt

The financial statements were prepared by the managing board of the audited company according to the Generally Accepted Accounting Principles as practiced in Austria. We have carried out our audit in accordance with Austrian professional audit standards. Based on the results of our audit, we issue, in accordance with § 274 para 1 of the Austrian Commercial Code, following **unqualified audit opinion** on the financial statements as at December 31, 2003 and the "Report of the Managing Board" as follows:

> „Based on our audit the accounting and the financial statements comply with legal regulations. The financial statements present a true and fair view, in all material respects, of the financial position and the results of operations in conformity with Generally Accepted Accounting Principles as practiced in Austria. The "Report of the Managing Board" is consistent with the financial statements.“

Vienna, March 18, 2004

Deloitte & Touche GmbH
Wirtschaftsprüfungs- und Steuerberatungs-
Gesellschaft

Mag. Erich Kandler	Mag. Kurt Schweighart
Certified Public Accountant	Certified Public Accountant

SCOTTY Tele-Transport Corporation of the Americas, Inc.

Financial Statements

Years Ended December 31, 2003 and 2002

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Balance Sheets
December 31, 2003 and 2002

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 516,054	$ 175,976
Accounts receivable, less allowance for doubtful accounts of $0 and $2,200 in 2003 and 2002	686,677	564,028
Accounts receivable - parent company	91,262	26,840
Inventory	341,315	50,526
Prepaid expenses and other current assets	12,779	3,963
Total current assets	1,648,087	821,333
Property and equipment, net	183,863	56,901
	$ 1,831,950	$ 878,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,637	$ 14,174
Accounts payable - parent company	991,485	430,293
Accrued expenses	100,000	44,292
Current portion of long-term debt	28,553	12,900
Current portion of deferred revenue	97,208	14,649
Total current liabilities	1,232,883	516,308
Long-term liabilities:		
Long-term debt, less current portion	34,938	17,539
Deferred revenue	131,545	72,393
Total long term liabilities	166,483	89,932
Stockholders' equity:		
Common stock, $1 par value, 1,000 shares authorized, issued and outstanding	1,000	1,000
Additional paid-in capital	613,771	613,771
Accumulated deficit	(182,187)	(342,777)
Total stockholders' equity	432,584	271,994
	$ 1,831,950	$ 878,234

The accompanying notes are an integral part of these financial statements.

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Statements of Income and Accumulated Deficit
Years Ended December 31, 2003 and 2002

	2003	2002
Revenue	$ 3,562,836	$ 2,628,690
Cost of sales	2,393,973	1,662,054
Gross profit	1,168,863	966,636
Selling, general, and administrative expenses	1,008,212	618,521
Income from operations	160,651	348,115
Other income (expense)		
Interest income	934	418
Interest expense	(995)	(1,204)
	(61)	(786)
Income before provision for income taxes	160,590	347,329
Provision for income taxes	-	-
Net income	160,590	347,329
Accumulated deficit, beginning of year	(342,777)	(690,106)
Accumulated deficit, end of year	$ (182,187)	$ (342,777)

The accompanying notes are an integral part of these financial statements

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net income	$ 160,590	$ 347,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,780	21,121
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(187,071)	(490,695)
Inventories	(290,789)	77,807
Prepaid expenses and other current assets	(8,816)	(2,000)
Increase (decrease) in:		
Deferred revenue	141,711	87,042
Accounts payable	562,655	116,855
Accrued expenses	55,708	31,705
Net cash provided by operating activities	483,768	189,164
Cash flows from investing activities:		
Purchases of property and equipment	(176,742)	(56,539)
Net cash used in investing activities	(176,742)	(56,539)
Cash flows from financing activities:		
Net borrowings of notes payable	33,052	19,301
Net cash provided by financing activities	33,052	19,301
Increase in cash and cash equivalents	340,078	151,926
Cash and cash equivalents, beginning of year	175,976	24,050
Cash and cash equivalents, end of year	$ 516,054	$ 175,976
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 995	$ 1,204
Cash paid for taxes	$ -	$ -

The accompanying notes are an integral part of these financial statements.

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Notes to Financial Statements
Years Ended December 31, 2003 and 2002

1. OPERATIONS AND OWNERSHIP OF THE COMPANY

SCOTTY Tele-Transport Corporation of the Americas, Inc. (the Company) is a wholly owned subsidiary of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG (the Parent Company), an Austrian company. The Company was formed on April 20, 1999 as a Delaware Corporation to import and distribute advanced video and data communication devices manufactured by its parent company. The Company's products are distributed throughout the United States through marketing and sales relationships to an established customer base, for the ultimate use predominantly by the United States military.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers short-term investments with original maturities of 90 days or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified.

Concentration of Credit Risk

The Company grants credit to its customers and consequently, the Company's ability to collect amounts due from its customers is affected by fluctuations in their industry.

The Company maintains its cash in bank deposit accounts, which at times may exceed insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Notes to Financial Statements
Years Ended December 31, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Inventory

Inventory is valued at the lower of cost or market. Cost of inventory is determined by the use of the first-in, first-out method (FIFO). Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the respective assets, generally three to seven years. Disposals of property and equipment are recorded by removing the costs and accumulated depreciation from the accounts and gains and losses on disposals are included in the results of operations.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenue Recognition

The Company recognizes revenue from its product sales in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as updated by SEC Staff Accounting Bulletin No. 104. Under these guidelines revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services rendered, the price is fixed or determinable and payment is reasonably assured. Additionally, the Company recognizes extended service revenue on its hardware products over the life of the service contract, once the manufacturer's one-year warranty period has expired.

Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure about fair value of financial instruments. Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities. The estimated fair value of these financial instruments approximates their carrying value due to their short maturities.

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.
Notes to Financial Statements
Years Ended December 31, 2003 and 2002

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 and 2002 is summarized as follows:

	2003	2002
Motor vehicles	$ 148,865	$ 70,619
Furniture and fixtures	13,191	8,981
Machinery and equipment	88,460	5,066
Computers	36,542	25,650
	287,058	110,316
Less - accumulated depreciation	103,195	53,415
Property and equipment, net	$ 183,863	$ 56,901

Total depreciation expense was $49,780 and $21,121 for the years ended December 31, 2003 and 2002, respectively.

4. LONG-TERM DEBT

The following is a summary of long-term debt at December 31, 2003 and 2002:

	2003	2002
Note payable to a financial institution in monthly installments of $1,523 including interest at 6%, through October 2006, collateralized by related vehicle.	$ 47,464	$ -
Note payable to a financial institution in monthly installments of $825 including interest at 0%, through May 2005, collateralized by related vehicle.	13,197	23,095
Note payable to a financial institution in monthly installments of $417 including interest at 9%, through July 2004, collateralized by related vehicle.	2,830	7,344
	63,491	30,439
Less - current portion	28,553	12,900
Long-term portion	$ 34,938	$ 17,539

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Notes to Financial Statements
Years Ended December 31, 2003 and 2002

4. LONG-TERM DEBT...continued

Aggregate maturities of long-term debt for the years ending December 31 are as follows:

2004	$ 28,553
2005	20,122
2006	14,816
	$ 63,491

5. COMMITMENTS

The Company entered into an operating lease for its principal facility beginning on July 15, 1999 and expiring June 30, 2005. Aggregate future minimum lease payments on this operating lease, for the years ending December 31, are as follows:

2004	$ 35,508
2005	18,102
	$ 53,610

Rent expense charged to operations was $33,316 and $23,904 for the years ended December 31, 2003 and 2002, respectively.

6. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	$ 102,900	$ 122,300
Accrued liabilities	5,700	3,800
Accounts receivable	-	800
Deferred tax liabilities:		
Property and equipment	(58,000)	(15,000)
	50,600	111,900
Valuation allowance for deferred tax assets	(50,600)	(111,900)
Net deferred tax asset	$ -	$ -

SCOTTY TELE-TRANSPORT CORPORATION OF THE AMERICAS, INC.

Notes to Financial Statements
Years Ended December 31, 2003 and 2002

6. INCOME TAXES...continued

SFAS No. 109, *Accounting for Income Taxes*, requires a valuation allowance against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Due to the Company's operating history and uncertainty concerning future realization, a full valuation allowance is necessary to offset the net deferred tax assets of $50,600 and $111,900 as of December 31, 2003 and 2002, respectively.

At December 31, 2003, the Company has available approximately $258,000 and $251,000 of federal and state net operating loss carryforwards, respectively, which expire at various dates through 2023. The future utilization of net operating loss carryforwards may be subject to limitation under the change in stock ownership rules of the Internal Revenue Code.

7. DEFINED CONTRIBUTION PLAN

In February 2000, the Company established a 401(k) defined contribution plan. Employees are eligible to enter the plan after the first 1000 hours of service or one year, as defined by the plan, and may invest up to 20% of their gross compensation, subject to certain limitations. The Company, at the discretion of its Board of Directors, may also make contributions to the plan. The Company made no contributions to the plan for the years ended December 31, 2003 and 2002.

8. RELATED PARTY TRANSACTIONS

<u>Sales and Accounts Receivable</u>

The Company had net sales transactions and accounts receivable balances with the Parent Company of $64,422 for the year ended December 31, 2003 and $91,262 as of December 31, 2003, respectively.

The Company had net sales transactions and accounts receivable balances with the Parent Company of $26,840 for the year ended December 31, 2002 and as of December 31, 2002, respectively.

<u>Purchases and Accounts Payable</u>

The Company had net purchase transactions and accounts payable balances with the Parent Company of $2,438,412 for the year ended December 31, 2003 and $991,485 as of December 31, 2003, respectively.

The Company had net purchase transactions and accounts payable balances with the Parent Company of $1,513,413 for the year ended December 31, 2002 and $430,293 as of December 31, 2002, respectively.

SCOTTY TELE-TRANSPORT CORPORATION
OF THE AMERICAS, INC.
Notes to Financial Statements
Years Ended December 31, 2003 and 2002

9. MAJOR CUSTOMERS

Agencies of the United States military represented 85% and 68% of revenue for the years ended December 31, 2003 and 2002, respectively.

10. SUBSEQUENT EVENT

Subsequent to December 31, 2003, the Parent Company entered into negotiations with a potential acquirer of the Parent Company. The effects of the outcome of the potential acquisition on the carrying value of the Company's assets and liabilities, if any, have not been reflected in the accompanying financial statements.

Zydacron, Inc.

Consolidated Financial Statements

Year Ended December 31, 2003

ZYDACRON, INC.

Consolidated Balance Sheet
December 31, 2003

ASSETS		
Current assets:		
Cash and cash equivalents	$	46,403
Accounts receivable - less allowance		
for doubtful accounts of $50,000		158,084
Inventory		409,600
Prepaid expenses and other current assets		34,249
Total current assets		648,336
Property and equipment, net		65,731
Other assets		251,245
	$	965,312
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$	34,548
Accrued expenses		749,420
Amounts payable to affiliate		16,501
Amount payable to parent, net		2,432,018
Deferred revenue		5,561
Total current liabilities		3,238,048
Stockholders' deficit:		
Common stock, no par value, 1,500 shares		
authorized, issued and outstanding		-
Additional paid-in capital		12,159,376
Accumulated deficit		(14,432,112)
Total stockholders' deficit		(2,272,736)
	$	965,312

The accompanying notes are an integral part of these consolidated financial statements

ZYDACRON, INC.

Consolidated Statement of Operations and Accumulated Deficit
Year Ended December 31, 2003

Revenue	$ 1,983,721
Cost of revenue	
Cost of materials	844,357
Cost to manufacture and warehouse	530,499
	1,374,856
Gross profit	608,865
Operating expenses:	
Engineering, research and development	964,690
General and administrative	793,210
Sales and marketing	442,924
Nonrecurring charges (Note 6)	960,517
Brand consulting	78,410
	3,239,751
Loss from operations	(2,630,886)
Other (income) expense:	
Management fee to parent	41,250
Interest expense	64,982
Interest income	(630)
Other, net	11,571
	117,173
Loss before provision for income taxes	(2,748,059)
Provision for income taxes	-
Net loss	(2,748,059)
Accumulated deficit, beginning of period	(11,684,053)
Accumulated deficit, end of period	$ (14,432,112)

The accompanying notes are an integral part of these consolidated financial statements.

ZYDACRON, INC.

