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**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005
FOR
AVALON TELEVISION LIMITED**



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AVALON TELEVISION LIMITED

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FOR THE YEAR ENDED 30 JUNE 2005**

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AVALON TELEVISION LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2005

DIRECTORS:

J M Thoday
R Allen-Turner
J Gregory
G Perkins
S Debonnaire

SECRETARY:

R Allen-Turner

REGISTERED OFFICE:

4A Exmoor Street
London
W10 6BD

REGISTERED NUMBER:

2856604

AUDITORS:

MGI Midgley Snelling
Registered Auditors
Brettenham House
Lancaster Place
London
WC2E 7EW

AVALON TELEVISION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2005

The directors present their report with the financial statements of the company and the group for the year ended 30 June 2005.

PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of the development and production of television and film projects.

REVIEW OF BUSINESS

The results for the year and financial position of the company and the group are as shown in the annexed financial statements.

DIVIDENDS

The total distribution of dividends for the year ended 30 June 2005 will be £389,900.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors during the year under review were:

J M Thoday
R Allen-Turner
L Tucker
J Gregory
G Perkins

The beneficial interests of the directors holding office on 30 June 2005 in the issued share capital of the company were as follows:

| | 30.6.05 | 1.7.04 |
|----------------------------------|---------|--------|
| Ordinary shares £1 shares | | |
| J M Thoday | 50 | 50 |
| R Allen-Turner | 50 | 50 |
| L Tucker | - | - |
| J Gregory | - | - |
| G Perkins | - | - |

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AVALON TELEVISION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2005

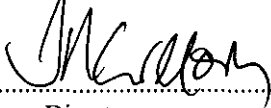
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the group's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

AUDITORS

The auditors, MGI Midgley Snelling, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



.....
J Gregory - Director

Date: 28th April 2006
.....

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
AVALON TELEVISION LIMITED**

We have audited the financial statements of Avalon Television Limited for the year ended 30 June 2005 on pages five to eighteen. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page two the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Report of the Directors 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MGI Midgley Snelling

MGI Midgley Snelling
Registered Auditors
Brettenham House
Lancaster Place
London
WC2E 7EW

Date: 27/4/06

AVALON TELEVISION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005**

| | Notes | 2005 £ | 2004 £ |
|---|-------|-------------------------|-------------------|
| TURNOVER | 2 | 13,899,816 | 15,677,797 |
| Cost of sales | | <u>12,919,657</u> | <u>14,755,227</u> |
| GROSS PROFIT | | 980,159 | 922,570 |
| Administrative expenses | | <u>673,991</u> | <u>780,337</u> |
| OPERATING PROFIT | 4 | 306,168 | 142,233 |
| Interest receivable and similar income | | <u>60,702</u> | <u>18,145</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 366,870 | 160,378 |
| Tax on profit on ordinary activities | 6 | <u>112,465</u> | <u>46,364</u> |
| PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION | | 254,405 | 114,014 |
| Dividends | 8 | <u>389,900</u> | <u>50,992</u> |
| (DEFICIT)/RETAINED PROFIT FOR THE YEAR FOR THE GROUP | | <u>(135,495)</u> | <u>63,022</u> |

CONTINUING OPERATIONS

None of the group's activities were acquired or discontinued during the current year or previous year.

TOTAL RECOGNISED GAINS AND LOSSES

The group has no recognised gains or losses other than the profits for the current year or previous year.

The notes form part of these financial statements

AVALON TELEVISION LIMITED
CONSOLIDATED BALANCE SHEET
30 JUNE 2005

| | Notes | 2005 £ | 2004 £ |
|--|-------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | - | - |
| Investments | 10 | 51 | 51 |
| | | <u>51</u> | <u>51</u> |
| CURRENT ASSETS | | | |
| Stocks | 11 | 378,803 | 69,168 |
| Debtors | 12 | 2,704,005 | 4,453,927 |
| Investments | 13 | 75,000 | 75,000 |
| Cash at bank and in hand | | 1,041,709 | 268,409 |
| | | <u>4,199,517</u> | <u>4,866,504</u> |
| CREDITORS | | | |
| Amounts falling due within one year | 14 | 4,098,778 | 4,630,270 |
| | | <u>4,098,778</u> | <u>4,630,270</u> |
| NET CURRENT ASSETS | | <u>100,739</u> | <u>236,234</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>100,790</u> | <u>236,285</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 100 | 100 |
| Profit and loss account | 16 | 100,690 | 236,185 |
| | | <u>100,790</u> | <u>236,185</u> |
| SHAREHOLDERS' FUNDS | 19 | <u>100,790</u> | <u>236,285</u> |

