

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009
FOR
AVALON TELEVISION LIMITED**

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FOR THE YEAR ENDED 30 JUNE 2009**

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AVALON TELEVISION LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2009

DIRECTORS:

J Thoday
R Allen-Turner
J Gregory
G Perkins
R Bennett
R Aslett

SECRETARY:

R Allen-Turner

REGISTERED OFFICE:

4A Exmoor Street
London
W10 6BD

REGISTERED NUMBER:

2856604

AUDITORS:

MacIntyre Hudson LLP
Statutory Auditors
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2009**

The directors present their report with the financial statements of the company for the year ended 30 June 2009

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS

The Directors of Avalon Television Ltd are pleased to report on another successful year as part of the Avalon Entertainment Ltd and Nolava Holdings Ltd groups. The Company has been able to maintain and develop a strong range of production, and although profit is down this year, the Directors consider this a healthy performance in a tough environment.

Avalon Television's (and the group's) success is based on a strategy of developing and maximising the value of great brands. We do this by working with some of the best creative talent in the entertainment business, nurturing and developing new ideas and properties, delivering a strong television production slate, retaining rights in our programming, and by operating a highly focused distribution strategy in the secondary market. The year under review saw significant progress in all respects.

This strategy requires a significant level of reinvestment of profits back into the creative process. The Directors feel confident that the financial risks thereof are managed appropriately. The high level of investment made over recent years is expected to lead to improved performance during the year to 30 June 2010 and beyond.

As at 30 June 2009, the Company had term debt of approximately £2.1m. During the year (in August 2008) £1.1m was drawn down in order to satisfy the final payments due under the Sale & Purchase Agreement for Liberty Bell Productions Ltd dated August 2005. The Group also utilises from time to time an overdraft facility, primarily for working capital purposes. Despite this, net debt as at 30 June 2009 was zero. The Directors consider that the risks associated with these facilities are low considering the current and projected performance of the Company and the remainder of the Group.

Subsequent to the year-end on 3 July 2009, the group acquired 100% of the share capital of two television production companies: Flame Television Productions Ltd and Topical Television Ltd. These companies will each augment the Group's breadth of product and we expect them to contribute immediately to Group profits.

We are proud to continue working with the talent that we do, and are extremely grateful to them and all of our staff for their hard work.

DIVIDENDS

No dividends will be distributed for the year ended 30 June 2009.

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 shown below have held office during the whole of the period from 1 July 2008 to the date of this report.

J Thoday
R Allen-Turner
J Gregory
G Perkins

Other changes in directors holding office are as follows:

R Bennett - appointed 9 February 2009
R Aslett - appointed 9 February 2009

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2009**

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations of £2,500 (2008 £Nil)

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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.

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 418 of the Companies Act 2006) of which the company'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 company's auditors are aware of that information.

AUDITORS

MacIntyre Hudson LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

ON BEHALF OF THE BOARD



J Gregory - Director

Date

23/12/09

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

We have audited the financial statements of Avalon Television Limited for the year ended 30 June 2009 on pages five to fifteen. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 a Report of the Auditors 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 explained more fully in the Statement of Directors' Responsibilities set out on page three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

John Coverdale

John Coverdale BSc ACA (Senior Statutory Auditor)
for and on behalf of MacIntyre Hudson LLP
Statutory Auditors
New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

Date *23/12/09*

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	2009 £	2008 £
TURNOVER		15,928,091	19,876,590
Cost of sales		(14,213,433)	(17,244,149)
GROSS PROFIT		1,714,658	2,632,441
Administrative expenses		(879,417)	(797,611)
OPERATING PROFIT	3	835,241	1,834,830
Income from shares in group undertakings		-	250,000
Interest receivable and similar income		-	229
		835,241	2,085,059
Interest payable and similar charges	4	(150,220)	(331,731)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		685,021	1,753,328
Tax on profit on ordinary activities	5	(124,260)	(345,620)
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		560,761	1,407,708

