

ZYZYGY PLC
(Formerly Channel Health plc)
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2001



Registered number: 4045179

ZYZYGY PLC
(Formerly Channel Health plc)
BUSINESS SUMMARY

It has been a challenging year for the Group. A major milestone for the Channel Health business was the signing in March 2001 of the digital interactive pilot for the National Health Service. This contract to make a seven-part series on pregnancy with supporting interactive text, provided the Group with £1 million of revenue for the financial year. Another notable business win during the year was a production deal to produce a Bounty parentcraft video.

Core to the strategy and the development of the Channel Health brand was the creation and ownership of high quality content to be used across several media platforms, such as television, interactive text, websites, SMS messaging or print. During the year, Channel Health's programme production processes received accreditation by the Centre for Health Information Quality (CHIQ), a government accredited body. Despite considerable efforts, the Board struggled to raise further equity financing in order to fund future growth and development. In addition to this, the Group was unable to grow revenues as quickly as had been anticipated.

In response to this, a rigorous cost cutting exercise was implemented and an active search made for a suitable corporate partner with which to share costs and exploit synergies. On 15 March 2002 the Company entered into an agreement with Healthtrack Media Limited, a wholly owned subsidiary of InfoVital SA, a Norwegian media group, to dispose of the entire issued share capital of Channel Health Interactive Limited ("CHILL"). CHILL was the only trading company in the Group. The consideration received was £50,000 in cash. As a result of this disposal, the Company became a shell with minimal cash balances and a quotation on the Alternative Investment Market of the London Stock Exchange.

On 12 April 2002 the Company announced the resignations of the following directors: Dabinder Dhanda, Richard Murray, Douglas Yates and Eileen Campbell. Since then, Michael Richards and Edward Oliver have been appointed to the board.

On 5 April 2002 Alythia Limited, a recently formed company of which Michael Richards is a director, entered into an agreement relating to the funding of the formulation of a business plan for a film production business. Of the non-refundable deposit, £40,000 has been received and used to settle the existing creditors and a further non-refundable payment of £35,000 remains outstanding at the date of approval of the financial statements and is now due. On 30 September 2002 or upon signature of the co-production agreement, whichever is earlier, Alythia Limited will make a further advance of £75,000 conditional upon Alythia Limited, subject to shareholder approval, having acquired not less than 30% of the issued share capital of Zyzygy plc by 30 September 2002.

On 27 May 2002 the Company changed its name to Zyzygy plc. The board continues to explore suitable opportunities for the Company. A further announcement will be made to shareholders when a suitable opportunity is found.

Joanne Sawicki, Director
28 June 2002

ZYZYGY PLC
(Formerly Channel Health plc)
DIRECTORS' REPORT
For the year ended 31 December 2001

The directors present their report together with the audited financial statements of the company and the Group for the year ended 31 December 2001. The company, formerly Channel Health plc, was incorporated on 27 July 2000 with registered number 4045179. It changed its name to Zyzygy plc on 27 May 2002.

Comparative figures

The financial statements cover the year ended 31 December 2001. Comparative figures cover the five month period from 27 July 2000 (date of incorporation) to 31 December 2000.

Principal activities

The principal activities of the Group comprise the creation, licensing, broadcasting and delivery of content on television, the internet and other media platforms.

Business review

A full review of the Group's business and future prospects is contained in the statements by the Chairman and the Chief Executive.

Post balance sheet events

On 15 March 2002 the company disposed of its entire interest in Channel Health Interactive Lifestyle Limited ("CHILL") to Health Track Media Limited. The consideration received was £50,000 cash. As part of the sale and purchase agreement Zyzygy plc absolutely and unconditionally released CHILL from any monies owing by CHILL to Zyzygy plc.

As a result of the above transaction the carrying value of the company's investment has been impaired to the £50,000 received post year end and the inter-company debtor, which stood at £5,511,000, has been written off in the accounts of Zyzygy plc.

In the consolidated financial statements goodwill arising on the acquisition of CHILL has been impaired to £nil at 31 December 2001.

The sale of CHILL left a shell company, Channel Health plc, which, at that date and at 31 December 2001, has a deficit of net assets.

On 5 April 2002 the company entered into an agreement with Alythia Limited, a company of which Michael Richards is a director, whereby Alythia Limited was granted an option to enter into a co-production agreement with Zyzygy plc. As part of the agreement Alythia Limited is to make an initial non-refundable advance payment of £75,000. These monies will be used to settle outstanding liabilities. At the date of approval of these financial statements the first tranche of this advance, an amount of £40,000, has been received and applied to liabilities of the company. The balance of £35,000 remains outstanding, the company expects to receive this on 5 July 2002 and will use these funds to settle existing liabilities. On 30 September 2002 or upon signature of the co-production agreement, whichever is earlier, Alythia Limited will make a further advance of £75,000 conditional upon Alythia Limited, subject to shareholder approval, having acquired not less than 30% of the issued share capital of Zyzygy plc by 30 September 2002.

ZYZYGY PLC

(Formerly Channel Health plc)

DIRECTORS' REPORT

For the year ended 31 December 2001 (continued)

Results and dividends

The audited financial statements for the year ended 31 December 2001 are set out on pages 8 to 29. The Group loss for the year, after taxation and minority interests was £5,209,000 (2000: £2,231,000).