ON BEHALF OF THE BOARD:



J Gregory - Director

Approved by the Board on

28th April 2006

The notes form part of these financial statements

AVALON TELEVISION LIMITED

COMPANY BALANCE SHEET
30 JUNE 2005

| | Notes | 2005 £ | £ | 2004 £ | £ |
|--|-------|------------------|----------------|------------------|----------------|
| FIXED ASSETS | | | | | |
| Tangible assets | 9 | | - | | - |
| Investments | 10 | | <u>53</u> | | <u>51</u> |
| | | | 53 | | 51 |
| CURRENT ASSETS | | | | | |
| Stocks | 11 | 378,803 | | 69,168 | |
| Debtors | 12 | 2,660,533 | | 4,453,927 | |
| Investments | 13 | 75,000 | | 75,000 | |
| Cash at bank and in hand | | <u>1,028,203</u> | | <u>268,409</u> | |
| | | 4,142,539 | | 4,866,504 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 14 | <u>3,941,637</u> | | <u>4,630,270</u> | |
| NET CURRENT ASSETS | | | | | |
| | | | <u>200,902</u> | | <u>236,234</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | | |
| | | | <u>200,955</u> | | <u>236,285</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 15 | | 100 | | 100 |
| Profit and loss account | 16 | | <u>200,855</u> | | <u>236,185</u> |
| SHAREHOLDERS' FUNDS | | | | | |
| | 19 | | <u>200,955</u> | | <u>236,285</u> |

ON BEHALF OF THE BOARD:



.....
J Gregory - Director

Approved by the Board on

28 April 2006.

The notes form part of these financial statements

AVALON TELEVISION LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

| | Notes | 2005 £ | 2004 £ |
|---|-------|------------------|--------------------|
| Net cash inflow/(outflow) from operating activities | 1 | 764,611 | (2,141,088) |
| Returns on investments and servicing of finance | 2 | 60,702 | 18,145 |
| Taxation | | (52,013) | (108,533) |
| Increase/(Decrease) in cash in the period | | 773,300 | (2,231,476) |
| <hr/> | | | |
| Reconciliation of net cash flow to movement in net funds | 3 | | |
| Increase/(Decrease) in cash in the period | | 773,300 | (2,231,476) |
| Change in net funds resulting from cash flows | | 773,300 | (2,231,476) |
| Movement in net funds in the period | | 773,300 | (2,231,476) |
| Net funds at 1 July | | 268,409 | 2,499,885 |
| Net funds at 30 June | | 1,041,709 | 268,409 |

The notes form part of these financial statements

AVALON TELEVISION LIMITED

**NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005**

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

| | 2005 | 2004 |
|--|-----------------------|---------------------------|
| | £ | £ |
| Operating profit | 306,168 | 142,233 |
| Impairment in fixed asset investment | - | 225,000 |
| Increase in stocks | (309,635) | (10,933) |
| Decrease/(Increase) in debtors | 1,749,922 | (3,857,948) |
| (Decrease)/Increase in creditors | (981,844) | 1,360,560 |
| Net cash inflow/(outflow) from operating activities | <u>764,611</u> | <u>(2,141,088)</u> |

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

| | 2005 | 2004 |
|--|----------------------|----------------------|
| | £ | £ |
| Returns on investments and servicing of finance | | |
| Interest received | 60,702 | 18,145 |
| Net cash inflow for returns on investments and servicing of finance | <u>60,702</u> | <u>18,145</u> |

