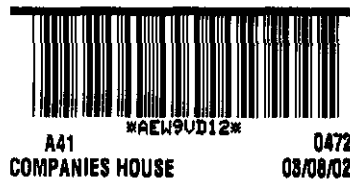


**Innovision Research & Technology
plc**

REPORT AND FINANCIAL STATEMENTS

31 March 2002



Company Registration No. 3024348

Innovision Research & Technology plc

FINANCIAL SUMMARY AND CHAIRMAN'S STATEMENT

FINANCIAL SUMMARY

Year Ended	31 March 1999	31 March 2000	31 March 2001	31 March 2002
	£'000	£'000	£'000	£'000
Turnover	1,208	1,940	2,338	1,114
Profit / (loss) before tax	325	653	355	(2,259)
Profit / (loss) after tax	257	468	315	(2,104)
Shareholders' funds	731	1,171	1,486	8,626
Earnings per share				
Basic	1.30	1.83	1.06	(5.35)
Diluted	1.30	1.83	1.06	(5.35)

Innovision Research & Technology plc

FINANCIAL SUMMARY AND CHAIRMAN'S STATEMENT

Chairman's Statement

Our first year as a public company has been focused on delivering our strategic plan of diversifying our customer base and maximising the long-term commercial potential of Datalabel, our Radio Frequency Identification (RFID) business. This year has seen the Company make significant progress against an uncertain global economic background, particularly in the second half, and has served to reinforce our belief in the scale of the opportunities available to the Company.

Turnover during the year under review continued to be predominantly toy-market driven and has been disappointing at £1.1m (2001: £2.3m). A number of factors influenced this result, including, as announced at our interims, the late cancellation of a \$1m+ toy contract, poor Christmas sales and overall caution by toy manufacturers in developing new products in the light of uncertain U.S. consumer spending. Despite this, strong cost and cash control has enabled our pre-tax loss of £2,259,000 (2001: £355,000 profit) and operating cash outflow of £2.5m (2001: £0.8m) to remain in line with expectations and at the year end the Company had cash on deposit of £7.3m (2001: £864,000).

Despite the difficult year for our toy business, we have succeeded in greatly diversifying our customer base and new licenses have been signed with Mattel, Jakks Pacific Inc. and a number of major European toy companies including Ravensburger Spielverlag GmbH. Many of these projects are due for production in 2002 with the full royalty revenue impact in 2003. Enquiries for future toy products are at a high level and we have identified a number of potential customers within related markets such as promotional items, which are expected to offer more predictable revenue opportunities. The Company will continue to use the toy industry to provide both profitable royalty revenue and as a development and testing ground for robust, novel and very low cost technologies.

In other areas, the volume of enquiries has continued to grow and development agreements are now in place with four companies including one of Europe's largest FMCG groups and a Fortune 100 consumer products corporation. We anticipate converting these and other opportunities to full licenses over the coming months with royalties commencing during 2003. In addition, the Datalabel teaming agreement with a major US logistics supply company is rapidly progressing to a full licence and both companies are working hard to ensure the inclusion of RFID capabilities within their product range as soon as possible. A number of earlier stage opportunities are also moving to contract and we anticipate that our existing teaming agreement with a market-leading supplier to the transport sector will soon result in the signing of a development contract and full licence.

The focus on acquiring new customers in the year has been complemented by a 91% increase in our internal research and development spend to £772,000 (2001: £404,000). Key in-house achievements include the development of an RFID tag costing less than 5 cents, significant progress towards producing "chipless" anti-counterfeiting technologies and the design of low cost tags to exploit specific market opportunities. The close relationship with QinetiQ (formerly the major part of DERA) has continued and has resulted in a number of long-term technology opportunities being identified, and I am pleased to announce that we have now signed a joint commercialisation agreement for one such innovative new technology.

In addition the Company is working with three other potential R&D partners. One of these, Roke Manor Research, a division of Siemens, recently formalised its arrangement to enable both parties to consider the potential and planned exploitation of selected technologies. We look forward to developing the commercial potential of these relationships.

