

PRIMAGRAPHS (HOLDINGS) LIMITED

Report and Accounts

30 June 2002

ERNST & YOUNG



Primagraphics (Holdings) Limited

Company no. 3774448

DIRECTORS

R L White
J M Foxton
J D Shave
G Abington
J T Hunter

SECRETARY

S J Rich

AUDITORS

Ernst & Young LLP
400 Capability Green
Luton
Beds
LU1 3LU

BANKERS

National Westminster Bank plc
10 Bene't Street
Cambridge
CB2 1LA

REGISTERED OFFICE

New Cambridge House
Litlington
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Hertfordshire
SG8 0SS

 **ERNST & YOUNG**

Primagraphics (Holdings) Limited

DIRECTORS' REPORT

The directors present their report and the group accounts for the year ended 30 June 2002.

RESULTS AND DIVIDENDS

The group profit for the year, after taxation, amounted to £138,563 (2001: £320,758). The directors do not recommend the payment of a final dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The group's principal activity during the year continued to be the design, development and manufacture of computerised equipment for handling and displaying graphics and images.

The directors are pleased to report on a very satisfactory performance in the company's principal trading subsidiary, Primagraphics Limited. This has been a year of continuing growth in revenue and new orders, as well as satisfactory profit and cash flow. The company's international sales presence has developed significantly through the year and the company is recognised as a global leader in the niche markets that it serves.

The group's growth has once again been underpinned by a major investment in new product design and development. Of particular significance in the year under review was the launch in early 2002 of the new Hawkeye PMC product range. Both the new and existing product ranges will ensure that the group remains very well positioned to benefit from the increasing use of Commercial Off The Shelf (COTS) technology in the major aerospace and defence prime contractors. Consequently, new order prospects for the forthcoming year are excellent.

The achievement of these results would not have been possible without the effort and commitment of the group's staff and the directors extend their thanks for the loyalty and hard work of the staff.

DIRECTORS AND THEIR INTERESTS

The directors at 30 June 2002 and their interests in the share capital of the company were as follows:

| | | <i>At 30 June 2002</i> | <i>At 30 June 2001</i> |
|------------|--------------------------|------------------------|------------------------|
| R L White | Ordinary 'B' shares | 23,650 | 47,250 |
| | Deferred ordinary shares | 86,394 | 86,394 |
| J M Foxton | Ordinary 'B' shares | 24,000 | 24,000 |
| J D Shave | Ordinary 'B' shares | 24,000 | 24,000 |
| G Abington | Ordinary 'B' shares | 12,000 | 12,000 |
| J T Hunter | Ordinary 'B' shares | 3,750 | 3,750 |

The directors had no interest in the company's issued 'A' ordinary shares.

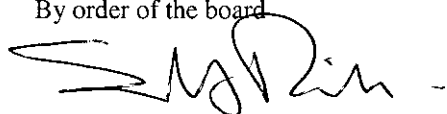
Primagraphics (Holdings) Limited

DIRECTORS' REPORT

AUDITORS

Whitmarsh Sterland resigned as auditors on 19 November 2001 and Ernst & Young LLP were appointed in their place. A resolution to reappoint Ernst & Young LLP will be put to the members at the forthcoming Annual General Meeting.

By order of the board



Secretary

25 September 2002

Primagraphics (Holdings) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
to the members of Primagraphics (Holdings) Limited

We have audited the group's accounts for the year ended 30 June 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 26. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 group is not disclosed.

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

Basis of audit opinion

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 30 June 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
Luton

25 September 2002

Primagraphics (Holdings) Limited

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2002

| | Notes | 2002 £ | 2001 £ |
|---|-------|-----------------------|-----------------------|
| TURNOVER | 2 | 5,004,792 | 4,608,534 |
| Change in stocks of finished goods and work in progress | | 78,365 | (116,465) |
| Other operating income | | (219,409) | (182,662) |
| Raw materials and consumables | | 949,254 | 778,569 |
| Staff costs | 5 | 2,221,087 | 2,168,696 |
| Depreciation and amortisation | 3 | 195,968 | 165,276 |
| Other operating charges | | 1,229,435 | 1,070,873 |
| | | <u>4,454,700</u> | <u>3,884,287</u> |
| OPERATING PROFIT | 3 | 550,092 | 724,247 |
| Bank interest receivable | | 18,375 | 19,080 |
| Interest payable and similar charges | 6 | (305,590) | (287,533) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>262,877</u> | <u>455,794</u> |
| Tax on profit on ordinary activities | 7 | 124,314 | 135,036 |
| PROFIT FOR THE FINANCIAL YEAR | 20 | <u><u>138,563</u></u> | <u><u>320,758</u></u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 June 2002

There are no recognised gains and losses other than the profit for the year.