Consolidated Statement of Cash Flows
Year Ended December 31, 2003

Cash flows from operating activities		
Net loss	$	(2,748,059)
Adjustments to reconcile net loss to net		
cash used in operating activities:		
Depreciation and amortization		66,972
Loss on disposal of equipment		2,275
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable		445,407
Inventories		107,125
Prepaid expenses and other current assets		183,954
Other assets		(173,245)
Increase (decrease) in:		
Accounts payable		(430,909)
Amounts payable to affiliate		16,501
Accrued expenses		287,829
Deferred revenue		(40,623)
Net cash used in operating activities		(2,242,773)
Cash flows from investing activities:		
Proceeds from sale of equipment		8,438
Purchases of property and equipment		(68,879)
Net cash used in investing activities		(60,441)
Cash flows from financing activities:		
Advances from parent, net		1,790,403
Net cash provided by financing activities		1,790,403
Decrease in cash and cash equivalents		(512,811)
Cash and cash equivalents, beginning of year		559,214
Cash and cash equivalents, end of year	$	46,403
Supplemental disclosure of cash flows information:		
Cash paid for interest	$	-
Cash paid for taxes	$	-

The accompanying notes are an integral part of these consolidated financial statements

ZYDACRON, INC.

Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

1. OPERATIONS AND ACQUISITION OF THE COMPANY

Zydacron, Inc. (the Company) designs, manufactures and services a comprehensive line of high-quality, easy-to-use communications equipment that enables enterprise users to more effectively conduct video, voice and data communications for both group conferencing and desktop. The Company's products are distributed and serviced globally. The Company sells its products through marketing and sales relationships with a network of value-added resellers and telecommunications equipment distributors.

Effective October 31, 2002, SCOTTY Acquisition Corporation, a wholly owned subsidiary of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik AG (Scotty-Tele or Parent Company), an Austrian Company, acquired all of the outstanding capital stock of the Company for $1,000,000 in cash and additional contingent consideration. The contingent consideration is payable up to either $2,000,000 in cash or $9,000,000 in Scotty-Tele common stock, depending, in part, on the Company achieving certain performance targets and the occurrence of an initial public offering of Scotty-Tele common stock prior to December 31, 2004.

The accompanying consolidated financial statements are presented on a historical cost basis and do not reflect the new basis of accounting (fair value) that would have resulted from the above described transaction if that basis of accounting had been pushed down to the Company.

On August 31, 2003 the Company transferred ownership of its subsidiary, Zydacron Europe Limited (Zydacron Europe), to Scotty-Tele for £1. The transaction resulted in a loss of $2,475, recorded as other expense in the accompanying statement of operations. The results of Zydacron Europe prior to the ownership transfer are included in the accompanying statement of operations and were not material.

The Company has recently incurred significant operating losses, has a significant working capital deficiency and stockholders' deficit and continued to do so during the year ended December 31, 2003. The Company does not currently have an alternative means of financing and should they continue to incur such losses will be required to obtain financing either through additional cash infusion from Scotty-Tele or through an external source. Management is actively working to reduce costs through various expense reduction actions in an effort to reduce its operating losses and working capital needs. There can be no assurances that the actions taken by management to reduce expenses and working capital needs will be adequate. Additionally, there can be no assurances that management will be able to identify and secure financing arrangements.

The above factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiary, through August 31, 2003. All significant inter-company transactions and balances have been eliminated in consolidation.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of acquisition to be cash equivalents. Cash equivalents consist principally of money market accounts that are stated at cost, which approximate fair value.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified.

Concentration of Credit Risk

The Company grants credit to its customers and consequently, the Company's ability to collect amounts due from its customers is affected by fluctuations in their industry.

The Company maintains its cash in bank deposit accounts, which at times may exceed insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Inventory

Inventory is valued at the lower of cost or market. Cost of inventory is determined by the use of the first-in, first-out method (FIFO). Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the respective assets, generally. Leasehold improvements are amortized over the lesser of the length of the related lease or the estimated useful lives of the assets. Disposals of property and equipment are recorded by removing the costs and accumulated depreciation from the accounts and gains and losses on disposals are included in the results of operations.

ZYDACRON, INC.

Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenue Recognition

The Company recognizes revenue from its product sales in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as updated by SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Under these guidelines, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services rendered, the price is fixed or determinable and payment is reasonably assured. Additionally, the Company recognizes extended service revenue on its hardware products over the life of the service contract.

Research and Development Expenditures

Research and development expenditures are charged to operations as incurred. Software development costs incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected product revenues, whichever is greater. To date, the company has not capitalized any internal software development costs.

The other asset balance of $251,245 includes purchased third party licenses related to software that will be included in the Company's products

Shipping and Handling Costs

The Company accounts for shipping and handling costs in accordance with Emerging Issues Task Force 00-10, *Accounting for Shipping and Handling Revenue and Costs*. EITF 00-10 requires that all shipping and handling costs billed to customers be recorded as sales and the actual costs incurred be recorded as a component of cost of sales.

Warranty Costs

The Company accrues for the estimated costs associated with product warranties at the time of shipment.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure about fair value of financial instruments. Financial instruments consist of cash and cash equivalents, accounts receivable, inter-company balances, other assets, accounts payable and other accrued liabilities. The estimated fair value of these financial instruments approximates their carrying value due to their short maturities.

3. **INVENTORY**

The Company's inventory at December 31, 2003 consisted of the following:

Raw materials	$ 239,479
Work-in-progress	84,456
Finished goods	85,665
	$ 409,600

4. **PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2003, is summarized as follows:

Leasehold improvements	$ 100,617
Equipment	2,071,889
	2,172,506
Less - accumulated depreciation	2,106,775
	$ 65,731

Total depreciation expense was $86,972 for the year ended December 31, 2003.

5. **COMMITMENTS**

The Company has entered into operating leases for its principal facility, sales offices and certain equipment, expiring at various dates through 2006.

Aggregate future minimum lease payments on these leases for the years ending December 31, are as follows:

2004	$ 169,656
2005	104,301
2007	596
	$ 274,553

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

5. COMMITMENTS...continued

Total rent expense was $252,142 for the year ended December 31, 2003. The Company's obligations under its principal facility lease are guaranteed by the Parent Company.

6. NONRECURRING CHARGES

Nonrecurring charges for the year ended December 31, 2003 consisted of the following:

Inventory write-down	$ 300,000
Loss on purchase commitment	300,000
Severance and benefits	311,256
Rent	49,261
	$ 960,517

During 2003 one of the Company's customers filed for bankruptcy. The Company has inventory on hand that it had purchased in anticipation of a large sales order for the customer. As a result of the customer's bankruptcy, the Company now considers this inventory impaired and has recorded $300,000 write-down of this inventory at December 31, 2003.

In 2001 the Company entered into a noncancelable purchase commitment to purchase additional inventory to fulfill the anticipated sales order from the now bankrupt Customer. The Company has identified the additional inventory to be purchased as impaired. At December 31, 2003 the Company has recorded a $300,000 reserve to reflect the loss on the purchase commitment, which is included in accrued expenses in the accompanying balance sheet.

During 2003 a former officer terminated employment with the company. The officer had an employment agreement guaranteeing salary and benefit payments through 2004. The Company recorded an expense of $311,256 to accrue for the severance and benefit payments through 2004. The remaining payments at December 31, 2003, totaling approximately $220,000, are included in accrued expenses in the accompanying balance sheet.

In January 2003 the Company consolidated its utilization of space at its principal facility in anticipation of subleasing the space. On August 1, 2003 the Company restructured its lease, reducing the leased square footage for the unused space. The rent expense on the unused space through July 2003 is classified as a non-recurring expense in the accompanying statement of operations.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

---

7. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2003 are as follows:

Deferred tax assets:	
Net operating loss carryforwards	$ 4,790,000
Inventory	322,000
Accrued liabilities	205,000
Property and equipment	90,000
Accounts receivable	20,000
Contract intangible	16,000
Other	15,000
Total deferred tax assets	5,458,000
Valuation allowance for deferred tax assets	(5,458,000)
Net deferred tax assets	$ -

SFAS No. 109, *Accounting for Income Taxes*, requires a valuation allowance against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Due to the Company's operating history and uncertainty concerning future realization, a full valuation allowance is necessary to offset the net deferred tax assets of $5,458,000 as of December 31, 2003.

At December 31, 2003, the Company has available approximately $12 million of net operating loss carryforwards which expire at various dates through 2023. The future utilization of net operating loss carryforwards may be subject to limitation under the change in stock ownership rules of the Internal Revenue Code.

8. RELATED PARTY TRANSACTIONS

Advances Payable to Scotty-Tele

Periodically the Company receives advances from Scotty-Tele to fund its operations. The advances bear interest at 5% annually and are payable on demand. Interest expense for the year ended December 31, 2003 was $64,982.

Management Fees and Expenses

Scotty-Tele provides certain management and advisory services to the Company. Total expense related to these services was $41,250 for the year ended December 31, 2003.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
Year Ended December 31, 2003

---

8. RELATED PARTY TRANSACTIONS...continued

Sales and Accounts Receivable

The Company had net sales transactions with Scotty-Tele of approximately $358,000 for the year ended December 31, 2003. The corresponding receivables were netted first against the management fees and accrued loan interest due Scotty-Tele and then against the loan principle.

Amounts Due Zydacron Europe Ltd.

Zydacron Europe earns commissions ranging from 8% to 15% on sales that it initiates on behalf of the Company. Commissions earned prior to the August 31, 2003 sale of Zydacron Europe to Scotty-Tele have been eliminated in consolidation. Commissions earned by Zydacron Europe on sales from September 1, 2003 through December 31, 2003 and due to Zydacron Europe at December 31, 2003 were $16,501.

Principal Facility Lease Guarantee

The Company's obligations under its principal facility lease are guaranteed by the Parent Company.

9. DEFINED CONTRIBUTION PLAN

The Zydacron, Inc. 401(k) Retirement Plan is a defined contribution plan in the form of a qualified 401(k) plan in which substantially all employees are eligible to participate. Eligible employees may elect to contribute from 1% to 15% of their compensation, subject to certain limitations. Employer contributions are discretionary and no contributions were made for the year ended December 31, 2003.

10. SUBSEQUENT EVENT

Subsequent to December 31, 2003 the Parent Company entered into negotiations with a potential acquirer of the Parent Company. The effects of the outcome of the potential acquisition on the carrying value of the Company's assets and liabilities, if any, have not been reflected in the accompanying financial statements.

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.

Financial Statements
December 31, 2003 and 2002

and

Report of Independent Auditors

Report of Independent Auditors

The Stockholders and the Board of Directors
Scotty Tele-Transport Corporation of Asia, Inc.
Unit 203 Tower A, Antel Seaview Towers
2626 Roxas Boulevard, Pasay City

We have audited the accompanying balance sheets of Scotty Tele-Transport Corporation of Asia, Inc. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scotty Tele-Transport Corporation of Asia, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

ESTRELITA G. DEL ROSARIO
Partner
CPA Certificate No. _____________
Tax Identification No. ___________
PTR No. ______________________
Date of issue
Place of issue

February 10, 2004

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.
BALANCE SHEETS

	December 31	
	2003	2002
ASSETS		
Current Assets		
Cash	**₱8,401,757**	₱1,645,750
Accounts receivable		
Trade	**1,855,116**	–
Others	**1,648,990**	99,455
Inventories (Notes 4 and 5)	**263,877**	–
Deferred tax assets - net (Note 11)	**212,257**	–
Other current assets	**41,524**	242,938
Total Current Assets	**12,423,521**	1,988,143
Noncurrent Assets		
Property and equipment - net (Note 6)	**4,797,511**	696,427
Other noncurrent assets - net	**172,721**	231,286
Total Noncurrent Assets	**4,970,232**	927,713
	₱17,393,753	₱2,915,856
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 4 and 7)	**₱15,022,840**	₱57,441
Taxes payable	**114,235**	–
Total Current Liabilities	**15,137,075**	57,441
Advances from Stockholders and Affiliates (Note 4)	**4,183,877**	887,349
Stockholders' Equity (Capital Deficiency)		
Capital stock	**2,500,000**	2,500,000
Deficit	**(4,427,199)**	(528,934)
Total Stockholders' Equity (Capital Deficiency)	**(1,927,199)**	1,971,066
	₱17,393,753	₱2,915,856

See accompanying Notes to Financial Statements.

