

## **1 Limited**

Financial statements  
for the year ended 30 September 2003  
together with directors' and auditors' reports

Registered number: 3071231



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## Company information

### **Directors and officers**

Dr A Hooley  
D A Gillett  
M Shepherd  
A Osmant  
G Rinck  
M Knight

### **Secretary**

A Osmant

### **Registered office**

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

### **Auditors**

Deloitte & Touche LLP  
Cambridge

### **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 2003.

### Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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

In 2003, the Company has developed proprietary designs for miniature autofocus camera modules for mobile phones using its ceramic actuator technology. The designs have been incorporated into prototype camera designs for a number of digital camera manufacturers. These prototype cameras are currently being designed for mass-manufacture and marketed to mobile phone manufacturers.

The Company's Digital Sound Projector technology has been extensively enhanced by the development of custom silicon chips and supplementary re-engineering to significantly reduce the cost of the technology to levels appropriate for mass-market products. In November 2003, the Company signed a licence agreement providing manufacturing rights to low cost Digital Sound Projector technology to a major Japanese Corporation.

### 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 2003 are set out on pages 7 to 17. The retained loss for the year was £2,685,913 (2002 - £2,415,443). The directors are unable to recommend the payment of a dividend (2002 - £nil).

### Directors' remuneration

The non-executive directors measure 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.

## 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:

	Number	
	30/09/2003	30/09/2002 (or date of appointment)
Dr A Hooley	197,196	247,196
D A Gillett (Chairman)	46,720	46,720
M Shepherd	2,200	2,200
A Osmant	-	-
G Rinck (appointed 26 March 2003)	-	-
M Knight (appointed 17 June 2003)	-	-
B L Martin (resigned 22 July 2003)	15,464	15,464
J B Morgans (resigned 21 June 2003)	6,470	6,470
P H G Bradley (resigned 20 February 2003)	-	-

P H G Bradley has an interest in a trust which has an interest in a company which held 19,562 0.25p Ordinary shares at 30 September 2003 (19,562 – 2002).

### 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	19.60	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
	1,020	19.60	30/9/2001	1/10/04-30/9/10
	425	19.60	17/1/2003	1/5/04-1/5/10
	765	19.60	30/9/2003	1/10/03-30/9/12
M Shepherd	4,600	19.60	30/9/2001	1/8/04-30/9/07
	3,124	19.60	17/7/2001	1/8/03-17/7/11
	1,476	19.60	30/9/2001	1/8/03-30/9/07
	9,339	19.60	1/10/2001	1/10/02-1/10/10
A Osmant	2,344	19.60	17/7/2001	2/1/04-17/7/11
	5,388	19.60	1/10/2001	1/10/02-1/10/10
	780	19.60	17/1/2002	2/1/05-17/1/12
G Rinck	383	19.60	30/9/2003	1/10/03-30/9/12

### Subsequent events

The Company raised £140,000 in new share capital in November 2003.

## Directors' report (continued)

### Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to *treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26 (5) of the Companies Act 1989*. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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

By order of the Board:



M Shepherd  
Director

18 December 2003

## Independent auditors' report

### **To the shareholders of 1 Limited**

We have audited the financial statements of 1 Limited for the year ended 30 September 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **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 judgements 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.

## Independent auditors' report (continued)

### Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the accounts, concerning the ability of the company to continue as a going concern. In view of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
**Chartered Accountants and Registered Auditors**  
**Cambridge**

30 December 2003



## Profit and loss account

For the year ended 30 September 2003

	Notes	2003 £	2002 £
<b>Turnover</b>	3	402,869	290,094
Cost of sales		( 191,878)	(24,818)
<b>Gross profit</b>		210,991	265,276
<b>Expenditure</b>			
Distribution costs		(380,157)	(497,123)
Research and development expenditure		(2,715,452)	(2,553,109)
Administrative expenses		(378,096)	(494,353)
Other operating income	4	166,451	169,659
<b>Operating loss</b>	5	(3,096,263)	(3,109,650)
Finance income	8	110,350	102,077
<b>Loss on ordinary activities before taxation</b>		(2,985,913)	(3,007,573)
Tax on loss on ordinary activities	9	300,000	592,130
<b>Loss on ordinary activities after taxation, being retained loss for the year</b>	16	(2,685,913)	(2,415,443)

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 2003

	Notes	2003 £	2002 £
<b>Fixed assets</b>			
Tangible assets	10	89,156	206,373
<b>Current assets</b>			
Stock	11	109,748	72,248
Debtors	12	463,355	520,256
Short term investments	13	2,000,000	2,100,000
Cash at bank and in hand		290,301	2,903,538
		2,863,404	5,596,042
<b>Creditors: amounts falling due within one year</b>	14	(371,102)	(607,407)
<b>Net current assets</b>		2,492,302	4,988,635
<b>Total assets less current liabilities</b>		2,581,458	5,195,008
<b>Net assets</b>		2,581,458	5,195,008
<b>Capital and reserves</b>			
Called up share capital	15	2,502	2,493
Share premium account	16	12,071,011	11,998,657
Profit and loss account	16	(9,492,055)	(6,806,142)
<b>Shareholders' funds – all equity</b>	17	2,581,458	5,195,008