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were as follows:

Joanne Sawicki	
Douglas Yates	Resigned 15 April 2002
Dabinder Dhanda	Resigned 15 April 2002
Eileen Campbell	Resigned 15 April 2002
Richard Murray	Resigned 15 April 2002

After the year end the following directors were appointed:

Michael Richards	Appointed 15 April 2002
Edward Oliver	Appointed 17 June 2002

The interests, including beneficial interests, of the directors who served during the year, in the shares of the company are as follows:

	Ordinary shares of £0.10 each	
	At 31.12.01	At 1.1.01
	£	£
J Sawicki	17,354,386	17,357,894
D Yates	-	-
D Dhanda	52,632	52,632
E Campbell	35,088	35,088
R Murray	1,109,966	659,966
	<hr/>	<hr/>
	18,552,072	18,105,580
	<hr/>	<hr/>

ZYZYGY PLC

(Formerly Channel Health plc)

DIRECTORS' REPORT

For the year ended 31 December 2001 (continued)

Directors' share options

Details of the options to acquire ordinary shares in the company granted to or held by the directors in the year are as follows:

	Ordinary shares of £0.10 each		Exercise
	31.12.01	1.1.01	Price
	£	£	
J Sawicki	1,789,240	1,789,240	26.66p
D Yates	438,596	438,596	nil
D Dhanda	250,000	250,000	57.00p
E Campbell	35,088	35,088	nil
R Murray	-	-	
	<hr/>	<hr/>	
	2,512,924	2,512,924	
	<hr/>	<hr/>	

Joanne Sawicki is interested in 15,397,366 ordinary shares by virtue of her being a beneficiary of a Jersey resident settlement established by her on 17 December 1999 for her benefit and for the benefit of her family. The trustees of this settlement are Joanne Sawicki, Jasmine Trustees Limited ("Jasmine") and Lutea Trustees Limited. In addition, Joanne Sawicki's husband, Paul Cayford, holds 1,250,000 ordinary shares. Joanne Sawicki is also the beneficial owner of 852,634 ordinary shares which have been appointed to her by Jasmine in order to satisfy the gift to the Channel Health plc Employee Trust ("the ESOT") and grant of options described below. Prior to admission 142,106 ordinary shares were gifted by Joanne Sawicki to the ESOT. Joanne Sawicki and Paul Cayford have been granted options to subscribe for 1,789,240 ordinary shares being 5% of the fully diluted ordinary share capital in the company at 26.66p per share. The options may be exercised up until 30 September 2003.

Dabinder Dhanda holds an option to acquire 250,000 ordinary shares under the terms of the Channel Health plc Unapproved Share Option Scheme as described in note 20. In addition, she was granted and has exercised an option by the ESOT to acquire 52,632 ordinary shares to the value of £30,000 based on the placing price, which was exercisable at nil cost.

Douglas Yates holds an option granted by Joanne Sawicki to acquire from her 438,596 ordinary shares to the value of £250,000 based on the placing price. The option is exercisable at nil cost between 11 November 2000 and 4 August 2003.

Eileen Campbell holds an option granted by Joanne Sawicki to acquire from her 35,088 ordinary shares to the value of £20,000, based on the placing price. The option is exercisable at nil cost between 11 November 2000 and 4 August 2003. Eileen Campbell purchased 35,088 ordinary shares at the time of the float at the placing price.

Richard Murray is the holder of 922,466 ordinary shares: Richard Murray and his wife, Jane Murray, are the joint holders of an additional 187,500 ordinary shares.

ZYZYGY PLC

(Formerly Channel Health plc)

DIRECTORS' REPORT

For the year ended 31 December 2001 (continued)

Substantial shareholdings

The aggregate shareholding of Jasmine, Joanne Sawicki and Paul Cayford is 17,354,386 ordinary shares, representing 48.51% of the issued share capital of the company. Under the City Code on Takeovers and Mergers ("the code"), Jasmine, Joanne Sawicki and Paul Cayford will be regarded as a concert party. In the event of exercise in full of the options over shares held by Joanne Sawicki and Paul Cayford as described in note 20 below, the aggregate shareholding of Jasmine, Joanne Sawicki and Paul Cayford may increase to 19,143,626 ordinary shares in aggregate, representing 50.95% of the enlarged issued share capital of the company (assuming no further issues of shares). The option may be exercised in whole or in part.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and Group and of the profit or loss of the Group for that period.

In preparing the 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 and confirm whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Supplier payment policy

The company's policy, which is also applied by the Group, is to obtain the best possible terms for all business and hence there is no standard policy as to the terms used. The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided goods and services in accordance with the contractual arrangements.

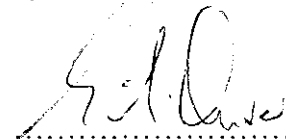
Trade creditors of the Group at 31 December 2001 were equivalent to 88 days' purchases, based on the average daily amount invoiced by suppliers during the period (2000: 44 days).

