



**Annual Report**  
**And**  
**Financial Statements**

**For the year ended 31 December 2001**



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Registered in England No. 3901656

# **Tornado Group PLC**

## **Annual Report**

**For the Year Ended 31 December 2001**

### **Contents**

Company Information	2
Chairman's Statement	3
Directors' Report	6
Corporate Governance	8
Report on Remuneration and Related Matters	10
Statement of Directors' Responsibilities	13
Auditors' Report	14
Financial Information	15
Notice of Annual General Meeting	29

# **Tornado Group PLC**

## **Company Information**

### **Board of Directors**

Peter Norman Donnelly ACA  
Ian James Watson LLB  
John Richard Gildersleeve  
Gareth David Roblin FCA  
Neil Jeremy Ferris  
Lord Alli

### **Head Office**

Tornado House  
Pound Lane  
Marlow, Bucks SL7 2AF  
Email: [ir@tornadogroup.com](mailto:ir@tornadogroup.com)  
Web: [www.tornadogroup.com](http://www.tornadogroup.com)

### **Secretary and Registered Office**

Gareth David Roblin FCA  
50, Victoria Embankment  
London, EC4Y 0DX  
Registered Number 3901656

### **Nominated Adviser and Nominated Broker**

Brewin Dolphin Securities Ltd  
34, Lisbon Street  
Leeds, LS1 4LX

### **Auditors**

PricewaterhouseCoopers  
1, Embankment Place  
London, WC2N 6RH

### **Legal Advisors**

Taylor Joynson Garrett  
50, Victoria Embankment  
London, EC4Y 0DX

### **Bankers**

Barclays Bank PLC  
99, Hatton Garden  
London, EC1N 8DN

Bank of Scotland  
Lisbon House  
116, Wellington Street  
Leeds, LS1 4LT

### **Registrars**

Capita IRG Plc  
Bourne House  
34, Beckenham Road  
Beckenham  
Kent, BR3 4TU

# Tornado Group PLC

## Chairman's Statement

For the Year Ended 31 December 2001

### Overview

Tornado's vision is to be the world's leading distributor and promoter of digital media and related services. 2001 was a year of consolidation for the Company with the completion of the development phase of the business and the commencement of our first revenue generating deals in November. During the year a number of key strategic relationships and commercial contracts have been put in place which, together with the deals announced during 2000, form the building blocks for the creation of long term revenues and the development of our business. Whilst revenues during 2001 were modest, we believe that the Company is now in a position to take advantage of its current relationships and the business opportunities that are arising to build a revenue base through 2002 and beyond, that will be sufficient to support our operations.

Tornado has several current projects, in particular those with HMV and Virgin Megastores (UK) and Virginmega (France) nearing their go-live dates as referred to below under "Achievements", and a number of other opportunities in the latter stage of development. While the potential income generating capability of these projects and opportunities will remain unclear until such time as they come on stream, the number and quality of these opportunities is extremely encouraging as a means to gauge our ability to meet revenue targets moving forward. Having said that, we cannot be complacent and until we are clear as to the actual revenues to be made from these opportunities we must organise ourselves in the most efficient manner so as to ensure we succeed in our objectives, whilst at the same time reflecting our clear change of focus from development to customer facing activities. This change of focus has led us to carefully re-think our operational requirements and underlying costs, and as a result of this exercise we have been able to reduce our headcount and other costs to their lowest consistent level since mid-2000. The long term stability of the Group is dependent upon the generation of regular and consistent revenue streams and the Directors will continue to focus their attention on this important issue. I am particularly pleased that billings to date in 2002 have already exceeded those for the six months ended 31 December 2001 and, although it is early days, the growth pattern we are beginning to see is very encouraging at this stage.

### Strategy and Achievements

Until recently our strategy has been focused on the United Kingdom primarily in the entertainment market place with music and games. Having commenced the commercialisation of the business model towards the end of the latter half of 2001 our objectives in that period were two-fold:

- a. to form strategic partnerships with the key UK retailers with a view to capturing pole position and thereby securing the future exploitation of digital distribution in this market place; and
- b. to commence revenue generation from the distribution of content and the sale of our enabling technology applications.

In assessing the achievements of the past twelve months it is useful to consider progress in meeting our key strategic objectives.

Tornado has been chosen as the digital distribution partner of several of the major high-street retailers with deals having been announced with HMV, Virgin Megastores and Vshops. Tornado also announced a tie-up with bol.com whose service for the sale of interactive games software went live with Tornado during November 2001. We expect to go live with HMV, Virgin Megastores (UK) and Virginmega (France) for delivery of music and games to their retail websites during the second quarter of 2002.

In relation to the sale of applications Tornado provides specific applications to clients which enhance or improve the way in which they distribute products internally or externally, within closed user groups or to a wider public audience. Our strategic objective in delivering services under this model is to generate opportunities that can deliver short, medium and long-term revenues as well as securing relationships with customers who can provide business to us for our core distribution model.

During the period under review, Tornado has secured the following revenue generating deals from the sale of applications:

- **Subscription Services**  
In October, Tornado launched the Westlife Platinum Subscription Service on behalf of its client BMG Entertainment. Tornado provides the technical infrastructure to support the subscription service and the delivery of content, encompassing hosting and content provision services, digital rights management capability, membership enrolment tools, and a payment gateway to facilitate payment using both credit and debit cards and prepaid cards.

# Tornado Group PLC

Under the arrangements each subscriber is charged an annual fee that allows access to the Premium site. Tornado receives a fee per subscriber from its client, BMG Entertainment. From launch the consumer take up of the service has been encouraging and consistent and it is expected that further revenues will flow from the provision of this service throughout 2002.

Having launched our initial subscription service with BMG, Tornado's efforts are now concentrated on capitalising on this success and launching similar services with other major record companies as well as seeking large 'brand' subscription opportunities outside the music sector. Opportunities are being actively reviewed and I am pleased to announce today that our first additional success in this regard is to be the launch of an on-line subscription based service for Sony Entertainment Limited who will be going live with our service for one of their major pop acts in May / June 2002. We expect to report further progress regarding the utilisation of our subscription services throughout 2002.

- **Pay per play model**  
In December, Tornado launched a service for Codemasters (a games publisher) for the digital distribution of games software via their website to existing customers. The offering was marketed on Codemasters websites throughout the world and to date has also generated encouraging and consistent sales. Tornado receives a fee per download from Codemasters. The commercial success of this application has led Codemasters to request us to provide them with a complete e-commerce solution for the on-line sales of their games products for launch in the summer.
- **Promotions**  
During 2001 Tornado provided the infrastructure to enable a number of digital promotions for record companies. These included the Charlatans, Nelly Furtado and Kylie Minogue. While this generated modest revenues during 2001, this is a service that we believe can provide a regular source of low level revenues in 2002 and beyond.
- **IPMS**  
The Intellectual Property Management System ('IPMS') is a solution that allows the owner of valuable intellectual property, whether it be music, images, audio or text documents, to securely distribute the same in a fully controlled way to a pre-defined group of recipients, coupled with an enhanced on-line management information system reporting on feedback and usage. The IPMS has been sold to a small number of customers in the entertainment and corporate sectors who are using it on a trial basis. Tornado sees a wide-range of opportunities for IPMS and is looking to exploit its usage by entering into re-seller agreements. Tornado has a deal with Cable & Wireless, whereby Cable & Wireless will assist Tornado to sell IPMS by introducing our products and services to its customer base across a number of territories. A number of interesting opportunities to sell the IPMS have been brought to us, although as with any new product, securing the initial deals is the key. These commercial opportunities are there to be exploited and we are cautiously optimistic about securing some revenue generating deals during 2002.