During the year we have continued to invest in the people necessary to ensure our long-term success. Dr. Bruce Smith CBE, a prominent member of the UK scientific community, joined the Board in July 2001 as Senior Non-Executive Director and Peter Symons was promoted to the position of Technical Director in January 2002. Both appointments bring superb technical knowledge, business ability and new ideas to the team. We have also recruited 23 new people during the year with our focus being on enhancing our sales capability, including a U.S. presence, and ensuring that the technical resources are available to support our expansion. With staff numbers now at 61 (2001:38) we have the expertise in place to deliver the Company's planned growth and we do not envisage any significant new recruitment in the coming year.

Overall, despite disappointing sales last year, I remain confident of our future revenue growth potential. This confidence is supported by the recent significant commercial progress with Datalabel, the success in diversifying our toy business and the record levels of enquiries across all areas. The development of new low-cost tags by our

Innovision Research & Technology plc

FINANCIAL SUMMARY AND CHAIRMAN'S STATEMENT

research team and the progress with our R&D partners also provides great commercial opportunities for the future. I look forward to building on the achievements of the past 12 months and thank everyone in the Company for their hard work and support.

Barton Clarke CBE

Innovision Research & Technology plc

DIRECTORS AND ADVISERS

Directors And Advisers

Directors

Barton James Clarke, CBE, Executive Chairman
Marc Adrian Borrett, Managing Director
Andrew David White, Director of Innovation
Michael John Wroe, ACA, Finance Director
Peter Robert Symons, Technical Director
Dr Bruce Gordon Smith, CBE, Senior Non-Executive Director
Kenneth Stanley Taylor, Non-Executive Director

Secretary

Michael John Wroe, ACA

Nominated Adviser and Stockbroker

Peel Hunt plc
62 Threadneedle Street
London EC2R 8HP

Auditors

Baker Tilly
2 Bloomsbury Street
London WC1B 3ST

Solicitors

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Bankers

National Westminster Bank plc
5 Broad Street
Wokingham
Berkshire RG40 1AX

Registrars

Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Registered Office

Ash Court, 23 Rose Street, Wokingham, Berkshire RG40 1XS

Innovision Research & Technology plc

THE BOARD OF DIRECTORS

The Board

Details of the Directors, their roles and their backgrounds are as follows:

Barton Clarke, CBE, (Executive Chairman, aged 67)

Barton Clarke's long career in the electronics industry began with Decca Radar in 1957. He became chairman and chief executive of the Racal Defence Radar and Avionics Group and subsequently chairman of the Racal Defence Electronics Group. He was a main board member of Racal Electronics plc from 1985 until his retirement in 2000 and in 1988 he received a CBE for services to export. Barton joined the Innovision Research & Technology Board in September 2000.

Marc Borrett, (Managing Director, aged 32)

Marc Borrett co-founded the Company with Andrew White in July 1994 and has additional responsibility for the Company's commercial activities. Marc began his career at Hewlett-Packard in 1990. He joined The Innovations Group Limited in 1992 where he remained until 1994 as a retail marketing manager, including a period running their Hong Kong office.

Andrew White, (Director of Innovation, aged 40)

Andrew White's career began with Racal Research in 1977, where he designed high speed data encryption systems. From 1981 he worked in ASIC design for Philips Semiconductors and in 1984 joined Gothic Crellon to set up an ASIC design house. He undertook product design for the Innovations Group Limited for four years before co-founding Innovision Research & Technology in 1994.

Michael Wroe, ACA, (Finance Director, aged 33)

Michael Wroe qualified as a chartered accountant with Deloitte & Touche in 1992, before joining Whitbread plc in 1994. He has performed finance director roles for Air France Servisair Limited, a division of Servisair plc, and Staveley Industries plc's facilities management and maintenance division, from where he joined Innovision Research & Technology as Finance Director in September 2000.

Peter Symons, (Technical Director, aged 45)

Peter Symons joined the Board in January 2002 having been Chief Technology Officer since March 2001. A Chartered Engineer and Fellow of the Institute of Electrical Engineers, Peter was previously Head of the Electronics Research Group at AWE Aldermaston and has also worked for Thorn EMI and Digital Microsystems.