ZYZYGY PLC
(Formerly Channel Health plc)
DIRECTORS' REPORT
For the year ended 31 December 2001 (continued)

Auditors

Warrener Stewart, Chartered Accountants, of Harwood House, 43 Harwood Road, London, SW6 4QP were appointed as auditors of the company by the directors on 17 June 2002 and will be proposed for re-appointment at the forthcoming annual general meeting in accordance with section 384 of the Companies Act 1985.

By order of the Board, 28 June 2002



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Edward Oliver - Company Secretary

Registered Office:
10 Orange Street
Haymarket
London
WC2H 7DQ

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ZYZYGY PLC (Formerly Channel Health plc)
For the year ended 31 December 2001**

We have audited the financial statements of Zyzygy plc (formerly Channel Health plc) for the year ended 31 December 2001 on pages 8 to 29 which comprise the consolidated profit and loss account, consolidated and company balance sheet, consolidated cash flow and the related notes, have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 12 to 14.

Respective responsibilities of directors and auditors

As described in the statement of directors responsibilities, the directors are responsible for preparing the financial statements. As described on page 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidelines.

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. 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 or the Listing Rules regarding directors' remuneration and transactions with the Group are not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

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 directors in the preparation of the financial statements, 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 financial statements are free from material mis-statements, whether caused by fraud or other irregularity, or error. In forming our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements.

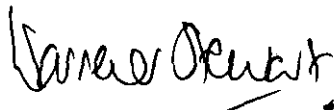
Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the going concern status of the company. In view of the significance of the uncertainty described therein, we consider that this note should be drawn to your attention, but our opinion is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ZYZYGY PLC (Formerly Channel Health plc)
For the year ended 31 December 2001 (continued)

Opinion

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



WARRENER STEWART
Chartered Accountants and Registered Auditors

Harwood House
43 Harwood Road
London
SW6 4QP

28 June 2002

ZYZYGY PLC
(Formerly Channel Health plc)
CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2001

	Notes	£'000	Period to 31.12.00 £'000
Turnover	2 & 3		
Discontinued operations		1,208	20
Cost of sales	4	(2,222)	(850)
Gross loss	4	(1,014)	(830)
Administrative expenses	4	(1,936)	(1,479)
Operating loss			
Continuing operations		(260)	(62)
Discontinued operations		(2,690)	(2,247)
	7	(2,950)	(2,309)
Impairment losses	12	(2,296)	-
Interest receivable and similar income	5	39	80
Interest payable and similar charges	6	(2)	(2)
Loss on ordinary activities before and after taxation	22	(5,209)	(2,231)
Accumulated losses brought forward		(2,231)	-
Accumulated losses carried forward		(7,440)	(2,231)
Basic loss per share	11	(14.3p)	(6.2p)
Fully diluted loss per share	11	(14.2p)	(6.1p)

There have been no recognised gains or losses, other than the results for the financial year.

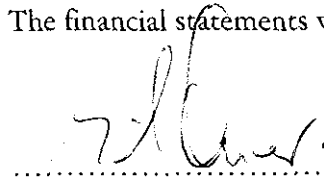
All profits and losses have been accounted for on a historical cost basis.

The notes on pages 12 to 29 form part of these financial statements.

ZYZYGY PLC
(Formerly Channel Health plc)
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	£'000	£'000	2000 £'000
Fixed assets				
Intangible assets	12		-	2,296
Tangible assets	13		336	382
			<u>336</u>	<u>2,678</u>
Current assets				
Stock	15	989		717
Debtors	16	465		555
Cash at hand and in bank		111		2,610
		<u>1,565</u>		<u>3,882</u>
Creditors: Amounts falling due within one year	17	(1,108)		(918)
		<u></u>		<u></u>
Net current assets			457	2,964
			<u></u>	<u></u>
Total assets less current liabilities			793	5,642
			<u></u>	<u></u>
Capital and reserves				
Called up share capital	19		3,759	3,578
Share premium account	22		4,474	4,295
Profit and loss account	22		(7,440)	(2,231)
			<u></u>	<u></u>
Equity shareholders' funds	23		793	5,642
			<u></u>	<u></u>

The financial statements were approved by the Board of directors and signed on its behalf by:



 Edward Oliver - Director

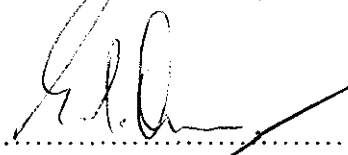
28 June 2002

The notes on pages 12 to 29 form part of these financial statements.

ZYZYGY PLC
(Formerly Channel Health plc)
COMPANY BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	£'000	£'000	2000 £'000
Fixed assets				
Investments	14		50	2,500
			<u>50</u>	<u>2,500</u>
Current assets				
Debtors due after one year	16	-		5,335
		<u>-</u>		<u>5,335</u>
Creditors: Amounts falling due within one year	17	(98)		(24)
		<u>(98)</u>		<u>(24)</u>
Net current (liabilities)/assets			(98)	5,311
			<u>(98)</u>	<u>5,311</u>
Total assets less current liabilities			<u>(48)</u>	<u>7,811</u>
			<u><u>(48)</u></u>	<u><u>7,811</u></u>
Capital and reserves				
Called up share capital	19		3,759	3,578
Share premium account	22		4,474	4,295
Profit and loss account	22		(8,281)	(62)
			<u>(8,281)</u>	<u>(62)</u>
Equity shareholders' (deficit)/funds	23		(48)	7,811
			<u>(48)</u>	<u>7,811</u>
			<u><u>(48)</u></u>	<u><u>7,811</u></u>

The financial statements were approved by the Board of directors and signed on its behalf by:



 Edward Oliver - Director

28 June 2002

The notes on pages 12 to 29 form part of these financial statements.