Finally, having secured primary strategic relationships with retailers in the UK, Tornado's objective in the retail sector during 2002 is to mirror our success in the UK in other key European territories. To this end Tornado has already reached agreement with key players in both France (Virginmega) and Denmark (Fredgaard). We expect to go live with these retailers during the second quarter of 2002 to deliver music and games to their retail websites. We will continue this push into mainland Europe during 2002 and hope to report some further progress in this respect in the near future.

## Financial

In the year ended 31 December 2001 Tornado recorded a loss on ordinary activities before taxation of £6,861,700 (2000 - £5,804,200). The loss represents the continued cost of developing Tornado's offerings and business infrastructure, establishing commercial relationships in the market and establishing an operational base. Operating costs totalled £7,321,700. These are broken down as follows:

	2001	2000
System and infrastructure development	£1,940,700	£3,075,600
Operations and finance	£4,061,500	£1,685,900
Sales and Marketing	£658,000	£539,200
Facilities	£459,000	£407,400
UITF 17 stock option charge	£202,500	£608,600

Interest Income totalled £302,200 (2000 - £512,500) representing interest earned on bank deposits.

A tax credit of £329,500 was received from the Inland Revenue in respect of Research and Development expenditure. Tornado made a claim for the credit based upon the development of the Tornado system during the period to 31 December 2000.

As part of a deal with Cable & Wireless, Tornado sold certain fixed assets for £1,050,000 during the period under review.

# Tornado Group PLC

## Management and Staff

During 2001 we appointed Lord Alli as a Non-Executive Director. Lord Alli's considerable experience and knowledge of the media industry worldwide is a valuable asset to Tornado and further strengthens the Board. John Kinnear effected his resignation from the Board on 31 August 2001.

In October 2001 the Company re-priced options representing less than 1% of the share capital which have been granted to employees, excluding the Directors.

Since 31 December 2001 and as part of the organisational changes referred to above, Jim Dickie ceased to be a Director and resigned from the Board with effect from 18 March 2002. In addition I have become Executive Chairman with Neil Ferris assuming the role of Managing Director. Peter Donnelly, our previous Non-Executive Chairman, continues as a Non-Executive Director. I am confident that the changes we have effected both in terms of cost controls and management structure enhance our ability to perform more efficiently and I look forward to working more closely with Neil in this regard.

## Outlook

The first half of 2002 will see us launch our services with HMV, Virgin Megastores (UK) and Virginmega (France). At the same time we intend to capitalise on this progress by tying up further retail partners across Europe and to launch further artist subscription services with major record labels. Opportunities for applications outside of the entertainment sector are looking promising and we are seeking to make significant inroads into acquiring customers for these applications during 2002.

All of these opportunities are to provide us with growth in the modest revenue foundations we have built to date. We must also be aware of the potential that market consolidation may have in the sectors in which we operate. Opportunities have presented themselves to us and we will explore possibilities in this respect in the ensuing period.

Overall 2001 was a solid year for Tornado in terms of building a strategic customer platform and also in product development. It also saw the commencement of revenues, albeit at modest levels which, with the launch of key services during the first half of 2002, we expect to form the basis for consistent revenue growth through the year.



Ian Watson  
Chairman

22 March 2002

# Tornado Group PLC

## Directors' Report

For the Year Ended 31 December 2001

The Directors of Tornado Group PLC present their annual report to shareholders and the audited consolidated financial statements for the year ended 31 December 2001.

### Principal activities and future developments

The principal activity of the Group is the distribution of digital media and associated activities. The Group is currently wholly located in the United Kingdom.

The principal activity of the Company is that of a holding company. The results of its principal subsidiaries have been consolidated in the Group financial statements. Details of the businesses and their activities during the year are set out in note 10 of the financial statements.

A review of the business is contained in the Chairman's Statement, which is published as part of the annual report and financial statements.

### Results and dividends

The consolidated financial statements are set out on pages 15 to 28. Turnover during the year under review was £40,400 (2000 - £nil) and the Group reports a loss on ordinary activities before taxation of £6,861,700 (2000 - £5,804,200).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2001 (2000 - £nil).

### Tangible fixed assets

Capital expenditure during the year amounted to £161,200 (2000 - £3,533,000). Fixed assets with a net book value of £930,200 were sold during the year, giving rise to a profit on disposal of £120,800.

### Research and Development

Research and development expenditure has been concentrated on the continued development of the Tornado system and related products and services. The total cost of all development activity during the year was £1,940,700 (2000 - £3,075,600). All research and development costs are written off as they are incurred.

### Directors

The Directors of the Company who served during the year are set out below:

Ian James Watson	<i>(Executive Chairman from 18 March 2002)</i>
John Richard Gildersleeve	
Gareth David Roblin	
Neil Jeremy Ferris	<i>(Managing Director from 18 March 2002)</i>
James Michael Dickie	<i>(resigned 18 March 2002)</i>
John Mackay Kinnear	<i>(Non-Executive from 19 February 2001, resigned 31 August 2001)</i>
Peter Norman Donnelly	<i>(Non-Executive Chairman to 18 March 2002, Non-Executive thereafter)</i>
Lord Alli	<i>(appointed 19 February 2001, Non-Executive)</i>

### Employees

The Group had 52 employees as at 31 December 2001. Employee details are set out in note 8 of the financial statements.

### Share capital

The authorised and issued share capital of the Company, together with details of the shares issued during the year, are shown in note 17 to the financial statements.

# Tornado Group PLC

## Company's shareholders

The Company has been notified or is aware of the following investors or nominee accounts with interests of 3% or more in the ordinary share capital of the Company at the date of this report:

Name of Shareholder	Number of Shares held	% of Issued Share Capital
J M Kinnear	7,280,000	12.896
Nortrust Nominees Limited	3,000,000	5.314
Vidacos Nominees Limited	4,250,000	7.529
Scottish Widows Investment Partnership Ltd	1,769,637	3.135

The interests of the Directors and their immediate families and the interests of persons connected with the Directors for the purposes of section 346 of the Companies Act 1985 in the issued ordinary share capital of the Company as at 31 December 2001 (all of which are beneficial unless otherwise noted) are as follows:

Shares	2001	
Name of Shareholder	Number of Shares held	% of Issued Share Capital
I J Watson	8,280,000	14.667
J R Gildersleeve	8,280,000	14.667
G D Roblin	-	-
N J Ferris	88,000	0.156
J M Dickie	-	-
P N Donnelly	3,960,000	7.015
Lord Alli	-	-

No Directors sold any shares during the year ended 31 December 2001 and there have been no changes in Directors share holdings since 31 December 2001.

Further information is provided in the Remuneration report on page 10 to 12.

## Share schemes

The Group has adopted four share schemes. The details on each of these schemes are set out in note 18 of the financial statements.

## Charitable and political donations

The Group made no charitable or political donations during the year (2000 - £nil).

## Creditor payment policy

It is the Group's policy to settle all agreed liabilities within the terms established with suppliers. Trade creditors outstanding for the Group at the end of 2001 were £121,100 (2000 - £284,000). Average creditor days for the Group during 2001 were 33 days (2000 - 28 days).