Primagraphics (Holdings) Limited

GROUP BALANCE SHEET

at 30 June 2002

| | Notes | 2002 £ | 2001 £ |
|--|-------|------------------|------------------|
| FIXED ASSETS | | | |
| Intangible assets | 9 | 1,530,643 | 1,619,376 |
| Tangible assets | 10 | 193,782 | 191,118 |
| Investments | 11 | 6,500 | 9,500 |
| | | <u>1,730,925</u> | <u>1,819,994</u> |
| CURRENT ASSETS | | | |
| Stocks | 12 | 567,438 | 739,513 |
| Debtors | 13 | 1,674,377 | 1,813,254 |
| Current asset investments | 14 | — | 200,000 |
| Cash at bank and in hand | | 430,717 | 104,149 |
| | | <u>2,672,532</u> | <u>2,856,916</u> |
| CREDITORS: amounts falling due within one year | 15 | 1,416,364 | 1,306,339 |
| NET CURRENT ASSETS | | <u>1,256,168</u> | <u>1,550,577</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>2,987,093</u> | <u>3,370,571</u> |
| CREDITORS: amounts falling due after more than one year | 16 | 2,200,982 | 2,723,023 |
| | | <u>786,111</u> | <u>647,548</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 19 | 236,394 | 236,394 |
| Share premium account | 20 | 127,500 | 127,500 |
| Profit and loss account | 20 | 422,217 | 283,654 |
| Shareholders funds' | | | |
| Equity | | 677,217 | 538,654 |
| Non-equity | | 108,894 | 108,894 |
| | | <u>786,111</u> | <u>647,548</u> |

Director

25/9/02

ERNST & YOUNG

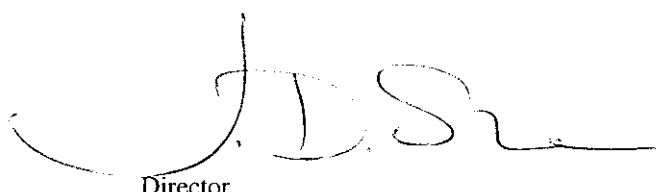
Primagraphics (Holdings) Limited

COMPANY BALANCE SHEET

at 30 June 2002

| | Notes | 2002 £ | 2001 £ |
|--|-------|-----------|-----------|
| FIXED ASSETS | | | |
| Investments | 11 | 3,539,737 | 3,539,737 |
| CURRENT ASSETS | | | |
| Debtors | 13 | 1,992 | 204,054 |
| Cash at bank and in hand | | 876 | 362 |
| | | 2,868 | 204,416 |
| CREDITORS: amounts falling due within one year | 15 | 424,940 | 606,998 |
| NET CURRENT LIABILITIES | | (422,072) | (402,582) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,117,665 | 3,137,155 |
| CREDITORS: amounts falling due after more than one year | 16 | 2,291,678 | 2,995,455 |
| | | 825,987 | 141,700 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 19 | 236,394 | 236,394 |
| Share premium account | 20 | 127,500 | 127,500 |
| Profit and loss account | 20 | 462,093 | (222,194) |
| Shareholders funds' | | | |
| Equity | | 717,093 | 32,806 |
| Non-equity | | 108,894 | 108,894 |
| | | 825,987 | 141,700 |

