

1... Limited

Directors' report and financial statements
for the year ended 30 September 2001
together with directors' and auditors' reports

Registered number: 3071231



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Company information

Directors and officers

Dr A Hooley
D A Gillett (Chairman)
B L Martin
J B Morgans
P H G Bradley
M Shepherd (appointed 17 October 2000)
A Osmant (appointed 27 March 2001)

Secretary

C A Lione

Registered office

St John's Innovation Centre
Cowley Road
Cambridge
CB4 0WS

Auditors

Arthur Andersen
Betjeman House
104 Hills Road
Cambridge
CB2 1LH

Bankers

National Westminster Bank Plc
10 Bene't Street
Cambridge
CB2 3PU

Directors' report

The directors present their annual report together with the financial statements and independent auditors' report for the year ended 30 September 2001.

Directors' Responsibilities

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 of the profit or loss of the company 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Business review

The Company completed the development of its Mark 5 digital Sound Projector technology in 2001 and this technology was launched to Original Equipment Manufacturers (OEMs) at the Consumer Electronics Show in Las Vegas in January 2002.

The Company continues to develop its ceramic actuator technology and set up a pilot plant in 2001 which is now fully operational and has produced in excess of 1000 prototype devices.

Principal activities

The principal activity of the company is that of research and development of electronic actuator and digital loud speaker intellectual property.

Results and dividends

The audited financial statements for the year ended 30 September 2001 are set out on pages 7 to 16. The retained loss for the year was £2,656,065 (2000 - £1,172,406). The directors are unable to recommend the payment of a dividend (2000 - £nil).

Directors' remuneration

The Remuneration Committee measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The committee comprises the Company's non-executive directors. The Chief Executive Officer attends its meetings and serves as an adviser to the Committee, but is not a member.

Directors' report (continued)

Directors and their interests

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	0.25p Ordinary Shares	10p Ordinary Shares
	Number	
	30/09/2001	30/09/2000
Dr A Hooley	257,400	6,435
D A Gillett (Chairman)	47,524	1,186
Dr L J Tilbrook (resigned 27 June 2001)	10,210	255
B L Martin	12,942	298
J B Morgans	5,760	139
P H G Bradley	-	-
M Shepherd (appointed 17 October 2000)	2,200	-
A Matheson (appointed 17 October 2000, resigned 27 March 2002)	-	-
A Osmant (appointed 27 March 2001)	-	-

P H G Bradley has an interest in a trust which has an interest in a Company which held 17,521 0.25p Ordinary shares at 30 September 2001 (387 10p Ordinary shares – 2000).

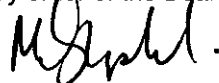
Share Options

The following directors have been granted share options to purchase ordinary shares:

	Number	Exercise price £	Date granted	Exercise period
D A Gillett	6,160	32.50	1/5/2000	1/5/03-1/5/10
	5,760	4.05	1/5/1999	1/5/01-1/5/09
	5,760	4.05	1/5/1998	1/5/00-1/5/08
	439	57.00	30/9/2001	1/10/04-30/9/10
J B Morgans	2,640	32.50	1/3/2000	1/3/03-1/3/09
	264	57.00	30/9/2001	1/3/04-30/9/10
B L Martin	6,120	9.88	13/8/1999	13/8/02-12/8/08
	264	57.00	30/9/2001	1/10/04-30/9/10
P H G Bradley	4,000	32.50	1/5/2000	1/5/03-30/4/09
	439	57.00	30/9/2001	4/5/04-30/9/10
M Shepherd	4,600	45.60	30/9/2001	1/8/04-30/9/07
	3,124	32.00	17/7/2001	1/8/03-17/7/11
	1,476	48.75	30/9/2001	1/8/03-30/9/07
A Osmant	2,344	32.00	17/7/2001	2/1/04-17/7/11

St John's Innovation Centre
Cowley Road
Cambridge CB4 0WS

By order of the Board:



M Shepherd
Director
24 April 2002

Independent auditors' report

To the shareholders of 1... Limited

We have audited the financial statements of 1... Limited for the year ended 30 September 2001 which comprise the Profit and Loss Account, the Balance Sheet, and the related Notes numbered 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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 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 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 opinion

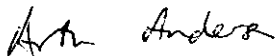
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates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

Independent auditors' report (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30 September 2001 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge
CB2 1LH

24 April 2002

Profit and loss account

For the year ended 30 September 2001

	Notes	2001 £	2000 £
Expenditure			
Research and development expenditure		(2,152,722)	(1,020,578)
Administrative expenses		(757,877)	(325,677)
Other operating income	2	<u>27,405</u>	<u>109,764</u>
Operating loss	3	(2,883,194)	(1,236,491)
Finance income (net)	6	<u>120,931</u>	<u>64,085</u>
Loss on ordinary activities before taxation		(2,762,263)	(1,172,406)
Tax on loss on ordinary activities	7	<u>106,198</u>	<u>-</u>
Loss on ordinary activities after taxation, being retained loss for the year		<u>(2,656,065)</u>	<u>(1,172,406)</u>

All of the company's activities are classified as continuing.