## Annual General Meeting

The Annual General Meeting is to be held at Tornado House, Pound Lane, Marlow, Buckinghamshire, SL7 2AF on Friday 10 May 2002.

The notice of the Annual General Meeting and a pre-paid proxy voting form accompany this annual report on page 29.

Ian Watson and John Gildersleeve retire by rotation at the Annual General Meeting and resolutions proposing their re-election as Executive Directors will be put forward at the Annual General Meeting.

## Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board



Gareth Roblin  
Company Secretary

22 March 2002



# Tornado Group PLC

## Corporate Governance

Tornado is committed to high standards of corporate governance. The Board is accountable to the shareholders for good governance and the information below identifies the principles applied by the Company and the Group:

### Board of Directors

The Board of Directors meets on average every six weeks and receives such information as is required to properly fulfil its duties. At the date of this report the Board comprises two Non-Executive Directors and four Executive Directors. The Company does not currently comply with the requirement in the Combined Code that the Board should consist of at least three Non-Executive Directors, a majority of whom are independent.

### Relations with shareholders

The Executive Directors regularly communicate with investors in accordance with our investor relations policy. The Board welcomes shareholders to communicate views or concerns to the Company's Investor Relations Officer and Finance Director, Gareth Roblin. The Company has established a corporate website for investors which details the latest press releases, financial information, frequently asked questions and key contacts. It can be accessed at [www.tornadogroup.com](http://www.tornadogroup.com).

### Internal financial control

Overall responsibility for the Group's system for internal financial control rests with the Board. The Group's system of internal control can be summarised under the following headings:

#### Organisation

The Board concentrates mainly on strategic, directional and financial performance. It aims to safeguard the Group's assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. There is a clearly defined organisational structure in the Company and the Group with clear reporting responsibilities and reporting lines to the Board.

#### Financial information and control

The Group prepares a budget annually that is reviewed and updated on a regular basis. The Board and Executive Committee review the performance of the business against budget on a monthly basis.

#### Monitoring of controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The Group does not have an internal audit function, however during the financial year and the period up to the approval of the financial statements there has been an ongoing informal review of the internal control framework by the Directors, and in addition to this the Finance Director and Finance Manager have performed regular spot checks and ensured that the internal control framework is both adequate and adhered to. The Directors consider that the Group's internal control framework is appropriately designed to provide a reasonable, but not absolute, level of assurance against material misstatement or loss.

The key features of the Group's internal control framework are:

- All departments within the Group's companies are subject to a detailed annual budget process, and actual performance during the year is monitored monthly against budget and prior year results. These monthly results are presented to the Board in consolidated and detailed formats.
- The Group operates documented internal control procedures covering all aspects of the day to day operation of the business. These are designed to ensure complete and accurate accounting of financial transactions and limit exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties in key areas and management checks.
- All significant expenditure, whether or not capital in nature, must be approved by at least two members of the Board.
- A defined organisational structure including the specification of accountability and delegation authority.

The Company has a Risk Group which meets on a regular basis to consider external and internal factors affecting the business as a whole, investigate issues as required and report its finding to the Audit Committee. In addition, the Audit Committee may appoint third party internal auditors to review key controls.

# Tornado Group PLC

## Board Committees

The Board has delegated specific responsibilities to its committees whose terms of reference it sets. These committees are detailed below:

### Executive Committee

The Executive Committee meets at least twice a month and deals with the operational aspects of the business not specifically reserved for the Board. The Chairman of the Committee during the period of this report was Ian Watson. The Committee consists of the Executive Directors and senior managers.

### Audit Committee

The Audit Committee meets at least four times a year and consists of Peter Donnelly, Ian Watson and Gareth Roblin. Its terms of reference include the review of the annual report and financial statements, interim report, accounting policies and financial controls of the Group. The external auditors participate in the meetings of the Audit Committee and report on matters arising from their audit work.

Peter Donnelly is Chairman to this Committee. The Company does not currently comply with the requirement in the Combined Code that the Audit Committee should consist of at least three Non-Executive Directors, a majority of whom are independent.

### Treasury and Risk Management Committee

This Committee meets at least six times a year to assess and manage the Group's risk and treasury policies. The Committee reports to the Audit Committee. During the period of this report the Committee was Chaired by Gareth Roblin and consisted of Gareth Roblin, Ian Watson and the Finance Manager.

### Remuneration Committee

The Remuneration Committee meets at least four times a year. Its key role is to make recommendations to the Board on the Group's framework of Executive remuneration and its cost, and to determine on their behalf specific remuneration packages for each of the Executive Directors including pension rights and any compensation payments. The Committee comprises Lord Alli and Peter Donnelly. Peter Donnelly is Chairman of the Remuneration Committee. The Group does not comply with the requirement in the Combined Code that the Remuneration Committee should consist of at least three Non-Executive Directors, a majority of whom are independent.

The Board's report to shareholders on Directors' remuneration is set out on pages 10 to 12.

## Going Concern

The Group is about to embark upon a key period in terms of the future development of its business opportunities. The potential income generating capability of these opportunities is as yet unclear. The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the accounts. However, the long term stability of the Group is dependant upon the generation of regular revenue streams and the Directors continue to focus their attention on this issue.

# Tornado Group PLC

## Report on Remuneration and Related Matters

This report on remuneration and related matters covers issues that are the concern of the Board as a whole in addition to those which are dealt with by the Remuneration Committee.

### Remuneration objectives

The Group aims to attract, motivate and retain high calibre Executives by rewarding them with competitive salary and benefit packages which are linked to both individual and business performance.

The Board believes that the Group's current remuneration policy appropriately aligns Executive compensation with the performance of the Group and shareholder interests and offers competitive compensation for its Executives. The Board does not believe in compensation for poor performance and does not reward unsatisfactory performance.

### Remuneration policy

The specific remuneration policies currently in force are as follows:

#### Base salary and benefits

The Board establishes salaries by reference to comparable salaries in the employment market. Salaries for Directors are reviewed annually and will be subject to review and confirmation by the Remuneration Committee.

#### Short term incentive arrangements

The level of bonus (if any) is determined by the Remuneration Committee on the basis of established criteria in order to encourage performance in a manner that the Remuneration Committee considers will contribute most to increasing shareholder value for that year.

#### Long term incentive arrangements

The Company has four share schemes in place:

1. An Approved Share Option scheme (Approved scheme)
2. A share scheme for four key staff (Key Employee scheme)
3. An Unapproved Share Option scheme (Unapproved scheme)
4. An Enterprise Management Incentive scheme (EMI scheme)

Details of these schemes are set out in note 18 to the attached financial statements.

#### Pensions

The company contributes to an approved personal pension scheme for permanent members of staff.

### Summary of Directors' remuneration and their service agreements

All Executive Directors are employed under the terms of Service Agreements commencing on 1 November 2001 and expiring after a fixed term of twelve months. Following the fixed term, either party may terminate employment by giving twelve months' notice.

Executive remuneration is approved by the Remuneration Committee. Details of the Remuneration Committee are disclosed on page 9 of this report.

### Summary of Non-Executive Directors' remuneration and their service agreements

Peter Donnelly was appointed as a Non-Executive Director for an initial period of one year from 21 January 2000 and thereafter either party may terminate the appointment by giving not less than six months' written notice.

Lord Alli was appointed as a Non-Executive Director on an ongoing basis from 19 February 2001. The appointment may be terminated either by Lord Alli giving not less than one month's written notice, or by Tornado Group PLC giving not less than three months' written notice.