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

The company 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

BALANCE SHEET
30 JUNE 2009

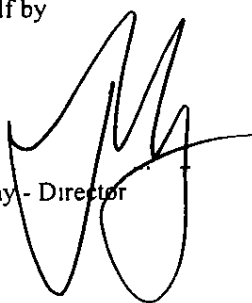
	Notes	2009 £	2008 £
FIXED ASSETS			
Investments	7	4,856,513	4,856,513
CURRENT ASSETS			
Stocks	8	331,112	139,599
Debtors	9	5,063,306	7,064,594
Cash at bank and in hand		3,216,049	308,284
		<u>8,610,467</u>	<u>7,512,477</u>
CREDITORS			
Amounts falling due within one year	10	(9,944,290)	(9,240,072)
NET CURRENT LIABILITIES		<u>(1,333,823)</u>	<u>(1,727,595)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,522,690	3,128,918
CREDITORS			
Amounts falling due after more than one year	11	(1,252,490)	(1,419,479)
NET ASSETS		<u>2,270,200</u>	<u>1,709,439</u>
CAPITAL AND RESERVES			
Called up share capital	13	100	100
Profit and loss account	14	2,270,100	1,709,339
SHAREHOLDERS' FUNDS	18	<u>2,270,200</u>	<u>1,709,439</u>

The financial statements were approved by the Board of Directors on its behalf by

23/12/09

and were signed on

J Thoday - Director



The notes form part of these financial statements

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	2009 £	2008 £
Net cash inflow from operating activities	1	4,257,270	2,309,350
Returns on investments and servicing of finance	2	(150,220)	(68,774)
Taxation		(386,785)	(378,174)
Equity dividends paid		-	(99,115)
		<u>3,720,265</u>	<u>1,763,287</u>
Financing	2	(812,500)	(515,558)
Increase in cash in the period		<u>2,907,765</u>	<u>1,247,729</u>
Reconciliation of net cash flow to movement in net debt	3		
Increase in cash in the period		2,907,765	1,247,729
Cash outflow from decrease in debt		<u>812,500</u>	<u>515,558</u>
Change in net debt resulting from cash flows		<u>3,720,265</u>	<u>1,763,287</u>
Movement in net debt in the period		3,720,265	1,763,287
Net debt at 1 July		<u>(2,569,206)</u>	<u>(4,332,493)</u>
Net funds/(debt) at 30 June		<u>1,151,059</u>	<u>(2,569,206)</u>

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

1 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £	2008 £
Operating profit	835,241	1,834,830
(Increase)/Decrease in stocks	(191,513)	41,712
Decrease/(Increase) in debtors	2,001,288	(197,461)
Increase in creditors	1,612,254	630,269
Net cash inflow from operating activities	4,257,270	2,309,350

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

	2009 £	2008 £
Returns on investments and servicing of finance		
Interest received	-	229
Interest paid	(150,220)	(319,003)
Dividends received	-	250,000
Net cash outflow for returns on investments and servicing of finance	(150,220)	(68,774)
Financing		
Deferred consideration paid in the year	(1,058,219)	(1,708,470)
New bank loans	245,719	1,192,912
Net cash outflow from financing	(812,500)	(515,558)

3 ANALYSIS OF CHANGES IN NET DEBT

	At 1/7/08 £	Cash flow £	At 30/6/09 £
Net cash			
Cash at bank and in hand	308,284	2,907,765	3,216,049
	<u>308,284</u>	<u>2,907,765</u>	<u>3,216,049</u>
Debt			
Debts falling due within one year	(1,458,011)	645,511	(812,500)
Debts falling due after one year	(1,419,479)	166,989	(1,252,490)
	<u>(2,877,490)</u>	<u>812,500</u>	<u>(2,064,990)</u>
Total	(2,569,206)	3,720,265	1,151,059

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1 ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared in accordance with applicable accounting standards

Accounting convention

The financial statements have been prepared under the historical cost convention

Preparation of consolidated financial statements

The financial statements contain information about Avalon Television Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its parent, Avalon Entertainment Limited, a company incorporated in England and Wales.