3. ANALYSIS OF CHANGES IN NET FUNDS

| | At 1/7/04 | Cash flow | At |
|--------------------------|-----------------------|-----------------------|-------------------------|
| | £ | £ | 30/6/05 |
| | | | £ |
| Net cash: | | | |
| Cash at bank and in hand | 268,409 | 773,300 | 1,041,709 |
| | <u>268,409</u> | <u>773,300</u> | <u>1,041,709</u> |
| Total | <u>268,409</u> | <u>773,300</u> | <u>1,041,709</u> |

The notes form part of these financial statements

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The Group accounts incorporate the financial statements of the company and of its subsidiary undertakings, Tinderbox Television Limited and Sketch Productions Limited.

The accounts of Brightwater Productions Limited have not been consolidated with those of the company as the directors consider that the amounts involved are not material and that their inclusion would detract from the clarity of the accounts in respect of the principal activity of the company.

Turnover and revenue recognition

Turnover represents net invoiced sales of services, excluding value added tax.

Turnover is recognised on the basis of the proportion of the production which has been produced and has been delivered (or is substantially complete) at the balance sheet date. If the production is a series of episodes that is partially complete, turnover is accrued on the basis of the costs expended, to the extent that those costs are covered by the production contract or recoverable from third parties.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment - 25% on cost

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Pensions

The group operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

Current Asset Investments

Current asset investments are recorded at the lower cost and net realisable value. Amounts written off current asset investments are charged to the profit and loss account in the year incurred.

Work in progress

Where pre-production costs have been incurred prior to the main production process, these costs are carried as work in progress in the balance sheet to the extent that they are expected to be covered by a production contract or recoverable from third parties.

Advances

The company receives advances to finance specific projects which are treated as current liabilities. The company takes these advances to the credit of the profit and loss account when the project is taken into production or when it is not expected to progress to production within the foreseeable future.

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

2. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below:

| | 2005 £ | 2004 £ |
|--------------------------|-------------------|-------------------|
| United Kingdom | 11,531,347 | 15,677,797 |
| United States of America | 2,368,469 | - |
| | <u>13,899,816</u> | <u>15,677,797</u> |

3. STAFF COSTS

| | 2005 £ | 2004 £ |
|-----------------------|----------------|----------------|
| Wages and salaries | 652,947 | 837,625 |
| Social security costs | 72,904 | 94,394 |
| Other pension costs | 2,535 | 3,388 |
| | <u>728,386</u> | <u>935,407</u> |

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

| | 2005 | 2004 |
|----------------|-----------|-----------|
| Administration | 3 | 3 |
| Production | 17 | 17 |
| | <u>20</u> | <u>20</u> |

4. OPERATING PROFIT

The operating profit is stated after charging:

| | 2005 £ | 2004 £ |
|------------------------|-----------|-----------|
| Auditors' remuneration | 13,375 | 10,625 |
| Directors' emoluments | 70,825 | 63,750 |

5. EXCEPTIONAL ITEMS

During the previous year a provision of £225,000 was made against the company's investment in the theatre production Jerry Springer the Opera.

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

6. TAXATION

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

| | 2005 | 2004 |
|--|-----------------------|---------------|
| | £ | £ |
| Current tax: | | |
| UK corporation tax | 109,452 | 45,808 |
| Adjustment in respect of prior periods | 3,013 | 556 |
| | <u>112,465</u> | <u>46,364</u> |
| Tax on profit on ordinary activities | <u>112,465</u> | <u>46,364</u> |

Factors affecting the tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

| | 2005 | 2004 |
|--|-----------------------|----------------|
| | £ | £ |
| Profit on ordinary activities before tax | <u>366,870</u> | <u>160,378</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004 - 30%) | 110,061 | 48,113 |
| Effects of: | | |
| Capital allowances in excess of depreciation | (657) | (876) |
| Permanent disallowables | 48 | 122 |
| Adjustments to tax charge in respect of prior periods | 3,013 | 556 |
| Marginal Relief | - | (1,551) |
| Current tax charge | <u>112,465</u> | <u>46,364</u> |

7. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £354,570 (2004 - £114,014).