# Tornado Group PLC

## Directors' interests and remuneration

The rights to subscribe for shares in Tornado Group PLC of the Directors, their immediate families and persons connected with the Directors for the purposes of section 346 of the Companies Act 1985 are as follows:

### Rights to subscribe for ordinary shares

Director	Date of grant	Exercise price	Exercise date	Expiry date	Number of options	
					As at 31 December 2001	As at 31 December 2000
G D Roblin	20 October 2000	£1.30	1 June 2001	20 October 2010	86,538	86,538
	20 October 2000	£1.30	1 June 2002	20 October 2010	86,539	86,539
	20 October 2000	£1.30	20 October 2003	20 October 2010	76,923	76,923
	22 February 2001	£1.00	1 July 2002	22 February 2011	100,000	-
Total					350,000	250,000
N J Ferris	20 October 2000	£1.30	1 June 2001	20 October 2010	86,538	86,538
	20 October 2000	£1.30	1 June 2002	20 October 2010	86,539	86,539
	20 October 2000	£1.30	20 October 2003	20 October 2010	76,923	76,923
	22 February 2001	£1.00	1 July 2002	22 February 2011	100,000	-
	15 October 2001	£0.35	31 December 2001	1 April 2002	62,857	-
Total					412,857	250,000
J M Dickie	20 October 2000	£1.30	1 June 2001	20 October 2010	61,538	61,538
	20 October 2000	£1.30	1 June 2002	20 October 2010	61,539	61,539
	20 October 2000	£1.30	20 October 2003	20 October 2010	76,923	76,923
	22 February 2001	£1.00	1 July 2002	22 February 2011	100,000	-
Total					300,000	200,000
Lord Alli	22 February 2001	£1.00	1 July 2002	22 February 2011	100,000	-

Options are allocated at the discretion of the Board and approved by the Remuneration Committee.

On 31 August 2001 John Kinnear left the Board of Tornado Group PLC and gifted 1 million ordinary shares to a newly established Employee Benefit Trust which was set up for the benefit of the Company's employees. The Remuneration Committee has the power to grant options over some of these shares to Directors who are not founder shareholders. The following Directors hold options over shares held in the Tornado Group Employee Benefit Trust:

### Rights to subscribe for ordinary shares held in Employee Benefit Trust

Director	Date of grant	Exercise price	Exercise date	Expiry date	Number of options	
					As at 31 December 2001	As at 31 December 2000
G D Roblin	27 November 2001	£0.00	20 March 2002	27 November 2011	250,000	-
N J Ferris	27 November 2001	£0.00	20 March 2002	27 November 2011	250,000	-
J M Dickie	27 November 2001	£0.00	20 March 2002	27 November 2011	250,000	-

No Directors exercised options during the year ended 31 December 2001. The market price at 31 December 2001 was 25p. The range of market prices during the year was a high of 96p on 12 February 2001 and a low of 20p from 21 September 2001 to 1 October 2001.

# Tornado Group PLC

The following amounts have been charged to the Group profit and loss account in respect of contracts for the provision of services by Directors:

	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Year ended 2001 Total £'000	13 month period ended 2000 Total £'000
<b>Directors' detailed emoluments</b>					
<b>Executive:</b>					
J M Kinnear	8.3	0.3	-	8.6	111.7
I J Watson	109.6	1.9	20.0	131.5	116.3
J R Gildersleeve	109.6	2.2	20.0	131.8	110.4
G D Roblin	109.6	2.2	20.0	131.8	50.0
N J Ferris	75.0	-	20.0	95.0	20.8
J M Dickie	109.6	2.6	20.0	132.2	46.5
<b>Non-Executive:</b>					
P N Donnelly	22.8	-	-	22.8	23.0
Lord Alli	20.0	-	-	20.0	-
	<b>564.5</b>	<b>9.2</b>	<b>100.0</b>	<b>673.7</b>	<b>478.7</b>

Benefits in kind include medical insurance, life assurance and income protection.

No Director waived emoluments in respect of the year ended 31 December 2001.

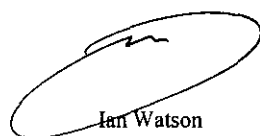
## Directors' pension arrangements

Executive Directors' are entitled to a contribution to their individual company approved personal pension plan equal to up to 15% of their basic annual salary.

	Year ended 2001 £'000	13 month period ended 2000 £'000
<b>Directors' pension contributions</b>		
J M Kinnear	-	12.5
I J Watson	10.0	12.5
J R Gildersleeve	10.0	12.5
G D Roblin	15.0	4.5
N J Ferris	11.3	3.1
J M Dickie	15.0	3.8
	<b>61.3</b>	<b>48.9</b>

All the above pension schemes are defined contribution schemes.

On behalf of the Board



**Ian Watson**  
**Chairman**

22 March 2002

# Tornado Group PLC

## Statement of 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 the Group as at the end of the year and the profit or loss of the Group for that year. 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 in the financial statements
- 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, safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for the maintenance and integrity of the Group website. The Directors understand that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

By Order of the Board



Gareth Roblin  
Company Secretary

22 March 2002

# Tornado Group PLC

## Auditors' Report

### Independent auditors' report to the members of Tornado Group PLC

We have audited the financial statements on pages 15 to 28, which have been prepared under the historical cost convention and the accounting policies set out on pages 18 and 19.

### Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities on page 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

We conducted our audit in accordance with 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.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2001 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London

22 March 2002

# Tornado Group PLC

## Consolidated Profit and Loss Account Year ended 31 December 2001

	Notes	Year ended 31 December 2001 £'000	13 month period ended 31 December 2000 £'000
<b>Turnover</b>	2a	<b>40.4</b>	-
Cost of Sales		(3.4)	-
<b>Gross Profit</b>		<b>37.0</b>	-
Operating costs	2b	(7,321.7)	(6,316.7)
<b>Operating loss</b>	2a	<b>(7,284.7)</b>	<b>(6,316.7)</b>
Profit on disposal of fixed assets	9	120.8	-
Interest receivable	3	302.2	512.5
<b>Loss on ordinary activities before tax</b>	4	<b>(6,861.7)</b>	<b>(5,804.2)</b>
Tax on loss on ordinary activities	5	459.5	(130.0)
<b>Loss on ordinary activities after tax</b>		<b>(6,402.2)</b>	<b>(5,934.2)</b>
Equity minority interest		41.2	25.9
<b>Loss for the financial period</b>		<b>(6,361.0)</b>	<b>(5,908.3)</b>
Dividends	6	-	-
<b>Retained loss for the financial period</b>		<b>(6,361.0)</b>	<b>(5,908.3)</b>
<b>Loss per share</b>			
Basic	7	(14.0p)	(17.5p)
Diluted	7	(14.0p)	(17.5p)

There were no recognised gains or losses, other than those shown in the consolidated profit and loss account.

All amounts relate to continuing activities.

