

Innovision Research & Technology
plc

REPORT AND FINANCIAL STATEMENTS

31 March 2001



Company Registration No. 3024348

Innovision Research & Technology plc

FINANCIAL HIGHLIGHTS AND CHAIRMAN'S STATEMENT

FINANCIAL HIGHLIGHTS

Turnover up 21% to £2.3m

Staff numbers up 46% to 38.

Investment in Research and Development up 49% to £404,000.

29 patents or patent applications now registered.

Successful flotation of Company on AIM achieved shortly after the year end.

FINANCIAL SUMMARY

Year Ended	31 March 1998	31 March 1999	31 March 2000	31 March 2001
	£'000	£'000	£'000	£'000
Turnover	1,137	1,208	1,940	2,338
Profit before tax	187	325	653	355
Profit after tax	187	257	468	315
Shareholders funds	474	731	1,171	1,486
Earnings per share				
Basic	0.75	1.30	1.83	1.06
Diluted	0.75	1.30	1.83	1.06

Innovision Research & Technology plc

FINANCIAL HIGHLIGHTS AND CHAIRMAN'S STATEMENT

Chairman's Statement

I am delighted to be presenting my first statement as Chairman of Innovision Research & Technology plc at such an exciting stage in the development of the company. During the year under review, the company continued to grow its revenues, with turnover up 21 per cent., whilst at the same time accelerating investment in people and technologies to facilitate future growth.

The flotation of the company on the Alternative Investment Market of the London Stock Exchange took place after the year-end (6 April 2001). However, the foundations of our next stage of growth were firmly laid during year.

The Board was strengthened during the year with the addition of three directors. Kenneth Taylor, who has considerable City experience, joined the Board in May 2000 as a Non-Executive with both myself and Michael Wroe, the Finance Director, joining in September 2000. In addition, the company was fortunate during the year to recruit a number of high quality new managers and staff with our overall personnel numbers rising by 46 per cent. (from 26 at 31 March 2000 to 38 at 31 March 2001.)

During the year all staff were awarded share options to enable them to participate in the future success of the business. Innovision Research & Technology's success is dependent on the quality and hard work of all its staff. We have an excellent team and I would like to take this opportunity to thank everyone in the company for all their efforts over the past year.

This investment in additional staff has enabled us to increase research and development investment by 49 per cent. with 17 new patents applied for in the year. Our focus on diversifying the Company's customer base and market spread over the next two years also got off to an excellent start with several new evaluation licences and similar contracts signed.

Most notable amongst the many R&D successes during the year were the development of a silicon chip which can be powered by touch ("Scout"), the signing of a unique and very exciting agreement with Defence Evaluation and Research Agency (DERA) and the completion of a read/write version of the company's Datalabel RFID tag. This latter development maintains Innovision Research & Technology at the forefront of RFID tag technology with one of the world's smallest and lowest cost tags.

The DERA teaming agreement is the first major technology agreement entered into by the Company. This model of utilising Innovision Research & Technology's commercialisation skills to exploit the potential of another party's IPR is one we will seek to replicate with more partners in the future.

On the back of the R&D success, the commercial team has been able to continue to diversify our customer base. In toys, contracts have been signed with several European and US companies, which should generate royalties in future years. These new customers add to and complement our long-standing relationship with Hasbro in the toy sector.

Equally important, the Company signed a number of evaluation licences outside the toy industry, particularly in relation to Datalabel. Amongst the ten such licences were Standard Register, the Laird Group plc and Unilever plc. Since the year end two further evaluation licences have been signed for Datalabel and the Board remains confident that a number of evaluation licences will be converted to full licences over the coming year.

Within the RFID market an important announcement was made in May 2001 by the Uniform Code Council outlining the proposed global standard ('G-Tag') for RFID tags. The company is currently working through the standard in detail and is evaluating the best route to exploit the potential opportunity.

The increase in staff numbers, growth in resources and development of new technologies noted above meant that administrative expenses, (up 63 per cent. to £1.9 million,) increased more than turnover during the year reflecting the investment made for future growth, but resulting in a fall in operating profits from £578,000 to £272,000 with an equivalent fall in earnings per share (basic EPS: 1.06p (2000: 1.83p) diluted EPS: 1.06p (2000: 1.83p)).