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2003	2002
NET SALES	**₱26,432,713**	₱ –
COST OF SALES (Notes 4 and 5)	**20,720,947**	–
GROSS PROFIT	**5,711,766**	–
OPERATING EXPENSES (Notes 8 and 9)	**9,408,137**	530,653
LOSS FROM OPERATIONS	**3,696,371**	530,653
FINANCIAL EXPENSE (INCOME) - net (Note 10)	**299,916**	(1,719)
LOSS BEFORE INCOME TAX	**3,996,287**	528,934
PROVISION FOR INCOME TAX (Note 11)		
Current	**114,235**	–
Deferred	**(212,257)**	–
	(98,022)	–
NET LOSS	**₱3,898,265**	₱528,934

See accompanying Notes to Financial Statements.

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

	Years Ended December 31	
	2003	2002
CAPITAL STOCK - ₱1 par value		
Issued		
Balance at beginning of year	**₱2,500,000**	₱–
Issuance during the year	**–**	2,500,000
Balance at end of year	**2,500,000**	2,500,000
DEFICIT		
Balance at beginning of year	**528,934**	–
Net loss for the year	**3,898,265**	528,934
Balance at end of year	**4,427,199**	528,934
	(₱1,927,199)	₱1,971,066

See accompanying Notes to Financial Statements.

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱3,996,287)**	(₱528,934)
Adjustments for:		
Depreciation and amortization	**580,007**	7,034
Amortization of organization costs	**8,565**	–
Unrealized foreign exchange loss	**306,318**	–
Interest income	**(44,882)**	(1,719)
Operating loss before working capital changes	**(3,146,279)**	(523,619)
Decrease (increase) in:		
Accounts receivable	**(3,394,823)**	(99,455)
Inventories	**(263,877)**	–
Other current assets	**201,414**	(242,938)
Increase in accounts payable and accrued expenses	**14,687,156**	57,441
Cash generated from (used for) operations	**8,083,591**	(808,571)
Interest received	**44,882**	1,719
Net cash provided by (used in) operating activities	**8,128,473**	(806,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Reduction in (additions to):		
Property and equipment	**(4,681,091)**	(703,461)
Other noncurrent assets	**50,000**	(231,286)
Net cash used in investing activities	**(4,631,091)**	(934,747)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	**–**	2,500,000
Additional advances from stockholders and affiliates	**3,258,625**	887,349
Cash provided by financing activities	**3,258,625**	3,387,349
NET INCREASE IN CASH	**6,756,007**	1,645,750
CASH AT BEGINNING OF YEAR	**1,645,750**	–
CASH AT END OF YEAR	**₱8,401,757**	₱1,645,750

See accompanying Notes to Financial Statements.

SCOTTY TELE-TRANSPORT CORPORATION OF ASIA, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Scotty Tele-Transport Corporation of Asia, Inc. (the Company) is a stock corporation incorporated under the laws of the Republic of the Philippines. The registered address of the Company is Unit 203 Tower A, Antel Seaview Towers, 2626 Roxas Boulevard, Pasay City. The Company is engaged in trading value added services equipment and systems in the information and communication technology industry for domestic and international market on wholesale retail basis. Commercial operations started January 1, 2003.

The financial statements of the Company for the year ended December 31, 2003 were authorized for issue in accordance with a resolution of the Board of Directors on January 31, 2003.

The number of regular employees of the Company is three as of December 31, 2003.

2. **Status of Operations and Basis of Presentation**

As shown in the accompanying financial statements, the Company incurred recurring losses from operations, resulting in a deficit of ₱4,427,199 and ₱528,934 as of December 31, 2003 and 2002. As as of December 31, 2003, the Company's current liabilities exceeded its current assets by ₱2,713,554 and also has a capital deficiency of ₱1,927,199. As of December 31, 2003 and 2002, the Company has investments in property and equipment with net carrying values of ₱4,797,511 and ₱696,427, respectively. The recoverability of the Company's investments in these assets is dependent upon the successful business operations of the Company.

In view of the foregoing matters, the Company continuously initiate programs to improve revenues and reduce costs. Moreover, its affiliate has committed not to demand payment of their advances to the Company until the Company has the financial resources to do so. Further, the Company's stockholders have committed to provide continuing support to the Company to enable it to continue operating as a going concern. Accordingly, the financial statements have been prepared assuming that the Company will continue operating in the normal course.

3. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the Philippines and under the historical cost convention.

Changes in Accounting Policies
The following changes in accounting policies have been introduced in accordance with the provisions of the respective accounting standards which became effective for annual financial statements covering periods beginning on or after January 1, 2003, but earlier application is encouraged:

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events; and

- SFAS 37/IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items.

Changes made pertain principally to the additional disclosures required by the new standards. The effect of adopting the new standards on the financial statements is not material.

New Accounting Standard Effective Subsequent to 2003

The Accounting Standards Council (ASC) has approved SFAS 17/IAS 17, “Leases,” which prescribes the accounting policies and disclosures that apply to finance and operating leases, and is effective in 2004. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased asset. On the other hand, lessees should expense operating lease payments. The Company will adopt SFAS 17/IAS 17 beginning October 1, 2004 and, based on current circumstances, does not believe the effect of adoption will be material.

Cash

Cash includes cash on hand and in banks.

Accounts Receivable

Accounts receivable are recognized and carried at invoice amount or face value less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories are stated at lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Net realizable value of merchandise inventory and merchandise in transit is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make a sale. Net realizable value of spare parts is the replacement cost.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and impairment in value, if any.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working conditions and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	5 years
Office furniture, fixtures and equipment	2 to 10 years
Computer equipment	3 to 5 years

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposal of, the cost and the related accumulated depreciation and amortization and any impairment value are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Impairment of Assets

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment losses are recognized in the statements of income.

Revenue

Revenue is recognized to the extent that the economic benefits will flow to the Company and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

> Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
>
> Interest income is recognized as the interest accrues (taking into account the effective yield on the asset).

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Leases

Operating lease payments are recognized as an expense in the statements of income in accordance with the terms of the lease agreement.

Foreign Currency-denominated Transactions

Foreign currency-denominated transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at the balance sheet date. Exchange differences arising on the settlement and restatement of monetary items at rates different from those at which they were initially recorded during the period are recognized in the statements of income in the period in which they arise.

For income tax reporting purposes, exchange gains or losses are treated as taxable income or deductible expense, in the period such are realized.

Income Taxes

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets and liabilities are measured using the tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future.

Related Party Transactions

Significant transactions with affiliates are:

a. Purchase of inventories. The outstanding liability arising from these purchases amounting to ₱13,705,788 as of December 31, 2003 is included in the “Accounts payable and accrued expenses” account in the balance sheets.

b. Obtained advances to finance its working capital requirements. Outstanding advances as of December 31, 2003 and 2002 amount to ₱4,183,877 and ₱887,349, respectively and are as shown as “Advances from stockholders and affiliates” account in the balance sheets.

Inventories

This account consists of:

	2003	2002
Merchandise inventory	**₱172,317**	₱–
Spareparts inventory	**91,560**	–
	₱263,877	₱–

Cost of inventories sold amounted to ₱20,720,947 in 2003.

6. Property and Equipment

This account consists of:

	January 1, 2003	Additions	Disposals	**December 31, 2003**
Cost				
Office, furniture and equipment	₱257,802	₱4,410,688	₱–	**₱4,668,490**
Computer equipment	194,930	256,538	–	**451,468**
Leasehold improvements	250,729	13,865	–	**264,594**
	703,461	4,681,091	–	**5,384,552**
Accumulated Depreciation				
Office, furniture and equipment	1,709	468,574	–	**470,283**
Computer equipment	5,325	58,844	–	**64,169**
Leasehold improvements	–	52,589	–	**52,589**
	7,034	580,007	–	**587,041**
Net Book Value	₱696,427	₱4,101,084	₱–	**₱4,797,511**

7. Accounts Payable and Accrued Expenses

This account consists of:

	2003	2002
Trade payables (Note 5)	**₱13,705,788**	₱–
Others	**1,317,052**	57,441
	₱15,022,840	₱57,441

8. Lease Commitments

In November 2003, the Company renewed the lease contract covering the office space it occupied starting November 15, 2002. The contract is for a period of one year and renewable at the option of the Company subject to new terms and conditions to be agreed by both parties. Related rent expense charged to operations amounted to ₱514,286 in 2003 and ₱64,286 in 2002.

9. **Operating Expenses**

This account consists of:

	2003	2002
Marketing and promotions	**₱2,718,754**	₱54,545
Personnel expenses	**1,587,730**	–
Commission	**1,450,334**	–
Travel and transportation	**1,195,285**	199,016
Communication, light and water	**635,643**	79,806
Depreciation	**580,007**	7,034
Rent	**538,528**	66,391
Representation and entertainment	**128,090**	40,230
Professional fee	**115,909**	43,200
Office supplies	**83,646**	9,456
Insurance	**62,939**	–
Trainings and seminars	**57,318**	–
Dues and subscription	**46,494**	5,625
Repairs and maintenance	**32,852**	–
Gas and oil	**31,404**	15,429
Directors' fees	**27,222**	–
Postage and courier	**20,440**	5,785
Duties and brokerage fees	**19,709**	–
Taxes and licenses	**10,671**	1,836
Amortization of organization cost	**8,565**	–
Others	**56,597**	2,300
	₱9,408,137	₱530,653

10. **Financial Expense (Income)**

This account consists of:

	2003	2002
Bank charges	**₱113,208**	₱430
Interest income	**(44,882)**	(2,149)
Dividend income	**(39)**	–
Foreign exchange loss - net	**231,629**	–
	₱299,916	(₱1,719)

Income Tax

Deferred tax assets consist of the following items:

	2003	2002
Net operating loss carry-over	**₱1,374,512**	₱169,947
Excess of minimum corporate income tax over normal tax	**114,235**	–
Unrealized foreign exchange loss	**98,022**	–
	1,586,769	169,947
Less valuation allowance	**1,374,512**	169,947
	₱212,257	₱–

Full valuation allowance was provided on deferred tax asset because management believes that it is more likely that the Company will not be able to realize the benefit in the foreseeable future.

The reconciliation of provision for income tax on pretax income computed at statutory tax rate to provision for income tax as shown in the statements of income is as follows:

	2003	2002
Provision for income tax computed at statutory rate	**(₱1,288,212)**	(₱169,259)
Adjustments to provision for income tax resulting from:		
Change in valuation allowance	**1,204,565**	169,947
Interest income subjected to final tax	**(14,362)**	(688)
Dividend income	**(13)**	–
	(₱98,022)	₱–

SCOTTY Tele- Transport Corporation Radio- und Videoelektronik Aktiengesellschaft

Balance sheet
as of December 31, 2002

Assets

	December 31, 2002 EUR	December 31, 2002 EUR	Dec. 31, 2001 TEUR
A. FIXED ASSETS			
I. Intangible assets			
1. Concessions, patents, licences, trade marks and similar rights and assets	39.328,55		10
2. Goodwill	150.882,40		165
		190.210,95	175
II. Tangible assets			
1. Machinery and equipment	0,49		0
2. Fixtures, fittings and tools	90.962,34		85
		90.962,83	85
III. Investments			
1. Investments, thereof group	2.267.956,60		644
2. Securities	2.065,22		0
3. Loans	0,00		216
		2.270.021,82	861
		2.551.195,60	1.121
B. CURRENT ASSETS			
I. Stocks			
1. Raw materials and supplies	756.343,91		176
2. Work in progress	36.010,00		63
3. Finished goods and goods for resale	52.344,53		190
4. Services not yet cleared in accounts	0,00		134
5. Down payment made	8.617,29		0
		853.315,73	564
II. Debtors and assets			
1. Accounts receivables	2.144.379,13		796
2. Accounts receivable group	1.177.772,67		377
3. Other receivables and assets	419.621,83		77
		3.741.773,63	1.250
III. Cash on hand, checks, bank balances		35.073,97	100
C. DEFERRED EXPENCES		35.660,92	8
		7.217.019,85	3.043