The financial statements on pages 7 to 17 were approved by the Board and signed on its behalf:



M Shepherd  
Director

18 December 2003

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

## Notes to the financial statements

30 September 2003

### 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
Office equipment	- 33% per annum
Computers and software	- 33% per annum

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

#### *d) Stocks*

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

#### *e) Turnover*

Licence fees - turnover in respect of non-refundable licence fees is recognised when all obligations relating to the grant of the licence have been met.

Research and development services and support fees - turnover is recognised as the services are rendered.

## Notes to the financial statements

30 September 2003

### 1 Accounting policies (continued)

#### f) Leases

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.

#### g) 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 in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### h) 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.

#### i) 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.

#### j) Government grants

Government grants in respect of revenue expenditure are credited in the profit and loss account.

#### k) 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.

### 2 Going concern

During the year under review the company has met its working capital requirements as a result of funds received from shareholders. The directors have prepared projected cash flow information for the period ending 31 December 2004 which shows that based on current forecasts of revenue further funds will need to be raised from shareholders to take the company to the point at which it is generating positive cash flows. On the basis of this cash flow information, events subsequent to the balance sheet date and a strong supportive shareholder base the directors consider the company will continue in operational existence for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

These accounts do not reflect any adjustments that may be required if the company was unable to continue in operational existence for the foreseeable future.

# Notes to the financial statements

30 September 2003

## 3 Turnover

	2003 £	2002 £
<b>Class of business</b>		
Digital Sound Projector revenue	319,155	290,094
Other revenue	83,714	-
	<u>402,869</u>	<u>290,094</u>
<b>Geographical analysis</b>		
Far East	246,680	290,094
United Kingdom	156,189	-
	<u>402,869</u>	<u>290,094</u>

## 4 Other operating income

	2003 £	2002 £
EC funds received	<u>166,451</u>	<u>169,659</u>

## 5 Operating loss

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

	2003 £	2002 £
Depreciation of tangible fixed assets	159,140	192,409
European Union grants	(166,451)	(169,659)
Operating lease rentals		
- plant and machinery	32,220	31,476
Auditors' remuneration:		
- audit services	5,650	6,260
- non-audit services	<u>9,395</u>	<u>6,950</u>

All research and development expenditure relates to administration expenses.

# Notes to the financial statements

30 September 2003

## 6 Staff costs

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

	2003 Number	2002 Number
Research and development	29	30
Sales and marketing	2	2
Administration	4	5
	<u>35</u>	<u>37</u>

	2003 £	2002 £
Their aggregate remuneration comprised:		
Wages and salaries	1,499,202	1,526,785
Social security costs	169,208	149,511
Other pension costs	28,800	28,800
	<u>1,697,210</u>	<u>1,705,096</u>

## 7 Directors' remuneration

The remuneration of the directors was as follows:

	2003 £	2002 £
Emoluments	363,300	402,624
Company contributions to money purchase pension schemes	22,800	22,800
	<u>386,100</u>	<u>425,424</u>

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

	2003	2002
Money purchase schemes	<u>2</u>	<u>2</u>

### Highest-paid director

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

	2002 £	2002 £
Emoluments	159,012	155,090
Company contributions to money purchase schemes	12,000	12,000
	<u>171,012</u>	<u>167,090</u>

D A Gillett, G Rinck, B L Martin, J B Morgans and P H G Bradley were remunerated for their services during the financial year by award of share options. Merrycroft Limited, a company of which M Knight is also a director, invoiced £4,274 for consultancy services provided by M Knight during the year (2002 - £nil).

# Notes to the financial statements

30 September 2003

## 8 Finance income (net)

	2003	2002
	£	£
Bank interest receivable	<u>110,350</u>	<u>102,077</u>

## 9 Tax on loss on ordinary activities

	2003	2002
	£	£
Research and development tax credit - prior year	-	265,038
- current year	<u>300,000</u>	<u>327,092</u>
	<u>300,000</u>	<u>592,130</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax credit for the current and previous year is lower than the standard rate for the reasons set out in the following reconciliation:

