

Registered Number:
2622298
(England and Wales)

PRIMAL PICTURES LIMITED

REPORT OF THE DIRECTORS

AND

FINANCIAL STATEMENTS

YEAR ENDED 30TH SEPTEMBER 1997



PRIMAL PICTURES LIMITED

REPORT OF THE DIRECTORS

The Directors presents their report and financial statements of the Company for the year to 30 September 1997.

PRINCIPAL ACTIVITY

The principal activity of the Company in the year under review continues to be that of the production of film, compact disc and multi media.

REVIEW OF THE BUSINESS

Until July 1997, the company was engaged in two primary activities:

- * the development of innovative 3D computer graphic models of human anatomy funded primarily through grant income
- * the exploitation of these models and other anatomy resources on CD-ROM funded primarily by medical publishers.

In July 1997, 20% of the company was sold to Taylor & Francis Limited (T & F) a leading academic and journals publisher. Shortly thereafter, 2.5% company was sold to D A McGrouther, Professor of Plastic & Reconstructive Surgery at University College, London. More than 95% of the monies raised were re-invested to enable the company to achieve the following:

- * purchase the rights to some of its earlier and current developments - the Interactive Hand (for hand surgery) and the Interactive Skeleton (for medical and allied health students and teachers)
- * market products, thus retaining profits from commercial exploitation
- * finance the development of future products featuring 3D anatomical models

The Interactive Hand was successfully launched in early September 1997 and early expectations have been met, having also received positive media coverage, with around 80% of sales being exported, mainly to the USA.

OTHER ACTIVITIES

As a joint venture project with T & F, a new software product went into development to enable teachers to prepare interactive lecture presentations containing text and labelled images, and distribute the output as Web pages.

A 45% stake was taken in Primal Medical Information Limited which develops CD-ROMs for the General Practice and Primary Health Care markets. The first product focuses on Minor Surgery procedures for GPs.

FUTURE PLANS

Future developments involve the creation and distribution of a range of medical and academic computer-based materials. The former includes a complete 3D computer graphic model of the lower and upper limb. The latter includes specialised spin-offs and derivative products.

The company's policy is two-fold:

- * to address a range of niche medical markets in collaboration with leading practitioners, both in the UK and USA. The company has no significant competition in the field of high resolution 3D anatomy and medical graphics and this advantage is to be exploited whilst available
- * to develop a presence in products aimed at GPs, medical students, teachers and academics in allied non-medical disciplines.

PRIMAL PICTURES LIMITED

REPORT OF THE DIRECTORS (CONTINUED)
YEAR ENDED 30TH SEPTEMBER 1997

DIRECTORS

The directors in office in the year and their beneficial interests in the company's issued ordinary share capital were as follows:

	<u>30 September 1997</u> <u>Ordinary 50p shares</u>	<u>1 October 1996</u> <u>Ordinary £1 shares</u>
MR. LAURENCE M WISEMAN	775	1
MR. CHRISTOPHER K J BRISCOE	775	1
MR. STEPHEN B NEAL (appointed 18th July 1997)	0	0

The directors have no interest in the shares of the associated undertaking, including rights to subscribe for shares.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view. In preparing those financial statements, the directors are required to:

- * select suitable accounting policies and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable.
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- * prepare the financial statements on the going concern basis unless it is not appropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, Messrs Michael Simon & Co, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to small companies and the Financial Reporting Standard for Smaller Entities.

By Order of the Board



MR. CHRISTOPHER K J BRISCOE

DIRECTOR

25th March 1998

REPORT OF THE AUDITORS

TO THE MEMBERS OF PRIMAL PICTURES LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 7.

Respective responsibilities of the directors and auditors

As described on page 2, the company director is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 director 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 as to whether 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.

Fundamental Uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the value of intangible assets and the investment in the associated undertaking. We are unable to confirm the stated economic values of £74,923 and £15,200 respectively as they are based on estimates of likely future earnings. The accounting policies and estimates used are stated in notes 1,6 & 8. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1997 and of its loss for the year then ended on that date and have been properly prepared in accordance with the provisions of the Companies Act 1985.