Liabilities and Shareholder's Equity

	December 31, 2002 EUR	December 31, 2002 EUR	Dec. 31, 2001 TEUR
A. SHAREHOLDERS´S EQUITY			
I. Share capital		175.000,00	175
II. Additional paid-in capital			
1. Appropriate	2.451.025,13		2.451
2. Unappropriate	218,02		0
		2.451.243,15	2.451
III. Retained earnings *(hereof loss carry forward 2001 EUR 745.443,24; 2000 TEUR 943)*		1.245.632,57	-745
		3.871.875,72	1.881
B. UNTAXED RESERVES			
1. Valuation reserve for special depreciation	6.839,97		13
2. Other untaxed reservs	10.343,59		12
		17.183,56	24
C. ACCRUALS			
1. Accruals severance payment	85.103,36		226
2. Accruals for income taxes	169.691,00		11
3. Other accruals	387.044,08		88
		641.838,44	324
D. LIABILITIES			
1. Bank loans and overdrafts	101.397,54		137
2. Advance payments received for orders placed	76.501,72		0
3. Accounts payable	1.258.211,40		613
4. Accounts payable-group	144.757,30		33
5. Other liabilities *(hereof taxes 2002 EUR 128.143,72; 2001 TEUR 16)* *(hereof social security payables 2002 EUR 24.729,50; 2001 TEUR 14)*	1.105.254,17	2.686.122,13	30
			813
		7.217.019,82	3.043

Profit and loss account
for the business year
January 1, 2002 to December 31, 2002

	December 31, 2002 EUR	EUR	Dec. 31, 2001 TEUR
1. Turnover		9.395.059,41	
2. Increase or decrease in finished and unfinished goods and services not yet cleared in accounts		- 280.757,92	
3. Other operating income			
a) Income from retirement of fixed assets other than financial assets	2.400,85		
b) Other	988,44		140
		3.389,29	140
4. Cost of materials and other pruchased services			
a) Cost of materials	- 4.571.237,89		-1.126
b) Cost of purchased services	- 1.155,58		
c) Cash discount received	4.667,26		
		- 4.567.726,21	-1.126
5. Personnel expenses			
a) Wages	- 6.140,82		-4
b) Salaries	- 1.221.483,92		-639
c) For severance expenses	- 87.409,11		-1
d) Expenses for statutory social security, payroll-related taxes and mandatory contributions	- 218.953,82		-164
e) Other social benefits	- 22.600,45		-7
		- 1.556.588,12	-814
6. Depreciation and amortization			
a) Of fixed intangible and tangible assets	- 92.363,51		-74
		- 92.363,51	-74
7. Other operating expenses			
a) Taxes (other than income)	- 3.017,57		-5
b) Further operating expenses	- 716.656,26		-566
		- 719.673,83	-570
8. Subtotal		2.181.339,11	225
9. Other interest and similar income		52.061,82	
10. Interest and similar expenses		- 7.196,96	-21
11. Financial result		44.864,86	-20

12. Ordinary business result	2.226.203,97	204
13. Extraordinary result	- 69.051,83	
14. Income taxes	- 173.191,00	-14
15. Result of the year	1.983.961,14	190
16. Release of untaxed reserves	7.114,67	7
17. Profit of the year	1.991.075,81	197
18. Loss carry forward	- 745.443,24	-943
19. Net profit	1.245.632,57	-745

NOTES

The Financial Statements for 2002 were drawn up according to the currently valid version of the regulations of the Austrian Comercial Code (HGB). In particular, the principles of accounting practice and the general standard set forth of the Austrian Commercial Code, according to which a true and fair view of the company's assets, earnings and financial position must be given, have been observed.

The accounting, the valuation and the information shown of the positions of the financial statement are carried out according to the general regulations pursuant to §§ 196 and 211 HGB with consideration of the special regulation for limited liability corporations pursuant to §§ 222 until 235 HGB.

I. Accounting and valuation principles

A. Fixed assets

Acquired intangible assets are recognized at cost and depreciated according to plan.

The Goodwill that was established on occasion of the contribution of the partnership shares held in SCOTTY Müller und Partner OEG (general partnership for professionals and other individuals not eligible for partnerships regulated by the Austrian Commercial Code) into SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft is shown as goodwill pursuant to § 202 (2) HGB. The actual value of the joint venturer share can be trace back to the existing goodwill. This is obvious from the paid in capital surplus, because of the capital increase which was decided on December 4th 1998.

The goodwill is depreciated over a useful life of 15 years. This period complies with the expected useful life.

Tangible assets are valued at acquisition/manufacturing cost minus regular straight-line depreciation.
The depreciation is based on the regular straight-line depreciation. The depreciation rates for the tangible assets range between 25 % and 10 %.

Low valued assets are fully depreciated in the year of acquisition and are subjected to a value reserve. The assessment reserves to low valued assets kept until the year 2000 are dissolved over the remaining useful life of assets.

Financial assets are stated at cost. If the expected impairment in value is permanent or if the value to be attributed on the balance sheet date is lower than the carrying amount, unscheduled depreciation is taken.

B. Current assets

Raw materials and supplies are valued at stock book taken on the record date allowing for the principle of lower of cost or market.

Particular information for simplification of assessments
For advertising materials a standard value is shown pursuant to § 209 Abs. 1 HGB. Material quantitative variation of actual stock was not detected.

Finished goods and work in progress are capitalized at manufacturing or acquisition cost plus production costs per piece.

Accounts receivable are valued at cost. Recognizable risks are considered by showing the lower fair value according to the imparity realization principle.

Foreign currency receivables are converted using the exchange rate at the date of initial recognition or the lower exchange rate at balance sheet date.

C. Accruals

Accrued severance payment for the members of the board is constituted according to the employment contract. They are calculated financial and apply an interest rate of 6 % and a pension age of 56,5 years for women and 61,5 years for men.

Other accruals cover all foreseeable risks and contingencies as of the balance-sheet cutoff. These are assessed using generally accepted accounting standards.

D. Liabilities

Liabilities are stated at repayment amounts following the concept of prudence.

Foreign currency liabilities are valued either at the exchange rate valid on the day of accrual, or at the higher foreign-exchange rate valid as per balance-sheet cutoff.

II. Notes to the Balance Sheet

Assets

A. Fixed assets

The detailed development of fixed assets is shown in the Analysis of Fixed Assets.

Investments, thereof group

Companies	Proportion of Equity capital in %	Equity capital	Result of the last fiscal year	Facts from the financial statement of the year
		USD	USD	
Scotty Tele-Transport Corp. America	100,00%	448.005,63	348.047,00	31.12.2002
Scotty Tele-Transport Corp. of ASIA	100,00%	50.000,00	-10.871,74	31.12.2002
Zydacron Inc.	100,00%	532.848,00	-228.743,00	31.12.2002
Total:		1.030.853,63	108.432,26	

Scotty Tele-Transport Corporation of the Americas, Inc. based in Atlanta

Scotty Tele-Transport Corporation of Asia based in Manila, Philippines

Zydacron, Inc. based in Manchester, USA

B. Current assets

The remaining duration of accounts receivable posted in the balance sheet break down as follows.

Accounts receivable analysis			According to Balance sheet	Remaining duration until 1 year	Therof with a remaining duration of more than 1 year
1.	Accounts receivables	2002	2.144.379,13	2.144.379,13	
		2001	796.010,54	796.010,54	
2.	Accounts receivable group	2002	1.177.772,67	666.477,14	511.295,53
		2001	376.937,24	376.937,24	
	Thereof from goods and services	2002	666.477,14	666.477,14	
		2001	376.937,24	376.937,24	
3.	Other receivables and assets	2002	419.621,83	405.988,56	13.633,27
		2001	76.892,52	63.259,25	13.633,27
	Total	2002	3.741.773,63	3.216.844,83	524.928,80
		2001	1.249.840,30	1.236.207,03	13.633,27

Liabilities

A. Equity capital

The **share capital** is vested in 175.000 bearer shares – zero par value shares – in the value of EUR 1,00 each.

The appropriated reserves result from the capital surplus in connection with the capital increase. The minimum amount of the appropriated reserves according to § 130 Abs 3 AktG (10 % of share capital) is fulfilled.

B. Untaxed reserves

Development of value reserve:

Value reserve due to § 13 EStG	As at 1.1. €	Use €	Allocation €	As at 31.12. €
Office equipment	12.719,20	5.879,23	0,00	6.839,97

Development of other untaxed reserves:

Investment allowances due to § 10 EStG	As at 1.1. €	Release €	Allocation €	As at 31.12. €
1998 (1.10.-31.12.)	436,11	436,11	0,00	0,00
1999	8.938,32	799,33	0,00	8.138,99
2000	2.204,60	0,00	0,00	2.204,60
	11.579,031	**1.235,44**	**0,00**	**10.343,59**

The release of the investment allowances 1999 was subjected to tax pursuant to § 9 Abs. 9 EstG. The effect on the tax of income amount to EUR 260,00.

C. Accruals

The stock on the balance sheet date in comparison to the previous year is as follows:

Other accruals	2001 €	2002 €
Annual audit	5.813,83	20.000,00
Bonus	4.379,26	35.806,00
Management Bonus	20.000,00	191.000,00
Unconsumed vacation	38.339,35	88.690,25
Tax advice	3.633,64	5.000,00
Supervisory board payments	8.720,74	33.000,00
Others	218,02	0,00
Overtime	6.621,29	13.547,83
	87.726,13	**387.044,08**

D. Accounts payable

The accounts payable posted in the balance sheet need the following explanations.

Payables/receivables ageing report			Total	Remaining duration until 1 year	Remaining duration until 5 years	in rem amount	collateralized method
1.	Bank loans and overdrafts	2002	101.397,54	101.397,54			
		2001	136.853,50	136.853,50			
2.	Advance payments received for orders placed	2002	76.501,72	76.501,72			
		2001	0,00				
3.	Accounts payable	2002	1.258.211,40	1.258.211,40			
		2001	613.421,16	613.421,16			
4.	Accounts payable-group	2002	144.757,30	144.757,30			
		2001	32.779,25		32.779,25		
5.	Other liabilities	2002	1.105.254,17	1.105.254,17			
		2001	30.422,74	30.422,74			
	Total	2002	2.686.122,13	2.686.122,13	32.779,25		
		2001	813.476,65	780.697,40	32.779,25		

Affecting payment expenses amounting to € 31.709,00 are contained in the other accounts payable.

Other financial commitments

The amount of other financial commitments not shown in the balance sheet comes to:

for the following fiscal year:	EUR	76.000,00
(2001: EUR 55.231,35)		
and for the following five fiscal years:	EUR	273.400,00
(2001: EUR 276.156,77)		

Contingent liabilities

Contingent liabilities for affiliated companies that are not shown in the balance sheet exist on the one hand because of the employment contract between Scotty TeleTransport Corporation of the Americas, Inc. and the board of management of this company, through the takeover of all financial responsibilities and benefits as codebtor from this contract.

III. Notes to the Income statement

The income statement is set up by the expenditure total cost format (§ 231 Abs. 2 HGB).

Taxes on income

The company did not make use of the right to choice capitalization or not pursuant to § 198 Abs 10 HGB.

Tax burden after	
Ordinary result:	EUR 196.668,00
Extraordinary result:	EUR -23.477,00

The extraordinary expenses result from initial privat offering (IPO) cost.

IV. Other information

SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft has been initially registered in the company register at the State Court (in the function as Commercial Court) in Eisenstadt on November 13, 1998 (no FN 176545 a).

Executive Bodies

Last year the Board of Management consist of the shareholders Ing. Andreas Bödenauer, DI Kurt Kerschat, DI Walter Müller and Mag. Georg Weber. Mr. Ing. Andreas Bödenauer quit his activity as member of the Board of Management as at May 31, 2002.

The members of the Board of Management represent the company corporately with the other members of the Board of Management or with an authorized representative.

In the year 2002 the Supervisory Board consist of:

Herr Dr. Hans Peter Sauerzopf, chairman
Herr Dr. Ernst Wustinger, deputy chairman as April 30, 2002
Herr Dr. Norbert Frömmer, member as April 30, 2002
Herr Mag. Albert Ohandjanians, deputy chairman till April 30, 2002

In the year under review, the emoluments paid to the members of the Supervisory Board totaled EUR 29.679,63.

EUR 628.398,00 were spent on the Board of Management emoluments (2001: EUR 234.813,19).

The members of the Board of management achieved advance money amounting to EUR 90.172,00. The interest calculation based on 4,5%. The allocation with the regular payments is stipulated.

In the year under review, SCOTTY employed an average of:

3 labour (in 2001: 1)
21 employee (in 2001: 16)

Graz, March 24, 2003

DI Kurt Kerschat e.h.
DI Walter Müller e.h.
Mag. Georg Weber e.h.