Dr Bruce Smith, CBE, (Senior Non-Executive, aged 62)

Dr Bruce Smith has been involved in a wide variety of senior roles in the electronics and high technology industries. These include the BNSC Earth Observation Programme Board, British Maritime Technology Ltd and the founding of the highly successful Smith System Engineering Ltd. He is currently Chairman of the National Space Science Centre and of The Smith Institute for Industrial Mathematics and System Engineering, a governor of Imperial College and the University of Southampton, and a Domus Fellow of St. Catherine's College, Oxford.

Kenneth Taylor, (Non-Executive, aged 57)

Kenneth Taylor joined the Board in May 2000, following a long career in the City. This career included working at Scott Goff Layton & Co., Smith New Court plc (where he was appointed to the board in 1992) and Merrill Lynch where he was managing director of various business areas until his retirement in December 1998.

Innovision Research & Technology plc

DIRECTORS' REPORT

The directors submit their report and the financial statements of Innovision Research & Technology plc for the year ended 31 March 2002.

Business of the Company

Innovision Research & Technology plc is a technology solutions provider, focusing on electronic related technologies developed either in house or with partners. These technologies are then licensed to customers.

The year under review has again been one of significant investment in people and resources as discussed in more detail in the Chairman's Statement on pages 2 and 3. The flotation of the Company on the Alternative Investment Market of the London Stock Exchange on the 6 April 2001 provided the capital to fund this investment and the focus of the Company is to now realise significant revenue streams from its technology portfolio.

The results of the Company are set out in the profit and loss account on page 13. The trading loss for the year after taxation was £2,104,000. The directors do not recommend the payment of a dividend which leaves the retained loss of £2,104,000 to be transferred to reserves.

Directors and Directors' Interests

The following directors have held office during the year:

BJ Clarke CBE
MA Borrett
AD White
MJ Wroe
PR Symons (appointed 10 January 2002)
Dr BG Smith CBE (appointed 1 July 2001)
KS Taylor

Directors' Interests in Shares

a) Ordinary Shares

	Ordinary shares of 1p each 31.3.02	Ordinary shares of 1p each 31.3.01
BJ Clarke	100,000	-
MA Borrett	8,752,377	9,990,000
AD White	7,749,901	8,740,000
MJ Wroe	5,000	-
Dr BG Smith	25,000	-
KS Taylor	1,938,420	1,938,420

As part of the company's flotation on the Alternative Investment Market (AIM) of the London Stock Exchange on 6 April 2001, Barton Clarke subscribed for 100,000 Ordinary shares, Michael Wroe subscribed for 5,000 Ordinary shares and Marc Borrett and Andrew White sold 1,237,623 and 990,099 Ordinary shares respectively.

Innovision Research & Technology plc

DIRECTORS' REPORT

b) Share Options

	Scheme	Date of Grant	Number of Share options	Exercise Price	Exercise period From - To
Barton	EMI scheme	15/02/01	222,220	45p	15/2/04-15/2/11
Clarke	Unapproved scheme	15/02/01	24,780	45p	15/2/04-15/2/11
Michael	EMI scheme	15/02/01	110,000	45p	15/2/04-15/2/11
Wroe	EMI scheme	17/01/02	91,800	55p	17/1/05-17/1/12
	Unapproved scheme	17/01/02	108,200	55p	17/1/05-17/1/12
Peter	Approved scheme	13/03/01	50,000	45p	13/3/04-13/3/11
Symons	EMI scheme	17/01/02	100,000	55p	17/1/05-17/1/12

No Directors' options were exercised or lapsed during the year. The market price of the shares at 31 March 2002 was 38.5p and the range during the year was 38.5p to 140p.

Payment Policy

The Company does not follow any formal code or standard on payment practice. In the absence of dispute, amounts due to trade creditors are settled as expeditiously as possible within their terms of payment. Trade creditors at the year-end represented approximately 24 days of purchases.

Introduction of the Euro

All relevant parts of the Company will be able to handle euro transactions when required.

Share Capital

Movements in the share capital of the Company are set out in note 12 to the accounts.

Research and Development

Research and Development is an integral part of the Company's activities and considerable investment was made during the period. The amount of £772,000 (2001: £404,000) has been charged to the profit and loss account.

Donations

Charitable donations of £625 were made during the financial year. No donations were made for political purposes.