The notes on pages 18 to 28 form part of these financial statements



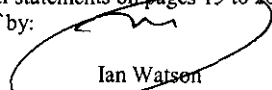
# Tornado Group PLC

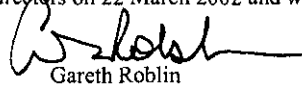
## Balance Sheets

As at 31 December 2001

		Group		Company	
	Notes	31 December 2001 £'000	31 December 2000 £'000	31 December 2001 £'000	31 December 2000 £'000
<b>Fixed Assets</b>					
Tangible assets	9	1,022.2	2,848.6	-	-
Investments	10	-	-	7,594.9	7,594.9
		<b>1,022.2</b>	<b>2,848.6</b>	<b>7,594.9</b>	<b>7,594.9</b>
<b>Current Assets</b>					
Debtors	11	232.9	370.7	12,635.2	8,044.3
Cash at bank and in hand	12	7,015.7	7,660.6	6,671.7	7,313.3
		<b>7,248.6</b>	<b>8,031.3</b>	<b>19,306.9</b>	<b>15,357.6</b>
<b>Creditors: amounts falling due within one year</b>	13	(673.3)	(795.3)	-	(130.0)
<b>Net current assets</b>		<b>6,575.3</b>	<b>7,236.0</b>	<b>19,306.9</b>	<b>15,227.6</b>
<b>Total assets less current liabilities</b>		<b>7,597.5</b>	<b>10,084.6</b>	<b>26,901.8</b>	<b>22,822.5</b>
<b>Creditors: amounts falling due after more than one year</b>	14	(52.5)	-	-	-
<b>Net assets</b>		<b>7,545.0</b>	<b>10,084.6</b>	<b>26,901.8</b>	<b>22,822.5</b>
<b>Capital and Reserves</b>					
Called up share capital	17	14,112.6	10,250.1	14,112.6	10,250.1
Share premium account	19	12,001.0	12,203.4	12,001.0	12,203.4
Other reserves	19	(7,044.9)	(7,044.9)	-	-
Profit and loss account	19	(11,458.2)	(5,299.7)	788.2	369.0
Equity shareholders' funds	20	7,610.5	10,108.9	26,901.8	22,822.5
Equity minority interests		(66.9)	(25.7)	-	-
Non-equity minority interests		1.4	1.4	-	-
<b>Capital Employed</b>		<b>7,545.0</b>	<b>10,084.6</b>	<b>26,901.8</b>	<b>22,822.5</b>

The financial statements on pages 15 to 28 were approved by the Board of Directors on 22 March 2002 and were signed on its behalf by:

  
Ian Watson  
Executive Chairman

  
Gareth Roblin  
Finance Director

The notes on pages 18 to 28 form part of these financial statements

# Tornado Group PLC

## Consolidated Cash Flow Statement Year ended 31 December 2001

		Year ended 31 December 2001	13 month Period ended 31 December 2000
	Notes	£'000	£'000
<b>Net cash outflow from operating activities</b>	<b>21a</b>	<b>(5,826.5)</b>	<b>(4,727.5)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		302.2	512.5
<b>Taxation</b>			
UK corporation tax – Research & Development Rebate		329.5	-
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(161.2)	(3,533.0)
Sale of tangible fixed assets		1,051.0	-
<b>Cash outflow before use of liquid resources and financing</b>		<b>(4,305.0)</b>	<b>(7,748.0)</b>
<b>Financing</b>			
Issue of ordinary shares		3,660.1	15,408.6
<b>Total cash (outflow)/inflow in period</b>	<b>21b</b>	<b>(644.9)</b>	<b>7,660.6</b>

Tornado Group PLC includes as liquid resources term deposits, all maturing within one month.

The notes on pages 18 to 28 form part of these financial statements

# Tornado Group PLC

## Notes to the Financial Statements

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### 1. Accounting policies

The principal accounting policies, which have been consistently applied throughout the year, are as follows:

**(a) 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 and cover the year to 31 December 2001.

In accordance with FRS 18 the Directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the Group for the year ended 31 December 2001.

**(b) Profits of holding company**

Of the loss for the financial year a profit of £216,700 is dealt with in the accounts of the Company.

The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

**(c) Basis of consolidation**

The consolidated financial statements include the results of Tornado Group PLC and its subsidiaries up to 31 December 2001. Also included are the results of the Tornado Group Employee Benefit Trust up to 31 December 2001.

**(d) Turnover**

Turnover comprises amounts invoiced during the period for services provided, net of value added tax. It is the policy of the company to recognise revenue when it is realised or realisable and earned.

Where revenue relates to subscription services provided to customers over a set period of time, generally twelve months, the revenue earned is recognised on a monthly basis over the period to which it relates.

**(e) Cost of Sales**

Cost of sales comprises costs incurred by the Group as a direct consequence of sales of products and services to customers.

Included within cost of sales is an element of the bandwidth costs incurred by the Group. This cost is absorbed from operating costs into cost of sales on the basis of bandwidth capacity utilised during the period.

**(f) Research and development**

All research and development expenditure is written off in the period in which it is incurred.

**(g) Tangible fixed assets and depreciation**

Tangible fixed assets are held at cost less any provision for impairment. Depreciation is provided on all tangible fixed assets at the rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Computer equipment	2 to 3 years
Computer software and licences	3 years
Office equipment	3 years
Furniture, fixtures and fittings	5 years
Plant and machinery	5 years

Assets are depreciated in the month of purchase and not depreciated in the month of disposal.

**(h) Fixed asset investments**

Unlisted investments are stated at cost less any provision for permanent diminution in value.

# Tornado Group PLC

## 1. Accounting policies (continued)

### (i) Financial instruments

The Group uses financial instruments comprising cash and short-term deposits and has no borrowings. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

### (j) Leasing

The cost of operating leases in respect of land and buildings and other assets is charged to the profit and loss account on a straight-line basis over the term of the lease.

### (k) Deferred taxation

Deferred taxation is provided using the Full Provision method, at current rates, on all material timing differences between accounting and taxation treatments, which are expected to reverse in the foreseeable future.

### (l) Employee share scheme charge

Where options are granted at a price lower than their fair value at the date of grant, a charge equivalent to the difference is recorded in the profit and loss account.

### (m) Cost of share option schemes

As a result of the grant of share options on 23 February 2000 the Company was obliged to pay National Insurance contributions on the difference between the market value of the underlying shares and their exercise price when the options were exercised. This amount was charged to the profit and loss account for the prior accounting period.

The Company will not be obliged to pay any additional National Insurance contributions resulting from further grants of share options because each employee has entered into an agreement with the Company to transfer liability to the employee.

### (n) Pensions

The pension cost charged to the profit and loss account represents contributions payable by the Group to approved defined contribution personal pension schemes during the year. Contributions are charged to the profit and loss account in the period in which they are incurred.

## 2. Segmental analysis

### a. Analysis of turnover and operating loss

The turnover reported for the year was generated entirely in the UK from the Group's sole class of business, digital media distribution and related services.

### b. Analysis of net operating costs

	Year ended 2001 £'000	13 month Period ended 2000 £'000
<b>Operating costs are analysed as follows:</b>		
<b>Administration costs:</b>		
System development	1,940.7	3,075.6
Operations and finance	4,061.5	1,685.9
Sales and marketing	658.0	539.2
Facilities	459.0	407.4
UITF 17 stock option charge	202.5	608.6
	<b>7,321.7</b>	<b>6,316.7</b>

### c. Analysis of net assets

All assets of the Group relate to the activity of digital media distribution and are located in the United Kingdom.