SCOTTY Tele-Transport Corporation
Radio- und Videoelektronik Aktiengesellschaft

Analysis of fixed assets 2002

	Acquisition or Production Costs								
	as per Jan. 1, 2002 €	Additions €	Disposals €	Transfers €	as per Dec. 31, 2002	Accumulated depreciation €	Net book value as per Dec. 31, 2002 €	Net book value as per Jan. 31, 2002 €	Depreciation 2002 €
I. Intangible assets									
1. Concessions, patents, licences, trade marks and similar rights and assets	29.864,59	45.143,35	1.282,70	0,00	73.725,24	34.396,69	39.328,55	9.626,12	15.440,92
2. Goodwill	215.546,25	0,00	0,00	0,00	215.546,25	64.663,85	150.882,40	165.252,14	14.369,74
Subtotal	**245.410,84**	**45.143,35**	**1.282,70**	**0,00**	**289.271,49**	**99.060,54**	**190.210,95**	**174.878,26**	**29.810,66**
II. Tangible assets									
1. Machinery and equipment	20.932,36	14.485,68	22.449,90	0,00	12.968,14	12.967,65	0,49	41,38	14.525,94
2. Fixtures, fittings and tools	202.937,11	72.820,13	65.589,92	0,00	210.167,32	119.204,98	90.962,34	85.136,42	48.026,91
Subtotal	**223.869,47**	**87.305,81**	**88.039,82**	**0,00**	**223.135,46**	**132.172,63**	**90.962,83**	**85.177,80**	**62.552,85**
II. Financial assets									
1. Investments, thereof group	644.489,07	1.623.467,53	0,00	0,00	2.267.956,60	0,00	2.267.956,60	644.489,07	0,00
2. Securities	218,02	1.847,20	0,00	0,00	2.065,22	0,00	2.065,22	218,02	0,00
3. Loans	216.280,41	0,00	216.280,41	0,00	0,00	0,00	0,00	216.280,41	0,00
Subtotal	**860.987,50**	**1.625.314,73**	**216.280,41**	**0,00**	**2.270.021,82**	**0,00**	**2.270.021,82**	**860.987,50**	**0,00**
Total	**1.330.267,81**	**1.757.763,89**	**305.602,93**	**0,00**	**2.782.428,77**	**231.233,17**	**2.551.195,60**	**1.121.043,56**	**92.363,51**

SCOTTY Tele-Transport Corporation
Radio- und Videoelektronik AG
Fn 176545a

MANAGEMENT REPORT 2002

The high tech products of SCOTTY prove themselves world-wide in innumerable missions. SCOTTY offers help with video communication, in the case of transmission of information from inaccessible areas, medical assistance in accidents, maintenance and repair of machines and devices – video communication with Scotty provides help.

The application ranges of SCOTTY products are broadcast, conference room, encryption, motorized command, maritime, remote medicine, tele-working, work station, remote surveillance, inmarsat adapter solutions, solutions for system integrators.

The special advantage of video communication of SCOTTY consists in offering a complete system. For the users this means a 100% solution packed in a mobile and resistant unit. Live video conference, telephony, digitized tone and picture recordings and data transfer from all around the world.

SCOTTY offers the entire video communication equipment, peripheral devices for special applications and connections to all networks inclusive satellite. SCOTTY has large experience with terrestrial and satellite networks. We are official partner of Inmarsat and specialists for VSAT and Inmarsat, satellite communication, terrestrial networks, encryption and conference systems.

The outstanding event in the year 2002 was the strategic acquisition of Zydacron in September. Zydacron is leading the market in the development of video codecs, communication boards and application software. With the products of Zydacron Scotty offers an important complement of the own product range and the basis for a success promising expansion in the coming years.

Last year in October SCOTTY Teletransport Corporation of Asia was founded. Selling and service in Asia and Australia is put to a professional footing in order to use the chances of these important markets.

Furthermore SCOTTY entered into a contract with NERA concerning the distribution of satellite equipment in the USA. Thus an expedient supplement to our products will be offered to potential customers of SCOTTY.

Outlook

Principal target of the coming year is the consolidation of the product lines of Zydacron und SCOTTY. Synergies should be used and increasingly included into the development of the products.

Furthermore the development of a new codec is advanced which improves the performance of video communication significantly. It is achieved to quadruplicate the video quality, in order to conform to the state of the art.

The organisation of a new sales-team and the development of a new marketing tool for the product line are started. Arnold Englander, head of marketing and non-governmental sales, is responsible for this new approach. He has long experience in the setup of international distribution systems.

The development of new niche markets for the codec business is another component in the expansion of the enterprise.

Internally a quality management system will be established in order to optimize production and structuring of operations. This takes place in co-operation with the advisor company Missethon.

The economic target for the year 2003 is the increase of the sales by 50% in relation to 2002 whereas EBIT margins remain constant.

Financial ratios of importance for 2003

In detail the following developments took place in relation to the year 2002:

- Sales could be increased by more than 350% from 2,612 million euro to 9,395 million euro.
- Cost of materials increased from 40,1% in 2001 to 50,1% in 2002 due to a change in the product portfolio.
- Productivity per worker rises from euro 153,647 in 2001 to euro 445,571 in 2002.
- Cash position of the company developed in the fourth quarter positively and the enterprise gained a positive cash-flow in the year 2002.

Staff

The average number of employees in the year 2002 amounted to 21 and may be allocated to the following departments:

6 research and development
8 production
3 selling
1 part-time, cleaning
3 administration, secretariat, bookkeeping

On December 31, 2002: 3 blue collar workers and 21 white collar workers

Research & Development

In 2002 the product line APLB was developed up to start of production and the SCOTTY mobile system was developed with a new display and improved features.

Adjustments were made to software and various customized solutions were compiled.

As consequence of the acquisition of Zydacron the management of R&D was increasingly engaged with the functional specifications of the codec line 470 in order to comply with appropriate group standards.

All imponderables in connection with the replacement of materials, which are not quality conform or not available any more, were eliminated by the R&D department.

A redirection of the product line of the acquired company was started and the hardware of the classmate system as well as of the IPNI video conference solution were revised.

Investments

In the reporting period 2002 Scotty AG invested about euro 132,448, basically data processing programs, hardware and low-value items for production.
Invested money was below budget. In relation to the total sales of 9,4 million euro, this means a portion of 1,4 %.
A financial investment relate to the acquisition of the Zydacron, the book value of the enterprise amounts to 1,573 million euro and consists of the discounted purchase price and the incidental cost of the acquisition.

Outlook for the year 2003

The sales of the first quarter 2003 increased by 100% compared to the first quarter 2002. Considering the incoming orders the budget for the year 2003 seems to be realistic. EBIT of approx 5,1 million euro with consolidated sales of approx 19 million euro seems to be feasible. The order level of approx 2,5 million euro for the second and third quarter supports this assumption.

Until March 2003 no developments occurred, that would cause a negative effect on the financial year 2002.

Grambach, March 2003

DI Kurt Kerschat e.h., chairman of the management board

Mag. Georg Weber e.h., management board

DI Walter Müller e.h., management board

Auditors' Opinion

We have audited the financial statements, which have been set up in accordance with the Austrian Commercial Code (and complementary rules in the Articles of Incorporation) as of December 31, 2002 of

SCOTTY Tele- Transport Corporation Radio und Videoelektronik Aktiengesellschaft, Eisenstadt,

These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Austrian GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion. After completion of our audit we render the following unqualified **opinion** according to § 274 (1) HGB (Austrian Commercial Code):

> "As the result of our due audit we can certify that the accounting records and the financial statements comply with the legal regulations. The financial statements give a true and fair view of the Company's assets, liabilities, financial position and profit or loss in conformity with generally accepted accounting principles. The Management Report corresponds with the financial statements."

Graz, March 25, 2003

Bertl · Fattinger & Partner
Wirtschaftsprüfungs- und Steuerberatungs GmbH

Mag. Robert Kobierski   Mag. Dr. Stefan Fattinger
Wirtschaftsprüfer und Steuerberater
(Austrian Chartered Accountant)

Zydacron, Inc.

Consolidated Financial Statements

For the Two Months Ended December 31, 2002

VITALE, CATURANO & COMPANY PC

ZYDACRON, INC.

Consolidated Balance Sheet
December 31, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	$ 559,214
Accounts receivable - less allowance for doubtful accounts of $56,000	603,491
Amounts due from Scotty-Tele	151,720
Inventory	516,725
Prepaid expenses and other current assets	296,203
Total current assets	2,127,353
Property and equipment, net	94,537
	$ 2,221,890
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 445,457
Accrued expenses	461,591
Amounts due to Scotty-Tele	293,335
Loan payable to Scotty-Tele	500,000
Other current liabilities	46,184
Total current liabilities	1,746,567
Stockholders' equity:	
Series A convertible preferred stock, $0.01 par value, 3,000,000 shares authorized 2,435,406 shares issued and outstanding	24,354
Common stock, $0.01 par value, 10,000,000 shares authorized 2,435,468 shares issued and outstanding	24,355
Additional paid-in capital	12,110,667
Accumulated deficit	(11,684,053)
Total stockholders' equity	475,323
	$ 2,221,890

The accompanying notes are an integral part of these consolidated financial statements.

ZYDACRON, INC.

Consolidated Statement of Operations and Accumulated Deficit
Two Months Ended December 31, 2002

Revenue	$ 1,242,321
Cost of goods and services sold	742,536
Gross profit	499,785
Operating expenses:	
Engineering, research and development	161,869
General and administrative	368,863
Sales and marketing	203,041
Severance and benefits costs	59,127
	792,900
Loss from operations	(293,115)
Other income (expense):	
Other, net	10,736
Interest income	112
Interest expense	(4,000)
	6,848
Loss before provision for income taxes	(286,267)
Provision for income taxes	-
Net loss	(286,267)
Accumulated deficit, beginning of period	(11,397,786)
Accumulated deficit, end of period	$ (11,684,053)

The accompanying notes are an integral part of these consolidated financial statements.

ZYDACRON, INC.

Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

1. OPERATIONS AND ACQUISITION OF THE COMPANY

Zydacron, Inc. (the Company) designs, manufactures and services a comprehensive line of high-quality, easy-to-use communications equipment that enables enterprise users to more effectively conduct video, voice and data communications for both group conferencing and desktop. The Company's products are distributed and serviced globally. The Company sells its products through marketing and sales relationships with a wide network of value-added resellers and telecommunications equipment distributors.

Effective October 31, 2002, Scotty Acquisition Corporation, a wholly owned subsidiary of Scotty Tele-Transport Corporation Radio und Videoelektronik AG (Scotty-Tele or Parent Company), an Austrian Company, acquired all of the outstanding capital stock of the Company for $1,000,000 in cash and additional contingent consideration. The contingent consideration is payable up to either $2,000,000 in cash or $9,000,000 in Scotty-Tele common stock, depending, in part, on the Company achieving certain performance targets and the occurrence of an initial public offering of Scotty-Tele common stock prior to December 31, 2004.

The accompanying consolidated financial statements were presented on a historical cost basis and do not reflect the new basis of accounting (fair value) that would have resulted from the above described transaction if that basis of accounting had been pushed down to the Company.

The Company has historically incurred significant operating losses and continues to do so during the two months ended December 31, 2002. The Company does not currently have an alternative means of financing and should they continue to incur such losses will be required to obtain financing either through additional cash infusion from Scotty-Tele or through an external source. Management is actively working to reduce costs through various expense reduction actions in an effort to reduce its operating losses and working capital needs. There can be no assurances that the actions taken by management to reduce expenses and working capital needs will be adequate. Additionally, there can be no assurances that management will be able to identify and secure financing arrangements.

The above factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation.

ZYDACRON, INC.

Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, investments in commercial paper having maturities of three months or less when purchased and a money market fund. Commercial paper qualifying as cash equivalents totaled approximately $177,320 at December 31, 2002. Cash held in money market funds totaled $378,152 at December 31, 2002.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Bad debts are written off against the allowance when identified.

Concentration of Credit Risk

The Company grants credit to its customers and consequently, the Company's ability to collect amounts due from its customers is affected by fluctuations in their industry.