ERNST & YOUNG



Director

25/09/02

Primagraphics (Holdings) Limited

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 June 2002

| | Notes | 2002 £ | 2001 £ |
|--|-------|-----------|-----------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 21(a) | 1,086,172 | 448,090 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 18,375 | 19,080 |
| Interest paid | | (259,807) | (317,702) |
| | | (241,432) | (298,622) |
| TAXATION | | | |
| Corporation tax paid | | (61,825) | (5,036) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire tangible fixed assets | | (116,836) | (103,526) |
| Receipts from sales of tangible fixed assets | | 4,100 | 4,950 |
| Receipts from sales of fixed asset investments | | 7,500 | 4,750 |
| | | (105,236) | (93,826) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| Decrease/(increase) in current asset investments | | 200,000 | (200,000) |
| FINANCING | | | |
| (Decrease)/increase in bank loans | | (171,111) | 72,223 |
| Decrease in debenture loans | | (380,000) | — |
| | | (551,111) | 72,223 |
| INCREASE/(DECREASE) IN CASH | | 326,568 | (77,171) |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

for the year ended 30 June 2002

| | Notes | 2002 £ | 2001 £ |
|---|-------|-------------|-------------|
| Increase/(decrease) in cash | | 326,568 | (77,171) |
| Cash outflow/(inflow) from net (decrease)/increase in loans | | 551,111 | (72,223) |
| Cash (inflow)/outflow from current asset investments | | (200,000) | 200,000 |
| CHANGE IN NET DEBT RESULTING FROM CASH FLOWS | 21(b) | 677,679 | 50,606 |
| Amortisation of loan issue costs | | (93,223) | — |
| MOVEMENT IN NET DEBT | | 584,456 | 50,606 |
| NET DEBT AT 1 JULY | | (2,745,065) | (2,795,671) |
| NET DEBT AT 30 JUNE | 21(b) | (2,160,609) | (2,745,065) |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Primagraphics (Holdings) Limited and all its subsidiary undertakings drawn up to 30 June 2002. No profit and loss is presented for Primagraphics (Holdings) Limited as permitted by Section 230 of the Companies Act 1985.

Investments

Investments are included at cost less amounts written off for permanent diminution in value. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

| | | |
|-----------------------------------|---|--|
| Improvement to leasehold property | - | straight line over the period of the lease |
| Plant and machinery | - | straight line over 3-5 years |
| Motor vehicles | - | straight line over 4 years |
| Furniture and equipment | - | straight line over 5 years |

During the year the directors reviewed the expected useful lives of tangible fixed assets. As a consequence, the method of providing depreciation has been changed from a reducing balance to a straight line basis. The effect of this change has been to increase the depreciation charge for the year by £27,287.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs includes all costs incurred in bringing each product to its present location and condition, as follows:

| | | |
|---|---|--|
| Raw materials, consumables and goods for resale | - | purchase cost on a first-in, first out basis. |
| Work in progress and finished goods | - | cost of direct materials and labour plus attributable overheads based on a normal level of activity. |

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

NOTES TO THE ACCOUNTS
at 30 June 2002

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, or where applicable at a specific contract rate.

All differences are taken to the profit and loss account.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The group operates a defined contribution pension scheme on behalf of employees. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, the design, development and manufacture of computerised equipment for handling and displaying graphics and images.

An analysis of turnover by geographical market is given below:

| | 2002 £ | 2001 £ |
|-------------------|------------------|------------------|
| UK | 1,748,212 | 2,019,782 |
| North America | 2,214,752 | 1,626,742 |
| Europe | 628,196 | 589,136 |
| Rest of the world | 413,632 | 372,874 |
| | <u>5,004,792</u> | <u>4,608,534</u> |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

3. OPERATING PROFIT

This is stated after charging/(crediting):

| | 2002 £ | 2001 £ |
|---|----------------|----------------|
| Depreciation of owned fixed assets | 107,235 | 76,548 |
| Amortisation of goodwill | 88,733 | 88,728 |
| | <u>195,968</u> | <u>165,276</u> |
| Operating lease rentals - plant and equipment | 5,818 | 7,106 |
| - land and buildings | 278,314 | 223,687 |
| Auditors' remuneration | 14,500 | 10,000 |
| Rental income | (219,409) | (182,662) |
| Loss/(profit) on foreign exchange | 41,454 | (137,980) |
| Research and development costs | 432,546 | 509,089 |
| | <u></u> | <u></u> |

