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**MEDAL ENTERTAINMENT &**
**MEDIA PLC**

Report and Financial Statements

Year ended 31 March 2006

MEDAL ENTERTAINMENT & MEDIA PLC

**Annual report and financial statements for the year ended 31 March 2006**

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**MEDAL ENTERTAINMENT & MEDIA PLC**

**Chairman's Statement**

In the twelve month period ended 31 March 2006 we have continued to make good progress in each of our operating divisions. In our DVD publishing business, DDHE, we acquired the rights to distribute the DVD of the 2005 Ashes cricket series. Unprecedented public interest in the 2005 Test series led to very strong sales.

The summer months of the year are traditionally quieter for our television studio business, Fountain, as broadcasters generally shift to sport and repeats. However, as we have announced on 3 July 2006, we are in advanced discussion with regard to a sale of this part of our business which will allow us, when completed, to focus on our core areas, distribution and production, and for the further development of the Group.

In our production division we made progress in developing formats. We were commissioned in July by BBC2 to produce a new panel show *Petrolheads*, which aired in the Spring of 2006. This division delivered 18 commissions in its first full year of operations.

**Financial Review**

Group turnover for the period increased during the year by 64% to £24.5m (2005: £15.0m). Video and DVD and international distribution delivered particularly strong growth with divisional gross profit increasing by 39% to £10m (2005: £7.2m), partly fuelled by strong sales of the Ashes DVD. In addition, the production side of the business delivered impressive first year sales figures of £1.9m (2005: £0.2m).

The strong sales delivered a Group gross profit of £12.47m, up 33% on prior year (2005: £9.37m). Profit before tax and exceptional items (compensation for loss of office and a loss from fire at a third party plant) increased by 22% to £0.94m (2005: £0.77m), and the profit before tax was £0.42m (2005: £0.62m). The tax charge for the year was £0.2m. The Company's basic and diluted EPS is 1.57p (2005: 2.45p).

At 31 March 2006, total funding provided by bank loans, net of bank fees stood at £3.6m (2005: £3.33m), £3.1m of which is repayable after more than one year (2005: £3.0 m) and leased asset funding stood at £0.04m (2005: £0.15m). Trading operations generated £1.067m (2005: £0.852m absorbed) in cash in the period, of which £2.591m (2005: £2.09m) was used to purchase tangible and intangible fixed assets. The Company had a net bank overdraft of £4.1m (2005: £2.14m overdraft) at the year end.

**Operating Review**

During the period, the Group's operations were split into three divisions. These were audio visual rights exploitation (Rights), TV production and studio facilities (Facilities).

**Rights**

DD Home Entertainment ("DDHE") licenses, produces and publishes DVDs and videos, specialising in factual programmes, classic television and feature films. DDHE markets its products directly to the consumer via catalogues, the internet and direct advertising as well as via high street retailers and specialist outlets.

Following England's success in the 2005 Ashes Series, the huge public excitement around the series drove substantial sales of The Ashes DVD "*The Greatest Series*", which was DDHE's highest selling DVD ever. DDHE has been successful in securing the rights to the next Ashes series which will be released in early 2007.

During the year we continued to invest in catalogue including a licensing and distribution deal with Fremantle Media which gives DDHE rights to a substantial library of classic television programming, including the Thames TV catalogue which contains programmes including Benny Hill, Minder and The World at War, together with Fremantle's ongoing production.

Also in the year we announced a five year licensing deal with Granada Ventures. This entitles DDHE to manufacture and sell via direct marketing the majority of existing and future programmes owned or controlled by ITV.

With the retail environment still remaining difficult across the industry, DDHE is well placed to benefit from the changing market place since its catalogue, such as classic entertainment and specialist programming, are less sensitive to changes in retail environment and prices and there are few competitors in these areas. In addition the DDHE website is being upgraded to take advantage of the growth in internet based sales and direct marketing, thereby further reducing the impact of the challenges faced by the high street.

**TV Production**

Scarlet TV Limited ("Scarlet TV") is the Group's low risk entry strategy into TV production. During the period this division has made excellent progress in its first full year of operations. Up against competition from large independent producers, Scarlet TV was awarded programme development grants from the BBC and North West Vision. This is encouraging for such a young production company and underlines the potential for the division.

In January 2006 we announced the consolidation of the Group's independent production subsidiaries under Scarlet TV's banner, in order to drive new commissions and future growth. The streamlining exercise brings together under one roof Scarlet TV's existing popular factual operation and MEM tv, which specialises in light entertainment and formats.

The division delivered 18 commissions during the year for BBC2, ITV2, Sky, Discovery and AETN. Its productions have included *50 Greatest Screen Kisses*, *Sex, Lies and Politics* and *The UK's Real Desperate Housewives*. Scarlet TV was also commissioned to produce a one off film *Crumpet* which was screened by BBC2 during Christmas week. In addition, Scarlet TV's co-production, *Petrolheads* also for BBC2, commenced shooting in January 2006, was aired in February and March and was well received.

ScarletTV is based in Manchester and therefore benefits from the commitment to regional independent production. In addition, the recent announcements from the BBC and Channel 4 with regard to the retention of new media rights by broadcasters, following Ofcom's review into the sector, leaves this division well placed to secure additional revenues from its output following sales to these broadcasters.

**Facilities**

MEM's facilities division operates Fountain Television Limited ("Fountain"), the UK's largest independent television studio facility providing services to independent producers. During the year the studio secured repeat bookings for *The X-Factor* and *Xtra Factor* (Talkback Thames/ Syco), and *Test the Nation* (Talent TV). The studio was also used to host shows for So TV, Celador and the BBC.

As announced on 3 July 2006, the Directors of MEM are in advanced discussions with regard to the sale of Fountain. The Directors are confident that this sale will conclude in the near future. The Directors believe that the TV studio is non-core to the Group's activities and that more attractive growth opportunities are available elsewhere. A further announcement will be made as appropriate.

**Dividend**

The Company intends to continue to invest in the Group's business and, therefore, the Directors are not recommending the payment of a dividend.

**Prospects**

We have made a satisfactory start to the year with current trading being in line with expectations.

With the rights to the next Ashes series in winter 2006/07 secured, new catalogue investment and the website upgrade in process, we are confident about the prospects for DDHE in the current year.

Scarlet TV continues to make good progress for a nascent business, with a number of commissions currently in production and others anticipated shortly.

The Board views the current year with confidence.

Brook Land

**Brook Land**
**Chairman**

**14 July 2006 &**
**30 August 2006**

MEM plc continues to operate in the three main areas of TV Production, Studio Facilities and Audio Visual Rights Publishing and Distribution.

**Rights**

DD Home Entertainment (DD) enjoyed another year of growth fuelled by its larger catalogue of titles, increased customer database and the rights to the successful Ashes Series of 2005.

The Board believes that DD is well positioned within the home entertainment market as a publisher of Classic TV and Film, together with Factual Programming. This type of product offering rarely requires speculative investment in potential hit titles thereby reducing risk. Also DD's sales profile, being largely to its own database of customers and other direct marketing businesses, insulates the company from the pressures of the high street.

During the year DD continued to publish and distribute on behalf of ITV, National Geographic, the BBC and several other major producers and broadcasters. These relationships are working well and have resulted in DD having an extensive catalogue of rights with long term sales potential. Recently DD secured exclusive direct marketing rights to the extensive Fremantle library. This includes the Thames TV catalogue of classic television programmes such as Minder and Benny Hill. DD also has the exclusive worldwide rights (excluding Australia and New Zealand) to the 2006/7 Ashes series.The company prioritises customer service and has made good progress during the year in this regard. The new in house call centre implemented last autumn has worked well with call answering efficiencies substantially ahead of those achieved when the function was outsourced.

DD has also stepped up its e-commerce activity with a new web site, affiliates programme, clip download facilities and search engine optimisation. The results of these actions are now beginning to come through and represent a major growth driver going forward. Another major objective for the company is to supplement the sale of packaged DVDs with other internet based delivery means such as streaming and downloading where rights allow. DD is a unique company within its market and as it grows is often seen as the publisher of choice for other library owners looking for wider distribution of their products than the high street is now capable of offering. New programme publishing opportunities are therefore becoming more numerous.

**TV Studio Facilities**

Fountain Television is the largest fully equipped TV Studio in the UK. As in prior years the return of major hit shows such as the X Factor (Talkback Thames/Syco) and Test the Nation (Talent TV) provided a strong sales base for the business. The Board believes it is a testament to the customer experience that such major shows have returned year after year.

The period also saw the first use of the studio by a group company when Scarlet TVs Petrolheads series for BBC2 was recorded there in early 2006.

The developing market for High Definition TV is an area of potential for the business and the Board are evaluating a suitable time to consider the investment and entry into this market.