The Company maintains its cash in bank deposit accounts, which at times may exceed insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Inventory

Inventory is valued at the lower of cost or market. Cost of inventory is determined by the use of the first-in, first-out method (FIFO). Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the length of the related lease or the estimated useful lives of the assets. Disposals of property and equipment are recorded by removing the costs and accumulated depreciation from the accounts and gains and losses on disposals are included in the results of operations.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenue Recognition

The Company recognizes revenue from its product sales in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*. Under these guidelines revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services rendered, the price is fixed or determinable and payment is reasonably assured. Additionally, the Company recognizes extended service revenue on its hardware products over the life of the service contract.

Research and Development Expenditures

Research and development expenditures are charged to operations as incurred. Software development costs incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected product revenues, whichever is greater. To date, the period between achieving technological feasibility, which the Company has defined as the establishment of a working model, which typically occurs when the beta testing commences, and the general availability of such software has been short. The Company has capitalized software development costs qualifying for capitalization in the amount of approximately $78,000 as of December 31, 2002.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Shipping and Handling Costs

The Company has adopted Emerging Issues Task Force 00-10, *Accounting for Shipping and Handling Revenue and Costs*. EITF 00-10, which requires that all shipping and handling costs billed to customers be recorded as sales and the actual costs incurred be recorded as a component of cost of sales. Before adopting EITF 00-10, the Company netted freight revenue against freight costs in cost of goods sold. As a result of adopting EITF 00-10, the Company's net sales and cost of sales both increased by approximately $6,000 for the two months ended December 31, 2002, respectively to reflect the inclusion of shipping revenues and costs, but there was no effect on the Company's loss from operations or net loss.

Warranty Costs

The Company accrues for the estimated costs associated with product warranties at the time of shipment.

Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosure about fair value of financial instruments. Financial instruments consist of cash and cash equivalents, accounts receivable, inter-company balances, other assets, accounts payable and other accrued liabilities. The estimated fair value of these financial instruments approximates their carrying value due to their short maturities.

3. **INVENTORY**

The Company's inventory at December 31, 2002 consisted of the following:

Raw materials	$ 362,558
Work-in-progress	72,000
Finished goods	82,167
	$ 516,725

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

4. **PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2002, is summarized as follows:

Leasehold improvements	$ 82,943
Equipment and software	2,175,760
	2,258,703
Less – accumulated depreciation	2,164,166
	$ 94,537

Total depreciation expense for the two months ended December 31, 2002 was $16,887.

5. **COMMITMENTS**

The Company has entered into operating leases for its principal facility, sales offices and certain equipment, expiring at various dates through 2006.

Aggregate future minimum lease payments on these leases for the years ending December 31, are as follows:

2003	$ 316,632
2004	261,984
2005	176,026
2006	596
	$ 755,238

Total rent expense for the two months ended December 31, 2002 was $44,330.

6. **RELATED PARTY TRANSACTIONS**

Sales and Accounts Receivable

The Company had net sales transactions and accounts receivables balances with Scotty-Tele of approximately $191,000 for the two months ended December 31, 2002 and $152,000 as of December 31, 2002, which are included in amounts due from Scotty-Tele in the accompanying consolidated balance sheet.

ZYDACRON, INC.
Notes to the Consolidated Financial Statements
For the Two Months Ended December 31, 2002

6. **RELATED PARTY TRANSACTIONS**...continued

Loan Payable to Scotty-Tele

The Company received a loan from Scotty-Tele of approximately $500,000 to fund its operations, of which the full amount remains outstanding at December 31, 2002. The advance bears interest at 5%, annually and is payable on demand. Interest expense for the two months ended December 31, 2002 was approximately $2,000.

The Company also required deposits on orders placed with them by Scotty-Tele. Deposits outstanding to Scotty-Tele were approximately $135,000, which are included in amounts due to Scotty-Tele in the accompanying consolidated balance sheet.

Management Fees and Expenses

Scotty-Tele provides certain management and advisory services to the Company. Total expense related to these services was approximately $33,000 for the two months ended December 31, 2002. Additionally, the Company has agreed to reimburse Scotty-Tele for certain legal and auditing fees incurred as a result of the aforementioned transaction. Total expense related to these fees was approximately $126,000. At December 31, 2002, amounts owed to Scotty-Tele under management fees and reimbursement agreements totaled approximately $159,000, which are included in amounts due to Scotty-Tele in the accompanying consolidated balance sheet.

Balance sheet
as of December 31, 2001

Assets

	December 31, 2001 EUR	December 31, 2001 EUR	Dec. 31,00 TEUR
A. FIXED ASSETS			
I. Intangible assets			
1. Concessions, patents, licences, trade marks and similar rights and assets	9.626,12		21
2. Goodwill	165.252,14		180
		174.878,26	201
II. Tangible assets			
1. Machinery and equipment	41,38		2
2. Fixtures, fittings and tools	85.136,42		140
		85.177,80	142
III. Investments			
1. Investments, thereof group	644.489,07		478
2. Securities	218,02		0
3. Loans	216.280,41		216
		860.987,50	695
		1.121.043,56	1.038
B. CURRENT ASSETS			
I. Stocks			
1. Raw materials and consumables	176.338,26		240
2. Work in progress	62.804,51		69
3. Finished goods and goods for resale	324.506,53		262
		563.649,30	571
II. Debtors and assets			
1. Accounts receivables	796.010,54		497
2. Accunts receivable group	376.937,24		154
3. Other receivables and assets	76.892,52		124
		1.249.840,30	775
III. Cash on hand, checks, bank balances		100.473,92	3
		1.913.963,52	1.348
C. DEFERRED EXPENCES		7.820,69	3
		3.042.827,77	2.389

Liabilities and Sharholder's Equity

	December 31, 2001 EUR	December 31, 2001 EUR	Dec. 31, 00 TEUR
A. SHAREHOLDERS´S EQUITY			
I. Share capital		175.000,00	158
II. Additional paid-in capital			
1. Appropriate	2.451.025,13		2.224
2. Unappropriate	218,02		0
		2.451.243,15	2.224
III. Retained earnings *(hereof loss carry forward 2000 EUR 942.605,93; 1999 TEUR 708)*		- 745.443,24	-943
		1.880.799,91	1.439
B. UNTAXED RESERVES			
1. Variation reserve due to § 13 ESTG	12.719,20		19
2. Other untaxed reservs	11.579,03		13
		24.298,23	31
C. ACCRUALS			
1. Accruals severance payment	225.890,01		225
2. Accruals for income taxes	10.636,83		0
3. Other accruals	87.726,14		42
		324.252,98	267
D. LIABILITIES			
1. Bank loans and overdrafts	136.853,50		189
2. Accounts payable	613.421,16		412
3. Accounts payable-group	32.779,25		27
4. Other liabilities	30.422,74		25
(hereof taxes 2001 EUR 13.526,16; 2000 TEUR 9)		813.476,65	652
(hereof social security payables 2001 EUR 16.000,52; 2000 TEUR 14)			
		3.042.827,77	2.389

Profit and loss account
for the business year
January 1, 2001 to December 31, 2001

	December 31, 2001 EUR	EUR	Dec. 31,2000 TEUR
1. Turnover		2.612.663,82	1.845
2. Increase or decrease in finished and unfinished goods		56.917,44	126
3. Other operating income			
a) Income from retirement of fixed assets	65,26		
b) Income from the reversal of accruals	0,00		21
c) Other	139.875,06		125
		139.940,32	147
4. Cost of materials and services			
a) Cost of materials	- 1.125.574,17		-1.016
		- 1.125.574,17	-1.016
5. Personnel expenses			
a) Wages	- 4.146,94		-3
b) Salaries	- 638.763,20		-640
c) For severance expenses	- 1.157,53		-8
d) Expenses for statutory social security, payroll-related taxes and mandatory contributions	- 163.706,70		-166
e) Other social benefits	- 6.691,51		-10
		- 814.465,88	-827
6. Depreciation and amortization			
a) Of fixed intangible and tangible assets	- 74.487,93		-80
		- 74.487,93	-80
7. Other operating expenses			
a) Taxes (other than income)	- 4.686,39		-3
b) Further operating expenses	- 565.602,51		-418
		- 570.288,90	-421
8. Subtotal		224.704,70	-228
9. Other interest and similar income		463,66	4
10. Interest and similar expenses		- 20.781,63	-7
11. Financial result		- 20.317,97	-4
12. Ordinary business result		204.386,73	-231
13. Income taxes		- 14.136,75	-3
14. Result of the year		190.249,98	-235
15. Release of untaxed reserves		6.912,71	7
16. Appropriation to untaxed reserves		0,00	-7
17. Profit / loss of the year		197.162,69	-234
18. Loss carry forward		- 942.605,93	-708
19. Cumulative losses		- 745.443,24	-943

NOTES

The Financial Statements for 2001 were drawn up according to the currently valid version of the regulations of the Austrian Comercial Code (HGB). In particular, the principles of accounting practice and the general standard set forth of the Austrian Commercial Code, according to which a true and fair view of the company's assets, earnings and financial position must be given, have been observed.

The accounting, the valuation and the information shown of the positions of the financial statement are carried out according to the general regulations pursuant to §§ 196 and 211 HGB with consideration of the special regulation for limited liability corporations pursuant to §§ 222 until 235 HGB.

I. Accounting and valuation principles

A. Fixed assets

Acquired intangible assets are recognized at cost and depreciated according to plan.

The Goodwill that was established on occasion of the contribution of the partnership shares held in SCOTTY Müller und Partner OEG (general partnership for professionals and other individuals not eligible for partnerships regulated by the Austrian Commercial Code) into SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft is shown as goodwill pursuant to § 202 (2) HGB. The actual value of the joint venturer share can be trace back to the existing goodwill. This is obvious from the paid in capital surplus, because of the capital increase, which was decided on December 4th 1998.

The goodwill is depreciated over a useful life of 15 years. This period complies with the expected useful life.

Tangible assets are valued at acquisition/manufacturing cost minus regular straight-line depreciation.
The depreciation is based on the regular straight-line depreciation. The depreciation rates for the tangible assets range between 25 % and 10 %.

Low valued assets are fully depreciated in the year of acquisition and are not subjected to a value reserve, as the volume of depreciation is and will not be material in this year and in the next years.
The value reserves to low valued assets kept until now are dissolved over the remaining useful life of assets.

Financial assets are stated at cost. If the expected impairment in value is permanent or if the value to be attributed on the balance sheet date is lower than the carrying amount, unscheduled depreciation is taken.

Non-interest bearing loans are stated at acquisition cost. They are not discounted at their cash value, as there are accrual commitments in the same amount.

B. Current assets

Raw materials and supplies are valued at stock book taken on the record date allowing for the principle of lower of cost or market.

Particular information for simplification of assessments
For advertising materials a standard value is shown pursuant to § 209 Abs. 1 HGB. Material quantitative variation of actual stock was not detected.

Finished goods and work in progress are capitalized at manufacturing or acquisition cost.

Accounts receivable are valued at cost. Recognizable risks are considered by showing the lower fair value according to the imparity realization principle.

Foreign currency receivables are converted using the exchange rate at the date of initial recognition or the lower exchange rate at balance sheet date.

C. Accruals

Accrued severance payment for the members of the board is constituted according to the employment contract. They are calculated financial and apply an interest rate of 6 % and a pension age of 56,5 years for women and 61,5 years for men.

Other accruals cover all foreseeable risks and contingencies as of the balance-sheet cutoff. These are assessed using generally accepted accounting standards.

D. Liabilities

Liabilities are stated at repayment amounts following the concept of prudence.

Foreign currency liabilities are valued either at the exchange rate valid on the day of accrual, or at the higher foreign-exchange rate valid as per balance-sheet cutoff.

II. Notes to the Balance Sheet

Assets

A. Fixed assets

The detailed development of fixed assets is shown in the Analysis of Fixed Assets.

Shares in affiliated companies

The participation of 100%, in SCOTTY Tele-Transport Corporation of the Americas, Inc. based in Atlanta, USA was established.

The participation represents EUR 478.109,68 as at January 1, 2001. In the present year an addition amounting to EUR 166.379,39 was taken.

In the financial statement of SCOTTY Tele-Transport Corporation of the Americas a shareholder's equity amounting to USD –65.901,00 (2000: -103.992,00) and a net loss of the year amounting to USD 110.709,00 (2000: net loss of the year USD 427.901,00) is shown.