4. DIRECTORS' EMOLUMENTS

| | 2002 £ | 2001 £ |
|------------|-----------|-----------|
| Fees | 3,859 | - |
| Emoluments | 388,680 | 361,121 |
| | <u></u> | <u></u> |

| | | |
|--|---------|---------|
| Company contributions paid to money purchase pension schemes | 18,692 | 17,230 |
| | <u></u> | <u></u> |

| | 2002 No. | 2001 No. |
|---|-------------|-------------|
| Members of money purchase pension schemes | 4 | 4 |
| | <u></u> | <u></u> |

The amounts in respect of the highest paid director are as follows:

| | 2002 £ | 2001 £ |
|--|-----------|-----------|
| Emoluments | 113,479 | 99,937 |
| | <u></u> | <u></u> |
| Company contributions paid to money purchase pension schemes | 6,048 | 5,622 |
| | <u></u> | <u></u> |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

5. STAFF COSTS

| | 2002 £ | 2001 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,901,454 | 1,857,878 |
| Social security costs | 206,859 | 205,085 |
| Other pension costs | 112,774 | 105,733 |
| | <u>2,221,087</u> | <u>2,168,696</u> |

The monthly average number of employees, including directors, during the year was as follows:

| | 2002 No. | 2001 No. |
|---------------------------|-------------|-------------|
| Directors | 5 | 5 |
| Sales and administration | 11 | 11 |
| Technical and development | 18 | 18 |
| Production | 11 | 12 |
| | <u>45</u> | <u>46</u> |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2002 £ | 2001 £ |
|---------------------------------|----------------|----------------|
| Bank loans and overdrafts | 26,590 | 37,852 |
| Interest payable on other loans | 279,000 | 249,681 |
| | <u>305,590</u> | <u>287,533</u> |

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) The tax charge is made up as follows:

| | 2002 £ | 2001 £ |
|--------------------|----------------|----------------|
| UK corporation tax | 124,000 | 130,000 |
| Overseas tax | 314 | 294 |
| | <u>124,314</u> | <u>130,294</u> |
| Prior periods: | | |
| UK corporation tax | — | 4,742 |
| | <u>124,314</u> | <u>135,036</u> |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b) Factors affecting the tax charge for the year:

| | 2002 £ | 2001 £ |
|---|-----------|-----------|
| Profit on ordinary activities before tax | 262,877 | 455,794 |
| Profit on ordinary activities multiplied by standard rate of corporation tax of 30% | 78,863 | 136,738 |
| Expenses not deductible for tax purposes (including goodwill amortisation) | 28,570 | 33,470 |
| Depreciation in excess of capital allowances | 9,925 | (6,533) |
| Tax under provided in previous years | — | 4,742 |
| Overseas tax | 314 | 294 |
| Other | 6,642 | (33,675) |
| | 124,314 | 135,036 |

8. PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY

The profit dealt with in the accounts of the parent company was £684,287 (2001: loss £8,615).

9. INTANGIBLE FIXED ASSETS

Group

| | Goodwill £ |
|---------------------------------|---------------|
| Cost: | |
| At 1 July 2001 and 30 June 2002 | 1,774,659 |
| Amortisation: | |
| At 1 July 2001 | 155,283 |
| Provided during the period | 88,733 |
| At 30 June 2002 | 244,016 |
| Net book value: | |
| At 30 June 2002 | 1,530,643 |
| At 1 July 2001 | 1,619,376 |

Goodwill is being written off in equal instalments over its estimated economic life of 20 years.