	2003	2002
	£	£
Loss on ordinary activities before tax	<u>(2,985,913)</u>	<u>(3,007,573)</u>
Tax on loss on ordinary activities at standard rate	895,774	902,272
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	(14,501)	(23,870)
Capital allowances in (deficit)/excess of depreciation	(32,308)	424
Deferred tax asset not recognised in respect of revenue losses	(466,822)	(474,743)
Movement in short term timing differences	(10,800)	3,000
Additional 50% research and development deduction	187,500	204,433
Additional 25% research and development deduction	3,657	1,782
Research and development tax credit	300,000	327,092
Expenses surrendered for tax credit	(562,500)	(613,298)
Prior period adjustments	-	265,038
Current tax credit for year	<u>300,000</u>	<u>592,130</u>

## Deferred tax

A deferred tax asset of £1,759,703 (2002 - £1,297,341) in respect of tax losses has not been provided for on the basis of the uncertainty surrounding its full recoverability in the future. This asset will be recoverable against the company's future taxable income.

# Notes to the financial statements

30 September 2003

## 10 Tangible fixed assets

	Plant and machinery £	Office equipment £	Computers and software £	Total £
<b>Cost</b>				
At 1 October 2002	543,281	27,950	56,918	628,149
Additions	27,632	298	16,294	44,224
Disposals	(21,570)	-	-	(21,570)
At 30 September 2003	549,343	28,248	73,212	650,803
<b>Depreciation</b>				
At 1 October 2002	378,126	14,897	28,753	421,776
Disposals	(19,269)	-	-	(19,269)
Charge for the year	125,183	9,494	24,463	159,140
At 30 September 2003	484,040	24,391	53,216	561,647
<b>Net book value</b>				
At 30 September 2003	65,303	3,857	19,996	89,156
At 30 September 2002	165,155	13,053	28,165	206,373

## 11 Stocks

	2003 £	2002 £
Raw materials and consumables	-	61,852
Work in progress	51,817	3,615
Finished goods and goods for resale	57,931	6,781
	<u>109,748</u>	<u>72,248</u>

There are no significant differences between the replacement cost and the book values of stocks.



## Notes to the financial statements

30 September 2003

### 12 Debtors: Amounts falling due within one year

	2003	2002
	£	£
Trade debtors	131,604	124,211
Other debtors	-	1,472
Taxation recoverable	313,045	327,092
Prepayments	18,706	67,481
	<u>463,355</u>	<u>520,256</u>

### 13 Short term investments

	2003	2002
	£	£
Short term investments	<u>2,000,000</u>	<u>2,100,000</u>

These amounts represent balances on deposit with maturity periods of up to one month.

### 14 Creditors: Amounts falling due within one year

	2003	2002
	£	£
Trade creditors	165,569	370,528
Other taxation and social security	47,232	47,944
Other creditors	158,301	188,935
	<u>371,102</u>	<u>607,407</u>

# Notes to the financial statements

30 September 2003

## 15 Called up share capital

	2003 £	2002 £
<i>Authorised</i>		
1,600,000 ordinary shares of 0.25p each	<u>4,000</u>	<u>4,000</u>
<i>Allotted, called up and fully paid</i>		
1,000,580 (2002 - 996,948) ordinary shares of 0.25p each	<u>2,502</u>	<u>2,493</u>

Shares issued during the year were:

	Number	Nominal Value £	Consideration £
Ordinary shares	<u>3,632</u>	<u>9</u>	<u>72,363</u>

## 16 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 October 2002	11,998,657	(6,806,142)	5,192,515
Shares issued during the year	72,354	-	72,354
Retained loss for the year	-	(2,685,913)	(2,685,913)
At 30 September 2003	<u>12,071,011</u>	<u>(9,492,055)</u>	<u>2,578,956</u>

# Notes to the financial statements

30 September 2003

## 17 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Loss for the financial year	(2,685,913)	(2,415,443)
New shares issued	72,363	3,908,673
Net (reduction in)/addition to shareholders' funds	(2,613,550)	1,493,230
Opening shareholders' funds	5,195,008	3,701,778
Closing shareholders' funds	2,581,458	5,195,008

## 18 Financial commitments

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

	2003 Plant and machinery £	2002 Plant and machinery £
Expiry date:		
Within one year	1,434	12,975
Between 2 and 5 years	5,158	6,201
	6,592	19,176

## 19 Share options

At 30 September 2003 employees held options for 128,362 unissued ordinary shares (2002 – 123,261) as follows:

Number of Shares	Option price per share £	Exercise period
11,520	4.05	1/5/00-1/5/09
18,409	9.88	5/8/99-12/8/08
8,960	16.25	1/3/03-1/3/06
84,349	19.60	22/10/00-30/9/12
3,124	32.00	22/5/01-17/7/11
2,000	32.50	2/5/00-2/5/09

During the year, a further 13,439 shares were granted and 8,338 shares lapsed.

## 20 Controlling party

There is no ultimate controlling party.

## 21 Subsequent events

The Company raised £140,000 in new share capital in November 2003.