Employees

The Company has a policy of involving employees at all levels and keeping them informed through regular briefing sessions conducted by the Directors.

Health & Safety and the Environment

The Company is committed to upholding the highest standards of health and safety and environmental protection for the benefit of its employees, the public at large and the environment.

Annual General Meeting

Notice of the Annual General Meeting and explanatory notes on the proposed resolutions are given in the notice to shareholders on pages 25 and 26.

Innovision Research & Technology plc

DIRECTORS' REPORT

Substantial Shareholdings

Other than the holdings of the Directors, which are set out above, the Directors are aware of the following who, as at 11 June 2002, were interested, directly or indirectly, in 3 percent or more of the Company's share capital:

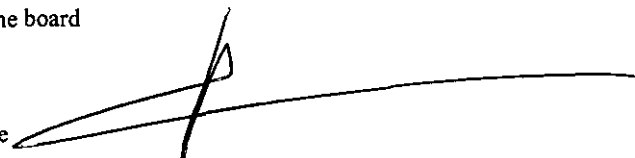
	<i>No. of Ordinary Shares of 1p each</i>	<i>Percentage of Issued Share Capital</i>
Vidacos Nominees Limited	3,145,000	7.95%
C Low	2,238,420	5.66%
P Roy	2,238,420	5.66%
M Marks	2,238,420	5.66%
M Sperring	1,925,920	4.87%
Chase Nominees Limited	1,363,500	3.45%
Morstan Nominees Limited	1,257,039	3.18%

Auditors

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board

Michael Wroe
Secretary



14 June 2002

Innovision Research & Technology plc

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The company is not specifically required to comply with the Combined Code on corporate governance, however the Board will seek to comply with the code wherever practical and appropriate for a company of its size.

Set out below is a summary of how, at 31 March 2002, the Company was dealing with the detailed requirements of the Combined Code.

Audit Committee

The Audit Committee comprised of the two Non-Executive Directors and the Finance Director and was, therefore, not in compliance with the Combined Code requirement of three Non-Executive members for the period. The Board considers the current committee appropriate for a company of this size.

Remuneration Committee

The Non-Executive Directors form the Remuneration committee. Its key role is to make recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine on behalf of the Board specific remuneration packages for each of the Executive Directors.

Directors' Training

Although there is no formal training programme, the Company provides Directors' training as and when necessary.

Senior Independent Director

Dr Bruce Smith, CBE, is the Senior Independent Non-Executive Director.

Board Composition

The Board consisted of five Executive and two Non-Executive Directors. Thus the recommendation for the Non-Executive Directors to make up one third of the Board is not being met. The Board considers the current structure appropriate, particularly given the strategic overview role of the Executive Chairman.

There are processes in place enabling Directors to take independent advice at the Company's expense in the furtherance of their duties and to have access to the advice and services of the Company Secretary.

Internal Audit

The Board considers that there is no necessity at the present time to establish an independent internal audit function.

The Board will periodically review the need for an internal audit function.

Internal Controls and Risk Management

The Board of Directors is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against misstatement or loss.

Key aspects of the Company's internal financial control system are:

- The Board is responsible for overall strategy and for approving budgets, major capital expenditure, forecasts, plans and dividend policy.
- The Company holds meetings every month at which the management accounts, together with reports covering all significant activities are considered.
- The Company has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management and external audit to the extent necessary to arrive at their audit opinion.

Innovision Research & Technology plc

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

- The Company is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations.
- The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Company's objectives. Lines of responsibility and delegations of authority are documented.
- The appointment of all Directors is a formal process involving all members of the Board. From time to time subcommittees of the Board, comprising both Executive and Non-Executive Directors are established to approve the detail of matters tabled at full Board meetings.
- All Executive Directors are appointed on a rolling contract with not more than 12-month notice periods and the Non-Executives are appointed for fixed terms not exceeding one year.
- The Non-Executive Directors monitor the Company's performance and the actions of the Management. In addition the Non-Executives play a major role in the various committees of the Board. They are kept fully informed of all major operational and strategic issues.