As previously mentioned, the Company completed its flotation on AIM on the 6 April 2001. This raised £9.3m for

Innovision Research & Technology plc

FINANCIAL HIGHLIGHTS AND CHAIRMAN'S STATEMENT

the business net of expenses and provides us with the capital required to make the significant investment necessary to further develop our technology portfolio, exploit technology partnerships such as that with DERA and ensure that we are able to take advantage of our many commercial opportunities including Datalabel.

The announcement on 21 April 2001 of a Queen's Award for Enterprise: Innovation for Datalabel, was a great achievement and we are all extremely proud to have been honoured in this way. I congratulate the whole team for their success.

I look forward to the coming year with great confidence in the people and potential of Innovision Research & Technology.

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, Technical Director
Michael John Wroe, ACA, Finance 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 66)

Barton Clarke's forty-three year career in the electronics industry began with Decca Radar in 1957. In 1983, he became chairman and chief executive of the Racal Defence Radar and Avionics Group, from 1985 until May 2000, he was a board member of Racal Electronics plc and, from 1997 to 2000, chairman of the Racal Defence Electronics Group. 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 31)

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 as a software product manager in a marketing role. He joined 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, (Technical Director, aged 39)

Andrew White's career began with Racal Research in 1977, where he designed high speed data encryption systems for use by the armed forces. From 1981 he worked in ASIC design for Philips Semi-Conductors and in 1984 joined Gothic Crellon, originally part of Thorn EMI, to set up an ASIC design house. From 1990 he undertook product design for Innovations before co-founding Innovision Research & Technology with Marc Borrett in 1994.

Michael Wroe, ACA, (Finance Director, aged 32)

Michael Wroe qualified as a chartered accountant with Deloitte & Touche in 1992, before moving into industry in 1994, when he joined Whitbread plc. 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.

Kenneth Taylor, (Non-Executive, aged 56)

Kenneth Taylor was appointed as a Non-Executive Director in May 2000, following a forty-year career in the City. His City 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 2001.

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 been one of significant investment in people and resources as discussed in more detail in the chairman's statement on pages 2 and 3. It is planned that this investment, particularly in key personnel, will continue as the company seeks to further broaden its customer base and widen its portfolio of technologies.

The results of the company are set out in the profit and loss account on page 13. The trading profit for the year after taxation was £315,000. The directors do not recommend the payment of a dividend which leaves a retained profit of £315,000 to be transferred to reserves.

On 8 March 2001, the company was re-registered as a Public Limited Company.

Directors and Directors Interests

The following directors have held office during the year:

AD White
MA Borrett
KS Taylor (appointed 6 May 2000)
MJ Wroe (appointed 11 September 2000)
BJ Clarke (appointed 11 September 2000)
M Sperring (resigned 6 May 2000)

Directors' Interests in Shares

a) Ordinary Shares

	Ordinary shares of 1p each 31.3.01	'A' Ordinary shares of 1p each 31.3.00	'B' Ordinary shares of 1p each 31.3.00	'D' Ordinary shares of 1p each 31.3.00
AD White	8,740,000	875,000	-	125,000
MD Borrett	9,990,000	1,000,000	-	-
KS Taylor	1,938,420	-	223,842	-

As set out in note 13 the 'A' ordinary, 'B' ordinary, 'C' ordinary and 'D' ordinary shares were reclassified on 16 January 2001 as ordinary shares.

As part of the company's flotation on the Alternative Investment Market (AIM) of the London Stock Exchange on 6 April 2001, Barton Clarke purchased 100,000 Ordinary shares, Michael Wroe purchased 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 Wroe	EMI scheme	15/02/01	110,000	45p	15/2/04-15/2/11

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 28 days of purchases.

Share Capital

Movements in the share capital of the company are set out in note 13 to the accounts.

On 17 November 2000 the company was gifted 125,000 of its own 1pence 'D' shares. As part of the general share reorganisation set out in note 13 to the accounts, these subsequently became 1,250,000 ordinary shares of 1pence each, which were cancelled on 8 March 2001 when the company became a plc.

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 £404,000, (2000: £272,000) has been charged to the profit and loss account.

Donations

Charitable donations of £600 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 26 and 27.