## TV Production

During the year all of the Group's production brands were consolidated under the name Scarlet TV. Launched in November 2004 Scarlet TV has had an encouraging start having to date produced over 20 programmes / series for Broadcasters including BBC2, ITV2, Sky One, E4, Five, Discovery Channel, History Channel. Programmes delivered include "Crumpet A Very British Sex Symbol " and" Petrolheads" for BBC2, "Cleanaholics" for Discovery Channel, "50 Greatest Screen Kisses" for Sky, and "Private Lives" for History Channel. The Board is encouraged that Scarlet, which operates from Manchester and London, has qualified for regional development grants from North West Vision and the BBC demonstrating their confidence that the company has the ability to develop and subsequently produce attractive and viable TV properties.

As the library of delivered programmes increases the Board is confident of shareholder value being created as the new terms of trade for independent producers apply.

## Current Trading

Trading since the beginning of the current financial year has been satisfactory. Whilst DDHE has traded below budget, sales, which are in line with management expectations, have been encouraging when measured against industry competition and a summer where hot weather has affected the demand for home entertainment products generally. With a strong product line up and an active marketing programme for the busier second half management view prospects going forward with confidence. Fountain has been particularly pleasing with sales well ahead of last year aided by bookings that have included Ant & Dec's Poker Face (Talkback Thames/Gallowgate) and Celebrity X Factor (Talkback Thames/Syco). Scarlet has also been active with a number of new commissions received from Sky, BBC2 and ITV2 all scheduled for delivery this autumn.

Overall the Board expects the Group to achieve its objectives for the year as a whole. As in prior years, because of the established seasonality within our markets, the first half will show a trading loss. Sales for the second half of the financial year, which incorporates Christmas, are expected to be strong.

## Strategy

There are a number of key challenges that the Group faces.

Within DD it is important that internet based delivery of programming direct to the consumer is treated as a major growth opportunity. Whilst the Board is confident of the long term future of the packaged DVD market, that market is showing clear signs of maturity. DD is well positioned as a direct marketer to successfully enter the IP TV marketplace and deliver its programmes to a worldwide market via the web. Also, as paper based mail order gives ground to e-commerce it is important that DD has systems that can accommodate this change and is competitive in terms of pricing and service.

It is also a priority for Scarlet TV to produce branded returning series. This will significantly improve earnings and enhance shareholder value. The growing Scarlet library of produced programmes and formats has value in international and ancillary markets and a key company objective is to significantly step up distribution and sales activity for Scarlet Programmes in these areas.

**Stephen Ayres**
**Chief Executive Officer**
**30 August 2006**

### Financial review

The financial review provides a commentary on the performance of Medal Entertainment & Media plc for the year ended 31st March 2006. The company acquired Classroom Multimedia Ltd on 16 April 2005, its trading being absorbed into the group.

### Turnover

The turnover for the year was £24.48 million (2005: £14.95 million). This represents sales from home entertainment distribution from DD Home Entertainment Ltd, the provision of studio facilities by Fountain Television Ltd, commissions from the international distribution of programming by Strawberry Entertainment Ltd and broadcast commissions from Scarlet Television Ltd.

### Operating Profit

The group operating profit for the year was £0.96 million (2005: £1.09 million) and profit before taxation for the year was £0.42 million (2005: £0.62 million). The Group's basic and diluted earnings per share for the year were 1.57 pence (2005: 2.45 pence).

### Taxation

The taxation charge for the year was £0.20 million (2005: £0.26 million) which comprises a £0.11million corporation tax charge in respect of the current period and an underprovision in the prior period of £0.03 million. The balance is in respect of a net deferred tax charge of £0.07 million.

### Dividend

The Company wishes to use available cash to continue to grow the business and, therefore, the Directors are not recommending the payment of a dividend.

### Capital Structure and Debt

During the year the company's authorised share capital remained unchanged, its issued share capital was increased by 133,333 shares in respect of consideration for the purchase of Classroom Multimedia Limited.

The bank borrowing comprises a mixture of short and long term facilities with floating interest rates as agreed with the Group's bankers. Lease funding is at a fixed interest rate. There were no interest rate instruments in place at any time in the year.

**Capital Structure and Debt (continued)**

During the year the Group repaid £1.11 million (2005: £3.59 million) of debt and received new advances of £1.40 million. At 31st March 2006 total funding provided by long term bank loans stood at £3.62 million (2005: £3.32 million) of which £3.10 million (2005: £2.99 million) is repayable after more than one year and leased asset funding of £0.04 million (2005: £0.15 million).

It is not the Group's policy to hedge foreign currency exposures. To the extent that assets and liabilities give rise to gains or losses on translation at the rates ruling at the balance sheet date, these are taken to the profit and loss account.

**Cash flow**

Trading operations generated £1.07million (2005: absorbed £0.85 million) in cash in the year. Of this £2.59 million (2005: £2.09 million) was used to purchase fixed and intangible assets. The company had a net overdraft of £4.11 million (2005: £2.14 million in funds) at the year end.

**Mariana Spater**
**Chief Financial Officer**
**30 August 2006**

**Information on the Group's Board of Directors**

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The Board comprises two executive Directors and four non-executive Directors.

**Brook Land, Non-executive Chairman (aged 57)**
Mr Land is non-executive chairman of RPS Group plc and Senior Independent Director of Signet Group plc. He is also a consultant to Nabarro Nathanson having retired as a partner in 1996. Mr Land is also a director of a number of private companies involved in theatrical licensing and investment, property investment and public relations.

**Stephen Ayres, Chief Executive (aged 54)**
Mr Ayres has more than 30 years experience in the creation and exploitation of intellectual property rights. He has worked for CBS Records UK Group Limited (now Sony Music Entertainment UK Group Limited) and MGM Home Entertainment (Europe) Limited. In 1985, he was involved in the start-up of VCI UK Limited (initially focused on retail sales of videos), the management buyout of its parent company in 1989 and its subsequent listing on the London Stock Exchange in 1994 and sale to Kingfisher Plc in 1998.

**Mariana Spater, Chief Financial Officer and Company Secretary (aged 50)**
Ms Spater is a chartered accountant and joined Fountain Television in 1993 as finance director, and was appointed to the board of MEM plc in 2003. She was made Executive Director of Fountain Television in 2005. From 1986 until 1993, she was finance director and a founder shareholder of KMS Advertising plc, and previously was with McDonald's Corporation and St Martins Property Corporation.

**Brian Harris, Non-executive Director (aged 66)**
Mr Harris, who started his career at the BBC, has held a number of high profile positions in both television and production companies. A former managing director of, and group director of business affairs at, Yorkshire Television Holdings Limited, he was also managing director of ACI International Limited and executive vice president of ACI, its US parent company. More recently, he was president and CEO of Pearson North America and chairman and chief executive of Pearson Television International Limited.

**Richard Murray, Non-executive Director (aged 56)**
Mr Murray founded, and is non-executive director of Avesco plc, which floated on the Official List of the London Stock Exchange in 1988 and Chairman of InvestinMedia plc, (20.74% shareholder in the Group), after the recent demerger of Avesco. He is a non-executive director of Welsh Industrial Investment Trust plc. Mr Murray's main business is running the Premier League football club Charlton Athletic where, since 1995, he has been the major shareholder and Executive Chairman of Charlton Athletic plc.

**Christopher Stainforth, Non-executive Director (aged 52)**
Mr Stainforth is a partner of Saphire Finance LLP, a specialist merchant banking boutique and a non-executive director of several public and private companies including Expomedia Group plc and Chairman of Babble & Niche Group plc. Mr Stainforth has spent his career in the City having worked with KPMG, Schroders, Phillips & Drew (subsequently UBS Phillips & Drew), Guinness Mahon Henderson Crosthwaite and Ermgassen & Co Limited, and was Chief Executive of Durlacher Corporation plc. He has over 20 years' experience in advising businesses ranging from FTSE 100 companies to start-up companies on all aspects of corporate finance and fundraising.

## Corporate Information

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**Registered Office**
Lacon House
84 Theobald's Road
London WC1X 8RW

**Company Number**
04174013

**Financial Advisors & Nominated Advisor**
Nabarro Wells & Co Limited
Saddlers House
Gutter Lane
London EC2V 6HS

**Stockbrokers**
Daniel Stewart & Co.
Becket House
36 Old Jewry
London
EC2R 8DD

**Registrars**
Capita Registrars Limited
Northern House
Woodside Park
Fenay Bridge
Huddersfield HD8 0LA

**Principal Bankers**
HSBC Bank PLC
70 Pall Mall
London SW1 5EZ

**Auditors**
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

**Solicitors**
Nabarro Nathanson
Lacon House
Theobald's Road
London WC1X 8RW

## Corporate Governance

The Company is listed on the Alternative Investment Market ("AIM"). Therefore there is no requirement to comply with the Combined Code ("the code") as published by the Financial Reporting Council. However, the directors recognise the importance of the code and accordingly although not required to, the Directors wish to provide disclosures of the Group's Corporate Governance policies and procedures as set out below.

### The Board

The Board consists of a non-executive Chairman, Brook Land, three other non-executive directors and two executive directors of whom Stephen Ayres is Chief Executive. The differing roles of Chairman and Chief Executive are acknowledged by the Board.