The Board reviewed many aspects of financial internal controls as part of the preparation for flotation on AIM in April 2001. The process of monitoring and updating internal controls continues throughout the year and is being supplemented by the implementation of a risk management process, the focus being to review existing processes and practices in order to facilitate effective risk management based on sound internal controls.

Going Concern

The Board is required to report as to whether it is appropriate for the financial statements to be prepared on a going concern basis. The company's finances are currently sound and the net funding position is positive. The Board therefore continues to adopt the going concern basis in preparing the financial statements.

Innovision Research & Technology plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- d. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Company's website.

Independent Auditors' Report To The Members Of Innovision Research & Technology Plc

We have audited the financial statements on pages 13 to 24.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Accounting 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 to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY
Registered Auditors
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

14 June 2002

Innovision Research & Technology plc
PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2002

	<i>Notes</i>	2002 £'000	2001 £'000
Turnover	1	1,114	2,338
Cost of sales		(151)	(156)
Gross profit		<u>963</u>	<u>2,182</u>
Administrative expenses		(3,633)	(1,910)
Operating (loss) / profit		<u>(2,670)</u>	<u>272</u>
Interest receivable		411	83
(Loss) / profit on ordinary activities before taxation	2	<u>(2,259)</u>	<u>355</u>
Taxation	4	155	(40)
Retained (loss) / profit for the year	14	<u>(2,104)</u>	<u>315</u>
(Loss) / earnings per share	5	Pence per share	Pence per share
Basic		(5.35)	1.06
Diluted		(5.35)	1.06

The operating loss for the year arises from the company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

Innovision Research & Technology plc

BALANCE SHEET

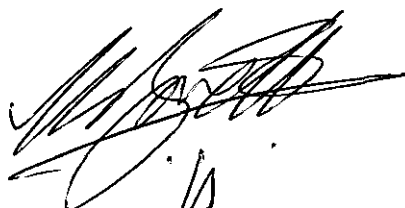
31 March 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	6	511	173
Investments	7	14	-
		<u>525</u>	<u>173</u>
Current assets			
Debtors	8	1,175	891
Cash at bank and in hand	11	7,296	864
		<u>8,471</u>	<u>1,755</u>
Creditors: Amounts falling due within one year	9	(370)	(440)
Net current assets		<u>8,101</u>	<u>1,315</u>
Total assets less current liabilities		8,626	1,488
Provisions for liabilities & charges	10	-	(2)
Net assets		<u>8,626</u>	<u>1,486</u>
Capital and reserves			
Called up share capital	12	395	296
Share premium	13	9,834	689
Profit and loss account	14	(1,603)	501
Shareholders' funds	15	<u>8,626</u>	<u>1,486</u>

Approved by the board on 14 June 2002

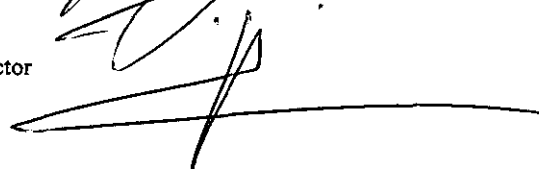
Marc Adrian Borrett

Director



Michael John Wroe

Director



Innovision Research & Technology plc

CASH FLOW STATEMENT

for the year ended 31 March 2002

	<i>Notes</i>	2002 £'000	2001 £'000
Net cash outflow from operating activities	17A	(2,505)	(803)
Returns on investments and servicing of finance			
Interest received		238	56
Taxation		(44)	(180)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(487)	(126)
Sale of tangible fixed assets		-	5
Purchase of investments		(14)	-
Net cash flow for capital expenditure and servicing of finance		(501)	(121)
Cash outflow before use of liquid resources and financing		(2,812)	(1,048)
Management of liquid resources			
(Increase) / decrease in treasury deposit account		(6,273)	950
Financing			
Proceeds from share issue		9,244	-
Increase / (decrease) in cash in year		159	(98)
Reconciliation of net cash flow to movement in net funds			
Increase / (decrease) in cash in year		159	(98)
Cash inflow / (outflow) from increase / (decrease) in liquid resources		6,273	(950)
Change in net funds resulting from cashflow		6,432	(1,048)
Opening net funds		864	1,912
Closing net funds	17B	7,296	864

Innovision Research & Technology plc

ACCOUNTING POLICIES

Basis of accounting

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

The following accounting policies are consistent with those used in previous years except with regard to deferred taxation. This change has been made to comply with Financial Reporting Standard no.19, the new accounting standard on deferred taxation, which is applied to the financial statements for the first time. The adoption of this new standard has had no impact on the deferred tax liabilities reported in prior years.