Innovision Research & Technology plc

DIRECTORS' REPORT

Substantial Shareholdings

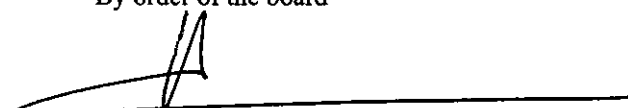
Other than the holdings of the Directors, which are set out above, the Directors are aware of the following who, as at 18 June 2001, were interested, directly or indirectly, in 3 percent or more of the Company's share capital:

	<i>No. of Ordinary Shares of 1p each</i>	<i>Percentage of issued share capital</i>
Vidacos Nominees Limited	3,050,000	7.71%
C Low	2,238,420	5.66%
P Roy	2,238,420	5.66%
M Marks	2,238,420	5.66%
Nutraco Nominees Limited	1,986,229	5.02%
M Sperring	1,925,920	4.87%
Nortrust Nominees Limited	1,325,000	3.35%

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

19 June 2001

Innovision Research & Technology plc

DIRECTORS' REPORT

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 2001, the Company was dealing with the detailed requirements of the Combined Code.

Audit Committee

The Audit Committee comprised only two members (the Non-Executive and the Finance Director) and was therefore not in compliance with the Combined Code requirement of three Non-Executive members for that period. A second independent Non-Executive Director will join this committee, once recruited.

Remuneration Committee

The sole Non-Executive Director forms the Remuneration committee. A second, independent Non-Executive Director, once recruited, will join him on this 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

The Company is in the process of recruiting a Senior Independent Non-Executive Director.

Board Composition

The Board consisted of four Executive and one Non-Executive Director. Thus the recommendation for the Non-Executive Directors to make up one third of the Board is not being met. The Board is actively seeking to recruit a second independent Non-Executive Director who will then be the Senior Independent Non-Executive Director.

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.

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DIRECTORS' REPORT

- 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 Director monitors the Company's performance and the actions of the Management. In addition the Non-Executive plays a major role in the various committees of the Board. He is kept fully informed of all major operational and strategic issues.

Although a complete review did not take place on a formal basis, the Board reviewed many aspects of financial internal controls during the year as part of the preparation for flotation on AIM post year-end.

This review will continue during 2001 in conjunction with the implementation of a risk management process. The focus will be to review existing processes and practices in order to facilitate effective risk management based on sound internal controls.

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INNOVISION RESEARCH & TECHNOLOGY PLC

We have audited the financial statements of Innovision Research & Technology plc for the year ended 31 March 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention and 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 law and United Kingdom Accounting Standards.

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

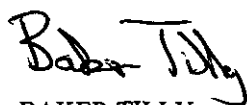
Basis of audit opinion

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 as at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BAKER TILLY
Registered Auditors
2 Bloomsbury Street
London WC1B 3ST

19 June 2001

Innovision Research & Technology plc

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2001

	Notes	2001 £'000	2000 £'000
TURNOVER	1	2,338	1,940
Cost of sales		(156)	(188)
Gross profit		<u>2,182</u>	<u>1,752</u>
Administrative expenses		(1,910)	(1,174)
OPERATING PROFIT		<u>272</u>	<u>578</u>
Interest receivable		83	75
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	<u>355</u>	<u>653</u>
Taxation	4	(40)	(185)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>315</u>	<u>468</u>
Dividends	5	-	(528)
RETAINED PROFIT FOR THE YEAR	15	<u>315</u>	<u>(60)</u>
EARNINGS PER SHARE	6	Pence per share	Pence per share
Basic		1.06	1.83
Diluted		1.06	1.83

The operating profit 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

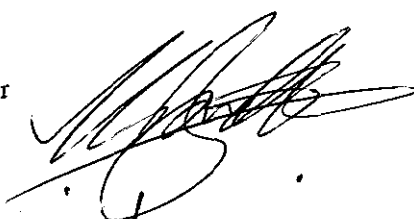
31 March 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	7	173	111
CURRENT ASSETS			
Debtors	9	891	317
Cash at bank and in hand	12	864	1,912
		<u>1,755</u>	<u>2,229</u>
CREDITORS: Amounts falling due within one year	10	(440)	(1,169)
NET CURRENT ASSETS		<u>1,315</u>	<u>1,060</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,488</u>	<u>1,171</u>
PROVISIONS FOR LIABILITIES & CHARGES	11	(2)	-
NET ASSETS		<u>1,486</u>	<u>1,171</u>
CAPITAL AND RESERVES			
Called up share capital	13	296	31
Share premium	14	689	954
Profit and loss account	15	501	186
SHAREHOLDERS' FUNDS (including non-equity interests)	16	<u>1,486</u>	<u>1,171</u>