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

10. TANGIBLE FIXED ASSETS

Group

| | <i>Improvements to leasehold property</i> | <i>Plant and machinery</i> | <i>Motor vehicles</i> | <i>Furniture and equipment</i> | <i>Total</i> |
|--------------------------|---|--------------------------------|---------------------------|--|--------------|
| | £ | £ | £ | £ | £ |
| Cost: | | | | | |
| At 1 July 2001 | 5,710 | 432,783 | 137,952 | 281,562 | 858,007 |
| Re-classification | – | 137,408 | – | (137,408) | – |
| Additions | – | 72,391 | 32,577 | 11,868 | 116,836 |
| Disposals | – | (55,000) | (32,791) | (15,402) | (103,193) |
| At 30 June 2002 | 5,710 | 587,582 | 137,738 | 140,620 | 871,650 |
| Depreciation: | | | | | |
| At 1 July 2001 | 2,253 | 377,445 | 72,751 | 214,440 | 666,889 |
| Re-classification | – | 103,633 | – | (103,633) | – |
| Provided during the year | 571 | 56,570 | 35,855 | 14,239 | 107,235 |
| Disposals | – | (55,000) | (25,854) | (15,402) | (96,256) |
| At 30 June 2002 | 2,824 | 482,648 | 82,752 | 109,644 | 677,868 |
| Net book value: | | | | | |
| At 30 June 2002 | 2,886 | 104,934 | 54,986 | 30,976 | 193,782 |
| At 1 July 2001 | 3,457 | 55,338 | 65,201 | 67,122 | 191,118 |

11. INVESTMENTS

Group

| | <i>Own shares</i> |
|-----------------|-------------------|
| | £ |
| Cost: | |
| At 1 July 2001 | 9,500 |
| Disposals | (3,000) |
| At 30 June 2002 | 6,500 |

Primagraphics Employee Benefit Trust holds 3,250 (2001: 4,750) £1 'B' Ordinary shares in Primagraphics (Holdings) Limited at a cost of £6,500 (2001: £9,500).

Dividends on the shares owned by the trust, the purchase of which was funded by an interest free loan to the trust from Primagraphics Limited, are waived. All expenses of the trust are settled directly by Primagraphics Limited and are charged in the accounts as incurred.

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

11. INVESTMENTS (continued)

| <i>Company</i> | <i>Subsidiary undertakings £</i> |
|---------------------------------|--|
| Cost: | |
| At 1 July 2001 and 30 June 2002 | 3,539,737 |

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

| <i>Name of company</i> | <i>Holding</i> | <i>Proportion of voting rights and shares held</i> | <i>Nature of business</i> |
|--------------------------------------|-----------------|--|---|
| <i>Subsidiary undertaking</i> | | | |
| Primagraphics Limited | Ordinary shares | 100% | Design, development and manufacture of computerised equipment |
| Primagraphics (Trustees) Limited | Ordinary shares | 100% | Dormant |

12. STOCKS

| | <i>2002 £</i> | <i>Group 2001 £</i> |
|------------------|-------------------|-----------------------------|
| Raw materials | 411,547 | 505,257 |
| Work in progress | 155,891 | 234,256 |
| | <u>567,438</u> | <u>739,513</u> |

13. DEBTORS

| | <i>2002 £</i> | <i>Group 2001 £</i> | <i>2002 £</i> | <i>Company 2001 £</i> |
|------------------------------------|-------------------|-----------------------------|-------------------|-------------------------------|
| Trade debtors | 1,365,516 | 1,680,976 | — | — |
| Amounts owed by group undertakings | — | — | 100 | 100 |
| Other debtors | 20,542 | 20,454 | — | 200,954 |
| Prepayments and accrued income | 288,319 | 111,824 | 1,892 | 3,000 |
| | <u>1,674,377</u> | <u>1,813,254</u> | <u>1,992</u> | <u>204,054</u> |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

14. CURRENT ASSET INVESTMENTS

| | 2002 | Group 2001 |
|---------------|------|---------------|
| | £ | £ |
| Cash deposits | — | 200,000 |

15. CREDITORS: amounts falling due within one year

| | 2002 | Group 2001 | 2002 | Company 2001 |
|---------------------------------------|------------------|------------------|----------------|-----------------|
| | £ | £ | £ | £ |
| Debenture loans (note 17) | 279,233 | 215,080 | 279,233 | 215,080 |
| Bank loans (note 17) | 111,111 | 111,111 | 111,111 | 111,111 |
| Trade creditors | 337,451 | 232,188 | — | — |
| Amounts due to group undertakings | — | — | — | 200,805 |
| Corporation tax | 192,489 | 130,000 | — | — |
| Other taxes and social security costs | 78,332 | 159,823 | — | — |
| Other creditors | 90,273 | 113,680 | — | — |
| Accruals and deferred income | 327,475 | 344,457 | 34,596 | 80,002 |
| | <u>1,416,364</u> | <u>1,306,339</u> | <u>424,940</u> | <u>606,998</u> |