8 Durweston Street
Marylebone, London W1H 1PH

Michael Simon & Co.
Chartered Accountants

Signed..........Registered Auditors

Dated this 25th March 1998

PRIMAL PICTURES LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30TH SEPTEMBER 1997

	<u>Notes</u>	£	<u>1997</u> £	£	<u>1996</u> £
<u>TURNOVER</u>	1/3		288,672		299,429
<u>COST OF SALES</u>			202,735		174,387
<u>GROSS PROFIT</u>			85,937		125,042
<u>OVERHEAD EXPENSES</u>			168,678		118,348
<u>OPERATING (LOSS)/PROFIT</u>	4/		(82,741)		6,694
Grants receivable		-		11,055	
Interest receivable		4,023		2	
Interest payable		(1,371)		-	
			2,652		11,057
<u>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</u>			(80,089)		17,751
Tax on ordinary activities	1/5		-		106
<u>(LOSS)/PROFIT ON ORDINARY ACTIVITIES</u>			(80,089)		17,645
Retained (deficit) brought forward			(38,355)		(55,997)
<u>RETAINED (DEFICIT) CARRIED FORWARD</u>			£(118,444)		£(38,352)

ACQUISITIONS, DISCONTINUED OPERATIONS AND OTHER GAINS OR LOSSES

There were no acquisitions or discontinued operations during the current or preceding year. There were no gains or losses other than the profit/(loss) for the year.

The notes on pages 6 to 13 form an integral part of these financial statements.

PRIMAL PICTURES LIMITED

BALANCE SHEET AT 30 SEPTEMBER 1997

	<u>Notes</u>	£	<u>1997</u> £	£	<u>1996</u> £
<u>FIXED ASSETS</u>					
Intangible assets	1/6		74,923		-
Tangible assets	1/7		58,846		4,856
Investments	8		15,200		-
			<hr/>		<hr/>
			148,969		4,856
<u>CURRENT ASSETS</u>					
Stocks	1/	17,508		-	
Debtors	9	68,403		51,906	
Cash at bank and in hand		313,716		4,277	
		<hr/>		<hr/>	
			399,627	56,183	
<u>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</u>					
	10	103,793		36,815	
		<hr/>		<hr/>	
<u>NET CURRENT ASSETS</u>			295,834		19,368
<u>ASSETS LESS CURRENT LIABILITIES</u>					
			444,803		24,224
<u>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</u>					
	2/11		(52,464)		(62,574)
<u>NET ASSETS/(LIABILITIES)</u>			<hr/> <u>£ 392,339</u>		<hr/> <u>£ (38,350)</u>
Financed by:					
<u>CAPITAL AND RESERVES</u>					
Called up share capital	12		1,000		2
Share premium			509,783		-
Profit and loss account			(118,444)		(38,352)
			<hr/>		<hr/>
<u>SHAREHOLDERS FUNDS - ALL EQUITY</u>	13		<hr/> <u>£ 392,339</u>		<hr/> <u>£ (38,350)</u>

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to smaller companies and in accordance with the Financial Reporting Standard for Smaller Entities.

Approved by the Board on the 25th March 1998
 Director
 MR. LAURENCE M. WISEMAN

The notes on pages 6 to 13 form an integral part of these financial statements.

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

1. ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities.

1.2 Cash flow statement - Financial Reporting Standard No 1.

The accounts do not include a cash flow statement because the company, as a small reporting entity is exempt from the requirement to prepare such a statement under FRS 1 'Cash flow statements'.

1.3 Turnover

Turnover represents the value of goods and services invoiced during the year after deduction of Value Added Tax.

1.4 Depreciation of intangible assets

The Company's policy is to write off developed software evenly over their estimated economic life of 5 years.