ZYZYGY PLC
(Formerly Channel Health plc)
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2001

	Notes	£'000	£'000	2000 £'000
Net cash outflow from operating activities	28		(2,833)	(2,773)
Returns on investments and servicing of finance:				
Interest received		39		80
Interest paid and similar charges on external financing		(2)		(2)
		<hr/>		<hr/>
Net cash flow from returns on investment and servicing of finance			37	78
				<hr/>
Capital expenditure:				
Purchase of tangible fixed assets		(74)		(302)
		<hr/>		<hr/>
Net cash outflow from capital expenditure			(74)	(302)
				<hr/>
Acquisitions and disposals:				
Cash in subsidiary at acquisition		-		234
		<hr/>		<hr/>
			-	234
				<hr/>
Financing:				
Issue of equity share capital		181		1,078
Share premium received on share capital issued		194		5,036
Less: share issue expenses written off		(15)		(741)
		<hr/>		<hr/>
Net cash inflow from financing			360	5,373
			<hr/>	<hr/>
(Decrease)/increase in cash	29 & 30		(2,510)	2,610
			<hr/>	<hr/>

ZYZYGY PLC

(Formerly Channel Health plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

1. BASIS OF PREPARING THE FINANCIAL STATEMENTS

On 15 March 2002, the company disposed of its entire interest in Channel Health Interactive Lifestyle Limited ("CHILL") to Health Track Media Limited. The sale of CHILL left a shell company; Channel Health plc, which, at that date and at 31 December 2001, has a deficit of net assets.

On 5 April 2002 the company entered into an agreement with Alythia Limited, a company of which Michael Richards is a director, whereby Alythia Limited was granted an option to enter into a co-production agreement with Zyzygy plc. As part of the agreement Alythia Limited is to make an initial non-refundable advance payment of £75,000. These monies will be used to settle outstanding liabilities. At the date of approval of these financial statements the first tranche of this advance, an amount of £40,000, has been received and applied to liabilities of the company. The balance of £35,000 remains outstanding, the company expects to receive this on 5 July 2002 and will use these funds to settle existing liabilities. On 30 September 2002 or upon signature of the co-production agreement, whichever is earlier, Alythia Limited will make a further advance of £75,000 conditional upon Alythia Limited, subject to shareholder approval, having acquired not less than 30% of the issued share capital of Zyzygy plc by 30 September 2002.

In the opinion of the directors these sums are sufficient to support the activities of the company for at least twelve months from the date of approval of the financial statements. Consequently, provided the entire £150,000 detailed above is received, the directors believe it to be appropriate to prepare the financial statements on a going concern basis.

2. ACCOUNTING POLICIES

Accounting convention

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

Turnover

Turnover is stated after trade discounts, other sales taxes and net of VAT. It represents the invoiced value of television and web advertising, pay television channel subscriptions, on line revenue from sale of products, web Intellectual Property Rights income and other revenues. Sales of original programming, pre-sales advances and sales of co-productions as well as television programme sponsorship revenues are also included in turnover.

Basis of consolidation

The Group financial statements incorporate a consolidation of the financial statements of the company and its subsidiary undertaking (note 14). No profit and loss account is presented for Zyzygy plc (formerly Channel Health plc) as permitted by section 230 of the Companies Act 1985.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

2. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is currently estimated at 20 years.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation. Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life. The principal annual rates for this purpose are:

Office equipment	- 20%
Computer equipment	- 25%
Technical equipment, software, etc	- 25%

Stock and work in progress

Any stock, apart from television programme rights, is stated at the lower of cost and net realisable value. Television programme rights are stated at cost less accumulated amortisation. Amortisation is provided to write off the cost of television programme rights in accordance with the terms of the programme licence. Direct costs of own production are included within the cost of programme rights and are amortised over the expected useful life of the programme, which in the directors' view is unlikely to exceed three years. Programme payments made in advance of the company having availability to transmit the related programmes are treated as prepayments.

Comparative figures

The financial statements cover the year ended 31 December 2001. Comparative figures cover the five month period from 27 July 2000 (date of incorporation) to 31 December 2000.

Deferred taxation

Deferred tax is provided using the tax rates estimated to arise when timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise.

Operating leases

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

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

2. ACCOUNTING POLICIES (continued)

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

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

3. TURNOVER

Turnover is all attributable to the United Kingdom market. The Group currently operates only one class of business and therefore no further segmental analysis is provided.