Given its size the Group does not currently have, nor considers necessary, a Senior Independent non – executive Director.

Biographies of Board members appear on page 8 of this report. These indicate both their independence in respect of the non-executive Directors and, in respect of the whole Board, the high levels and range of business experience which are essential to manage the Group effectively.

During the reporting period the Board met eight times. To assist the Board to function effectively and the directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of the Board meetings, this consists of a comprehensive set of papers, including latest available financial information with comparisons to budget, regular business progress reports and discussion documents regarding specific matters, and any other information as required by the Board from time to time is provided by management.

At the Group's expense any Board member may have access to independent professional advice with regard to any Group matter.

The overall Board responsibilities are outlined in the Corporate Strategy and Responsibility, set out on pages 11 and 12.

The key functions of the Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's businesses to meet the requirements of its shareholders.

Any director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that at least one third of directors retire by rotation each year and seek re-election at the Annual General Meeting.

Full details of the directors' remuneration are set out in note 6 to the financial statements and a statement of the Group's remuneration policies are set out on pages 14 and 15. The Chief Executive attends meetings of the Remuneration Committee to discuss the performance of the other executive directors and make proposals as necessary, but is not present when his own position is being discussed.

Each executive director abstains from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on his or her own remuneration package. The details of each executive Director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

### Communication

The Company places importance on communication with its shareholders.

This is carried out by regular dialogue with individual and institutional shareholders, as well as announcements and general presentations as appropriate. This assists in ensuring that members of the Board, in particular the non-executive Directors, develop a balanced understanding of the issues of the major investors of the Company. All shareholders are given notice of the Annual General Meeting where they have the opportunity to put questions to the Board and members of its committees, and additional copies of the financial statements are available to all shareholders on request and to other parties who have an interest in the Group's performance.

### Audit and internal control

The responsibilities of the directors in connection with the financial statements are explained on page 20 and the statement of the directors on going concern appears below.

*Financial reporting:* During the year the financial reporting procedures and authority limits were reviewed and approved by the Board. A detailed formal budgeting process for the Group's main businesses is used to produce an annual Group budget which is approved by the Board. Results for the Group's businesses are then reported monthly against this budget to the Board.

*Internal financial controls*: Senior executives are accountable to the Executive Directors on the operation of those elements of the system for which they are responsible. Furthermore, the Chief Executive Officer reports to the Board concerning the Group's operations as a whole.

*Capital investment:* The Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and, where businesses are acquired, due diligence requirements.

*Audit Committee*: The Audit Committee which consists of C Stainforth and the Chairman is responsible for the relationship with the Group's auditors, the in-depth review of the Group's financial reports, monitoring internal controls and any other reports that the Group may circulate. The Committee meets with the auditors a minimum of twice a year, without the Executive Directors being present and should it be necessary, would convene at other times. During the report period the Audit committee met twice.

Given its size, the Group does not currently have, nor considers there is need for, an internal audit function.

### Corporate Strategy and Responsibility

MEM plc is a quoted company whose shares trade on AIM. It specialises in owning, licensing, producing and marketing entertainment products, rights and facilities. The Company seeks to develop via both organic growth and acquisition in order to maximise benefits to shareholders, staff, partners, suppliers, customers and other stakeholders.

To achieve this, the Directors believe that quality drives the operation at every stage in its business cycle. This commitment ensures that rights owners, suppliers, customers, staff and stakeholders are all entitled to expect the highest standards of service and treatment.

## Corporate Strategy and Responsibility (continued)

All aspects of the business should be conducted in a spirit of openness, honesty and co-operation without in any way compromising quality, ethics, health, safety or the welfare of any entity or party whether directly or indirectly associated with the Group.

The Company believes that this is not only good business practice, but also enables the organisation to be considered as a valued partner by suppliers and customers alike, thereby maximising the opportunities to the benefit of shareholders and staff.

## Strategy for 2006/07

The strategy for the financial year 2006/07 is:

- the further development of existing relationships with leading brand owners by:
  - detailed research of their catalogues to ascertain the prime titles for the appropriate market
  - commitment of marketing effort to obtain the best results for the partners and MEM group, in particular the development of internet marketing opportunities;
- the identification of new partners for new ventures to develop markets and increase sales;
- to produce or co-produce programming for Broadcasters with the aim of creating products and formats to produce future value for all parts of the Group;
- to explore a range of alternative delivery systems for the Group's entertainment products; and
- explore and develop growth opportunities for the Group whether organically or by acquisition.

## Main Board Responsibilities

The Board believes that its primary responsibility is to provide a framework within which the above key strategies can be implemented and the Corporate Strategy achieved while ensuring that the interests of all stakeholders are balanced, appropriate and fulfilled.

The Board will achieve this by:

- regular scrutiny of the existing operations to ensure that all systems, business relationships and staffing levels are appropriate to meet the aims of the Corporate Strategy;
- providing and managing the financial resources to achieve the aims of the Corporate Strategy;
- ensuring regular clear lines of communication at all levels of the Group and with other interested parties;
- continually seeking, discussing and exploring new business opportunities to provide growth within the Group thereby improving shareholder returns;
- maintaining good investor, broker and analyst relationships by a process of honest, open dialogue and compliance with Corporate Governance good practice in line with the Combined Code at a level appropriate to the business' size at any given time;

**Main Board Responsibilities (continued)**

- keeping other funders (eg banks) fully informed by regular, high quality information flow and discussions as appropriate;

- rewarding key individuals in accordance with industry best practice to incentivise and retain them for the benefit of the Group and its stakeholders;

- keeping under review the composition of the Board and the suitability of external advisors (brokers, auditors, lawyers etc) for the size and stage of development of the Group; and

- monitoring the performance of the group to ensure the adequacy of funding and facilities to allow it to meet its stated aims and sustain its strategy, taking action as necessary whether by raising further funding, releasing value from within the Group or amending the business model as appropriate.

**Going Concern Basis**

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

**By order of the Board**

**Mariana Spater**
**Secretary**
**30 August 2006**

**Remuneration Report**

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The Remuneration Committee comprises two non–executive Directors, the Chairman and Richard Murray, and meets as appropriate under the Chairmanship of Richard Murray. During the reporting period the Remuneration Committee met once.

The Company has applied the following principles relating to Directors' remuneration as described below.

Details of each individual Director's remuneration and share options are included in note 6 to the financial statements and those of Directors' shareholdings are set out in the report of the directors.

This report of the Remuneration Committee will be put forward for approval by the shareholders at the Annual General Meeting.

**Report of the Board on Remuneration of Directors**

**Remuneration Policy**

The emphasis is upon attracting, retaining and motivating high calibre individuals as executive Directors, whose remuneration is linked to the overall performance of the Group and therefore to the interests of the shareholders.

The Committee has utilised the following principles in deriving remuneration packages for the executive Directors:

- to pay a market competitive salary having regard to the Directors' experience and the need to attract and retain the highest quality of management;
- to link individuals to the long term success of the Group by the opportunity of earning significant incentive payments if sustained real earnings per share growth and shareholder return appreciation are achieved;
- to provide post retirement benefits through contributions to personal pension schemes; and
- to provide a range of benefits such as medical expenses insurance where appropriate.

The value of benefits in kind do not form part of pensionable salary and these packages are reviewed each year to ensure that they are focused on the Group's business objectives and the creation of shareholder value.

In addition, the Committee also considers share option awards to other employees.

a) Directors' Base Salary
Salaries will be reviewed annually by the Remuneration Committee. When appropriate, the Committee will commission surveys for the purpose of monitoring overall remuneration levels against other peer group companies in the media sector.

b) Bonus Scheme
In 2005/2006 the Group had a discretionary bonus scheme under which no bonuses were paid to staff.

c) Share Option Schemes
The Group's Share Option Schemes are used as a means of motivating and retaining employees at the discretion of the members of the Remuneration Committee. At 31 March 2006, options to subscribe for up to 1,197,850 Ordinary shares (2005: 1,211,000 Ordinary shares) were held by 39 people (2005: 40 people).

**Policy on remuneration of executive and non-executive directors and senior executives**

*Service Agreements*
Each executive Director has an existing employment contract with a notice period of twelve months. All contracts provide for remuneration to be paid in respect of any unexpired notice period on termination of employment by the Company.

*External Directorships*
The executive Directors are permitted to take external non-executive directorships, to provide them with wider experience for their own and the Company's benefit, subject to the approval of the Board and provided that the time commitment does not impact on the executive Director's duties. The Director concerned retains the fees received from these duties.

*Non-executive Directors*
Non-executive Directors are appointed for the period between each Annual General Meeting at which they are required to retire by rotation. Their contracts can be terminated without compensation should they not be re-appointed at the Annual General Meeting when due for reappointment by rotation and in certain other pre-determined situations. Non-executive Directors do not take part in discussions concerning their own remuneration.