1.5 Depreciation of tangible assets

Provision is made for depreciation on all tangible assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life as follows:

Plant & equipment - 33.33% per annum on cost

1.6 Operating leases

Rentals payable under operating leases are charged to profit and loss account on the straight line basis over the lease term.

1.7 Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure and an appropriate proportion of overheads.

1.8 Intangible fixed assets

Software program development costs are capitalised once a detailed design or working model has been established. In accordance with para 25, SSAP 13, such development expenditure is written off as incurred except where it is material and is separately identifiable with a project on which the revenues will be earned in future accounting periods. In such cases, the expenditure is deferred and amortised having regard to the ultimate commercial viability of the project and the adequacy of resources to enable the project to be completed.

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

2. ACCOUNTING POLICIES - CONTINUED

2.1 Deferred Loans

Deferred loans are treated in accordance with CA 1985 4 Sch 48(1-3). In the case of an investment made by the European Community Media Investment Club in a specific project, where the terms of return of that investment are not certain, then the loan is treated as deferred to the extent that the relevant proportion of anticipated net receipts from commercial distribution shall not be due within one year following the date of the first receipt as defined in any investment agreement.

2.2 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date where there is certainty in establishing that value. Transactions in foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction.

2.3 Deferred taxation

Provision is made at current rates of taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

2.4 Pension costs

Contributions in respect of the company's defined contribution pension schemes are charged to the profit and loss account for the year in which they are payable to the scheme.

3. TURNOVER

Turnover attributable to geographical markets outside the United Kingdom amounted to 10% (1996 - 0%).

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

4. OPERATING (LOSS)/PROFIT

	<u>1997</u>	<u>1996</u>
	£	£
This is stated after charging (crediting):		
Auditors' remuneration	4,200	-
Depreciation of tangible fixed assets	31,242	6,977
Depreciation of intangible fixed assets	18,732	-
Adjustment on disposal of fixed assets	143	-
Operating lease rentals on hire of plant & equipment	5,393	5,170
	<u>58,014</u>	<u>34,300</u>
Directors emoluments	3,755	-
Directors pension costs	<u> </u>	<u> </u>

5. TAXATION

	<u>1997</u>	<u>1996</u>
	£	£
Taxation (over)/underprovided in previous years:		
Corporation tax	-	106
	<u> </u>	<u> </u>
	£ -	£ 106

5.1 The company is a close company within the meaning of section 414 of Income and Corporation Taxes Act 1988.

5.2 The charge for the year has been reduced in respect of taxation deferred by accelerated capital allowances which are not expected to become payable in the foreseeable future amounting to £ NIL (1996 £ NIL).

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

6. INTANGIBLE FIXED ASSETS

	<u>Developed Software</u>
	£
<u>Cost:</u>	
Additions in year	93,655
At 30 September 1997	<u>£ 93,655</u>
<u>Amortisation:</u>	
Charge for year	18,732
At 30 September 1997	<u>£ 18,732</u>
<u>Net book value at 30 September 1997</u>	<u>£ 74,923</u>
<u>Net book value at 30 September 1996</u>	<u>£ -</u>

7. TANGIBLE FIXED ASSETS

	<u>Plant and equipment</u>
	£
<u>Cost:</u>	
At 1 October 1996	20,936
Additions in year	85,232
At 30 September 1997	<u>£ 106,168</u>
<u>Depreciation:</u>	
At 1 October 1996	16,080
Charge for year	31,242
At 30 September 1997	<u>£ 47,322</u>
<u>Net book value:</u>	
At 30 September 1997	<u>£ 58,846</u>
<u>Net book value:</u>	
At 30 September 1996	<u>£ 4,856</u>

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

8. FIXED ASSET INVESTMENTS

	<u>Unlisted</u>	<u>Total</u>
	£	£
<u>Cost or valuation:</u>		
<u>Additions in year</u>	15,200	15,200
30 September 1997	15,200	15,200
 <u>Market value:</u>		
30 September 1997	£ 15,200	£ 15,200
30 September 1996		
	<u>1997</u>	<u>1996</u>
	£	£
 <u>Investments in associated undertakings:</u>		
Shares at cost less amounts written off	45	-
Investment in working capital	15,155	-
	£ 15,200	£ -

Associated undertaking

The company's investment in its associated undertaking represents the cost of acquisition of 45% of the issued ordinary share capital of Primal Medical Information Limited ('PMIL'), which designs software for the medical profession, together with working capital.