Turnover and profit recognition

Turnover is recognised on the basis of the proportion of the production which has been produced at the balance sheet date, provided principal photography has commenced, net of value added tax. Profit is recognised in accordance with the production schedule, provided that profits can be reasonably foreseen.

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.

Deferred tax

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate.

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.

Investments

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

2 STAFF COSTS

	2009	2008
	£	£
Wages and salaries	805,063	617,412
Social security costs	92,879	69,251
Other pension costs	8,549	2,509
	<u>906,491</u>	<u>689,172</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009**

2 STAFF COSTS - continued

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

	2009	2008
Administration	7	5
Production	16	21
	<u>23</u>	<u>26</u>

3 OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	2009	2008
	£	£
Auditors' remuneration	7,600	8,930
Auditors' remuneration for non audit work	17,380	4,590
Foreign exchange differences	(48,221)	940
	<u>-</u>	<u>-</u>
Directors' remuneration	<u>-</u>	<u>-</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2009	2008
	£	£
Bank interest	13,618	206,437
Loan interest	136,602	118,012
Other interest	-	7,282
	<u>150,220</u>	<u>331,731</u>

5 TAXATION

Analysis of the tax charge

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

	2009	2008
	£	£
Current tax		
UK corporation tax	124,260	327,144
Adjustment in respect of previous periods	-	(55,093)
Total current tax	<u>124,260</u>	<u>272,051</u>
Deferred tax		
Origination and reversal of timing differences	-	73,569
Tax on profit on ordinary activities	<u>124,260</u>	<u>345,620</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009

5 **TAXATION - continued**

Factors affecting the tax charge

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

	2009 £	2008 £
Profit on ordinary activities before tax	<u>685,021</u>	<u>1,753,328</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 - 29.503%)	191,806	517,284
Effects of		
Capital allowances in excess of depreciation	(158)	(259)
Permanent disallowables	3,130	1,047
Group Relief received without payment	(70,518)	(44,820)
Timing differences relating to accrued loan interest	-	(72,351)
Dividends received from subsidiary	-	(73,757)
Overprovision of corporation tax in previous years	-	(55,093)
Current tax charge	<u>124,260</u>	<u>272,051</u>

6 **DIVIDENDS**

	2009 £	2008 £
Ordinary shares shares of £1 each		
Interim	<u>-</u>	<u>99,115</u>

7 **FIXED ASSET INVESTMENTS**

	Shares in group undertakings £
COST	
At 1 July 2008	
and 30 June 2009	<u>4,856,513</u>
NET BOOK VALUE	
At 30 June 2009	<u>4,856,513</u>
At 30 June 2008	<u>4,856,513</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009

7 FIXED ASSET INVESTMENTS - continued

The company's investments at the balance sheet date in the share capital of companies include the following

Liberty Bell Productions Limited

Nature of business Television programme production

	%		
Class of shares	holding		
Ordinary	100 00		
		2009	31/12/07
		£	£
Aggregate capital and reserves		623,573	435,528
Profit for the year		<u>188,045</u>	<u>231,807</u>

Tinderbox Television Limited

Nature of business Television programme production

	%		
Class of shares	holding		
Ordinary	100 00		
		2009	2008
		£	£
Aggregate capital and reserves		(1,024,466)	(791,288)
Loss for the year		<u>(233,178)</u>	<u>(151,918)</u>

Sketch Productions Limited

Nature of business Television programme production

	%		
Class of shares	holding		
Ordinary	100 00		
		2009	2008
		£	£
Aggregate capital and reserves		<u>1</u>	<u>1</u>