The fees payable to non-executive Directors are set by the Board as a whole and in the year ended 31 March 2006 were £12,500 per annum except the Chairman who was paid £25,000. As of 1 April 2006 the fees payable are £20,000 and £32,500 per annum to the non-executive Directors and Chairman, respectively.

*Directors' pension policy*
The executive directors are provided with money purchase pension schemes.

**On behalf of the Board**

**Richard Murray**
**Chairman, Remuneration Committee**
**30 August 2006**

## Directors' Report

The directors present their annual report together with the audited financial statements for the year ended 31 March 2006.

### Results and dividends

The results of the Group for the year are set out on page 22 and show a retained profit for the year of £0.24m (2005: £0.37m). The Directors have not recommended that a dividend be paid (2005: £nil) in order to conserve cash flow for future growth.

### Business review and future developments

The principal activity of MEM plc is the identification, acquisition and holding of companies within the entertainment industry. The principal trading companies within the Group are DD Home Entertainment Ltd, which publishes and distributes DVDs and videos by mail order and retail distribution, Fountain Television Ltd which owns and operates the Fountain Television Studios in Wembley, Strawberry Entertainment Ltd, the Group's international distributor and Scarlet Television Ltd heading up the Group's TV production businesses.

During the year MEM plc acquired Classroom Multimedia Limited, a Company engaged in rights owning and TV distribution.

### Risks and uncertainties

The Board regularly considers the risks and uncertainties facing the Group companies and believes that processes are in place to manage and minimise their impact. These risks are reviewed and assessed by the Board to ensure that adequate measures are being taken to reduce the Group's exposure. The risks and uncertainties are particular to each Group company.

- **Retail Environment**

There have been significant changes in the retail environment during recent years, in particular declining retail sales as customers source product elsewhere, with retailers themselves holding a more limited range of titles combined with declining margins due to price discounting.

The Board believes that DD Home Entertainment, for which this is a potential risk, is well placed to take advantage of these changes. The majority of their sales are direct to the customer via printed catalogues and the internet, and it can stock a wide product range which the consumer cannot source in the high street. In addition the catalogue is general interest in its nature rather than hit titles where keen competition has resulted in price cutting.

As outlined in the Strategy for 2006/07 in the Corporate Governance section of these Report and Accounts, the further development of internet marketing and alternative delivery systems for the Group's products is a key target for the coming year. This will again help to minimise the Group's exposure to the difficulties of the high street.

- **Physical Risks**

Both DD Home Entertainment and Fountain Television are at risk from the physical destruction of or damage to plant and buildings.

In the case of DD Home Entertainment, apart from the usual insurances, third parties have been identified who could ensure the fulfilment of orders with a minimum of interruption, whilst Fountain's studios are covered by comprehensive insurance.

- **Operational Risks**

DD Home Entertainment's business is dependent on the smooth operation of its relationship with its customers which in turn relies on the appropriate systems being in place. The Board considers that investment made since its acquisition in 2003 has improved the systems and operations to minimise this risk. Other improvements include bringing the customer call centre in house and an ongoing training programme to ensure that, in the event of an error, it is handled efficiently and to customers' satisfaction.

- **Management Talent**

The Group's business success is based to a large degree on the abilities of the management and staff of each Company. In the event that a key member of management does not remain with the Group there could be an adverse effect on business. However the Board believes that by looking at staffing and securing succession, and combining this with appropriate competitive remuneration levels and incentives in the form of Share Options and bonus arrangements, it is reducing the exposure to this issue.

**Key Performance Indicators**

In addition to those financial measures disclosed in the Chairman's Statement and Chief Financial Officer's Review the Board considers a number of other non-financial criteria when evaluating the Group Companies' performance. These are reviewed regularly by local management and the Board and appropriate action taken where necessary. The major key performance indicators are as follows:

- DD Home Entertainment : staff turnover; database size; customer service levels; call centre response rates; new product flow and stock levels.

- Fountain Television : staff turnover and studio utilisation rates.

- Scarlet Television : the number of commissions secured or in discussion.

- Strawberry Entertainment : the number of distribution agreements signed and in discussion.

**Employment of disabled persons**

The Group acknowledges the importance of the role that all employees play in its success through their skills, initiative and commitment, and seeks to foster this through communication, training and development.

It is the policy of the Group to give full and fair consideration to applications for employment from disabled people. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees, and should staff become disabled whilst employed the Group would seek to train and assist them wherever possible to enable them to continue employment within the Group. The Group is also committed to providing equal opportunities regardless of age, gender, religion or ethnic origin.

**Health and safety**

The Group has established a procedure for health inspections at each location. This programme is supplemented by risk assessments carried out both internally and by external consultants. There is regular communication with employees on safety matters. There is an ongoing safety training programme for employees.

All safety incidents are fully investigated and where appropriate employees are made aware of the circumstances relating thereto in order to minimise the chances of any recurrence.

**Employee involvement**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through both formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## Substantial shareholdings

As at the date of this report the Company has been notified of the following interests in 3% or more of the issued share capital of the Company:

| | Number of shares | % |
|---|---|---|
| HSBC Global Custody Nominee (UK) | 3,434,460 | 22.75 |
| Investinmedia Holdings Limited | 3,131,943 | 20.74 |
| Chase Nominees Limited | 2,370,402 | 15.70 |
| Sinjul Nominees Limited | 1,256,267 | 8.32 |
| Rank Leisure Holdings Limited | 857,143 | 5.68 |

## Policy and practice on the payment of creditors

Whilst no formal code is followed the Company and its subsidiaries agree payment terms with suppliers when opening an account, to ensure each supplier is aware of and complies with these terms. It is the Company's policy to abide by the agreed payment terms provided that the presented documentation is complete and accurate.

At the balance sheet date, trade creditors in the Company were £0.15m (2005: £0.08m), as set out in note 17, representing 183 days (2005: 101 days) of purchases.

## Directors

The Directors of the Company who served throughout the year, and their interests in the ordinary share capital of the parent company and options to purchase such shares under the 2002 Share Option Plan, were as follows (see note 6 for share option details):

| | *Options* | | Ordinary shares 10p *each* | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Stephen Ayres | **450,000** | 450,000 | **425,500** | 312,000 |
| Mariana Spater | **200,000** | 200,000 | **13,371** | 13,371 |
| Brook Land | - | - | **85,714** | 85,714 |
| Brian Harris | - | - | **35,714** | 35,714 |
| Christopher Stainforth | - | - | **85,726** | 85,726 |
| Richard Murray | - | - | **128,571** | 128,571 |

No director has any interest in the shares of any subsidiary company.

At the date of this report the directors' shareholdings were as stated above.

**Charitable and political donations**

The Group made no charitable (2005: £Nil) or political (2005: £Nil) contributions during the year.

**Fixed assets**

The movements in tangible fixed assets are set out in note 12 to the financial statements.

**Related Party Transactions**

On 16 April 2005 the Group acquired 100% of the ordinary share capital in Classroom Multimedia Limited, for aggregate consideration of £422,000. The shares were acquired from the Trustees of The Maddocks Jones settlement, a family trust which is connected to Richard Jones, a director of DD Home Entertainment Limited, a wholly owned subsidiary of the group.

**Statement of disclosure of information to auditors**

In accordance with Section 234A of the Companies Act 1985, the directors report that so far as they are aware all relevant audit information has been disclosed to the company's auditors. The directors have taken all the steps that they ought to have taken as directors in order to establish that the company's auditors are aware of that information.

**Board committees**

The principal committees of the Board, which meet under terms of reference set by the Board are:

*Audit Committee*

The Audit Committee comprises two non-executive Directors, the Chairman and Christopher Stainforth, and meets at least twice a year under the chairmanship of Christopher Stainforth. Executive Directors attend as required. The Committee review the Group's interim and final results and Annual Report and review the appointment and terms of reference of the external auditors, their management letter and consider any other matters raised by the auditors.

*Remuneration Committee*

The Remuneration Committee is chaired by Richard Murray, its other member being the Chairman. It meets as required to determine the Company's policy on Executive Directors' remuneration, to review that remuneration and to consider grants under the Company's share option schemes.

The remuneration report is set out on pages 14 and 15.

*Nomination Committee*

A Nomination Committee has not been established, as given its size the Board fulfils the function of the Nomination committee.

## Auditors

A resolution proposing the reappointment of PricewaterhouseCoopers LLP will be considered at the next annual general meeting.

## Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

United Kingdom 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 as at the end of the financial period 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 statement; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing 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 the system of internal control, 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**By order of the Board**

**Mariana Spater**
**Secretary**
**30 August 2006**

**MEDAL ENTERTAINMENT & MEDIA PLC**

**Independent auditors' report to the Members of Medal Entertainment & Media Plc**

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We have audited the group and parent company financial statements (the "financial statements") of Medal Entertainment & Media plc for the year ended 31 March 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, Chief Executive's Review, Chief Financial Officer's Review, Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP*
*Chartered Accountants and Registered Auditors*
*London*
30 August 2006

MEDAL ENTERTAINMENT & MEDIA PLC

## Consolidated Profit and Loss Account for the year ended 31 March 2006

| | Note | | Year ended 31 March 2006 £000 | | Year ended 31 March 2005 £000 |
|---|---|---|---|---|---|
| **Turnover** | 1,2 | | | | |
| -Continuing operations | | | 24,476 | | 14,950 |
| -Acquisitions | | | 1 | | - |
| | | | 24,477 | | 14,950 |
| Cost of sales | | | (12,007) | | (5,577) |
| **Gross profit** | | | 12,470 | | 9,373 |
| Net operating expenses | | | | | |
| -Distribution costs | | | (3,590) | | (2,655) |
| -Administrative expenses | | | (7,995) | | (5,633) |
| **Operating profit** | | | | | |
| -Continuing operations | | | 961 | | 1,085 |
| -Acquisitions | | | (76) | | - |
| Group operating profit before exceptional items | | | 1,410 | | 1,085 |
| Exceptional items | 4 | | (525) | | - |
| **Group operating profit** | | | 885 | | 1,085 |
| Gain on disposal of fixed assets | | | 6 | | 76 |
| Interest receivable | | | 4 | | 7 |
| Amounts written off investments | 13 | | - | | (66) |
| Interest payable and similar charges | 7 | (479) | | (318) | |
| Bank facility fee written off | 7 | - | | (161) | |
| | | | (479) | | (479) |
| **Profit on ordinary activities before taxation** | | | 416 | | 623 |
| Taxation on profit from ordinary activities | 8 | | (204) | | (263) |
| **Profit on ordinary activities after taxation** | | | 212 | | 360 |
| Equity minority interest | | | 25 | | 6 |
| **Profit for the financial year** | 20 | | 237 | | 366 |
| **Earnings per share** | | | | | |
| Basic | 9 | | 1.57p | | 2.45p |
| Diluted | 9 | | 1.57p | | 2.45p |

The Group has no recognised gains and losses other than as disclosed above and hence no separate statement of total recognised gains and losses is presented.

There is no difference between the results as disclosed in the profit and loss account and the results on an historical cost basis.

**MEDAL ENTERTAINMENT & MEDIA PLC**

**Consolidated Balance Sheet at 31 March 2006**

| | Note | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Fixed assets** | | | | | |
| Intangible assets | 11 | | **4,642** | | 2,823 |
| Tangible assets | 12 | | **7,191** | | 7,166 |
| Investments | 13 | | **101** | | 114 |
| | | | **11,934** | | 10,103 |
| **Current assets** | | | | | |
| Stocks | 14 | **1,742** | | 1,136 | |
| Investment in programmes | 15 | **217** | | 390 | |
| Debtors | | | | | |
| - due within one year | 16(a) | **6,554** | | 7,093 | |
| - due after more than one year | 16(b) | **536** | | 991 | |
| Cash at bank and in hand | | **794** | | 1,618 | |
| | | **9,843** | | 11,228 | |
| **Creditors: amounts falling due within one year** | 17(a) | **(7,658)** | | (7,643) | |
| **Net current assets** | | | **2,185** | | 3,585 |
| **Total assets less current liabilities** | | | **14,119** | | 13,688 |
| **Creditors: amounts falling due after more than one year** | 17(b) | | **(3,095)** | | (3,026) |
| **Net assets** | | | **11,024** | | 10,662 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | | **1,509** | | 1,496 |
| Share premium account | 20 | | **7,501** | | 7,501 |
| Merger reserve | 20 | | **137** | | - |
| Profit and loss account | 20 | | **1,915** | | 1,678 |
| **Total shareholders' funds** | 21 | | **11,062** | | 10,675 |
| **Minority interests** | | | **(38)** | | (13) |
| **Capital Employed** | | | **11,024** | | 10,662 |

The financial statements on pages 22 to 50 were approved by the Board of Directors on 30 August 2006 and were signed on ~~their~~ behalf by:

**Stephen Ayres**
**Director**

**MEDAL ENTERTAINMENT & MEDIA PLC**

**Company Balance Sheet at 31 March 2006**

| | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 12 | **61** | 68 |
| Investments | 13 | **2,064** | 1,655 |
| | | **2,125** | 1,723 |
| **Current assets** | | | |
| Debtors | | | |
| -due within one year | 16(a) | **285** | 121 |
| -due after more than one year | 16(b) | **10,839** | 8,338 |
| Cash at bank and in hand | | **-** | 1,131 |
| | | **11,124** | 9,590 |
| **Creditors: amounts falling due within one year** | 17(a) | **(2,280)** | (487) |
| **Net current assets** | | **8,844** | 9,103 |
| **Total assets less current liabilities** | | **10,969** | 10,826 |
| **Creditors: amounts falling due after more than one year** | 17(b) | **(3,297)** | (2,985) |
| **Net assets** | | **7,672** | 7,841 |
| **Capital and reserves** | | | |
| Called up share capital | 19 | **1,509** | 1,496 |
| Share premium account | 20 | **7,638** | 7,501 |
| Profit and loss account | 20 | **(1,475)** | (1,156) |
| **Capital Employed** | 21 | **7,672** | 7,841 |

The financial statements on pages 22 to 50 were approved by the Board of Directors on 30 August 2006 and were signed on their behalf by:

**Stephen Ayres**
**Director**

MEDAL ENTERTAINMENT & MEDIA PLC

**Consolidated Cash Flow Statement for the year ended 31 March 2006**

| | Note | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net cash inflow/(outflow) from operating activities** | 27 | | **1,066** | | (852) |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | **4** | | 7 | |
| Interest paid | | **(400)** | | (324) | |
| Bank loan arrangement fees paid | | **(52)** | | (126) | |
| Interest element of finance lease and hire purchase rental payments | | **(10)** | | (9) | |
| **Net cash outflow from returns on investment and servicing of finance** | | | **(458)** | | (452) |
| **Taxation** | | | | | |
| UK corporation tax paid | | | **(50)** | | (118) |
| **Capital expenditure and financial investment** | | | | | |
| Purchase of intangible fixed assets | 11 | **(2,177)** | | (1,586) | |
| Purchase of tangible fixed assets | | **(414)** | | (502) | |
| Proceeds from disposal of tangible fixed assets | | **19** | | 100 | |
| Proceeds from disposal of investments | | **22** | | - | |
| **Net cash outflow from capital expenditure and financial investment** | | | **(2,550)** | | (1,988) |
| **Acquisitions** | | | | | |
| Purchase of subsidiary undertakings | 22 | **(233)** | | (38) | |
| Cash acquired with subsidiary undertaking | | **83** | | 5 | |
| **Net cash outflow from acquisitions** | | | **(150)** | | (33) |
| **Net cash outflow before use of liquid resources and financing (carried forward)** | | | **(2,142)** | | (3,443) |

**Consolidated Cash Flow Statement for the year ended 31 March 2006 *continued***

| | Note | 2005 | | 2006 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net cash outflow before use of liquid resources and financing (brought forward)** | | | **(2,142)** | | (3,443) |
| **Financing** | | | | | |
| Net VAT recovery on flotation costs | | - | | 22 | |
| Capital element of lease purchase rental payments | | **(109)** | | (123) | |
| Bank loans received | | **1,397** | | 3,500 | |
| Bank loans repaid | | **(1,112)** | | (3,588) | |
| **Net cash inflow/(outflow) from financing** | | | **176** | | (189) |
| **Decrease in cash in the year** | 29 | | **(1,966)** | | (3,632) |

## 1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. A summary of the Group's principal accounting policies, which have been applied consistently in the current year and preceding year are set out below.

*Change of accounting policies*

FRS 21 "Events after the balance sheet date", FRS 22 "Earnings per share", the presentation part of FRS 25 "Financial Instruments: Disclosure and presentation and FRS 28 "Corresponding amounts" all apply for the first time in respect of the Group's 2006 year end. None of these standards have had an impact on either the current or previous financial years.

The principal accounting policies are:

*Basis of consolidation*

The consolidated financial statements incorporate the results of Medal Entertainment & Media plc and all of its subsidiary undertakings drawn up to 31 March each year using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

*Goodwill*

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition; and
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Provision is made for any impairment.

Fair value accounting adjustments are made in respect of acquisitions. In the year of acquisition, some adjustments are made using provisional estimates, based on information available at the time the financial statements are prepared, and amendments are sometimes necessary in the following accounting period, with a corresponding adjustment to goodwill, when the information necessary to determine these estimates is available.

Professional fees arising in respect of the acquisition of a subsidiary undertaking are capitalised as part of goodwill and amortised through the profit and loss account over a period consistent with the treatment of the underlying goodwill arising on that acquisition.

*Film rights*

Film rights purchased by the company or developed for the company are valued at the cost of acquisition or production respectively. These costs are capitalised and amortised over their useful economic lives which is considered to be a maximum of 5 years from the date of effective completion.

Film costs capitalised prior to the effective date of completion have been disclosed within intangible assets rather than work in progress in order to reflect the nature of the balance.