# Tornado Group PLC

## 3. Interest receivable and similar income

	Year ended 2001 £'000	13 month Period ended 2000 £'000
On deposits and liquid funds	302.2	512.5

## 4. Loss on ordinary activities before taxation

	Year ended 2001 £'000	13 month Period ended 2000 £'000
<b>Loss before taxation is stated after charging:</b>		
Depreciation of tangible fixed assets	1,057.4	684.4
UITF 17 stock option charge	202.5	608.6
National Insurance charge (relating to stock options granted)	-	74.2
Net loss on foreign exchange differences	3.0	-
Staff costs (see note 8)	3,049.7	1,545.8
Operating lease rentals:		
Land and buildings	261.8	212.0
Other	12.6	3.7
Auditors' remuneration:		
Audit	26.5	31.0
Other	53.9	76.5

## 5. Taxation

	Year ended 2001 £'000	13 month Period ended 2000 £'000
UK Corporation Tax at 30%	-	(130.0)
Research and Development tax credit received	329.5	-
Release of prior year provision	130.0	-
	459.5	(130.0)

The prior year charge relates to tax due on interest income received prior to the group commencing to trade.

As part of the Tornado Entertainment Limited tax return for the period ended 31 December 2000 the Group claimed a Research and Development tax credit of £1,647,000 for eligible expenditure on the development of Tornado's DMDS. As a result of this claim a cash reimbursement of £329,500 was received from the Inland Revenue during November 2001.

No deferred tax charge has arisen during the year. No deferred tax asset has been recognised in the financial statements for the year ended 31 December 2001.

## 6. Dividends

No dividends will be declared for the year ended 31 December 2001 (2000 - £nil).

# Tornado Group PLC

## 7. Loss per share

Basic loss per share is based on the loss on ordinary activities after taxation and the weighted average number of 25p ordinary shares in issue during the period under review of 45,360,345 (2002 - 33,869,285).

The options outstanding at the end of the year do not have a diluting effect on the loss per share. Options over shares already issued and held in the Tornado Group Employee Benefit Trust do not have a diluting effect on the loss per share.

## 8. Employees and Directors

	Year ended 2001 £'000	13 month Period ended 2000 £'000
<b>Staff costs</b>		
Wages and salaries	2,398.5	1,250.7
Social security costs	288.9	158.6
IHT liability	45.4	-
Pension contributions	157.1	-
Other staff costs	159.8	136.5
	<b>3,049.7</b>	<b>1,545.8</b>

All pension contributions made during the year were to defined contribution personal pension schemes. Accrued contributions at 31 December 2001 were £13,100 (2000 - £nil).

During the year the Tornado Group Employee Benefit Trust was gifted 1 million shares in Tornado Group PLC. The share price on the date of the transfer was 47.5p giving rise to an inheritance tax liability of £45,400 at 31 December 2001. This cost has been included within staff costs for the year ended 31 December 2001.

The Tornado Group Employee Benefit Trust granted options over 750,000 of the shares it holds to Directors of Tornado Group PLC during the year, giving rise to a profit and loss charge under UITF17 of £202,500, equal to the market value at the date of grant.

The number of employees and officers (including Executive Directors) employed by the Group is set out below:

	Year ended 2001 £'000	13 month Period ended 2000 £'000
<b>Number employed</b>		
Customer service	3	2
Development	10	20
Operations	18	-
Executive	5	5
Finance	3	4
HR and administration	3	3
Sales and marketing	10	8
<b>At 31 December 2001</b>	<b>52</b>	<b>42</b>
<b>Average number of employees during the year</b>	<b>47</b>	<b>24</b>

# Tornado Group PLC

## 8. Employees and Directors (continued)

	Year ended 2001 £'000	13 month Period ended 2000 £'000
<b>Directors</b>		
Aggregate emoluments	673.7	478.7
Company contributions to approved personal pension schemes	61.3	48.9
	<b>735.0</b>	<b>527.6</b>

Additional analysis of Directors Remuneration is set out in the Report on Remuneration and Related Matters on pages 10 to 12.

## 9. Tangible fixed assets – Group

	Leasehold improve- ments £'000	Plant and machinery £'000	Furniture, fixtures and fittings £'000	Office equipment £'000	Computer hardware £'000	Computer software £'000	Total £'000
<b>Cost</b>							
At 1 January 2001	7.5	15.6	106.4	38.2	2,779.3	586.0	3,533.0
Additions	-	5.0	4.5	5.9	71.0	74.8	161.2
Disposals	-	-	-	(0.3)	(1,672.9)	(0.2)	(1,673.4)
<b>At 31 December 2001</b>	<b>7.5</b>	<b>20.6</b>	<b>110.9</b>	<b>43.8</b>	<b>1,177.4</b>	<b>660.6</b>	<b>2,020.8</b>
<b>Depreciation</b>							
At 1 January 2001	0.8	1.6	11.6	7.5	550.5	112.4	684.4
Disposals	-	-	-	-	(743.2)	-	(743.2)
Charge for the year	1.5	3.9	21.9	13.4	801.9	214.8	1057.4
<b>At 31 December 2001</b>	<b>2.3</b>	<b>5.5</b>	<b>33.5</b>	<b>20.9</b>	<b>609.2</b>	<b>327.2</b>	<b>998.6</b>
<b>Net book value</b>							
At 31 December 2000	6.7	14.0	94.8	30.7	2,228.8	473.6	2,848.6
<b>At 31 December 2001</b>	<b>5.2</b>	<b>15.1</b>	<b>77.4</b>	<b>22.9</b>	<b>568.2</b>	<b>333.4</b>	<b>1,022.2</b>

All tangible fixed assets are owned by subsidiary undertakings and therefore no schedule of tangible fixed assets for the Company is required.

In June 2001 Tornado Entertainment Limited agreed the sale of servers and other computer equipment to Morse Group. The company retained the right to use the equipment until 22 October 2001, and as such continued to depreciate the assets until recognising the disposal in October 2001. Tornado Entertainment Limited received £1,050,000 in compensation for the assets sold, giving rise to a profit on disposal in October 2001 of £120,800.

# Tornado Group PLC

## 10. Investments

<b>Fixed asset investments</b>	<b>Group £'000</b>	<b>Company £'000</b>
Shares in Group undertakings:		
At 31 December 2000	-	7,594.9
Additions	-	-
<b>At 31 December 2001</b>	<b>-</b>	<b>7,594.9</b>

Investments in Group undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The Company's principal operating subsidiaries are:

<b>Company Name</b>	<b>Business</b>	<b>Share of equity capital</b>	<b>Country of incorporation</b>
Tornado Entertainment Limited	Systems development and general operations	100%	England
Tornado Music Distribution Limited	Digital music distribution	100%	England
Pre-Emption Limited	Digital image distribution	79%	England
Tornado Games Distribution Limited	Digital games distribution	100%	England
Tornado Film Distribution Limited	Digital film distribution	100%	England

Tornado Music Distribution Limited, Tornado Games Distribution Limited and Tornado Film Distribution Limited are dormant companies.

Also included within the Group's consolidated results for the year ended 31 December 2001 are the results of the Tornado Group Employee Benefit Trust up to 31 December 2001.

The remaining shares of Pre-Emption Limited are owned by certain Directors of Pre-Emption Limited.

