

ANIMATRIX LIMITED
Directors' Report &
Financial Statements

For the year ended 31st March 2004

Company Number: 3529802



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DIRECTOR AND ADVISERS

DIRECTOR	Rupert Lywood
SECRETARY	Matrix Securities Limited
REGISTERED OFFICE	One Jermyn Street London SW1Y 4UH
SOLICITORS	The Simkins Partnership 45-51 Whitfield Street London W1P 6AA
BANKERS	Barclays Bank PLC 50 Pall Mall London

DIRECTOR'S REPORT

For the year ended 31st March 2004

The director presents his report and the unaudited financial statements for the year ended 31st March 2004.

PRINCIPAL ACTIVITY

The Company's principal activity is that of a film and television production and distribution company.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The results for the year are shown on page 5.

The Company has participated in the co-production and distribution of the films "Trial by Fire" and "The Last September". Unfortunately broadcasting sales did not recoup the full cost of production of either film and the partnerships took advantage of the pecuniary loss indemnity insurance policies to cover any shortfall.

The outstanding insurance monies in respect of Last September were received during February 2003 and those in respect of Trial by Fire during May 2003. A distribution was made by each of the partnerships during May 2003 and the balance of the funds was distributed to the partners during October 2003. The partnerships are each in the process of being dissolved.

The Company has continued to participate in the development, co-production and distribution of a children's television animation series based on the character Dr Snuggles. The company's participation is via a limited liability partnership (The Doctor Snuggles Animatrix Partnership LLP). A dispute has arisen in relation to the rights to the Doctor Snuggles project and the Company has issued legal proceedings against Mr Jeffrey O'Kelly in order to establish its rights. However, the legal process may be protracted and until such time as the dispute is resolved, the project cannot progress. Whilst the Director is confident that the dispute will, in due course result in a satisfactory outcome, because of the uncertain nature of litigation and the delay that the dispute will inevitably cause to the project, he has decided to write down the investment by £90,575 to £10,000 to reflect this uncertainty.

DIVIDENDS

The director does not recommend the payment of a dividend.

DIRECTOR

The Director of the Company during the year ended 31st March 2004 was:

Rupert Lywood

DIRECTOR'S INTERESTS

The Director's interests in the Company's share capital at 31st March 2004 and 2003 were as follows:

	Number of ordinary shares of £1 each
Rupert Lywood	107,000

AUDITORS

In the preparation of the Company's financial statements advantage has been taken of the audit exemptions available to small companies conferred by section 249A(1) of the Companies Act 1985. No notice has been received from members requiring an audit under section 249 B(2) of the Companies Act 1985.

DIRECTOR'S RESPONSIBILITIES

The Director is required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period.

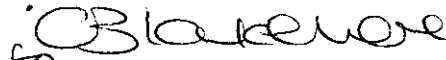
The Director confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st March 2004. The Director also confirms that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Director is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Small Company Exemption

The Director's Report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the Directors on 10 January 2005.


for **Matrix Securities Limited**
Company Secretary

PROFIT AND LOSS ACCOUNT

For year ended 31st March 2004

	Notes	Year ended 31 st March 2004 £	Year ended 31 st March 2003 £
Turnover		33,949	21,915
Cost of sales		(17,315)	(20,988)
Gross profit		16,634	927
Administrative expenses		(13,703)	(4,442)
Provision against investment	4	(90,575)	-
Interest receivable	2	7,638	8,730
Interest payable		(7,437)	(7,640)
(Loss) on ordinary activities before tax		(87,443)	(2,425)
Tax charge on ordinary activities	1	-	-
(Loss) for the year		(87,443)	(2,425)
Statement of Reserves			
Balance at 1 st April 2003		675	3,100
Profit for the year		(87,443)	(2,425)
At 31 st March 2004		(86,768)	675

All of the operations are continuing.

The Company has no recognised gains or profits other than those shown above and therefore no separate statement of total recognised gains and profits has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 11 form part of these financial statements.