The admitted loans receivable amounting to EUR 216.280,41 (2000: EUR 216.280,41) concern accounts receivable against the shareholders Ing. Andrea Bödenauer, DI Walter Müller and DI Kurt Kerschat. The basis of the admitted accounts receivable are the transfers from reserves of Scotty Müller & Partner OEG carried out by these shareholders and because of the contribution of assets into Scotty Teletransport Corporation AG on the key date September 30, 1998 as receivables of society against the shareholders.

According to agreement referring to this in the employment contract the term of this receivables coincide with the execution of function of the board of management through the nominated shareholders.

B. Current assets

The remaining duration of accounts receivable posted in the balance sheet break down as follows.

Accounts receivable analysis			According to Balance sheet	Remaining duration until 1 year	Therof with a remaining duration of more than 1 year
1.	Accounts receivables	2001	796.010,54	796.010,54	
		2000	497.197,11	497.197,11	
2.	Accounts receivable group	2001	376.937,24		376.937,24
		2000	153.626,30		153.626,30
3.	Other receivables and assets	2001	76.892,52	79.892,52	
		2000	123.818,04	123.818,04	
	Total	2001	1.249.840,30	872.903,06	376.937,24
		2000	774.641,46	621.015,16	153.626,30

The accounts receivable group result from transfer of goods and services.

Liabilities

A. Equity capital

Out of the loss carry forward of the year 2000 amounting to EUR 942.605,93 plus the annual profit amounting to EUR 197.162,69 results a net loss amounting to EUR 745.443,24.

In the current year a capital increase took place. The share capital was increased from the nominal price EUR 157.000,00 to EUR 175.000,00 through emission of 17.500 bearer shares – zero par value shares – in the value of EUR 1,00 each and a issuing price of EUR 14,00. The capital surplus is accounted for an appropriated reserve.

B. Untaxed reserves

Development of value reserve:

	As at 1.1. €	Use €	Allocation €	As at 31.12. €
Value reserve due to § 13 EStG	18.598,43	5.879,23	0,00	12.719,20

Development of other untaxed reserves:

Investment allowances due to § 10 EStG	As at 1.1. €	Release €	Allocation €	As at 31.12. €
1998	1.033,48	1.033,48	0,00	0,00
1998 (1.10. to 31.12)	436,11	0,00	0,00	436,11
1999	8.938,32	0,00	0,00	8.938,32
2000	2.204,60	0,00	0,00	2.204,60
	12.612,51	**1.033,48**	**0,00**	**11.579,03**

C. Accounts payable

The accounts payable posted in the balance sheet need the following explanations.

Payables/receivables ageing report		Total	Remaining duration until 1 year	Remaining duration until 5 years	in rem amount	collateralized method
1. Bank loans and overdrafts	2001	136.853,50	136.853,50			
	2000	188.993,22	188.993,22			
2. Accounts payable	2001	613.421,16	613.421,16			
	2000	411.597,09	411.597,09			
3. Accounts payable-group	2001	32.779,25		32.779,25		
	2000	26.832,99		26.832,99		
4 Other liabilities	2001	30.422,74	30.422,74			
	2000	24.708,32	24.708,32			
Total	**2001**	**813.476,65**	**780.697,40**	**59.612,24**		
	2000	652.131,62	625.298,63	26.832,99		

The accounts payable group concern trade payables.

Other financial commitments

The amount of other financial commitments not shown in the balance sheet comes to:

for the following fiscal year: EUR 760.000,00

(2000: EUR 41.358,11)

and for the following five fiscal years: round about EUR 3.800.000,00

(2000: EUR 180.955,36)

III. Notes to the Income statement

The income statement is set up by the expenditure total cost format (§ 231 Abs. 2 HGB).

IV. Other information

The financial statement is in accordance with statutory provisions.

The balance, the statement of income and the notes show according to the statutory provisions the business situation.

SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft has been initially registered in the company register at the State Court (in the function as Commercial Court) in Eisenstadt on November 13, 1998 (no FN 176545 a).

The Company has been initially registered in the company register at the State Court (in the function as Commercial Court) in Eisenstadt on November 13, 1998 (no FN 176545 a).

The share capital represents EUR 175.500,00 and is divided into no par shares whereby all grant a vote. The shares are bearer shares.

Executive Bodies

Last year the Board of Management consist of the shareholders Ing. Andreas Bödenauer, DI Kurt Kerschat, DI Walter Müller and Mag. Georg Weber.

The members of the Board of Management represent the company corporately with the other members of the Board of Management or with an authorized representative.

In the year 2001 the Supervisory Board consist of:

Herr Dr. Hans Peter Sauerzopf, Vienna, chairman since Oct. 15, 1999, member since Feb. 24, 1999

Herr Mag. Albert Ohandjanians, Vienna, deputy chairman since Feb. 24, 1999
Herr Dr. Ernst Wustinger, Vienna, member since Feb. 24, 1999

In 2001, the Supervisory Board held four meetings. Beyond its statutory duties and the approval of businesses requiring such approval, the Supervisory Board has no special duties.

In the year under review, SCOTTY employed an average of:

1 labour (part-time employees) (in 2000: 1)
16 employee (in 2000: 15)

EUR 234.813,19 were spent on the Board of Management emoluments (2000: EUR 198.165,96).

Graz,

Ing. Andreas Bödenauer e.h.
DI Kurt Kerschat e.h.
DI Walter Müller e.h.
Mag. Georg Weber e.h.

Analysis of fixed assets 2001

	Acquisition or Production Costs								
	as per Jan. 1, 2001 €	Additions €	Disposals €	Transfers €	as per Dec. 31, 2001	Accumulated depreciation €	Net book value as per Dec. 31, 2001 €	Net book value as per Jan. 1, 2001 €	Depreciation 2001 €
I. Intangible assets									
1. Concessions, patents, licences, trade marks and similar rights and assets	96.710,78	2.193,00	69.039,19	0,00	29.864,59	20.238,47	9.626,12	21.371,71	13.938,52
2. Goodwill	215.546,25	0,00	0,00	0,00	215.546,25	50.294,11	165.252,14	179.621,88	14.369,74
Subtotal	**312.257,03**	**2.193,00**	**69.039,19**	**-**	**245.410,84**	**70.532,58**	**174.878,26**	**200.993,59**	**28.308,26**
II. Tangible assets									
1. Machinery and equipment	20.932,36	-	0,00	0,00	20.932,36	20.890,98	41,38	2.182,87	2.141,49
2. Fixtures, fittings and tools	229.139,78	5.050,02	31.252,69	0,00	202.937,11	117.800,69	85.136,42	140.120,13	44.038,22
Subtotal	**250.072,14**	**5.050,02**	**31.252,69**	**0,00**	**223.869,47**	**138.691,67**	**85.177,80**	**142.303,00**	**46.179,71**
II. Financial assets									
1. Investments, therof group	478.109,68	166.379,39	0,00	0,00	644.489,07	0,00	644.489,07	478.109,68	0,00
2. Securities	218,02	0,00	0,00	0,00	218,02	0,00	218,02	218,02	0,00
3. Loans	216.280,41	0,00	0,00	0,00	216.280,41	0,00	216.280,41	216.280,41	0,00
Subtotal	**694.608,11**	**166.379,39**	**0,00**	**0,00**	**860.987,50**	**0,00**	**860.987,50**	**694.608,11**	**0,00**
Total	**1.256.937,28**	**173.622,41**	**100.291,88**	**0,00**	**1.330.267,81**	**209.224,25**	**1.121.043,56**	**1.037.904,70**	**74.487,97**

SCOTTY Tele-Transport Corporation
Radio- und Videoelektronik AG
Fn 176545a

MANAGEMENT REPORT 2001

Economic Environment

The reorientation on military, public institutions and partly broadcasting corporations has proved to be accurate. Scotty has an USP in the limited range of applications and it is evident that marketing efforts will lead in medium term or long term to a system decision of the above mentioned clientele for which Scotty is actually the sole provider. The impact of September 11 leads altogether to faster customers' decisions for systems which are offered by SCOTTY. It becomes evident in the first quarter 2002 that the efforts on market development were accurate. Above all the US engagement seems to be extremely interesting and lucrative for 2002 and the following years. The enhancement of the development of products, which offer usage of crypto devices, is a further argument for the customers in order to use SCOTTY products beyond video conference in the new areas of SatKom.

General Situation

Like in the year 2000 the sales cycle in new markets proceeded with a very slow but continuous business development.

The decision of the German Federal Armed Forces to place an order for APLB has now taken 18 months from the time of system decision up to the placing of the order. Similar decision periods are also expected from all other customers.

Based on a broad clientele and the already partially well progressed sales cycle in 2001 a positive net operating profit could be realized.

In detail the following development took place in relation to the year 2000:

- Sales could be increased by more than 40% from 1,844 million euro to 2,612 million euro.
- Cost of materials decreased from 55% in 2000 to 43% in 2001.
- Productivity per worker rises from euro 115,250 in 2000 to euro 153,647 in 2001.
- Cash position of the company developed in the fourth quarter positively and the company gained a positive cash-flow in the year 2001, with consideration of capital increase of about euro 220,000.

Intensified marketing efforts in the Arab and Asiatic area lead not only to a large number of distributors but also already to new final customers. Altogether the environment could be classified as positive, whereby the main issue lays within the dependency on the budget releases of the respective ministries since this causes continuously unexpected delays although the tenders were already won.

The cycle from the beginning of an acquisition up to the bargain of relevant orders over larger number of items seems to take on average 2-3 years.

In the USA a comprehensive marketing campaign with a good response started, the conversion of the started projects into actual sales takes already place and it is expected, that in 2002 SCOTTY should be the sole relevant offerer of mobile video communication solutions for public institution including military in the USA.

Generally the basis of single customers nearly doubled and Scotty is represented at least with a demo unit at nearly all strategically important customers; the unpleasant impact on September 11, 2001 had a positive influence on the demand for products of SCOTTY Tele Transport Corporation, whereby actual sales will take place in 2002 and the following years.

In the reporting period 2001 the budgeted target of break even was realized. In the year 2002, the profit of approx euro 200,000 in consideration of the complete settlement of the APLB project will exceed the expectations or the budgeted values.

Staff

The average number of employees in the year 2001 amounted to 17 persons and may be allocated to the following departments:

- 4 research and development
- 6 production
- 2 selling
- 1 part-time, cleaning
- 3 administration, secretariat, bookkeeping
- 1 head of Scotty USA

Research & Development

The development of APLB, the communication system for German Federal Armed Forces, has been completed and ESA supported 50% of the project costs. This project is a basis for a series of evolutions in i-boxes and mobile systems.

Currently the development of Scotty products which are based on the operating system windows 2000 takes place and binds existing resources.

All imponderables in connection with the replacement of materials, which are not quality conform or not available any more, were eliminated by the R&D department.

Investments

In the reporting period 2001 Scotty AG invested about euro 69,488, basically data processing programs, hardware and low-value items for production.
Invested money was below budget. In relation to the total sales of 2,61 million euro, this means a portion of 2,6 %.

Outlook for the year 2002

The sales of the first quarter 2002 increased by 500% compared to the first quarter 2001. Considering the incoming orders the budget for the year 2002 seems to be realistic. EBIT of approx 1 million euro with sales of approx 6 million euro seems to be feasible. Orders of approx 2,5 million euro for the second and third quarter support this assumption. An expansion of the manufacturing space and of the internal organization took place.

Until March 2002 no developments occurred, that would cause a negative effect on the financial year 2001.

Cash Flow			
	2000	2001	2002e
Result from ordinary activities	-231	204	1.210
- Taxes on income	-	-	-116
+ Depreciation	80	74	100
+ Interests	-4	-20	-
Free Cash Flow before financing activities	-155	258	1.194
- Interest	-4	-20	-
- Loan repayment	-	-	-
Cash Flow before Investments	-159	238	1.194
- Investment USA	-260	-100	50
- Investments	-109	-69	-200
Free Cash Flow	-528	69	1.044

The research and development division, like in the year 2001, works on product evolutions, whereby especially the adaptation of existing solutions to the wishes of the individual customer is accelerated. No research projects are planned for the year 2001, which could be submitted to ESA. The relocation of the head office to Grambach which now is only a branch office should be approved by the general assembly in 2002. The current head office Eisenstadt probably will become a branch office. No operational business will take place at the office in Eisenstadt.

Ing. Andreas Bödenauer e.h.

DI Kurt Kerschat e.h.