## 11. Debtors

	<b>Group 2001 £'000</b>	<b>Group 2000 £'000</b>	<b>Company 2001 £'000</b>	<b>Company 2000 £'000</b>
<b>Amounts falling due within one year:</b>				
Amounts owed by group undertakings	-	-	12,635.2	8,044.3
Trade debtors	24.5	-	-	-
VAT Receivable	39.9	-	-	-
Other debtors	26.0	199.7	-	-
Prepayments and accrued income	142.5	171.0	-	-
	<b>232.9</b>	<b>370.7</b>	<b>12,635.2</b>	<b>8,044.3</b>



# Tornado Group PLC

## 12. Cash and cash equivalents

Included within the cash balance at 31 December 2001 of £7,015,700 is £318,200 of restricted funds (2000 - £304,700). This restricted cash balance comprises £311,700 rent deposit monies and £6,500 of cash due to third parties at 31 December 2001.

## 13. Creditors: amounts falling due within one year

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Trade creditors	121.1	284.0	-	-
Corporation Tax	-	130.0	-	130.0
Social security	85.7	65.7	-	-
Employee benefit trust IHT liability	45.4	-	-	-
Other creditors	6.5	1.6	-	-
Accruals and deferred income	401.5	314.0	-	-
Accrued pension contributions	13.1	-	-	-
	<b>673.3</b>	<b>795.3</b>	<b>-</b>	<b>130.0</b>

## 14. Creditors: amounts falling due after more than one year

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Provision for leasehold dilapidations	52.5	-	-	-

## 15. Leasing commitments

Operating leases	Land and buildings £'000	Other £'000	Group £'000
At 31 December 2001 the Group had annual commitments under non-cancellable operating leases as follows:			
Expiring within one year	21.0	-	21.0
Expiring between one and five years	-	12.0	12.0
Expiring after five years	255.5	-	255.5

# Tornado Group PLC

## 16. Financial Instruments

The Group's principal financial instruments during the year comprised cash and short-term deposits. The Group has no financial liabilities other than short term trade creditors, accruals and a long term creditor relating to leasehold dilapidations. The Group does not enter into derivative transactions.

The Group has no significant exposure to interest rate movements as it has no borrowings. Liquidity risk is minimal as the Group has no borrowings or overdraft facilities and all cash is held either in business current accounts or an on call treasury deposit. On this deposit it is the Group's policy to maximise its interest income whilst maintaining liquidity. The deposit carries a floating interest rate based on base rate and the rate at 31 December 2001 was 4.1%.

At present the Group has no overseas operations or significant foreign currency transactions. All cash and short term deposits are held in Sterling. Transactional currency exposures are therefore at a minimum.

## 17. Share capital

	Number	£'000
<b>Authorised</b>		
Ordinary shares of 25p each:		
At 31 December 2000	60,000,000	15,000,000
Increase in authorised share capital (approved at EGM on 18 Sep. 2001)	20,000,000	5,000,000
<b>At 31 December 2001</b>	<b>80,000,000</b>	<b>20,000,000</b>
<hr/>		
<b>Called up, allotted and fully paid</b>		
Ordinary shares of 25p each:		
At 31 December 2000	41,000,482	10,250.1
Shares issued	15,450,000	3,862.5
Share options exercised	-	-
<b>At 31 December 2001</b>	<b>56,450,482</b>	<b>14,112.6</b>

As at 31 December 2001 the Company had an authorised share capital of 80,000,000 25p ordinary shares, of which 56,450,482 had been allotted, called up and fully paid.

On 20 September 2001 the Company issued a total of 15,450,000 25p ordinary shares via a placing of new shares on the Alternative Investment Market, raising £3,660,100 after expenses. This was the only share issue during the year to 31 December 2001.

## 18. Share options

The Group had four principal share option schemes in operation during the year:

### (a) Key Employee scheme

This incentive scheme was put in place by the Company and Tornado Entertainment Limited (TEL) for four key employees. Each of the employees were issued with A ordinary shares of 10p in the capital of TEL ranking pari passu in all material respects with existing ordinary shares in TEL. Upon the second anniversary of Admission or, if later, the date on which the shares are fully paid up, shares will be compulsorily acquired by the Company in exchange for the allotment of 36 new ordinary shares.

### (b) Enterprise Management Incentive ('EMI') scheme

The scheme was approved on 6 September 2000. The EMI scheme permits the grant of options to a maximum of fifteen Directors and key employees. The scheme is administered by the Remuneration Committee. There are no discounted options granted under this scheme.

# Tornado Group PLC

## 18. Share options (continued)

### (c) Approved Employee Share Option scheme

This scheme was granted approval by the Inland Revenue on 14 June 2000. The scheme will enable selected employees of the Company and its subsidiaries under a contract of employment to be granted options to acquire ordinary shares in the Company. The scheme is administered by the Remuneration Committee. There are no discounted options granted under this scheme.

### (d) Unapproved Employee Share Option scheme

The share option scheme is not intended to be approved by the Inland Revenue. The scheme will enable selected employees of the Company and its subsidiaries under a contract of employment to be granted options to acquire ordinary shares in the Company. The scheme is administered by the Remuneration Committee. There are no discounted options granted under this scheme.

The following options to subscribe for the ordinary shares of the Company are outstanding in favour of Directors and employees of the Group:

Date of grant	Subscription price per ordinary share (pence)	Exercisable from	Exercisable until	Shares under option at 31 December 2001
<b>(a) Key Employee scheme</b>				
29 February 2000	150p	20 October 2001	20 October 2010	504,000
<b>(b) EMI scheme</b>				
6 September 2000	130p	6 September 2001	6 September 2010	180,000
20 October 2000	130p	20 October 2001	20 October 2010	300,768
<b>(c) Approved employee share option scheme</b>				
26 June 2000	150p	26 June 2001	26 June 2010	66,000
20 October 2000	130p	20 October 2001	20 October 2010	116,190
29 January 2001	130p	29 January 2002	29 January 2011	46,000
<b>(d) Unapproved employee share option scheme</b>				
20 October 2000	130p	1 June 2001	1 June 2010	495,194
22 February 2001	100p	1 July 2001	22 February 2011	400,000
28 September 2001	25p	1 December 2001	28 September 2011	417,887
15 October 2001	35p	31 December 2001	31 December 2011	62,857
29 October 2001	28p	1 June 2002	1 June 2012	19,000
12 December 2001	28p	1 June 2002	1 June 2012	3,462
17 December 2001	28p	1 June 2002	1 June 2012	32,000
				<b>2,643,358</b>

Details of options held by Directors are set out in the Report on Remuneration and Related Matters on pages 10 to 12.

In addition to the above schemes the Remuneration Committee has the power to grant options over some of the 1 million shares held in an Employee Benefit Trust to Directors who are not founder shareholders and employees. Details of the 750,000 options held by Directors in shares held in the Tornado Group Employee Benefit Trust are set out in the Report on Remuneration and Related Matters on pages 10 to 12. No other options over these shares have been granted as at 31 December 2001.

In order to continue to motivate key staff members, options over 327,387 shares under the unapproved share option scheme with an exercise price of 130p were released on 28 September 2001 and replacement options with an exercise price of 25p were issued on the same date. A further 3,462 options over shares were released on 12 December 2001 and replacement options with an exercise price of 28p were issued on the same date. In addition, 326,500 options were cancelled or lapsed during the year.