## 1 Accounting policies (continued)

*Other intangible assets*

Other intangible assets purchased by the company or developed for the company are valued at the cost. These costs are capitalised and amortised over their useful economic lives which is considered to be a maximum of 5 years from the date of acquisition.

*Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except freehold land, on a straight line basis over their useful economic lives. The principal annual rates used for this purpose are:

| | | |
|---|---|---|
| Freehold land | - | Not depreciated |
| Freehold buildings | - | Over 50 years |
| Fixtures and fittings | - | 3 – 10 years |
| Plant and machinery | - | 5 – 15 years |
| Computer equipment | - | 3 years |
| Motor vehicles | - | 3 – 4 years |

*Royalties*

Amounts paid in advance in respect of royalties which are recoupable against future sales made by the company are recorded (within other debtors) on the balance sheet at cost and are charged to the profit and loss account in line with the terms of the individual agreements.

*Investment in Programmes*

Programme development costs and the costs of programme production are treated as a current asset and held at the lower of cost and net realisable value. These costs are then amortised over the period the programme is reasonably expected to generate revenue.

The amortisation rate applied reflects the pattern of income expected from the sale of each programme and other related sales and is applied on a programme by programme basis. The current amortisation period is up to 2 years.

*Investments*

Investments held as fixed assets are stated at cost less any provision for impairment in value.

*Turnover*

In respect of the supply of DVD and video products by mail order and direct to retail and wholesale outlets, sales are recognised at the point at which goods are despatched and recorded net of sales returns. At the studio business, turnover in respect of the supply of facilities is recognised over the duration of a series on a programme by programme basis and for the production businesses television and programme income is recognised when the programme is substantially complete. In all respects amounts receivable for goods and services provided in the normal course of business are shown net of trade discounts, VAT and other sales related taxes.

*Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes all amounts incurred in obtaining the stock and bringing it to its current location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

## 1 Accounting policies (continued)

*Foreign currency*

Foreign currency transactions of individual companies are translated at the rates ruling at the date of the transactions. Foreign currency monetary assets and liabilities are retranslated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

*Loan arrangement fees*

Costs relating to the issue of bank loans and facilities are amortised over the estimated life of the loan and charged to the profit and loss account as part of the interest expense. These bank loans are disclosed net of unamortised loan issue costs.

*Leased assets*

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

*Deferred taxation*

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

*Pension costs*

All employees are eligible to join the group's personal defined contribution pension schemes. The assets of the schemes are held independently of the company by insurance companies. Contributions to these schemes are charged to the profit and loss account in the period in which they become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

*Related party transactions*

The Group has taken advantage of the exemption under FRS8 – "Related Party Disclosure" not to disclose transactions between Group companies.

## 2 Segmental information

Television Studios represents the provision of the Fountain Television Studios in Wembley to programme producers, and Video and DVD Rights are the publication and sale of DVDs and videos by mail order and retail. Television production relates to the creation and sale of television programmes to broadcasters and International distribution relates to the overseas sale of television programming. All turnover originated in the UK.

| **Class of business** | **Television Studios** | | **Video and DVD rights** | | **Television Production** | | **International Distribution** | | **Other *** | | **Group** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | 2005 £000 |
| **Turnover** | **2,976** | 3,221 | **19,358** | 11,366 | **1,933** | 157 | **210** | 206 | **-** | - | **24,477** | 14,950 |
| **Gross profit** | **1,845** | 2,152 | **9,744** | 6,993 | **671** | 22 | **210** | 206 | **-** | - | **12,470** | 9,373 |
| **Operating profit/(loss)** | **(411)** | (122) | **1,528** | 1,266 | **(215)** | (229) | **(90)** | 45 | **73** | 125 | **885** | 1,085 |
| (Loss)/profit on disposal of fixed assets | **(3)** | 76 | **-** | - | **-** | - | **-** | - | **9** | - | **6** | 76 |
| Amounts written off investments | **-** | - | **-** | - | **-** | - | **-** | - | **-** | (66) | **-** | (66) |
| Finance charges (net) | **(11)** | (18) | **(7)** | (15) | **2** | - | **-** | - | **(459)** | (278) | **(475)** | (311) |
| Bank fee written off | **-** | - | **-** | - | **-** | - | **-** | - | **-** | (161) | **-** | (161) |
| **Profit/(loss) on ordinary activities before taxation** | **(425)** | (64) | **1,521** | 1,251 | **(213)** | (229) | **(90)** | 45 | **(377)** | (380) | **416** | 623 |
| **Net assets/(liabilities)** | **1,654** | 2,195 | **3,963** | 2,325 | **(417)** | (229) | **(122)** | (34) | **5,946** | 6,405 | **11,024** | 10,662 |

*Relates to Group company costs and net assets not allocated to business segments.

## 3 Operating profit

| | 2006 £000 | 2005 £000 |
|---|---|---|
| This is arrived at after charging: | | |
| Depreciation – owned assets | **303** | 234 |
| Depreciation – hire purchase and finance leased assets | **64** | 52 |
| Amortisation of goodwill | **49** | 32 |
| Amortisation of film rights | **626** | 302 |
| Amortisation of patents & licences | **20** | - |
| Program costs written off | **253** | - |
| Operating lease rentals – plant and machinery | **85** | 81 |
| Operating lease rentals - land and buildings | **219** | 205 |
| Auditors' remuneration for audit services | | |
| - group | **83** | 77 |
| - company | **43** | 34 |
| Auditors' remuneration for taxation services | **10** | 10 |

In addition to the above, fees paid to other advisors for non-audit services amounted to Nil (2005: £6,000).

## 4 Exceptional items

| The following exceptional items have been charged during the period: | 2006 £000 | 2005 £000 |
|---|---|---|
| Within cost of sales: | | |
| Net loss on warehouse fire* | **257** | - |
| Within administrative expenses: | | |
| Staff termination payments** | **268** | - |
| | **525** | - |

The tax effect of the exceptional items in the year ended 31 March 2006 is a credit of £158,000.

* The net loss on warehouse arose out of a fire at the Group's principal manufacturer of DVD and VHS disks. It is made up of a gross loss of £507,000 less insurance receipt due of £250,000.

**The staff termination payments relate to the termination costs paid to former employees of the Group, who left during the year.

## 5 Employees

The average monthly number of employees of the group during the year, including executive directors, was as follows:

| | 2006 Number | 2005 Number |
|---|---|---|
| Administration | **84** | 58 |
| Operations | **52** | 54 |
| | **136** | 112 |

| Staff costs for all employees, including executive directors, consist of: | £000 | £000 |
|---|---|---|
| Wages and salaries | **4,162** | 3,387 |
| Social security costs | **438** | 363 |
| Pension costs | **206** | 125 |
| | **4,806** | 3,875 |

## 6 Directors

The emoluments of the individual directors for the year, were as follows:

| | Basic Salary and fees | Bonuses | Benefits[1] in kind | Total | Total | Pension[2] Contributions | | Total Emoluments | |
|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2006 | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Stephen Ayres | 189 | - | 7 | 196 | 194 | 13 | 11 | **209** | 205 |
| Brook Land | 25 | - | - | 25 | 25 | - | - | **25** | 25 |
| Brian Harris | 13 | - | - | 13 | 13 | - | - | **13** | 13 |
| Christopher Stainforth | 13 | - | - | 13 | 13 | - | - | **13** | 13 |
| Richard Murray | 13 | - | - | 13 | 13 | - | - | **13** | 13 |
| Mariana Spater | 110 | - | - | 110 | 130 | 10 | 10 | **120** | 140 |
| | 363 | - | 7 | 370 | 388 | 23 | 21 | **393** | 409 |

1 Medical and life assurance
2 All contributions are to the Group's Personal Pension Scheme

## 6 Directors *continued*

The share options of the directors under the company's 2002 Share Option Plan are set out below:

| | Scheme Type | 31 March 2005 Number | Granted Number | Exercised Number | 31 March 2006 Number | Exercise Price | Date from which Exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|
| Stephen Ayres | Unapproved | 300,000 | - | - | 300,000 | £0.74 | 29/11/2005 | 29/11/2012 |
| | Unapproved | 150,000 | - | - | 150,000 | £0.865 | 20/07/2007 | 20/07/2014 |
| | Approved | 36,200 | - | - | 36,200 | £0.74 | 29/11/2005 | 29/11/2012 |
| Mariana Spater | Approved | 4,198 | - | - | 4,198 | £0.765 | 24/06/2006 | 24/06/2013 |
| | Unapproved | 84,602 | - | - | 84,602 | £0.765 | 24/06/2006 | 24/06/2013 |
| | Unapproved | 75,000 | - | - | 75,000 | £0.865 | 20/07/2007 | 20/07/2014 |

The share options granted to Stephen Ayres relate to the Company's 2002 unapproved share option scheme. Mariana Spater was granted options in both the Company's 2002 approved and unapproved share option scheme.

In order for the approved and unapproved options to be exercisable, the growth in the Company's normalised earnings per share, over a three year period must exceed the Retail Price Index over the same period plus 6%.