Basis of consolidation

The Company has taken advantage of Section 229(2) Companies Act 1985 not to prepare consolidated accounts as its only subsidiary is dormant and its inclusion is not material for the purpose of giving a true and fair view. Therefore, these financial statements present information about the company as an individual undertaking and not about its group.

Turnover

Turnover represents income earned for the accounting period in accordance with the principles set out below, exclusive of Value Added Tax.

Development fees earned from customers are recognised as income in the period during which the development work is carried out. Licence fees are recognised as income over the period during which the Company is obliged to provide services to the customer pursuant to the terms of the license.

Royalties are computed by reference to product sales achieved by customers and are recognised as income of the Company in the period in which the product sales take place. Advanced royalties are included in creditors and released to income as customers achieve product sales, except that where advanced royalties are not refundable to the customer the balance of the royalties is released to income if production of a product never commences or if sales of a product become insignificant. Guaranteed royalty amounts not directly related to sales volume are treated as income of the guarantee period specified in the contracts.

Research and development expenditure

Research and development expenditure is charged to the profit and loss account as incurred.

Tangible fixed assets

Fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Fixtures, fittings and equipment	25% - 50% straight line
Motor vehicles	25% straight line

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Leased assets and obligations

All leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line

Innovision Research & Technology plc

ACCOUNTING POLICIES

basis over the lease term.

Pension costs

The pension costs charged in the financial statements represent the contributions payable by the Company during the year to the personal pension plans of certain directors and to employees as part of a Group Personal Pension Plan introduced in October 2001.

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2002

1 Turnover

The Company's turnover was all derived from its principal activity and was made to the following geographical markets:

	2002 £'000	2001 £'000
United Kingdom	54	113
United States of America	889	2,177
Europe	154	35
Rest of the World	17	13
	<u>1,114</u>	<u>2,338</u>

Sales by business activity were as follows:

Development engineering	236	559
License fees and technology sales	217	75
Royalties	661	1,704
	<u>1,114</u>	<u>2,338</u>

2 Profit on ordinary activities before taxation

2002 £'000	2001 £'000
---------------	---------------

Profit on ordinary activities before taxation is stated after charging/(crediting):

Auditors' remuneration:

Audit fees	12	10
Other	19	13
Depreciation of tangible fixed assets	149	58
Exchange rate (profit)/loss	4	(15)
Research & development costs	772	404
Operating lease rentals:		
Land and buildings	150	150
Motor vehicles	15	14

Share issue costs in the share premium account (note 13) include auditors' non-audit remuneration of £94,000 (2001: nil)

3 Employees

2002 No.	2001 No.
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The average monthly number of persons (including directors) employed by the company during the period was:

Marketing and administration	18	10
Research and engineering	34	22
	<u>52</u>	<u>32</u>

2002 £'000	2001 £'000
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Staff costs for the above persons:

Wages and salaries	2,034	1,093
Social security costs	203	118
Pension contributions	51	15
	<u>2,288</u>	<u>1,226</u>

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Directors' emoluments

	Basic Salary £'000	Benefits £'000	Pension £'000	Total 2002 £'000	Total 2001 £'000
Barton Clarke	40	-	-	40	11
Marc Borrett	90	11	9	110	89
Andrew White	85	11	9	105	88
Michael Wroe	77	9	9	95	50
Peter Symons*	16	-	1	17	-
Dr Bruce Smith*	15	-	-	15	-
Kenneth Taylor	20	-	-	20	10
	<u>343</u>	<u>31</u>	<u>28</u>	<u>402</u>	<u>248</u>

Marc Borrett, Andrew White, Michael Wroe and Peter Symons each have personal pension plans to which the Company contributes. Contributions in the year to 31 March 2002 are shown above (2001:£15,000).

* Dr Bruce Smith and Peter Symons were appointed as Directors on 1 July 2001 and 10 January 2002 respectively.