16. CREDITORS: amounts falling due after more than one year

| | 2002 | Group 2001 | 2002 | Company 2001 |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | £ | £ | £ | £ |
| Debenture loans (note 17) | 2,010,982 | 2,361,912 | 2,010,982 | 2,361,912 |
| Bank loans (note 17) | 190,000 | 361,111 | 190,000 | 361,111 |
| Amounts due to group undertakings | — | — | 90,696 | 272,432 |
| | <u>2,200,982</u> | <u>2,723,023</u> | <u>2,291,678</u> | <u>2,995,455</u> |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

17. LOANS

| <i>Group and company</i> | <i>2002</i> | <i>2001</i> |
|--|------------------|------------------|
| | <i>£</i> | <i>£</i> |
| Debenture loans | 2,290,215 | 2,576,992 |
| Bank loans | 301,111 | 472,222 |
| | <u>2,591,326</u> | <u>3,049,214</u> |
| Amounts payable: | | |
| In one year or less | 411,111 | 351,111 |
| Between one and two years | 531,111 | 411,111 |
| Between two and five years | 928,889 | 1,360,000 |
| | <u>1,871,111</u> | <u>2,122,222</u> |
| In five years or more – 'B' loan stock | 751,592 | 1,051,592 |
| | <u>2,622,703</u> | <u>3,173,814</u> |
| Less: unamortised issue costs | (31,377) | (124,600) |
| | <u>2,591,326</u> | <u>3,049,214</u> |

The loans above are secured by a fixed and floating charge over the group's assets.

'B' loan stock of £1,501,592 is repayable by half-yearly instalments of £150,000 commencing on 23 March 2005. Interest is charged at 2.325% above the National Westminster Bank Plc's base rate.

18. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation assets not recognised in the accounts at the year end are as follows:

| | <i>2002</i> | <i>Group</i> | <i>2002</i> | <i>Company</i> |
|---|---------------|---------------|-------------|----------------|
| | <i>£</i> | <i>2001</i> | <i>£</i> | <i>2001</i> |
| | | <i>£</i> | | <i>£</i> |
| Depreciation in advance of capital allowances | 39,528 | 29,603 | – | – |
| Other timing differences | – | 785 | – | 785 |
| Trading losses | – | – | – | 3,037 |
| | <u>39,528</u> | <u>30,388</u> | <u>–</u> | <u>3,822</u> |

There are no unprovided deferred taxation liabilities.

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

19. SHARE CAPITAL

| | 2002 | Authorised 2001 |
|--|---|--------------------|
| | £ | £ |
| 22,500 'A' ordinary shares of £1 each | 22,500 | 22,500 |
| 127,500 'B' ordinary shares of £1 each | 127,500 | 127,500 |
| 86,394 deferred ordinary shares of £1 each | 86,394 | 86,394 |
| | <u>236,394</u> | <u>236,394</u> |
| | | |
| | <i>Allotted, called up and fully paid</i> | |
| | 2002 | 2001 |
| | £ | £ |
| 22,500 'A' ordinary shares of £1 each | 22,500 | 22,500 |
| 127,500 'B' ordinary shares of £1 each | 127,500 | 127,500 |
| 86,394 deferred ordinary shares of £1 each | 86,394 | 86,394 |
| | <u>236,394</u> | <u>236,394</u> |

A brief summary of the rights of each class of shares is as follows:

- Voting** 'A' and 'B' ordinary shares carry one vote per share. Deferred ordinary shares carry no voting rights.
- Dividends** On a distribution, holders of the 'B' ordinary shares receive the first £100,000,000 so distributed in any financial year. Any amounts in excess of this value are distributed between holders of the 'B' ordinary shares and deferred ordinary shares in the ratio of 95:5.
- Capital** On a return of assets on liquidation or capital reduction, the assets of the company are to be applied as follows:
- First in paying holders of the 'A' ordinary shares the issue price thereof;
 - Second in paying holders of the 'B' ordinary shares the issue price thereof plus any arrears of dividends;
 - Third in paying holders of the deferred ordinary shares the issue price thereof plus any arrears of dividends; and
 - The balance to be distributed equally amongst all classes of shares in proportion to the amounts paid up.