The market price of the shares at 31 March 2006 was £0.50 and the range during the financial year was £0.495 to £1.145.

## 7 Interest payable and similar charges

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | **407** | 304 |
| Amortisation of bank loan arrangement fees | **62** | 4 |
| Interest on finance leases and hire purchase contracts | **10** | 9 |
| Other interest | **-** | 1 |
| | **479** | 318 |

## 8 Taxation on profit from ordinary activities

| | 2006 £000 | 2005 £000 |
|---|---|---|
| UK corporation tax in respect of current year | **109** | 63 |
| Adjustments in respect of prior periods | **27** | (43) |
| | **136** | 20 |
| Deferred tax (note 18) | | |
| Timing differences, origination and reversal | **68** | 183 |
| Adjustments in respect of prior periods | **-** | 60 |
| | **68** | 243 |
| Tax on profit on ordinary activities | **204** | 263 |

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Group profit on ordinary activities before tax** | **416** | 623 |
| Tax on group profit on ordinary activities at standard UK corporation Tax rate of 30% (2005– 30%) | **(129)** | (187) |
| Effects of: | | |
| Expenses not deductible for tax purposes | **(61)** | (39) |
| Capital allowances in excess of depreciation | **68** | 153 |
| Other timing differences | **13** | - |
| Utilisation of tax losses | **-** | 10 |
| Adjustment to tax charge in respect of prior periods | **(27)** | 43 |
| **Group current tax charge for year** | **(136)** | (20) |

## 9 Earnings per share

Basic earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue was 15,094,810 (2005: 14,964,034) and the earnings, being profit after tax, were £237,000 (2005: £366,000).

The diluted earnings per share is the same as the basic earnings per share for both years as the impact does not have a dilutive effect.

## 10 Profit for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The parent company's loss after taxation is £319,000 (2005: £370,000).

## 11 Intangible assets

| **Group** | **Purchased Goodwill £000** | **Film Rights £000** | **Patents & Licences £000** | **Total £000** |
|---|---|---|---|---|
| *Cost* | | | | |
| At 1 April 2005 | 686 | 4,636 | - | 5,322 |
| Additions | 295 | 2,177 | - | 2,472 |
| Acquisitions | - | | 113 | 113 |
| **At 31 March 2006** | **981** | **6,813** | **113** | **7,907** |
| *Amortisation* | | | | |
| At 1 April 2005 | 100 | 2,399 | - | 2,499 |
| Charge for year | 49 | 626 | 20 | 695 |
| Acquisitions | - | - | 71 | 71 |
| **At 31 March 2006** | **149** | **3,025** | **91** | **3,265** |
| *Net book amount* | | | | |
| **At 31 March 2006** | **832** | **3,788** | **22** | **4,642** |
| At 31 March 2005 | 586 | 2,237 | - | 2,823 |

## 11 Intangible assets (continued)

Goodwill of £295,000 arose on the acquisition of Classroom Multimedia Limited on 16 April 2005. Further details are shown in Note 22 and 26.

The Directors estimate that the useful economic life of goodwill to be 10 years in respect of this acquisition and 20 years for acquisitions in prior years.

## 12 Tangible assets

| (a) Group | Freehold land and buildings £000 | Fixtures and fittings £000 | Plant and Machinery £000 | Computer equipment £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|---|---|
| *Cost* | | | | | | |
| At 1 April 2005 | 5,891 | 245 | 5,803 | 476 | 94 | 12,509 |
| Additions | 56 | 94 | 99 | 165 | - | 414 |
| Disposals | - | (57) | - | (127) | (26) | (210) |
| **At 31 March 2006** | **5,947** | **282** | **5,902** | **514** | **68** | **12,713** |
| *Depreciation* | | | | | | |
| At 1 April 2005 | 759 | 106 | 4,138 | 272 | 68 | 5,343 |
| Charge for year | 101 | 56 | 75 | 131 | 4 | 367 |
| Disposals | - | (57) | - | (127) | (4) | (188) |
| **At 31 March 2006** | **860** | **105** | **4,213** | **276** | **68** | **5,522** |
| *Net book amount* | | | | | | |
| **At 31 March 2006** | **5,087** | **177** | **1,689** | **238** | **-** | **7,191** |
| At 31 March 2005 | 5,132 | 139 | 1,664 | 205 | 26 | 7,166 |

The net book amount of tangible fixed assets for the group includes an amount of £206,000 (2005: £296,000) in respect of assets held under hire purchase contracts. The related depreciation charge for the year was £64,000 (2005: £52,000). Cumulative depreciation for these assets was £188,000 (2004: £124,000).

## 12 Tangible assets (continued)

| (b) Company | Fixtures and fittings £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|
| *Cost* | | | |
| At 1 April 2005 | 73 | 10 | 83 |
| Additions | 1 | 12 | 13 |
| **At 31 March 2006** | **74** | **22** | **96** |
| *Depreciation* | | | |
| At 1 April 2004 | 9 | 6 | 15 |
| Charge for year | 15 | 5 | 20 |
| **At 31 March 2006** | **24** | **11** | **35** |
| *Net book amount* | | | |
| **At 31 March 2006** | **50** | **11** | **61** |
| At 31 March 2005 | 64 | 4 | 68 |

## 13 Fixed asset investments

### (a) Group

| | Other Investments £000 | Total £000 |
|---|---|---|
| *Cost* | | |
| At 1 April 2005 | 114 | 114 |
| Acquisitions | 101 | 101 |
| Disposals | (114) | (114) |
| **At 31 March 2006** | **101** | **101** |

### (b) Company

| | Subsidiary Undertakings £000 | Other Investments £000 | Total £000 |
|---|---|---|---|
| *Cost* | | | |
| At 1 April 2005 | 1,541 | 114 | 1,655 |
| Additions | 422 | 101 | 523 |
| Disposals | - | (114) | (114) |
| **At 31 March 2006** | **1,963** | **101** | **2,064** |

## 13 Fixed asset investments (continued)

The following were subsidiary and associated undertakings at the end of the year and have all been included in the consolidated financial statements:

| Name | Principal Activity | Country of Incorporation and operation | Proportion of voting rights and ordinary share capital held |
|---|---|---|---|
| DD Home Entertainment Ltd | (a) | Great Britain | 100% |
| Fountain Television Ltd | (b) | Great Britain | 100% |
| MEM Television Ltd | (c) | Great Britain | 100% |
| Scarlet Television Ltd | (c) | Great Britain | 75% |
| Strawberry Entertainment Ltd | (d) | Great Britain | 90% |
| Classroom Multimedia Ltd | (e) | Great Britain | 100% |

(a) The principal activity was the supply of films and videos by mail order and direct to retail and wholesale outlets.
(b) The principal activity was the operation of the Fountain Television Studios.
(c) The principal activity was production of television programming for broadcast.
(d) The principal activity was the international distribution of programming for the home video and DVD markets.
*(e) The principal activity was the distribution of television and DVD programming*

On 16 April 2005 the group acquired a 100% interest in the Ordinary issued share capital of Classroom Multimedia Limited for aggregate consideration of £422,000 in cash and shares. £39,000 of this consideration is owing at the balance sheet date. The company is engaged in the sale and exploration of television programming and products to broadcasters and other content providers.

On 5 September 2005 the group disposed of its 30% interest in Maximum Entertainment Limited, to Air Music & Media plc, for aggregate consideration of £125,000, consisting of cash of £22,000 and shares in Air Music & Media valued at £101,000.

## 14 Stocks

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **£000** | **£000** | **£000** | **£000** |
| Raw materials and consumables | **52** | 52 | - | - |
| Finished goods and goods held for resale | **1,690** | 1,084 | - | - |
| | **1,742** | 1,136 | - | - |

## 15 Investment in programmes

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **£000** | **£000** | **£000** | **£000** |
| Investment in programmes | **217** | 390 | - | - |

## 16 Debtors

### (a) Amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **£000** | **£000** | **£000** | **£000** |
| Trade debtors | **2,665** | 2,889 | - | - |
| Other debtors | **621** | 298 | **197** | 56 |
| Royalty advances | **2,152** | 2,427 | - | - |
| Deferred taxation (note 18) | **143** | 211 | - | - |
| Other taxes and social security | **43** | 13 | **13** | 13 |
| Prepayments and accrued income | **930** | 1,255 | **75** | 52 |
| | **6,554** | 7,093 | **285** | 121 |

### (b) Amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **£000** | **£000** | **£000** | **£000** |
| Trade debtors (part works) | **536** | 991 | - | - |
| Amounts due from subsidiary undertakings | - | - | **10,839** | 8,338 |
| | **536** | 991 | **10,839** | 8,338 |

Trade debtors due after more than one year relate to 'part work' sales invoiced in the period, but receivable up to a period of 24 months from the date of sale. The intercompany debt is long term and non-interest bearing.