4. COST OF SALES, GROSS LOSS AND OTHER OPERATING EXPENSES

	2001			2000		
	Discontinued operations £000	Continuing operations £000	Total £000	Discontinued operations £000	Continuing operations £000	Total £000
Cost of sales	2,222	-	2,222	850	-	850
Gross loss	1,014	-	1,014	830	-	830
Admin expenses	1,676	260	1,936	1,417	62	1,479
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2000 £000	2000 £000
Bank interest	39	76
Other interest	-	4
	<u> </u>	<u> </u>
	39	80
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

Bank interest	2	2
	<u> </u>	<u> </u>

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

7. OPERATING LOSS

	£000	2000 £000
The operating loss is stated after charging:		
Directors' emoluments	293	166
Depreciation	120	44
Amortisation of goodwill	-	49
Impairment of goodwill	2,296	-
Auditor's remuneration – audit fee	10	20
Auditor's remuneration – non audit fee	-	9
Operating lease rentals – other assets	67	-
	<u> </u>	<u> </u>

8. STAFF COSTS

The average monthly number of employees employed by the Group (including directors) during the period was:

		2000 Number
Web origination and presentation	2	1
TV programme origination and presentation	8	4
Management and administration	10	5
	<u> </u>	<u> </u>
	20	10
	<u> </u>	<u> </u>

	£000	£000
Their aggregated remuneration was:		
Wages and salaries	705	520
Social security	71	-
	<u> </u>	<u> </u>
	776	520
	<u> </u>	<u> </u>

ZYZYGY PLC**(Formerly Channel Health plc)****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2001 (continued)****9. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS**

The total amounts for directors' remuneration and other benefits were as follows:

Name of Director	2001			2000		
	Salary/fees £000	Annual bonus £000	Total £000	Salary/fees £000	Annual bonus £000	Total £000
J Sawicki	125	-	125	75	-	75
D Dhanda	93	-	93	40	30	70
D Yates	29	-	29	13	-	13
E Campbell	26	-	26	8	-	8
R Murray	20	-	20	-	-	-
	<u>293</u>	<u>-</u>	<u>293</u>	<u>136</u>	<u>30</u>	<u>166</u>

Full details of directors' interests in the company and share options are included in the directors' report starting on page 1.

10. LOSS FOR THE FINANCIAL PERIOD

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The amount of the loss after taxation for the financial year dealt within the accounts of the company is £8,219,000 (2000: loss £62,000).

11. EARNINGS PER SHARE

The calculations of earnings per share are based on the following losses and number of shares:

	2001		2000	
	Basic £000	Diluted £000	Basic £000	Diluted £000
Loss for financial period	(5,209)	(5,209)	(2,231)	(2,231)

Weighted average number of shares:

For basic earnings per share	36,539,448	35,784,796
Exercise of share options	245,656	952,378
	<u>36,785,104</u>	<u>36,737,174</u>

ZYZYGY PLC
 (Formerly Channel Health plc)
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2001 (continued)

12. INTANGIBLE FIXED ASSETS - GOODWILL

	£000
Cost:	
At 1 January 2001	2,345
Additions	-
	<hr/>
At 31 December 2001	2,345
	<hr/>
Amortisation:	
At 1 January 2001	49
Charge for the year	-
Impairment in the year	2,296
	<hr/>
At 31 December 2001	2,345
	<hr/>
Net book value:	
At 31 December 2001	-
	<hr/>
At 31 December 2000	2,296
	<hr/>

Goodwill has been fully impaired to £nil at 31 December 2001 because Channel Health Interactive Lifestyle Limited, the acquisition of which gave rise to the goodwill, was disposed of subsequent to the year end (see note 14).

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

13. TANGIBLE FIXED ASSETS

	Office equipment £000	Fixtures & fittings £000	Computer equipment & software systems £000	Total £000
Cost:				
At 1 January 2001	55	23	356	434
Additions	4	9	61	74
	—	—	—	—
At 31 December 2001	59	32	417	508
	—	—	—	—
Depreciation:				
At 1 January 2001	1	2	49	52
Charge for the period	12	6	102	120
	—	—	—	—
At 31 December 2001	13	8	151	172
	—	—	—	—
Net book value:				
At 31 December 2001	46	24	266	336
	==	==	==	==
At 31 December 2000	54	21	307	382
	==	==	==	==

14. INVESTMENTS HELD AS FIXED ASSETS

	Investment in subsidiary £000
Cost:	
At 1 January 2001 and 31 December 2001	2,500
	—
Provisions:	
At 1 January 2001	-
Impairment losses	2,450
	—
At 31 December 2001	2,450
	—
Net book value:	
At 31 December 2001	50
	==
At 31 December 2000	2,500
	==

ZYZYGY PLC

(Formerly Channel Health plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (continued)

14. INVESTMENTS HELD AS FIXED ASSETS (continued)

The investment in subsidiary represents 100% of the issued ordinary share capital of Channel Health Interactive Lifestyle Limited, a company incorporated in England and Wales.

Channel Health Interactive Lifestyle Limited operates the first dedicated health related television channel with an interactive website in the UK. All the subsidiary's transactions are reflected in the consolidated position.

On 15 March 2002, the company disposed of its entire interest in Channel Health Interactive Lifestyle Limited. The consideration received was £50,000 cash. As a result, the carrying value of the company's investment has been impaired to the amount realised post year end.