Approved by the board on 19 June 2001

Marc Adrian Borrett

Director



Michael John Wroe

Director



Innovision Research & Technology plc

CASH FLOW STATEMENT

for the year ended 31 March 2001

	<i>Notes</i>	2001 £'000	2000 £'000
Net cash (outflow)/inflow from operating activities	18A	(803)	716
Returns on investments and servicing of finance			
Interest received		56	75
Net cash flow for returns on investments and servicing of finance		56	75
Taxation		(180)	(65)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(126)	(89)
Sale of tangible fixed assets		5	-
Loans to directors		-	500
Net cash flow for capital expenditure and servicing of finance		(121)	411
Equity dividends paid		-	(528)
Cash (outflow)/inflow before use of liquid resources and financing		(1,048)	609
Management of liquid resources			
Decrease/(increase) in treasury deposit account		950	(1,350)
Financing			
Proceeds from share issue		-	500
Decrease in cash in year		(98)	(241)
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in year		(98)	(241)
Opening net funds		112	353
Closing net funds	18B	14	112

Innovision Research & Technology plc

ACCOUNTING POLICIES

The principal accounting policies, which have been consistently applied in the financial statements throughout the period under review, are as follows:

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.

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% straight line
Motor vehicles	25% straight line

DEFERRED TAXATION

Provision is made for taxation deferred or accelerated by the effect of timing differences, to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

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.

Innovision Research & Technology plc

ACCOUNTING POLICIES

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 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 executives.

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2001

1 TURNOVER

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

	2001 £'000	2000 £'000
United Kingdom	113	64
United States of America	2,177	1,828
Europe	35	30
Rest of the World	13	18
	<u>2,338</u>	<u>1,940</u>

Sales by business activity were as follows:

Development engineering	559	566
License fees and technology sales	75	219
Royalties	1,704	1,155
	<u>2,338</u>	<u>1,940</u>

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

Auditors' remuneration:

Audit fees	10	7
Other	13	1
Depreciation of tangible fixed assets	58	39
Exchange rate (profit)/loss	(15)	10
Research & development costs	404	272
Operating lease rentals:		
Land and buildings	150	97
Motor vehicles	14	12
	<u></u>	<u></u>

3 EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the period was:

	2001 No.	2000 No.
Marketing and administration	10	5
Research and engineering	22	17
	<u>32</u>	<u>22</u>

Staff costs for the above persons:

	2001 £'000	2000 £'000
Wages and salaries	1,093	622
Social security costs	118	64
Pension contributions	15	-
	<u>1,226</u>	<u>686</u>

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2001

DIRECTORS' EMOLUMENTS

	Basic Salary £'000	Benefits £'000	Pension £'000	Total 2001 £'000	Total 2000 £'000
Barton Clarke*	11	-	-	11	-
Marc Borrett	75	9	5	89	76
Andrew White	72	11	5	88	79
Michael Wroe*	40	5	5	50	-
Kenneth Taylor*	10	-	-	10	-
Michael Sperring	-	-	-	-	-
	<u>208</u>	<u>25</u>	<u>15</u>	<u>248</u>	<u>155</u>

Three Executive Directors have personal pension plans to which the Company currently contributes £9,000 per annum to each plan. This arrangement commenced on 1 October 2000, and contributions in the year totaled £15,000 as shown above.

* Kenneth Taylor was appointed as a director on 6 May 2000, Barton Clarke and Michael Wroe were appointed as directors on 11 September 2000.

4	TAXATION	2001 £'000	2000 £'000
	Based on the profit for the year:		
	UK corporation tax	42	185
	Over provided in previous years	(4)	-
	Deferred taxation	2	-
		<u>40</u>	<u>185</u>

The tax charge for the year was reduced by £31,000 (2000: £nil) as a result of the impact of additional tax credits on research and development expenditure.

5	DIVIDENDS	2001 £'000	2000 £'000
	'A' Ordinary shares		
	1st interim paid - £Nil per share (2000: £1,250)	-	500
	2nd interim paid - £Nil per share (2000: 1p)	-	19
	'B' Ordinary shares		
	1st Interim paid - £Nil per share (2000: £Nil)	-	-
	2nd Interim paid - £Nil p per share (2000: 1 p)	-	9
		<u>-</u>	<u>528</u>

In 2000 the 'B' ordinary shareholders waived their rights to receive the 1st interim dividend. £1,250 of the 2nd interim dividend due to the 'A' ordinary shareholders was received as a scrip dividend.