The company was dormant throughout the previous year

Brightwater Productions Limited

Nature of business Radio programme production

	%		
Class of shares	holding		
Ordinary	51 00		
		2009	2008
		£	£
Aggregate capital and reserves		<u>(5,210)</u>	<u>(5,210)</u>

The company was dormant throughout the current and previous years

8 STOCKS

	2009	2008
	£	£
Work-in-progress	<u>331,112</u>	<u>139,599</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009

9 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009	2008
	£	£
Trade debtors	2,434,017	1,866,501
Amounts owed by group undertakings	1,204,095	1,447,563
Other debtors	44,127	120,481
Prepayments and accrued income	1,381,067	3,630,049
	<u>5,063,306</u>	<u>7,064,594</u>

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009	2008
	£	£
Bank loans and overdrafts (see note 12)	812,500	399,792
Other loans (see note 12)	-	1,058,219
Trade creditors	1,795,277	127,150
Corporation tax	(133,381)	129,144
Social security and other taxes	457,513	27,654
Other creditors	124,576	505,876
Accruals and deferred income	6,887,805	6,992,237
	<u>9,944,290</u>	<u>9,240,072</u>

A cross guarantee and debenture exists between Avalon Management Group Limited, Avalon Promotions Limited, Avalon Public Relations Limited, Funnyfriend Limited, Liberty Bell Productions Limited and the company to secure bank overdraft and loan facilities available to these companies and their parents Avalon Entertainment Limited and Nolava Holdings Limited

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009	2008
	£	£
Bank loans (see note 12)	<u>1,252,490</u>	<u>1,419,479</u>

12 LOANS

An analysis of the maturity of loans is given below

	2009	2008
	£	£
Amounts falling due within one year or on demand		
Bank loans	812,500	399,792
Deferred consideration	-	1,058,219
	<u>812,500</u>	<u>1,458,011</u>
Amounts falling due between one and two years		
Bank loans	<u>1,252,490</u>	<u>1,419,479</u>

50% of the loans have an interest rate fixed at 5.15% until 26 February 2010. The remainder of the loans are accruing interest at 1.75% above Barclays Bank's base rate.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009

13 CALLED UP SHARE CAPITAL

Allotted, Number	issued and fully paid Class	Nominal value £1	2009 £ <u>100</u>	2008 £ <u>100</u>
100	Ordinary shares	£1		

14 RESERVES

	Profit and loss account £
At 1 July 2008	1,709,339
Profit for the year	560,761
At 30 June 2009	<u>2,270,100</u>

15 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption available under FRS 8 not to disclose intra group transactions on the grounds that 100% of the voting rights are controlled within the group and consolidated financial statements containing Avalon Television Limited are publicly available

16 POST BALANCE SHEET EVENTS

On 3 July 2009, Avalon Television Limited acquired the entire issued share capital of 99 £1 ordinary shares of Topical Television Limited and 1,000 A ordinary shares of 10p each and 500 B ordinary shares of 10p each of Flame Television Production Limited

17 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Nolava Holdings Limited. Copies of consolidated financial statements of the company can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14, 3UZ

The controlling party of Nolava Holdings Limited is JM Thoday

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009 £ <u>560,761</u>	2008 £ <u>1,407,708</u>
Profit for the financial year	560,761	1,407,708
Dividends	-	(99,115)
Net addition to shareholders' funds	<u>560,761</u>	<u>1,308,593</u>
Opening shareholders' funds	1,709,439	400,846
Closing shareholders' funds	<u>2,270,200</u>	<u>1,709,439</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 JUNE 2009

19 CASH AT BANK AND IN HAND

	2009 £	2008 £
Amounts held on deposit	6,130,534	6,795,630
Less associated finance lease liabilities	(6,130,534)	(6,795,630)
	<u>-</u>	<u>-</u>
Amounts held in programme production trust accounts	582,782	(88,532)
Other cash at bank and in hand	2,633,267	447,528
	<u>3,216,049</u>	<u>358,996</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 have recognised 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.