BALANCE SHEET*As at 31st March 2004*

	Notes	31 st March 2004 £	31 st March 2003 £
Fixed assets			
Investments	4	10,000	239,444
Current assets			
Debtors	5	115,661	121,326
Cash at bank and in hand		11,228	41,045
		<u>126,889</u>	<u>162,371</u>
Creditors: amounts falling due within one year	6	(14,674)	(186,791)
Net current assets/(liabilities)		<u>112,215</u>	<u>(24,420)</u>
Total assets less current liabilities		<u>122,215</u>	<u>215,024</u>
Creditors: amounts due after more than one year	7	(101,983)	(107,349)
Net Assets		<u>20,232</u>	<u>107,675</u>
Capital and reserves			
Called up share capital	8	107,000	107,000
Profit and loss account		(86,768)	675
Equity Shareholders' Funds	9	<u>20,232</u>	<u>107,675</u>

The notes on pages 7 to 11 form part of these financial statements.

The financial statements have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985.

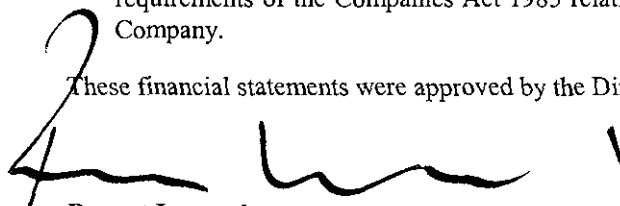
Advantage has been taken of the audit exemptions available for small companies conferred by section 249A(1) of the Companies Act 1985 on the grounds:

- that for the year ended 31st March 2004 the Company was entitled to the exemption from a statutory audit under section 249A(1) of the Companies Act 1985; and
- that no notice has been deposited under section 249B(2) of the Companies Act 1985 in relation to the financial statements for the period.

The directors acknowledge their responsibilities for:

- ensuring that the Company keeps proper accounting records which comply with section 221 of the Companies Act 1985; and
- preparing financial statements which give a true and fair view of the state of the affairs of the company at 31st March 2004 and of its loss for the year then ended and are in accordance with the requirement of section 226 of the Companies Act 1985, and which otherwise comply with the requirements of the Companies Act 1985 relating to financial statements so far as applicable to the Company.

These financial statements were approved by the Director on 19 January 2005 and were signed by him:



Rupert Lywood
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2004

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below:

a) **Basis of Accounting**

The financial statements have been prepared in accordance with the historical cost convention and are in accordance with the Financial Reporting Standards for Smaller Entities.

b) **Investment in Partnerships**

The company's share of profits less losses of the Partnerships in which it has participated for the year ended 31st March 2004 are included in its profit and loss account and the company's share of the net assets of the Partnerships at 31st March 2004 are included in its balance sheet.

(i) Sale and leaseback and finance lease agreements – "Trial by Fire"

On 3rd February 2000, the "Matrix Films "Trial by Fire" Partnership" entered into a Sale and Leaseback agreement whereby it sold the Master Print of the film "Trial by Fire" and leased back substantially all the risks and rewards of ownership of the film. The cost of the film is capitalised at its fair value on the inception of the lease. Proceeds on sale are treated as a finance lease creditor and will be reduced by future capital lease payments. The finance charges are allocated over the lease in proportion to the capital amount outstanding and are charged to the profit and loss account. The lease is for a term of fifteen years, with annual repayments being guaranteed from the long-term deposit held under a deed dated 3rd February 2000.

(ii) Sale and leaseback and finance lease agreements – "The Last September"

On 23rd March 2000, the "Matrix Films "Last September" Partnership" entered into a Sale and Leaseback agreement whereby it sold the Master Print of the film "The Last September" and leased back substantially all the risks and rewards of ownership of the film. The cost of the film is capitalised at its fair value on the inception of the lease. Proceeds on sale are treated as a finance lease creditor and will be reduced by future capital lease payments. The finance charges are allocated over the lease in proportion to the capital amount outstanding and are charged to the profit and loss account. The lease is for a term of fifteen years, with annual repayments being guaranteed from the long term deposit held under a deed dated 23rd March 2000.

c) **Cash flow statement**

The Company qualifies as a small company under the terms of section 247 of the Companies Act 1985. As a consequence it is exempt from the requirement to publish a cash flow statement.

d) **Taxation**

Due to losses brought forward there is no charge to taxation for the year.