8. DIVIDENDS

| | 2005 | 2004 |
|----------------|-----------------------|---------------|
| | £ | £ |
| Equity shares: | | |
| Interim | <u>389,900</u> | <u>50,992</u> |

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

9. TANGIBLE FIXED ASSETS

Group

**Computer
equipment
£**

COST

At 1 July 2004
and 30 June 2005

55,776

DEPRECIATION

At 1 July 2004
and 30 June 2005

55,776

NET BOOK VALUE

At 30 June 2005

-

At 30 June 2004

-

Company

**Computer
equipment
£**

COST

At 1 July 2004
and 30 June 2005

55,776

DEPRECIATION

At 1 July 2004
and 30 June 2005

55,776

NET BOOK VALUE

At 30 June 2005

-

At 30 June 2004

-

10. FIXED ASSET INVESTMENTS

Group

**Shares in
group
undertakings
£**

COST

At 1 July 2004
and 30 June 2005

51

NET BOOK VALUE

At 30 June 2005

51

At 30 June 2004

51

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

10. FIXED ASSET INVESTMENTS - continued

| Company | Shares in group undertakings £ |
|-----------------------|---|
| COST | |
| At 1 July 2004 | 51 |
| Additions | 2 |
| | <hr/> |
| At 30 June 2005 | 53 |
| | <hr/> |
| NET BOOK VALUE | |
| At 30 June 2005 | 53 |
| | <hr/> |
| At 30 June 2004 | 51 |
| | <hr/> |

During the year the company set up two new 100% subsidiaries; Tinderbox Television Limited and Sketch Productions Limited.

The company's other 'Shares in group undertakings' represents a 51% investment in the ordinary share capital of Brightwater Productions Limited, which develops and produces radio projects. The company was dormant during the year and at 30th June 2005 the aggregate amount of share capital and reserves amounted to a deficit of £5,210.

11. STOCKS

| | Group | | Company | |
|------------------|----------------|---------------|----------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Work-in-progress | 378,803 | 69,168 | 378,803 | 69,168 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Trade debtors | 1,817,160 | 3,986,482 | 1,776,761 | 3,986,482 |
| Amounts owed by group undertakings | - | - | 584 | - |
| Other debtors | 101,699 | 158,916 | 98,042 | 158,916 |
| Prepayments and accrued income | 785,146 | 308,529 | 785,146 | 308,529 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,704,005 | 4,453,927 | 2,660,533 | 4,453,927 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

13. CURRENT ASSET INVESTMENTS

| | Group | | Company | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Investments in Theatre Productions | <u>75,000</u> | <u>75,000</u> | <u>75,000</u> | <u>75,000</u> |
| | <u><u>75,000</u></u> | <u><u>75,000</u></u> | <u><u>75,000</u></u> | <u><u>75,000</u></u> |

The investments in theatre productions are stated after making adequate provisions for investments that may not be repaid in full. Such investments are repaid from the profits of each production as funds become available. When the investments have been repaid in full, investors continue to participate in the profits throughout the life of each production.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Trade creditors | 1,126,509 | 1,531,369 | 1,122,089 | 1,531,369 |
| Amounts owed to group undertakings | - | - | 10,286 | - |
| Tax | 60,452 | - | 60,452 | - |
| Social security and other taxes | 213,458 | 463,608 | 213,458 | 463,608 |
| Other creditors | 648,982 | 753,156 | 538,742 | 753,156 |
| Accruals and deferred income | <u>2,049,377</u> | <u>1,882,137</u> | <u>1,996,610</u> | <u>1,882,137</u> |
| | <u><u>4,098,778</u></u> | <u><u>4,630,270</u></u> | <u><u>3,941,637</u></u> | <u><u>4,630,270</u></u> |

15. CALLED UP SHARE CAPITAL

| | | | | |
|----------------------------------|-----------------|----------------|----------------|----------------|
| Authorised: | | | | |
| Number: | Class: | Nominal value: | 2005 | 2004 |
| | | | £ | £ |
| 100,000 | Ordinary shares | £1 | <u>100,000</u> | <u>100,000</u> |
| Allotted, issued and fully paid: | | | | |
| Number: | Class: | Nominal value: | 2005 | 2004 |
| | | | £ | £ |
| 100 | Ordinary shares | £1 | <u>100</u> | <u>100</u> |