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| <i>Group</i> | <i>Share capital £</i> | <i>Share premium account £</i> | <i>Profit and loss account £</i> | <i>Total shareholders' funds £</i> |
|---------------------|--------------------------------|--|--|--|
| At 1 July 2000 | 236,394 | 127,500 | (37,104) | 326,790 |
| Profit for the year | — | — | 320,758 | 320,758 |
| At 1 July 2001 | 236,394 | 127,500 | 283,654 | 647,548 |
| Profit for the year | — | — | 138,563 | 138,563 |
| At 30 June 2002 | 236,394 | 127,500 | 422,217 | 786,111 |

| <i>Company</i> | <i>Share capital £</i> | <i>Share premium account £</i> | <i>Profit and loss account £</i> | <i>Total shareholders' funds £</i> |
|---------------------|--------------------------------|--|--|--|
| At 1 July 2000 | 236,394 | 127,500 | (213,579) | 150,315 |
| Loss for the year | — | — | (8,615) | (8,615) |
| At 1 July 2001 | 236,394 | 127,500 | (222,194) | 141,700 |
| Profit for the year | — | — | 684,287 | 684,287 |
| At 30 June 2002 | 236,394 | 127,500 | 462,093 | 825,987 |

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

| | <i>2002 £</i> | <i>2001 £</i> |
|---|-------------------|-------------------|
| Operating profit | 550,092 | 724,247 |
| Depreciation | 107,235 | 76,548 |
| Amortisation of goodwill | 88,733 | 88,728 |
| Decrease/(increase) in debtors | 138,877 | (309,290) |
| Increase in creditors | 30,823 | 80,005 |
| Loss on disposal of tangible fixed assets | 2,837 | 3,520 |
| Profit on disposal of fixed asset investments | (4,500) | — |
| Decrease/(increase) in stocks | 172,075 | (215,668) |
| Net cash inflow from operating activities | 1,086,172 | 448,090 |

Primagraphics (Holdings) Limited

NOTES TO THE ACCOUNTS at 30 June 2002

21. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Analysis of changes in net debt

| | <i>At 1 July 2001 £</i> | <i>Cash flow £</i> | <i>Other movements £</i> | <i>At 30 June 2002 £</i> |
|---------------------------|-------------------------------------|----------------------------|----------------------------------|--------------------------------------|
| Cash at bank and in hand | 104,149 | 326,568 | – | 430,717 |
| Current asset investments | 200,000 | (200,000) | – | – |
| | <u>304,149</u> | <u>126,568</u> | <u>–</u> | <u>430,717</u> |
| Loans | (3,049,214) | 551,111 | (93,223) | (2,591,326) |
| | <u>(2,745,065)</u> | <u>677,679</u> | <u>(93,223)</u> | <u>(2,160,609)</u> |

22. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £nil (2001: £11,000).

23. PENSION COMMITMENTS

The group operates a defined contribution pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the group.

The total contributions paid in the year amounted to £112,774 (2001: £105,733). No amounts were outstanding as at the year end.

24. OTHER FINANCIAL COMMITMENTS

At 30 June 2002 the group had annual commitments under non-cancellable operating leases as set out below:

| | <i>Land and buildings 2002 £</i> | <i>2001 £</i> | <i>2002 £</i> | <i>Other 2001 £</i> |
|--------------------------------|--|-------------------|-------------------|-----------------------------|
| Operating leases which expire: | | | | |
| Within one year | – | – | – | 5,790 |
| In two and five years | 320,000 | – | – | – |
| In over five years | – | 221,364 | – | – |
| | <u>320,000</u> | <u>221,364</u> | <u>–</u> | <u>5,790</u> |

NOTES TO THE ACCOUNTS
at 30 June 2002

25. TRANSACTIONS WITH DIRECTORS

During the year the group paid rent, at open market value, in the normal course of business to a pension plan for the benefit of R L White totalling £275,815 (2001: £221,364). At the balance sheet date there were no amounts due to or from the pension plan.

Mr R L White and Mr J M Foxton hold £1,211,359 and £263,928 respectively of the 'B' loan stock issued by the company.

26. CONTROLLING PARTY

In the directors' opinion the group has no ultimate controlling party.