4	Taxation	2002 £'000	2001 £'000
	Based on the profit for the year:		
	UK corporation tax	(44)	42
	Research & development tax credit	(111)	-
	Over provided in previous years	2	(4)
		<u>(153)</u>	<u>38</u>
	Deferred taxation	(2)	2
		<u>(155)</u>	<u>40</u>
	Factors affecting tax charge for the period	2002 £'000	2001 £'000
	The tax assessed for the period is lower than the standard rate of corporation tax for companies with small profits (20%). The differences are explained below:		
	(Loss) / profit on ordinary activities before tax	(2,259)	355
		<u>(2,259)</u>	<u>355</u>
	(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax of 20%	(452)	71
	Effects of:		
	Expenses not deductible for tax purposes	15	4
	Capital allowances less than / (in excess of) depreciation	30	(3)
	Research & development tax relief	(19)	(30)
	Losses carried forward	271	-
	Adjustment to tax charge in respect of previous periods	2	(4)
	Current tax (credit) / charge for the period	<u>(153)</u>	<u>38</u>

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2002

The Company had unutilised tax losses of £1,355,000 at 31 March 2002 which are available to offset against future taxable profits. No deferred tax asset has been recognised in respect of these losses.

5 (Loss) / earnings per share

Basic loss per share has been calculated by dividing the loss for the year of £2,104,000 (2001: £315,000 profit) by the weighted average number of shares in issue during the year. The weighted average number of shares in issue during the year was 39,384,722 (2001: 29,629,600).

There is no dilution in the loss per share as a result of outstanding options. Diluted earnings per share in respect of 2001 was calculated by dividing the profit for the year of £315,000 by the weighted average number of shares referred to above, plus the weighted average number of shares available under share options outstanding during the period. On this basis, during that year the weighted average number of shares in issue was 29,629,600.

6 Tangible fixed assets

	<i>Fixtures, fittings and equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost			
1 April 2001	281	22	303
Additions	450	37	487
31 March 2002	731	59	790
Depreciation			
1 April 2001	121	9	130
Charged in the year	139	10	149
31 March 2002	260	19	279
Net book value			
31 March 2002	471	40	511
31 March 2001	160	13	173

7 Investments

The Company paid £14,000 during the year for 5,000 ordinary 1p shares in E-Fuels Technology Limited, representing 5% of the issued share capital.

The Company's only other investment is an investment of £2 in the shares of its dormant subsidiary undertaking, Innovision Concepts Limited. This investment represents 100% of the issued ordinary share capital. The capital and reserves of the subsidiary at the year end amounted to £(81,377) (2001: £(81,377)). This deficit represents amounts due to the Company and is fully provided within the Company's accounts.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2002

8	Debtors	2002 £'000	2001 £'000
	Due within one year:		
	Trade debtors	505	388
	Other debtors	201	56
	Prepayments and accrued income	293	271
		<u>999</u>	<u>715</u>
	Due after more than one year:		
	Other debtors	176	176
		<u>1,175</u>	<u>891</u>
9	Creditors: Amounts falling due within one year	2002 £'000	2001 £'000
	Trade creditors	125	70
	Corporation tax	-	42
	Other taxation and social security and pensions	81	42
	Accruals and deferred income	164	286
		<u>370</u>	<u>440</u>
10	Provisions for liabilities & charges		
			Deferred tax 2002 £'000
	1 April 2001		2
	Transfer to profit and loss account		(2)
	31 March 2002		<u>-</u>
		Deferred tax provided	Unrecognised deferred tax asset
		2002 £'000	2001 £'000
	Tax effect of timing differences:		
	On accelerated capital allowances	-	4
	Losses	-	(271)
	Other timing differences	-	(2)
		<u>-</u>	<u>(310)</u>
		<u>2</u>	<u>-</u>

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2002

11 Financial instruments

The Company's financial instruments comprise cash balances as follows:

	2002 £'000	2001 £'000
Sterling money market deposit	7,123	850
Current accounts	173	14
	<u>7,296</u>	<u>864</u>

The Company holds small balances in foreign currencies to meet current trading requirements. Cash surplus to immediate requirements is held on money market deposit at varying rates of interest.