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2001

6 EARNINGS PER SHARE

Earnings per share has been calculated based on the provisions of Financial Reporting Standard 14 – 'Earnings per share'. Basic earnings per share has been calculated by dividing the profit for the year of £315,000 (2000: £468,000) by the weighted average number of shares in issue during the year after taking account of the various share reorganisations described in note 13. During the year the weighted average number of shares in issue was 29,629,600 (2000: 25,578,700).

Diluted earnings per share has been calculated by dividing the profit for the year of £315,000 (2000: £468,000) 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 the year the weighted average number of shares in issue was 29,629,600 (2000: 25,578,700).

7 TANGIBLE FIXED ASSETS

	<i>Fixtures, fittings and equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost			
1 April 2000	157	31	188
Additions	126	-	126
Disposals	(2)	(9)	(11)
31 March 2001	281	22	303
Depreciation			
1 April 2000	71	6	77
Charged in the year	50	8	58
Disposals	-	(5)	(5)
31 March 2001	121	9	130
Net book value			
31 March 2001	160	13	173
31 March 2000	86	25	111

8 INVESTMENTS

The company's only 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) (2000: £(81,377)). This deficit represents amounts due to the Company and is fully provided within the Company's accounts.

Innovision Research & Technology plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2001

9	DEBTORS	2001 £'000	2000 £'000
	Due within one year:		
	Trade debtors	388	82
	Other debtors	56	22
	Prepayments and accrued income	271	37
		<u>715</u>	<u>141</u>
	Due after more than one year:		
	Other debtors	176	176
		<u>891</u>	<u>317</u>
10	CREDITORS: Amounts falling due within one year	2001 £'000	2000 £'000
	Trade creditors	70	51
	Corporation tax	42	185
	Other taxation and social security	42	27
	Accruals and deferred income	286	906
		<u>440</u>	<u>1,169</u>
11	PROVISIONS FOR LIABILITIES & CHARGES	2001 £'000	2000 £'000
	Deferred taxation provided is as follows:		
	Excess of tax allowances over depreciation	2	-
	The unprovided potential deferred taxation liability is as follows:		
	Excess of tax allowances over depreciation	-	3
12	FINANCIAL INSTRUMENTS		
	The company's financial instruments comprise cash balances as follows:		
		2001 £'000	2000 £'000
	Sterling money market deposit on 7 day notice at 5.19%	850	1,800
	Current accounts	14	112
		<u>864</u>	<u>1,912</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.

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 £567,067 (2000 : £73,288) relating to balances designated in US Dollars. Similarly, creditors due within one year is £186,500 (2000: £831,278) relating to balances designated in US Dollars.

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2001

13	SHARE CAPITAL	2001 £'000	2000 £'000
	Authorised:		
	Equity:		
	60,000,000 (2000: Nil) ordinary shares of 1p each	600	-
	Nil (2000: 4,875,000) 'A' ordinary shares of 1p each	-	49
	Nil (2000: 5,000,000) 'B' ordinary shares of 1p each	-	50
	Nil (2000: 1,000,000) 'C' ordinary shares of 1p each	-	10
		<hr/> 600	<hr/> 109
	Non-equity		
	Nil (2000: 225,000) 'D' ordinary shares of 1p each	-	2
		<hr/> 600	<hr/> 111
	Allotted, issued and fully paid:		
	Equity:		
	29,629,600 (2000: Nil) ordinary shares of 1p each	296	-
	Nil (2000: 1,875,000) 'A' ordinary shares of 1p each	-	19
	Nil (2000: 1,087,960) 'B' ordinary shares of 1p each	-	11
		<hr/> 296	<hr/> 30
	Non-equity		
	Nil (2000: 125,000) 'D' ordinary shares of 1p each	-	1
		<hr/> 296	<hr/> 31

On 17 November 2000, all of the 125,000 'D' ordinary shares were gifted to the Company. These were subsequently cancelled on 8 March 2001 by the Company on becoming a public limited company.