2. INTEREST RECEIVABLE

This represents amounts receivable on monies held in the escrow accounts.

3. PARTICIPATION IN PARTNERSHIPS

The Company's results are derived from a 5.71% participation in "Matrix Films "Trial by Fire" Partnership" and a 3.89% participation in "Matrix Films "Last September" Partnership".

The Company's participation in each partnership is set out below:

	2004		2003	
	Matrix Films "Trial by Fire" Partnership £	Matrix Films "Last September" Partnership £	Matrix Films "Trial by Fire" Partnership £	Matrix Films "Last September" Partnership £
Fixed assets	-	-	17,315	-
Current assets	20,890	94,178	34,438	117,485
Creditors: amounts due within one year	(2,571)	(10,469)	(2,482)	(9,970)
Creditors: amounts due after more than one year	(18,289)	(83,693)	(19,224)	(88,125)
Total assets	<u>30</u>	<u>16</u>	<u>30,047</u>	<u>19,390</u>
Capital contributed	731	(2,945)	32,000	16,419
Loss brought forward	(1,953)	2,971	(1,880)	8,250
Profit/(loss) for the year	1,252	(10)	(73)	(5,279)
Share of funds	<u>30</u>	<u>16</u>	<u>30,047</u>	<u>19,390</u>

4. FIXED ASSETS

	Dr Snuggles £	Trial by Fire £	The Last September £	Total £
Film asset investment:				
Cost:				
As at 1 st April 2003	222,129	26,572	56,859	305,560
Additions/(Disposals)	(121,554)	-	-	(121,554)
As at 31 st March 2004	<u>100,575</u>	<u>26,572</u>	<u>56,859</u>	<u>184,006</u>
Depreciation:				
As at 1 st April 2003	-	9,257	56,859	66,116
Charge for the year	-	17,315	-	17,315
Provision against investment	90,575	-	-	90,575
As at 31 st March 2004	<u>90,575</u>	<u>26,572</u>	<u>56,859</u>	<u>174,006</u>
Net book value:				
As at 31 st March 2004	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
As at 31 st March 2003	<u>222,129</u>	<u>17,315</u>	<u>-</u>	<u>239,444</u>

Investments represent total costs incurred in the production of the above films. No further income is expected to be received from Trial by Fire and the costs have all been written off. The investment in Dr Snuggles has been reduced during the year by means of repayment of the loan from RG Lywood (see Note 6 below). The investment in Dr Snuggles has been provided against

as a result of a dispute over the ownership of the rights and uncertainties and the delays that the dispute is likely to cause.

5. DEBTORS

	2004	2003
	£	£
Amounts falling due within one year:		
Sale and leaseback deposits	114,809	119,564
Prepayments and accrued income	214	237
VAT	638	1,332
Other debtors	-	193
	115,661	121,326

The sale and leaseback deposits represent amounts put on deposit and held under guarantees to meet future finance lease payments. The funds are held in escrow accounts with ABN Amro NV and £101,983 (2003: £107,349) is due after more than one year.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Sale and leaseback loans	12,826	12,215
RCG Lywood loan	-	174,339
Accruals and deferred income	1,848	237
	14,674	186,791

The loan from RCG Lywood was transferred during the year to a direct interest in The Doctor Snuggles Animatrix Partnership LLP (see Note 4 above).

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

	2004	2003
	£	£
Obligation under finance lease agreements	101,983	107,349
Debt due after more than one year		
Future commitments under finance leases are as follows:		
	2004	2003
	£	£
Amounts payable between one and five years	12,826	12,215
Amounts payable after more than five years	135,697	149,111
	148,523	161,326
Less interest and finance charges relating to future periods	(46,540)	(53,977)
	101,983	107,349

8. SHARE CAPITAL

	2004 £	2003 £
Authorised 1,000,000 Ordinary Shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Called up, allotted and fully paid 107,000 Ordinary Shares of £1 each	<u>107,000</u>	<u>107,000</u>

9. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Shareholders' funds at 1 st April 2003	107,675	110,100
Profit/(loss) for the year	(87,443)	(2,425)
Shareholders' funds at 31 st March 2004	<u>20,232</u>	<u>107,675</u>