There are no recognised gains or losses in either year other than the loss for that year.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
30 September 2001

	Notes	2001 £	2000 £
Fixed assets			
Tangible assets	8	241,693	132,803
Current assets			
Debtors	9	72,209	165,479
Cash at bank and in hand		3,636,557	3,385,055
		3,708,766	3,550,534
Creditors: amounts falling due within one year	10	(248,681)	(133,968)
Net current assets		3,460,085	3,416,566
Total assets less current liabilities		3,701,778	3,549,369
Creditors: amounts falling due after more than one year	11	-	(26,322)
Net assets		3,701,778	3,523,047
Capital and reserves			
Called up share capital	12	1,881	1,740
Share premium account	13	8,090,596	5,255,941
Profit and loss account	13	(4,390,699)	(1,734,634)
Shareholders' funds – all equity	14	3,701,778	3,523,047

The financial statements on pages 6 to 15 were approved by the Board and signed on its behalf:



M Shepherd
Director

24 April 2002

The accompanying notes are an integral part of this balance sheet.

Statement of accounting policies

30 September 2001

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

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

b) Cash flow statement

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under Financial Reporting Standard 1 (Revised).

c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Plant and machinery	- 33% per annum
Motor vehicles	- 25% per annum
Office equipment	- 33% per annum
Computers and software	- 33% per annum

Residual value is calculated on prices prevailing at the date of acquisition.

Statement of accounting policies (continued)

1 Accounting policies (continued)

d) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

e) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

g) Research and development

Research and development expenditure is written off in the year in which it is incurred. Plant and equipment acquired for research and development activities is written off on a straight line basis at the rate of 33% per annum.

h) Government grants

Government grants in respect of revenue expenditure are credited in the profit and loss account. Government grants relating to the purchase of plant and equipment are capitalised and are matched against depreciation by crediting them to the profit and loss account at the rate of 33% per annum.

i) Pensions

The company contributes to the personal pension plans of some employees and the pension charge represents the amounts payable by the company to those plans in the year.

Notes to financial statements

30 September 2001

2 Other operating income

	2001	2000
	£	£
EC funds received	<u>27,405</u>	<u>109,764</u>

3 Operating loss

The operating loss is stated after charging/(crediting):

	2001	2000
	£	£
Depreciation of tangible fixed assets:		
- owned by the company	144,649	60,495
- held under finance leases	9,413	9,414
Government grants	(27,405)	(109,764)
Operating lease rentals		
- plant and machinery	19,862	3,575
Auditors' remuneration:		
- audit services	5,000	5,000
- non-audit services	<u>15,175</u>	<u>10,587</u>

4 Staff costs

The average monthly number of employees (including executive directors) was:

	2001	2000
	Number	Number
Research and development	24	11
Administration	<u>6</u>	<u>2</u>
	<u>30</u>	<u>13</u>

	2001	2000
	£	£
Their aggregate remuneration comprised:		
Wages and salaries	1,184,993	482,482
Social security costs	123,188	48,730
Other pension costs	<u>28,800</u>	<u>10,000</u>
	<u>1,336,981</u>	<u>541,212</u>

Notes to financial statements (continued)

5 Directors' remuneration

The remuneration of the directors was as follows:

	2001	2000
	£	£
Emoluments	394,411	106,774
Company contributions to money purchase pension schemes	23,000	8,500
	<u>417,411</u>	<u>115,274</u>

The number of directors who were members of pension schemes was as follows:

	2001	2000
Money purchase schemes	<u>2</u>	<u>1</u>

Highest-paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2001	2000
	£	£
Emoluments	131,513	106,774
Company contributions to money purchase schemes	12,000	8,500
	<u>143,513</u>	<u>115,274</u>

6 Finance income (net)

	2001	2000
	£	£
Bank interest receivable	123,815	65,357
Bank interest payable	(2,884)	(1,272)
	<u>120,931</u>	<u>64,085</u>

7 Tax on loss on ordinary activities

	2001	2000
	£	£
Research and development tax credit	<u>106,198</u>	<u>-</u>

Notes to financial statements (continued)