The Company's income is received principally in US Dollars. Where practical in respect of timings and certainty of amounts, the Company considers the use of forward exchange facilities to hedge individual foreign currency transactions. Included in debtors due within one year is £425,476 (2001: £567,067) relating to balances designated in US Dollars and £79,772 (2001: nil) designated in Euros. Similarly, creditors due within one year includes £8,957 (2001: £186,500) relating to balances designated in US Dollars.

12 Share capital

	2002 £'000	2001 £'000
Authorised:		
60,000,000 ordinary shares of 1p each	600	600
Allotted, issued and fully paid:		
39,554,390 (2001: 29,629,600) ordinary shares of 1p each	395	296

On 6 April 2001 the company issued 9,900,990 1p ordinary shares at 101p each as part of a placing of shares and admission to the Alternative Investment Market of the London Stock Exchange.

On 18 July 2001, 23,800 1p ordinary shares were issued at 45p each as part of the exercise of a share option agreement.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2002

Share Options

At the year end the following share options were outstanding:

Scheme	Date of grant	Number of shares for which rights are exercisable		Exercise Price	Exercise period From - To
		31.03.02	01.04.01		
EMI scheme	15/02/01	1,037,220	1,117,220	45p	15/2/04-15/2/11
EMI scheme	13/03/01	20,000	95,000	45p	13/3/04-13/3/11
EMI scheme	23/07/01	50,000	-	94.5p	23/7/04-23/7/11
EMI scheme	07/01/02	280,000	-	55p	23/7/04-23/7/11
EMI scheme	17/01/02	191,800	-	55p	17/10/5-17/1/12
Approved scheme	15/02/01	575,000	592,500	45p	15/2/04-15/2/11
Approved scheme	13/03/01	50,000	50,000	45p	13/3/04-13/3/11
Approved scheme	23/07/01	54,000	-	94.5p	23/7/04-23/7/11
Approved scheme	07/01/02	119,000	-	55p	07/1/05-07/1/12
Unapproved scheme	15/02/01	24,780	24,780	45p	15/2/04-15/2/11
Unapproved scheme	17/01/02	108,200	-	55p	17/1/05-17/1/12
Other	13/03/01	30,000	30,000	45p	13/3/04-13/3/11
		<u>2,540,000</u>	<u>1,909,500</u>		

13	Share premium	2002 £'000	2001 £'000
	1 April 2001	689	954
	Premium on allotment during the year	9,911	-
	Bonus shares issued as fully paid	-	(278)
	Costs associated with share issue	(766)	-
	Cancellation of shares held by Company	-	13
	31 March 2002	<u>9,834</u>	<u>689</u>
14	Profit and loss account	2002 £'000	2001 £'000
	1 April 2001	501	186
	(Loss) / profit for the financial year	(2,104)	315
	31 March 2002	<u>(1,603)</u>	<u>501</u>

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NOTES TO THE FINANCIAL STATEMENTS
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15	Reconciliation of movement in shareholders' funds	2002 £'000	2001 £'000
	(Loss) / profit for the financial year	(2,104)	315
	Proceeds from share issue	9,244	-
	Net addition to shareholders' funds	7,140	315
	Opening shareholders' funds	1,486	1,171
	Closing shareholders' funds	8,626	1,486
16	Commitments under operating leases		
	At 31 March 2002 the Company had annual commitments under non-cancellable operating leases as follows:		
		2002 £'000	2001 £'000
	Land and buildings expiring after five years	150	150
	Other expiring in the second to fifth year	12	11
		162	161
17	Cashflows	2002 £'000	2001 £'000
A	Reconciliation of operating profit to net cash outflow from operating activities		
	Operating (loss) / profit	(2,670)	272
	Depreciation	149	58
	Loss on sale of fixed assets	-	1
	Decrease / (increase) in debtors	44	(548)
	Decrease in creditors	(28)	(586)
	Net cash (outflow)/inflow from operating activities	(2,505)	(803)
		At 1 April 2001 £'000	Cash flows £'000
B	Analysis of changes in net funds		At 31 March 2002 £'000
	Cash at bank and in hand	14	159
	Short term bank deposits	850	6,273
		864	7,296