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2005

16. RESERVES

Group

| | Profit and loss account £ |
|----------------------|------------------------------------|
| At 1 July 2004 | 236,185 |
| Deficit for the year | (135,495) |
| At 30 June 2005 | <u>100,690</u> |

Company

| | Profit and loss account £ |
|----------------------|------------------------------------|
| At 1 July 2004 | 236,185 |
| Deficit for the year | (35,330) |
| At 30 June 2005 | <u>200,855</u> |

17. RELATED PARTY DISCLOSURES

The company is controlled by J M Thoday and R Allen-Turner who each hold 50% of the company's issued share capital.

J M Thoday and R Allen-Turner also control the following companies:

Avalon Management Group Limited
Avalon Promotions Limited
Avalon Public Relations Limited
Avalon Motion Pictures Limited

The company had the following transactions during the year and balances at 30 June 2005 with these companies:

| | Sales to | Purchases from | Amounts owed by | Amounts owed to |
|---------------------------------|----------|-------------------|--------------------|--------------------|
| | £ | £ | £ | £ |
| Avalon Promotions Limited | - | 8,654 | - | - |
| Avalon Public Relations Limited | - | 176,099 | - | 173,829 |
| Avalon Management Group Limited | 441,626 | 4,095,933 | 395,626 | 379,831 |
| Avalon Motion Pictures Limited | - | - | 9,627 | - |

18. POST BALANCE SHEET EVENTS

On 4 July 2005 the company purchased the entire issued share capital of Liberty Bell Productions Limited, a privately owned television production company.

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

| | 2005 | 2004 |
|--|------------------|-------------|
| | £ | £ |
| Profit for the financial year | 254,405 | 114,014 |
| Dividends | (389,900) | (50,992) |
| Net (reduction)/addition to shareholders' funds | (135,495) | 63,022 |
| Opening shareholders' funds | 236,285 | 173,263 |
| Closing shareholders' funds | 100,790 | 236,285 |
| Equity interests | 100,790 | 236,285 |

Company

| | 2005 | 2004 |
|--|------------------|-------------|
| | £ | £ |
| Profit for the financial year | 354,570 | 114,014 |
| Dividends | (389,900) | (50,992) |
| Net (reduction)/addition to shareholders' funds | (35,330) | 63,022 |
| Opening shareholders' funds | 236,285 | 173,263 |
| Closing shareholders' funds | 200,955 | 236,285 |
| Equity interests | 200,955 | 236,285 |

AVALON TELEVISION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2005**

20. CASH AT BANK AND IN HAND

| | 2005 | 2004 |
|---|------------------|----------------|
| | £ | £ |
| Amounts held on deposit | 8,487,520 | 8,960,432 |
| Less: associated finance lease liabilities | (8,487,520) | (8,960,432) |
| | <u>-</u> | <u>-</u> |
| Amounts held in programme production trust accounts | 123,020 | (83,655) |
| Other cash at bank and in hand | 889,049 | 352,063 |
| | <u>1,012,069</u> | <u>268,408</u> |

Amounts held on deposit arise as a result of sale and leaseback transactions and comprise monies to provide for the discharge of future leasing liabilities disclosed above.

In the two years ended 30th June 2002 the company entered into several sale and finance leaseback transactions. *It is the opinion of the directors that this type of transaction does not dispose of the risks and rewards of the ownership of the production, and as such the transaction is not recognised as a sale and subsequent leaseback.*

The directors are recognising the transaction's fees, and associated costs over the useful life of the production, which the directors estimate to be less than one year. The directors have deposited the proceeds from the sale in a trust account with a bank. This bank account may only be used to pay off the lease payments.

21. DEBENTURE CHARGE

The company's bankers have a guarantee and debenture from Avalon Television Limited and Liberty Bell Productions Limited as security against all indebtedness now or in the future due to the bank.