8 Tangible fixed assets

	Plant and machinery £	Motor vehicles £	Office equipment £	Computers and software £	Total £
Cost					
At 1 October 2000	191,381	37,655	-	-	229,036
Additions	213,515	2,500	16,724	30,213	262,952
At 30 September 2001	404,896	40,155	16,724	30,213	491,988
Depreciation					
At 1 October 2000	86,819	9,414	-	-	96,233
Charge for the year	128,180	10,239	5,673	9,970	154,062
At 30 September 2001	214,999	19,653	5,673	9,970	250,295
Net book value					
At 30 September 2001	189,897	20,502	11,051	20,243	241,693
At 30 September 2000	104,562	28,241	-	-	132,803

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2001 £	2000 £
Motor vehicles	18,828	28,241

9 Debtors: Amounts falling due within one year

	2001 £	2000 £
Other debtors	72,209	165,479

10 Creditors: Amounts falling due within one year

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts	26,322	6,235
Trade creditors	133,844	88,972
Other taxation and social security	41,073	28,864
Other creditors	47,442	9,897
	248,681	133,968

Notes to financial statements (continued)

11 Creditors: Amounts falling due after more than one year

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts due within 1-2 years	-	26,322

12 Called up share capital

The Ordinary shares of £0.10 each were subdivided into 40 shares with a nominal value of £0.0025 each on 11 June 2001.

	2001 £	2000 £
<i>Authorised</i>		
1,600,000 (2000 – 40,000 ordinary shares of 10p) ordinary shares of 0.25p each	4,000	4,000
300,000 (2000 – nil) A ordinary shares of 0.25p each	750	-
300,000 (2000 – nil) B ordinary shares of 0.25p each	750	-
	<u>5,500</u>	<u>4,000</u>
<i>Allotted, called up and fully paid</i>		
698,373 (2000 – 17,403 ordinary shares of 10p) ordinary shares of 0.25p each	1,746	1,740
42,396 (2000 – nil) A ordinary shares of 0.25p each	106	-
11,354 (2000 – nil) B ordinary shares of 0.25p each	29	-
	<u>1,881</u>	<u>1,740</u>

Shares issued during the year were:

	Number	Nominal Value £	Consideration £
Ordinary shares	2,252	6	110,214
A Ordinary shares	42,396	106	2,077,404
B Ordinary shares	11,354	29	647,178
	<u>56,002</u>	<u>141</u>	<u>2,834,796</u>

The A Ordinary and B Ordinary shares rank equally in all respects with the Ordinary shares except that there are anti-dilution rights attached to the A Ordinary and B Ordinary shares. The A Ordinary shares and B Ordinary shares will be reclassified as Ordinary shares on 29 June 2002 at the close of the Company's current funding round.

Notes to financial statements (continued)

13 Reserves

	Share premium account £	Profit and loss account £	Total £
Share premium account			
At 1 October 2000	5,255,941	(1,734,634)	3,521,307
Shares issued during the year	2,834,655	-	2,834,655
Retained loss for the year	-	(2,656,065)	(2,656,065)
At 30 September 2001	<u>8,090,596</u>	<u>(4,390,699)</u>	<u>3,699,897</u>

14 Reconciliation of movements in shareholders' funds

	2001 £	2000 £
Loss for the financial year	(2,656,065)	(1,172,406)
New shares issued	<u>2,834,796</u>	<u>3,956,826</u>
Net addition to shareholders' funds	178,731	2,784,420
Opening shareholders' funds	<u>3,523,047</u>	<u>738,627</u>
Closing shareholders' funds	<u>3,701,778</u>	<u>3,523,047</u>

15 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2001 Plant and machinery £	2000 Plant and machinery £
Expiry date:		
Between 2 and 5 years	19,063	15,071
After more than 5 years	<u>-</u>	<u>125</u>

16 Related party transactions

Included within other debtors is an amount of £174 (2000 - £174) due from 1... IPR Limited, a company whose directors are Dr A E Hooley and D A Gillett. 1... IPR is a dormant company.

Notes to financial statements (continued)

17 Share options

At 30 September 2001 employees held options for 105,193 unissued ordinary shares (2000 – 52,480) as follows:

Number of Shares	Option price per share £	Exercise period
11,520	4.05	1/5/00-1/5/09
25,129	9.88	5/8/99-12/8/08
10,080	16.25	1/3/03-1/3/06
22,810	32.00	22/10/00-17/7/11
16,276	32.50	1/3/03-1/5/10
4,600	45.60	1/8/04-30/9/07
10,632	48.75	5/6/03-30/9/07
4,146	57.00	1/3/04-30/9/10

18 Controlling party

The ultimate controlling party during the current and prior year was Dr A Hooley.

19 Subsequent events

The Company raised £1,073,000 in new share capital in January 2002.