	2000
	£000
15. STOCK	
Work in progress	11
Finished goods	706
	<u>717</u>
	<u>717</u>

	2001		2000	
	Group	Company	Group	Company
	£000	£000	£000	£000
16. DEBTORS				
Amounts falling due within one year:				
Trade debtors	255	-	21	-
Other debtors	103	-	215	-
Prepayments and accrued income	107	-	319	-
	<u>465</u>	<u>-</u>	<u>555</u>	<u>-</u>
	<u>465</u>	<u>-</u>	<u>555</u>	<u>-</u>

Amounts falling due after one year:

Amount owed from subsidiary undertaking	-	-	-	5,335
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,335</u>

ZYZYGY PLC

(Formerly Channel Health plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (continued)

17. CREDITORS: Amounts falling due within one year

	2001		2000	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	£000	£000	£000	£000
Bank overdraft	11	-	-	-
Trade creditors	575	29	544	-
Other creditors	13	-	37	1
Other taxation and social security	20	-	72	2
Accruals and deferred income	489	69	265	21
	<u>1,108</u>	<u>98</u>	<u>918</u>	<u>24</u>

18. DEFERRED TAX

No provision for deferred tax in respect of accelerated capital allowances is considered necessary at 31 December 2001 since future capital allowances are expected to exceed accounting depreciation and therefore no deferred taxation liabilities are expected to crystallise in the foreseeable future.

19. SHARE CAPITAL

	2000	
	£000	£000
Authorised:		
Authorised share capital of 50,000,000 ordinary shares of 10p each	5,000	5,000
	<u>5,000</u>	<u>5,000</u>
Allotted, called up and fully paid:		
37,595,961 ordinary shares of 10p each	3,759	3,578
	<u>3,759</u>	<u>3,578</u>

On 27 July 2001, 1,811,165 ordinary shares were subscribed for at 20.7p per ordinary share of 10p each.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

20. DISCRETIONARY SHARE OPTION SCHEME

The directors operated a policy of using equity incentives to attract, retain and motivate key employees.

a. Introduction

The company established the Channel Health plc Approved Share Option Scheme ("the Approved Scheme") and the Channel Health plc Unapproved Share Scheme ("the Unapproved Scheme") on 4 August 2000. The Approved Scheme conforms to the relevant provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 relating to approved share option schemes, and has been approved by the Inland Revenue. The Unapproved Scheme does not conform to those provisions and options granted under that scheme will be unapproved options.

b. Constitution

The schemes are governed by their rules and were administered by the remuneration committee of the company ("the committee").

c. Eligibility

The committee was able to grant options under the Approved Scheme to any employee of the Group, and to any directors of the Group who works at least twenty five hours a week. Options may be granted under the Unapproved Scheme to any employee or director of the Group. No option may be granted under the Schemes to any director or employee within the period of two years prior to his normal retirement date.

d. Invitation to apply for options/grant of options

Invitations to apply for options may be issued at any time other than during a close period. No option may be granted after the tenth anniversary of the date of commencement of Schemes. No option may be assigned or transferred in any way, although the executors or personal representatives of a deceased option holder may, in certain circumstances, exercise options held by him.

The consideration payable for the grant of an option is £1. The committee may, where appropriate, impose specific objectives or other conditions which will generally have to be satisfied before an option can be exercised.

e. Acquisition price

The acquisition price payable for each ordinary share on exercise of an option under the Unapproved Scheme will be determined by the committee. The acquisition price payable for each ordinary share on exercise of an option under the Approved Scheme will be not less than the market value as at the date of grant as agreed in advance with the Shares Valuation Division of the Inland Revenue.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

20. DISCRETIONARY SHARE OPTION SCHEME (continued)

f. Individual limits

No person may at any time hold options granted under the Approved Scheme over ordinary shares having a total market value at the time of grant of the option of more than £30,000.

g. Company limits

At any time, the total of the aggregate nominal value of all ordinary shares issued or which may be issued under options granted under the schemes and all ordinary shares issued or which may be issued under all other employee share schemes of the company (other than savings related share option schemes) shall not exceed 10% of the nominal value of the ordinary share capital of the company then in issue.

In determining whether the above limit has been complied with, no account is taken of any option which has been disclaimed or lapsed, or of options granted before admission.

h. Exercise and lapse of options

Subject to the satisfaction of any applicable condition of exercise, options granted under the schemes may be exercised in whole or in part at any time and from time to time after the earliest of the third anniversary of the date of grant, the death of the option holder, or the option holder ceasing to be a director or employee of any company within the Group by reason of (a) injury or disability, or (b) retirement, or (c) at the discretion of the Committee, for any other reason. In exceptional circumstances the Committee may resolve that options granted under the Schemes should become exercisable before the third anniversary of the date of grant.