Mag. Georg Weber e.h.

DI Walter Müller e.h.

Auditors' Opinion

We have audited the financial statements of SCOTTY Tele-Transport Corporation Radio- und Videoelektronik Aktiengesellschaft for the year ended 31 December 2001, which have been set up by the Company's management in accordance with the Austrian Commercial Code. We conducted our audit in accordance with Austrian GAAS. After completion of our audit of the unabridged statutory financial statements established in German language for the business year ended **December 31 2001** of

SCOTTY Tele- Transport Corporation Radio und Videoelektronik Aktiengesellschaft, Eisenstadt,

we render the following **unqualified opinion** according to § 274 (1) HGB (Austrian Commercial Code)::

> "As the result of our due audit we can certify that the accounting records and the financial statements comply with the legal regulations. The financial statements give a true and fair view of the Company's assets, liabilities, financial position and profit or loss in conformity with generally accepted accounting principles. The Management Report corresponds with the financial statements."

Graz, am March 20, 2002

Bertl · Fattinger & Partner
Wirtschaftsprüfungs- und Steuerberatungs GmbH

Mag. Robert Kobierski Mag. Dr. Stefan Fattinger
Wirtschaftsprüfer und Steuerberater
(Austrian Chartered Accountant

SCOTTY Tele-Transport Corporation of the Americas, Inc.
(A Wholly Owned Subsidiary of SCOTTY AG)

BALANCE SHEETS

December 31, 2001 and 2000

ASSETS

	12/31/01	12/31/00
Current assets:		
Cash	$ 18,452.	$ 3,478.
Trade accounts receivable, net of allowance For doubtful accounts of 0	97,682.	922.
Accounts Receivable-Scotty AG	4,090.	0.
Inventory	128,333.	0.
Prepaid expenses	2,927.	2,814.
Total current assets	251,484.	7,214.
Property and equipment:		
Property and equipment at cost	53,777.	53,777.
Accumulated depreciation	(36,379.)	(31,699.)
Net property and equipment	17,398.	22,078.
Organizational costs, net of amortization	1871.	2,607.
Deposits	5,000.	5,199.
Total assets	$ 275,753.	$ 37,098.

(continued on next page)

See accompanying accountant's compilation report

SCOTTY Tele-Transport Corporation of the Americas, Inc.
(A Wholly Owned Subsidiary of SCOTTY AG)

BALANCE SHEETS

December 31, 2001 and 2000

LIABILITIES AND STOCKHOLDER'S EQUITY

	12/31/01	12/31/00
Current liabilities:		
Accounts payable – trade	$ 107.	$ 607.
Accrued expenses	2,185.	0.
Accounts payable - affiliate	328,224.	125,242.
Current portion of long-term debt	3,000.	3,000.
Total	333,516.	128,849.
Long-term debt, less current portion	8,138.	12,241.
Stockholder's equity:		
Common Stock, $1 par value, 1,000 shares authorized, 100 issued and outstanding	1,000.	1,000.
Paid in capital	613,771.	464,971.
Retained deficit	(680,672.)	(569,963.)
Total stockholder's equity	(65,901.)	(103,992.)
Total liabilities and stockholder's equity	$ 275,753.	$ 37,098.

See accompanying accountant's compilation report

SCOTTY Tele-Transport Corporation of the Americas, Inc.
(A Wholly Owned Subsidiary of SCOTTY AG)

STATEMENTS OF INCOME AND RETAINED DEFICIT

Years ended December 31, 2001 and 2000

	12/31/01	12/31/00
Net sales	$ 446,864.	$ 135,131.
Cost of Sales	286,601.	124,727.
Gross profit	160,263.	10,404.
Selling, general and administrative expenses	270,072.	436,796.
Loss from operations	(109,809.)	(426,392.)
Interest expense	900.	1,509.
Net loss	(110,709.)	(427,901.)
Beginning retained deficit	(569,963.)	(142,062.)
Ending retained deficit	$ (680,672.)	$ (569,963.)

See accompanying accountant's compilation report

SCOTTY Tele-Transport Corporation of the Americas, Inc.

Reconciliation of Equity per December 31, 2001
(Compiled) to Equity per January 1, 2002 (Audited)

	USD	USD
Accumulated Deficit per December 31, 2001 (Compiled)		(680,672.00)
Certificates of Deposit		
Capitalize Accrued Interest		598.00
Accounts Receivable		
Bad Debt Reserve		(1,600.00)
Fixed Assets		
Change in Estimate of useful Life of certain Assets	4,805.00	
Change Amortization of Organization Costs	(1,871.00)	2,934.00
Prepaid Insurance		
Amortization		(964.00)
Accruals		
Legal Costs	3,815.00	
Travel Expenses	5,000.00	
Straightlining of Lease Expense	1,587.00	(10,402.00)
Accumulated Deficit per January 1, 2002 (Audited)		**(690,106.00)**

NOTICE OF EXTRAORDINARY GENERAL MEETING

Motion Media PLC

(the **"Company"**)

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2908288)

Words and expressions defined in the AIM admission document accompanying this notice (and a copy of which shall, for the purposes of identification, be signed by the Chairman and be produced to the Meeting) shall have the same meanings in this Notice.

Notice is hereby given that an Extraordinary General Meeting of the Company will be held at Motion Media Technology Centre, Severn Bridge, Aust, Bristol BS35 4BL immediately following the conclusion of the Company's Annual General Meeting to be held on 28 July 2004 at 2.30 p.m. (or, if later, as soon as practicable after the Annual General Meeting of the Company convened for 2.00 p.m. on the same date has been concluded or adjourned), to consider and, if thought fit, pass the following resolutions, which will be proposed, in the case of resolutions numbered 6 and 7 as Special Resolutions and in the case of resolutions numbered 1-5 as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1) THAT the waiver granted by the Panel on Takeovers and Mergers of the obligation that would otherwise arise on the members of the Concert Party (as described in the Company's circular to shareholders of which this notice forms part) to make a general offer to the shareholders of the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers as a result of the issue of Ordinary Shares to them pursuant to the SCOTTY Agreement and the Offer of Ordinary Shares by the Company to (amongst others) the Concert Party, resulting in the Concert Party holding up to approximately 43.34 per cent. of the issued share capital of the Company immediately following Admission and up to 63.36 per cent. of the issued share capital of the Company if all of the Deferred Consideration Shares are issued be and it is hereby approved.

2) THAT conditionally upon the passing of Resolution 1 above:

   i) the acquisition by the Company of 183,095 SCOTTY Shares pursuant to the SCOTTY Agreement be and it is approved for the purposes of Rule 13 of the AIM Rules and the Directors be and are hereby authorised to cause the SCOTTY Agreement and all matters provided therein or related thereto to be completed and, at their discretion, to amend, waive, vary and/or extend any of the terms of the SCOTTY Agreement and/or any document referred to therein and / or connected therewith in whatever way they may consider to be necessary and / or desirable or do such acts and / or things as they may consider necessary and / or desirable in connection therewith provided that these are not material in relation to the SCOTTY Agreement as a whole; and

   ii) the acquisition by the Company of up to 2,888 SCOTTY Shares pursuant to the Offer be and it is approved for the purposes of Rule 13 of the AIM Rules and the Directors be and are hereby authorised to cause the Offer and all matters provided therein or related thereto to be completed and, at their discretion, to amend, waive, vary and/or extend any of the terms of the Offer and/or any document referred to therein and / or connected therewith in whatever way they may consider to be necessary and / or desirable or do such acts and / or things as they may consider necessary and / or desirable in connection therewith provided that these are not material in relation to the Offer as a whole; and

3) THAT, conditionally upon passing of resolutions 1 and 2 above the authorised share capital of the Company be and it is hereby increased from £4,000,000 to £15,000,000 by the creation of 1,100,000,000 additional ordinary shares of £0.01 each in the capital of the Company.

4) THAT, conditionally upon the passing of Resolutions 1-3 above and for the purposes of section 80 of the Companies Act 1985 ("the Act") and in substitution for and to the exclusion of all existing authorities the Directors be and they are hereby generally and unconditionally authorised to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £8,625,000 to such persons at such times and on such terms as they think proper, provided that £7,375,000 of such authority shall be limited to the allotment of:

   i) the Placing Shares and up to 10,525,000 of the Open Offer Shares;

   ii) the Initial Consideration Shares; and

   iii) the Deferred Consideration Shares.

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

5) THAT, conditionally on the passing of Resolution 4 above and in substitution for and to the exclusion of all existing authorities conferred on the Directors and the Company,the maximum number of Ordinary 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 25,000,000 Ordinary Shares of 1 pence each.

SPECIAL RESOLUTIONS

6) THAT, conditionally upon the passing of Resolution 4 above, the Directors be and they are hereby empowered pursuant to section 95(1) of the Act (to the exclusion of all and any existing authorities conferred on them) to allot for cash equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by Resolution 4 above and all other existing authorities as if section 89(1) of the Act did not apply to any such allotment provided that this power is limited to:

   i) the allotment of equity securities 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;

   ii) the allotment of the Placing Shares and up to 10,525,000 of the Open Offer Shares; and

   iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £1,445,350 and shall expire on the conclusion of the next AGM of the company after the passing of this resolution or the first anniversary of this resolution (whichever is earlier) save that the company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

7) THAT, conditional on Admission, the name of the Company be changed to SCOTTY Group plc.

BY ORDER OF THE BOARD,

Anthony Aldridge BA (Hons.), ACMA
Secretary

Dated 6 July 2004

Registered office:
Motion Media Technology Centre
Severn Bridge
Aust
Bristol
BS35 4BL

Notes:

1) **In order to comply with the City Code on Takeovers and Mergers, Resolution 1 will be taken on a poll. If any member of the Concert Party has any shares in the Company at the time of this EGM, they will not be entitled to vote on Resolution 1.**

2) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those holders of shares registered in the register of members as at 5.00 p.m. on 26 July 2004 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 5.00 p.m. on 26 July 2004 shall be disregarded in determining the right of any person to attend or vote at the Meeting.

3) A member of the Company 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, to vote instead of him. A proxy need not be a member of the Company. To be effective, a form of proxy must be deposited at Capita Registrars , The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the Meeting. A Form of Proxy is provided.

4) Completion and return of a form or proxy will not preclude a member from attending at the Meeting and voting in person should he wish to do so.

Printed by Park Communications, London 06/28418

FORM OF PROXY

MOTION MEDIA PLC (the **"Company"**)

I/We ....of

....being (a) member(s) of the Company hereby

appoint the chairman of the meeting/or...(see note 2) as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held on 28 July 2004 and at every adjournment thereof. I/We request such proxy to vote on the following resolutions as indicated below:

RESOLUTION	FOR	AGAINST
(1) To approve the waiver of an obligation under Rule 9 of The City Code on Takeovers and Mergers.		
(2) To approve the acquisition of SCOTTY Tele-Transport Corporation Radio – und Videoelektronik AG.		
(3) To approve an increase in the Company's authorised share capital		
(4) To authorise the directors to allot relevant securities.		
(5) To authorise the directors to issue securities pursuant to the sub-plan of the Company's Unapproved Executive Share Option Scheme for employees resident in the United States.		
(6) To empower the directors to allot equity securities for cash otherwise than on a pre-emptive basis.		
(7) To change the name of the Company to SCOTTY Group plc.		

Names of joint holders (if any) ....

Dated...2004

Signature ....

Notes:

(1) Please indicate with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
   (i) on any resolution referred to above if no instruction is given in respect of that resolution; and
   (ii) on any business or resolution considered at the meeting other than the resolutions referred to above.

(2) If you wish to appoint someone other than the chairman of the meeting as your proxy please delete the words 'the chairman of the meeting' and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.

(3) To be effective this form, and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be completed and returned by post to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH not less than 48 hours before the time for holding the meeting.

(4) Where the member is a corporation this form must be under its common seal or signed by an officer, attorney or other person duly authorised by the corporation.

(5) 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 of the holders appear in the register of members in respect of the joint holding.

(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.

(7) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those holders of shares registered in the register of members as at 5.00 p.m. on 26 July 2004 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 5.00 p.m. on 26 July 2004 shall be disregarded in determining the right of any person to attend or vote at the Meeting.

THIRD FOLD

BUSINESS REPLY SERVICE
Licence No MB122

2

Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent BR3 4BR

FIRST FOLD

SECOND FOLD