On 16 January 2001, all of the issued and authorised but unissued 'A', 'B', 'C' and 'D' ordinary shares of 1p each in the capital of the Company were converted into and reclassified as ordinary shares of 1p each forming one uniform class in all respects and having the rights set out in the articles of association.

On 22 February 2001, a resolution was passed to increase the authorised share capital from 11,100,000 ordinary shares of 1p each to 50,000,000 ordinary shares of 1p each and to rank *pari passu* with the existing ordinary shares of 1p.

On 22 February 2001, 27,791,640 ordinary shares of 1p were allotted and issued representing a bonus issue of 9 ordinary shares for each existing ordinary shares of 1p held. This increased the issued ordinary share capital to 30,879,600. As a result of this transaction £277,916 was debited to the share premium account.

On 8 March 2001 1,250,000 ordinary shares (formerly 'D' shares as referred to above) were cancelled, reducing the issued ordinary share capital to 29,629,600 shares. As a result of this cancellation £12,500 was credited to the share premium account.

On 28 March 2001, a resolution was passed to increase the authorised share capital from 50,000,000 ordinary shares of 1p each to 60,000,000 ordinary shares of 1p each and to rank *pari passu* with the existing ordinary shares of 1p.

Share Options

Innovision Research & Technology plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2001

At the year end the following share options were outstanding:

Scheme	Date of Grant	Number of Share options	Exercise Price	Exercise period
				From - To
EMI scheme	15/02/01	1,117,220	45p	15/2/04-15/2/11
EMI scheme	13/03/01	95,000	45p	13/3/04-13/3/11
Approved Scheme	15/02/01	592,500	45p	15/2/04-15/2/11
Approved Scheme	13/03/01	50,000	45p	13/3/04-13/3/11
Unapproved Scheme	15/02/01	24,780	45p	15/2/04-15/2/11
Other	13/03/01	30,000	45p	13/3/04-13/3/11
		<u>1,909,500</u>		

14	SHARE PREMIUM	2001 £'000	2000 £'000
	1 April 2000	954	485
	Premium on allotment of shares	-	495
	Bonus shares issued as fully paid	(278)	(25)
	Stock dividend issued as fully paid	-	(1)
	Cancellation of shares held by company	13	-
	31 March 2001	<u>689</u>	<u>954</u>
15	PROFIT AND LOSS ACCOUNT	2001 £'000	2000 £'000
	1 April 2000	186	246
	Profit for the financial year	315	(60)
	31 March 2001	<u>501</u>	<u>186</u>

Innovision Research & Technology plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2001

16	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2001 £'000	2000 £'000
	Profit for the financial year	315	468
	Dividends	-	(528)
	Proceeds from share issue	-	500
	Net addition to shareholders' funds	315	440
	Opening shareholders' funds	1,171	731
	Closing shareholders' funds	1,486	1,171
	The total of shareholders' funds comprise:		
	Non-equity interests	-	1
	Equity interests	1,486	1,170
		1,486	1,171
17	COMMITMENTS UNDER OPERATING LEASES		
	At 31 March 2001 the company had annual commitments under non-cancellable operating leases as follows:		
		2001 £'000	2000 £'000
	Land and buildings expiring after five years	150	150
	Other expiring in the second to fifth year	11	7
		161	157
18	CASHFLOWS	2001 £'000	2000 £'000
A	Reconciliation of operating profit to net cash inflow/(outflow) from operating activities		
	Operating profit	272	578
	Depreciation	58	39
	(Profit)/loss on sale of fixed assets	1	4
	Increase in debtors	(548)	(65)
	(Decrease)/increase in creditors	(586)	160
	Net cash (outflow)/inflow from operating activities	(803)	716
B	Analysis of change of net funds in year		
	Opening cash at bank and in hand	112	353
	Decrease in cash in year	(98)	(241)
	Closing cash at bank and in hand	14	112

Innovision Research & Technology plc

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for the year ended 31 March 2001

During the year ended 31 March 1999 the directors declared and paid an interim dividend of £500,000. On applying the Company's accounting policy for the recognition of turnover, it transpired that there were insufficient distributable reserves to cover this dividend, which was therefore treated as an interest-free advance to the directors and disclosed in "other debtors". The loan was discharged by the dividend declared in the year ended 31 March 2000.

19 POST BALANCE SHEET EVENTS

On the 6 April 2001 the company issued 9,900,990 new 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 that same day. The placing realised £9.3m net of expenses.