Options lapse on the earlier of:

- The tenth anniversary of the date of grant.
- Twelve months after the death of the option holder.
- The date of cessation of employment or directorship (unless such cessation is for a reason mentioned in (a), (b) or (c) in the foregoing paragraph, in which case they will lapse six months after such cessation, or, in the case of an option which immediately before the cessation is not exercisable, six months after it becomes exercisable. The committee has a discretion to vary the time of exercise in such cases);
- Six months after any takeover or reconstruction or the passing of a resolution for the voluntary winding up of the company.
- The bankruptcy of the option holder.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

20. DISCRETIONARY SHARE OPTION SCHEME (continued)

i. Takeovers, etc

In the event of a takeover of the company, a compromise or arrangement under section 425 of the Act or section 110 of the Insolvency Act 1986 or a voluntary winding up of the company, options may be exercised within six months. In the event of a takeover of the company, options granted under the Approved Scheme may, with the consent of the acquiring company, be released in consideration for the grant of new options over shares in the acquiring company which have the same value as the options released.

j. Variation of share capital

In the event of any capitalisation, rights issue, consolidation, sub-division, reduction or other variation of share capital of the company, the number of ordinary shares subject to each option and the price payable on exercise shall be adjusted in such manner as the company's auditors confirm to be fair and reasonable and, in the case of options granted under the Approved Scheme, as the Board of Inland Revenue shall approve.

k. Alteration

The committee may from time to time alter or add to all or any of the rules of the Share Option Schemes. All alterations to the Approved Scheme must be approved by the Board of Inland Revenue before becoming effective.

No alteration or addition may be made which would materially and adversely affect the rights of any option holder as regards an option granted prior to the alteration or addition.

l. Performance criteria

There are currently no performance criteria set out in the Share Option Schemes or attached to the options which have been granted prior to Admission, but the company will not grant any further options pursuant to these schemes or options until suitable performance criteria, as determined by the Board have been adopted.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

20. DISCRETIONARY SHARE OPTION SCHEME (continued)

m. General

All ordinary shares issued under the Share Option Schemes will rank pari passu with all other ordinary shares other than in relation to dividends which have a record date prior to the date of issue.

Share options to consultants:

Joanne Sawicki has granted options to certain consultants who work with the company and to two of the non executive directors, Douglas Yates and Eileen Campbell. Jasmine has appointed 529,825 ordinary shares to Joanne Sawicki to enable Joanne Sawicki to satisfy these options. None of these options have been exercised to date.

These options are over 529,825 ordinary shares, representing 1.4% of the company's issued share capital. The exercise price of these options is nil and the options are exercisable at any time between 11 November 2000 and 4 August 2003. None of these options have been exercised to date.

Share options to commercial suppliers:

Joanne Sawicki has granted options to certain commercial suppliers who work with the company. Jasmine has appointed 61,404 ordinary shares to Joanne Sawicki to enable Joanne Sawicki to satisfy these options.

These options are over 61,404 ordinary shares, representing 0.2% of the company's issued share capital. The exercise price of these options is the Placing Price of 57p and the options are exercisable between 11 November 2000 and 4 August 2003.

Share options to others:

Joanne Sawicki has granted options to certain individuals. Jasmine has appointed 119,299 ordinary shares to enable Joanne Sawicki to satisfy these options.

These options are over 119,299 ordinary shares, representing 0.3% of the company's issued share capital. The exercise price of these options is nil and the options are exercisable at any time between 11 November 2000 and 4 August 2003.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

20. DISCRETIONARY SHARE OPTION SCHEME (continued)

Share options to Joanne Sawicki and Paul Cayford:

The company has granted an option to Joanne Sawicki and Paul Cayford to subscribe between them for 1,789,240 ordinary shares being 5% of the fully diluted ordinary share capital in the company at 26.66p per share. The options may be exercised up until 30 September 2003.

Share options granted after the float:

In January 2001, options were granted in respect of a further 70,000 ordinary shares, also exercisable at the placement price of 57p to certain consultants and contributors who provide services to the company. The options are exercisable from the third to the tenth anniversary of the deed.

Unapproved share options granted to certain employees, on admission:

Unapproved share options over a total of 452,500 ordinary shares were granted to certain employees conditionally on admission, under the Unapproved Scheme established by the company prior to admission. These options are exercisable at any time after 4 August 2003. The exercise of these options will give rise to a charge for national insurance contributions for the company. However, the employees have agreed to meet the company's liability for employer national insurance contributions.

21. ESOT

The Channel Health plc Employee Trust ("the ESOT") has been established to provide a vehicle through which share incentives and other benefits may be provided to present and future employees of the company. Jasmine appointed 142,106 ordinary shares to Joanne Sawicki, who gifted the same number of ordinary shares to the ESOT to satisfy certain options granted by the ESOT. The trustee of the Trust is JTC Trustees Limited.

The ESOT granted 142,106 ordinary shares to certain employees of the company, including Dabinder Dhanda. These options are over 142,106 ordinary shares, representing 0.4% of the company's issued share capital immediately following admission. The exercise price of the options granted by the Trustee of the ESOT is nil and the options are exercisable from 11 November 2000 to 3 August 2010. 10,526 ordinary shares which have been unconditionally gifted to employees are still held by the Trust.