# Tornado Group PLC

## 19. Reserves

	Group & Company Share Premium £'000	Group Other Reserves £'000	Group Profit and Loss Account £'000	Company Profit and Loss Account £'000
Opening balance	12,203.4	(7,044.9)	(5,299.7)	369.0
Cost of shares issued during the year	(202.4)	-	-	-
Credit in respect of UITF 17 charge	-	-	202.5	202.5
Retained (loss) / profit for the period	-	-	(6,361.0)	216.7
Closing balance	12,001.0	(7,044.9)	(11,458.2)	788.2

## 20. Reconciliation of movements in equity shareholders' funds

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Opening equity shareholders' funds	10,108.9	-	22,822.5	-
Issue of ordinary shares net of costs	3,660.1	22,453.5	3,660.1	22,453.5
Merger reserve adjustment	-	(7,044.9)	-	-
UITF 17 stock option charge	202.5	608.6	202.5	608.6
Retained (loss) / profit for the period	(6,361.0)	(5,908.3)	216.7	(239.6)
Closing equity shareholders' funds	7,610.5	10,108.9	26,901.8	22,822.5

## 21. Notes to the consolidated cash flow statement

### (a) Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2001 £'000	13 month Period ended 31 December 2000 £'000
Operating loss	(7,284.7)	(6,316.7)
Depreciation of tangible fixed assets	1,057.4	684.4
UITF 17 stock option charge	202.5	608.6
Decrease / (Increase) in debtors	137.8	(369.1)
Increase in creditors	60.5	665.3
Net cash outflow from operating activities	(5,826.5)	(4,727.5)

# Tornado Group PLC

## 21. Notes to the consolidated cash flow statement (continued)

### (b) Reconciliation of net cash flow to movement in net funds

	Year ended 31 December 2001 £'000	13 month Period ended 31 December 2000 £'000
(Decrease)/Increase in cash in the period	(644.9)	7,660.6
Cash flow from increase in liquid resources	-	-
Movement in net funds in the period	(644.9)	7,660.6
Net funds at beginning of the period	7,660.6	-
Net funds at end of the period	7,015.7	7,660.6

## 22. Reconciliation of movement in net debt

There was no movement in net debt of the Group during the year.

## 23. Contingent Liabilities

The Company and Group had no known contingent liabilities as at 31 December 2001, and no such liabilities have arisen between the end of the current accounting period and the date of this report.

## 24. Related parties

The Group has purchased services to the value of £59,100 from Brilliant!, a trading entity controlled by Neil Ferris, Managing Director. This is for services provided in the course of his duties for the Group. The outstanding balance at 31 December 2001 was £500.

The Group also contributed towards the cost of travel services purchased from Law 2200 Limited, a company controlled by a close relative of Ian Watson, Executive Chairman. This amounted to £4,200 and was a contribution to the cost of air travel for a number of the Group's Directors. The outstanding balance at 31 December 2001 was nil.

The Group was owed £21,000 at 31 December 2001 by Storm Radio Limited, a company in which certain of the Directors of Tornado Group PLC hold shares.

## 25. Copies of Annual Report and Financial Statements

Copies of the Annual Report and Financial Statements are available from the Company Secretary, Tornado Group PLC, Carmelite, 50 Victoria Embankment, London, EC4Y 0DX.

# Tornado Group PLC

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Tornado House, Pound Lane, Marlow, Bucks SL7 2AF on 10 May 2002 at 2.00 p.m. or as soon after such time for the following purposes:

To consider and, if thought fit, pass the following resolutions of which numbers 1 to 5 will be proposed as ordinary resolutions and number 6 will be proposed as a special resolution:

### Ordinary Business

1. To receive and adopt the report of the Directors and the accounts for the year ended 31 December 2001.
2. To re-elect Ian Watson as a Director of the Company.
3. To re-elect John Gildersleeve as a Director of the Company.
4. To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration.
5. That the Directors be and they are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that this authority shall be limited to relevant securities up to an aggregate nominal amount of £4,732,957 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of passing of such resolution or at the conclusion of the next annual general meeting of the Company whichever first occurs, but so that the Company is able before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after expiry of such an authority and the Directors will be authorised to allot relevant securities in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired.
6. That subject to the passing of resolution number 15 above, the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash as if sub-paragraph (1) of section 89 of the Act did not apply to such allotment provided that this is limited to:
  - a. The allotment of equity securities in connection with or pursuant to an offer to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body in any territory; and
  - b. The allotment generally otherwise than pursuant to sub paragraph (a) above of equity securities up to an aggregate nominal value of £734,381, and expires 15 months after the date of the passing of this resolution or, if earlier, on the date of the next annual general meeting of the Company, but so that the Company is able before such expiry to make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement notwithstanding that the power conferred by this resolution has expired.

By Order of the Board



Gareth Roblin

Secretary

Date 22 March 2002

Registered Office:  
Carnelite  
50 Victoria Embankment  
London EC4Y 0DX

# Tornado Group PLC

London EC4Y 0DX

## Explanatory Notes

### 1.Voting

All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 48 hours before the time fixed for the meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

### 2.Proxy

Shareholders entitled to attend and vote at the meeting may appoint a proxy or proxies to attend on their behalf. A proxy need not be a member of the Company. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Whilst proxies may vote on a poll on any resolution, they are not entitled to vote on a show of hands. Proxies may ask questions at the meeting if, in his discretion, the Chairman of the meeting allows it.

Shareholders are invited to complete and return the enclosed Proxy Form. Completion of the Proxy Form will not prevent a shareholder from attending and voting at the meeting if subsequently he/she finds they are able to do so. To be valid, completed Proxy Forms must be received at the office of the Company's registrars, Capita IRG plc of Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the meeting.

### 3.Corporate Shareholders

Representatives of shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 36A of the Act or signed on behalf of the corporation by a duly authorised officer or agent.

### 4. Documents

The following documents will be available for inspection at the registered office of the Company on any weekday (except Saturdays, Sundays and Bank Holidays) during normal business hours from the date of this notice until the date of the meeting and at the place of the meeting for 15 minutes prior to and until the conclusion of the meeting:

- i) A statement of transactions of Directors (and of their family interests) in the share capital of the Company and any of its subsidiaries; and
- ii) Copies of the Directors' service agreements with the Company.

# Tornado Group PLC

## Form of Proxy for Annual General Meeting

I/We

[NAME IN FULL IN BLOCK CAPITALS PLEASE]

Of

being a member/members of the Company appoint the Chairman of the meeting  
(See note 3)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 10 May 2002 and at any adjournment of the meeting on the following resolutions (of which numbers 1 to 5 will be proposed as ordinary resolutions and number 6 will be proposed as a special resolution), as indicated by an 'X' in the appropriate box and, on any other resolutions, as he thinks fit:

	For	Against
1. To receive and adopt the report and accounts	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Ian Watson as a Director	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect John Gildersleeve as a Director	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint PricewaterhouseCoopers as auditors	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors' to allot relevant securities	<input type="checkbox"/>	<input type="checkbox"/>
6. To disapply statutory pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>

Dated

Signature

### Notes

1. To be valid this form, duly completed, must be received at the office of the Company's registrars, whose address appears overleaf by 2.00 p.m. on 8 May 2002. The form must be signed. If someone else signed the form on your behalf, you or that person must send the power of attorney or other written authority under which it is signed to the address overleaf.
2. A corporation must execute this form either under its common seal or under the hand of an officer or attorney authorised in writing.
3. If it is desired to appoint a person as a proxy other than the Chairman of the meeting this expression should be deleted and the name of the other person inserted in the space provided.
4. A proxy, who need not be a member of the Company, must attend the meeting in person to represent a member.
5. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members in respect of the shares.

The lodging of a form of proxy will not prevent a shareholder from attending and voting at the meeting in person if he or she so wishes.