At 30 September 1997, the aggregate of the share capital and reserves of PMIL and the profit to that date were not known as PMIL has not yet reached the end of its first accounting reference period.

9. DEBTORS

	<u>1997</u>	<u>1996</u>
	£	£
Trade debtors	57,917	51,839
Other debtors	10,020	31
Prepayments and accrued income	466	36
	£ 68,403	£ 51,906

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

10. CREDITORS: AMOUNTS FALLING DUE
 WITHIN ONE YEAR

	<u>1997</u>	<u>1996</u>
	£	£
Trade creditors	75,400	16,367
Other taxes and social security costs	13,505	12,712
Accruals	8,750	-
Other creditors	6,138	7,736
	<u>£103,793</u>	<u>£ 36,815</u>

11. CREDITORS: AMOUNTS FALLING DUE
 AFTER MORE THAN ONE YEAR

	<u>1997</u>	<u>1996</u>
	£	£
Other loan	52,464	62,574
	<u>£ 52,464</u>	<u>£ 62,574</u>

The loan was granted by the European Community Commission's Media Programme's Media Investment Club (the Club) and is for 76,340 ECU's. It is to be repaid as a percentage in prorata to the Club's initial investment of net receipts from commercial distribution. It is therefore unlikely to be repaid until commencement of sale of the designated CD-I software programme or on the disposal of related rights in the completed programme which is not expected to occur before 30th September 1998. If there are no sales, then the loan is not repayable. The loan is not secured and no interest is payable.

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

12. CALLED UP SHARE CAPITAL

	<u>Number of shares</u>	<u>Allotted Issued and fully paid</u>	
		<u>1997 £</u>	<u>1996 £</u>
Ordinary shares £0.50p each	2,000	1,000	
Ordinary shares £1 each	2		2
		<u> </u>	<u> </u>

The share capital was increased and sub-divided on 18th July 1997 into 50p ordinary shares and a further 1,996 were allotted to provide permanent working capital and fully paid for cash at par.

The authorised share capital comprised
2000 Ordinary shares of £0.50p each.
(1996: 1000 Ordinary shares of £1.00 each)

On 14th August 1997, the majority shareholders granted an option over 50 ordinary shares, beneficially held by them, to one of the minority shareholders, over a 5 year period. The grant is on commercial terms and represents a maximum of 2.5% of the issued share capital.

13. SHAREHOLDERS' FUND
(All equity interests)

	<u>1997 £</u>	<u>1996 £</u>
<u>Reconciliation of movements on shareholders' funds</u>		
Profit/(loss) for the financial year after tax	(80,089)	17,645
New capital subscribed	510,781	-
Opening shareholders' funds at 1 October 1996	(38,353)	(55,995)
Closing shareholders' funds at 30 September 1997	<u>£ 392,339</u>	<u>£ 38,350</u>

14. CONTINGENT LIABILITIES

On 18th June 1997, the company obtained a £90,000 overdraft facility from its bank to assist with working capital, and revolving facilities totalling £50,000 to assist with settlement of various trade payments.

The above risks are secured by guarantees totalling £60,000 given personally by the directors or connected persons, and a debenture held by the bank in the form of a first fixed charge over the company's book debts, goodwill, uncalled capital and future property purchases, and a first floating charge over all other assets of the company.

PRIMAL PICTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30TH SEPTEMBER 1997

15. TRANSACTIONS WITH DIRECTORS

15.1 Material interests of directors

During the year the company rented premises from CFX Limited, a company in which Chris Briscoe is materially interested as a shareholder. The rent was paid on a normal commercial basis and totalled £15,220 (1996: £20,000).