ZYZYGY PLC

(Formerly Channel Health plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (continued)

22. RESERVES

	Share premium account £000	Group profit and loss account £000	Company profit and loss account £000
Premium on issue of shares	5,036	-	-
Expenses incurred on issue of shares	(741)	-	-
Loss for the period	-	(2,231)	(62)
At 31 December 2000	4,295	(2,231)	(62)
Premium on issue of shares	194	-	-
Expenses incurred on issue of shares	(15)	-	-
Loss for the year	-	(5,209)	(8,219)
At 31 December 2001	4,474	(7,440)	(8,281)

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001		2000	
	Group £000	Company £000	Group £000	Company £000
Loss for the year	(5,209)	(8,219)	(2,231)	(62)
Share issue (net of expenses)	179	179	3,578	3,578
New share capital subscribed	181	181	4,295	4,295
Shareholders funds at 1 January 2001	5,642	7,811	-	-
Closing shareholders funds at 31.12.01	793	(48)	5,642	7,811

24. COMMITMENTS UNDER OPERATING LEASES

The company entered into a lease for a term of five years from 25 August 2000, subject to a mutual option to determine on or after 15 months of the term, subject to 3 months prior written notice on either side. The rent and service charge is £66,780 per annum.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

25. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2001.

26. CONTINGENCIES

There were no contingent liabilities at 31 December 2001.

27. TRANSACTIONS WITH DIRECTORS AND RELATED PARTY DISCLOSURES

	Transaction £000	Balance at 31.12.01 £000	Transaction £000	Balance at 31.12.00 £000
Streamer Limited	-	-	36	-
P Cayford	-	-	19	13
D Yates	-	-	4	-
Bolistrom Limited	-	-	8	-
	<u>-</u>	<u>-</u>	<u>67</u>	<u>13</u>
	<u>-</u>	<u>-</u>	<u>67</u>	<u>13</u>

In the year under review, there were no material related party transactions or balances.

Details of the prior period related party transactions and balances are given below:

D Dhanda, a director of Zyzygy plc, is a director of Streamer Limited and has 50% control of that company. Monies were paid on an "arms-length" basis to Streamer Limited in respect of web related work.

P Cayford is the husband of J Sawicki who is a director of Zyzygy plc. Monies were paid on an "arms-length" basis to P Cayford in respect of works completed on behalf of the company. These consisted of recruitment consultancy for the Head of New Media position and a commission for finding and procuring the offices and assisting in the negotiation of the lease.

D Yates, a director of Zyzygy plc, was paid consultancy fees, prior to being appointed as a director, during the period.

R Murray, a director of Zyzygy plc, is a director of Bolistrom Limited. His director's fees were paid to Bolistrom Limited.

ZYZYGY PLC
(Formerly Channel Health plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2001 (continued)

28. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	£000	2000 £000
Operating loss	(2,950)	(2,309)
Depreciation	120	44
Amortisation of goodwill	-	49
Increase in stock	(272)	(631)
Decrease/(increase) in debtors	90	(372)
Increase in creditors	179	446
	<u> </u>	<u> </u>
Net cash outflow from operating activities	(2,833)	(2,773)
	<u> </u>	<u> </u>

29. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

Net funds at 1 January 2001	2,610	-
(Decrease)/increase in cash in the period	(2,510)	2,376
On acquisition of subsidiary	-	234
	<u> </u>	<u> </u>
Net funds at 31 December 2001	100	2,610
	<u> </u>	<u> </u>

30. ANALYSIS OF CHANGES IN NET FUNDS

	At 1.1.01 £000	Cash flow £000	At 31.12.01 £000
Cash at bank and in hand	2,610	(2,499)	111
Bank overdraft	-	(11)	(11)
	<u> </u>	<u> </u>	<u> </u>
	2,610	(2,510)	100
	<u> </u>	<u> </u>	<u> </u>

31. POST BALANCE SHEET EVENTS

On 15 March 2002 the company disposed of its entire interest in Channel Health Interactive Lifestyle Limited ("CHILL) to Health Track Media Limited. The consideration received was £50,000 cash. As part of the sale and purchase agreement Zyzygy plc absolutely and unconditionally released CHILL from any monies owing by CHILL to Zyzygy plc.

ZYZYGY PLC

(Formerly Channel Health plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (continued)

31. POST BALANCE SHEET EVENTS (continued)

The sale of CHILL left a shell company, Channel Health plc, which, at that date and at 31 December 2001 has a deficit of net assets.

On 5 April 2002 the company entered into an agreement with Alythia Limited, a company of which Michael Richards is a director, whereby Alythia Limited was granted an option to enter into a co-production agreement with Zyzygy plc. As part of the agreement Alythia Limited is to make an initial non-refundable advance payment of £75,000. These monies will be used to settle outstanding liabilities. At the date of approval of these financial statements the first tranche of this advance, an amount of £40,000, has been received and applied to liabilities of the company. The balance of £35,000 remains outstanding, the company expects to receive this on 5 July 2002 and will use these funds to settle existing liabilities. On 30 September 2002 or upon signature of the co-production agreement, whichever is earlier, Alythia Limited will make a further advance of £75,000 conditional upon Alythia Limited, subject to shareholder approval, having acquired not less than 30% of the issued share capital of Zyzygy plc by 30 September 2002.

ZYZYGY PLC
(Formerly Channel Health plc)
ADVISERS TO THE COMPANY

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