## 17 Creditors

### (a) Amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £000 | £000 | £000 | £000 |
| Bank overdraft (secured) | **4,900** | 3,758 | **1,486** | - |
| Bank loans (secured) | **525** | 340 | **525** | 340 |
| Obligations under finance leases and hire purchase contracts | **41** | 109 | - | - |
| Trade creditors | **1,156** | 2,432 | **151** | 82 |
| Other taxes and social security | **195** | 244 | - | - |
| Corporation tax | **143** | 57 | - | - |
| Accruals | **698** | 703 | **118** | 65 |
| | **7,658** | 7,643 | **2,280** | 487 |

The bank loans and overdraft are secured by a first mortgage charge over a freehold property owned by the group. Interest on the bank loan and the bank overdraft is charged at 1.625% and 1.5% above the bank base rate, respectively.

### (b) Amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £000 | £000 | £000 | £000 |
| Bank loans (secured) | **3,095** | 2,985 | **3,095** | 2,985 |
| Amounts due from subsidiary undertakings | - | - | **202** | - |
| Obligations under finance leases and hire purchase contracts | - | 41 | - | - |
| | **3,095** | 3,026 | **3,297** | 2,985 |

## 18 Deferred taxation

### Group

| | 2006 | 2005 |
|---|---|---|
| | £000 | £000 |
| Tax losses | **143** | 211 |
| | **143** | 211 |

## 18 Deferred taxation (continued)

**Group**

| | **2006 £000** | **2005 £000** |
|---|---|---|
| Movement during the year: | | |
| Brought forward at 1 April | **211** | 394 |
| - Other | **-** | 60 |
| Charge to the profit and loss account | **(68)** | (243) |
| Deferred Tax asset (note 16) | **143** | 211 |

Subject to the agreement of the Inland Revenue, at the balance sheet date the Group had taxation losses with a gross value of approximately £1,060,000 (2005: £1.060,000) for offset against future trading profits. Deferred tax assets of £107,000 were not recognised at the year end due to the uncertainty of their recoverability. (2005:£107,000).

## 19 Share capital

| | **2006 £000** | **2005 £000** |
|---|---|---|
| **Authorised:** | | |
| 31,250,000 ordinary shares of 10p each | **3,125** | 3,125 |
| | **3,125** | 3,125 |
| **Called up, allotted and fully paid:** | | |
| 15,097,367 (2005: 14,964,034) ordinary shares of 10p each | **1,509** | 1,496 |
| | **1,509** | 1,496 |

During the period 133,333 shares were allotted as part consideration for the acquisition of Classroom Multimedia Limited. The market value of the shares at that date were £1.12 valuing these shares at £150,000. As the transaction qualifies for merger relief under section 131 of the Companies Act 1985, the nominal value of the shares issued has been recorded as the investment in Medal Entertainment & Media plc company financial statements.

## 19 Share capital (continued)

At 31 March 2006 the following approved share options were outstanding in respect of the ordinary shares:

| Date of grant | Number | Period of option | Price per share |
|---|---|---|---|
| 29 November 2002 | 286,280 | 29/11/2005 – 29/11/2012 | £0.740 |
| 24 June 2003 | 26,198 | 24/6/2006 – 24/11/2013 | £0.765 |
| 20 July 2004 | 120,960 | 20/7/2007 - 20/7/2014 | £0.865 |

Under the unapproved scheme the following share options were outstanding in respect of the ordinary shares:

| Date of grant | Number | Period of option | Price per share |
|---|---|---|---|
| 29 November 2002 | 348,220 | 29/11/2005 – 29/11/2012 | £0.740 |
| 24 June 2003 | 84,602 | 24/6/2006 – 29/11/2013 | £0.765 |
| 20 July 2004 | 331,590 | 20/7/2007 - 20/7/2014 | £0.865 |

In order for the approved and unapproved options to be exercisable, the growth in the Company's normalised earnings per share, over a three year period must exceed the Retail Price Index over the same period plus 6%.

During the year no options were exercised by any of the directors or other employees.

## 20 Movements in share capital and reserves

| | Issued share capital £000 | Share premium account £000 | Merger reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| At 1 April 2005 | 1,496 | 7,501 | - | 1,678 | 10,675 |
| Share issue | 13 | - | 137 | - | 150 |
| Profit for the year | - | - | - | 237 | 237 |
| **At 31 March 2006** | **1,509** | **7,501** | **137** | **1,915** | **11,062** |
| **Company** | | | | | |
| At 1 April 2005 | 1,496 | 7,501 | - | (1,156) | 7,841 |
| Share issue | 13 | 137 | - | - | 150 |
| Loss for the year | - | - | - | (319) | (319) |
| **At 31 March 2006** | **1,509** | **7,638** | **-** | **(1,475)** | **7,672** |

## 21 Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **£000** | **£000** | **£000** | **£000** |
| Profit/(loss) for the year | **237** | 366 | **(319)** | (368) |
| Shares issued in the year | **150** | - | **150** | - |
| Net VAT recovery on flotation costs | - | 22 | | 22 |
| Net addition to shareholders' funds | **387** | 388 | **(169)** | (346) |
| Opening shareholders' funds | **10,675** | 10,287 | **7,841** | 8,187 |
| Closing shareholders' funds | **11,062** | 10,675 | **7,672** | 7,841 |

## 22 Acquisitions

### (a) Acquisition of Classroom Multimedia Limited

On 16 April 2005 the group acquired a 100% interest in the Ordinary issued share capital of Classroom Multimedia Limited for aggregate consideration of £422,000.

In calculating the goodwill arising on acquisition, fair value adjustments have been made using provisional estimates, to the net book value of the assets of the Company.

This purchase has been accounted for as an acquisition.

22 **Acquisitions** (continued)

**Classroom Multimedia Limited**

| | Net book value £000 | **Provisional fair value adjustments £000 | Fair value £000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Intangible fixed assets | 41 | - | 41 |
| Debtors | 93 | (86) | 7 |
| Cash at bank and in hand | 83 | - | 83 |
| Creditors | (4) | - | (4) |
| Net assets acquired | 213 | (86) | 127 |
| Goodwill * | | | 295 |
| Purchase price | | | 422 |
| Satisfied by: | | | |
| Cash | | | 233 |
| Shares | | | 150 |
| Deferred consideration | | | 39 |
| Cash | | | 422 |

* Goodwill arising in the period is being amortised over its useful economic life estimated to be 10 years.

** A fair value adjustment for £86,000 has been made against certain trade debtor balances in the books of Classroom Multimedia Limited at the date of acquisition.

The fair value adjustments are made using provisional estimates, based on information available at the time the financial statements have been prepared, and any amendments necessary will be made in the following accounting period, with a corresponding adjustment to goodwill, when the information necessary to determine these estimates is available.

There were no material post-acquisition effects on the key lines of the Group's cash flow statement arising from the acquisition of Classroom Multimedia Limited.

The deferred consideration of £39,000 will become payable at a date yet to be agreed with the vendor.

## 22 Acquisitions (continued)

### (b) Pre-acquisition trading

The following table sets out the financial results of Classroom Multimedia Limited for the period from the beginning of its financial period to the date it was acquired and the comparative period ended 29 February 2004.

There were no significant transactions between 1 March 2005 and the date of acquisition, 16 April 2005

**Classroom Multimedia Limited**

| | Year ended 28 February 2005 £000 | Year ended 29 February 2004 £000 |
|---|---|---|
| **Turnover** | 44 | 91 |
| Cost of sales | (4) | (18) |
| **Gross profit** | 40 | 73 |
| Administrative expenses | (58) | (46) |
| **Operating (loss)/profit being loss on ordinary activities before taxation** | (18) | 27 |

## 23 Financial Instruments

### (a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

### (b) Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities at 31 March 2006, after taking account of the interest rate used to manage the interest profile was:

| **Currency** | Total £000 | Floating Rate Financial Liabilities £000 | Fixed rate Financial Liabilities £000 |
|---|---|---|---|
| Sterling - Financial Liabilities at 31 March 2006 | **7,682** | **7,641** | **41** |
| Sterling - Financial Liabilities at 31 March 2005 | 5,615 | 5,465 | 150 |

## 23 Financial Instruments (continued)

### (b) Interest rate risk profile of financial liabilities

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above table either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

| **Currency** | **Weighted Average Interest Rate %** | **Fixed rate Financial Liabilities Weighted average period for which rate is fixed Years** |
|---|---|---|
| Sterling | | |
| - Financial Liabilities at 31 March 2006 | **6.20** | **0.61** |
| Sterling | | |
| - Financial Liabilities at 31 March 2005 | 6.32 | 1.40 |

The bank facilities are secured by a first mortgage charge over a freehold property owned by the group. Interest on the bank loans and bank overdraft is charged at 1.625% and 1.5% above the bank base rate, respectively.

### (c) Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals at 31 March was as follows:

**Group financial liabilities are due as follows:**

| | **Bank loans** | | **Bank Overdraft** | | **Finance leases** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** | **2006 £000** | **2005 £000** |
| - in one year or less, or on demand | 534 | 350 | 4,900 | 3,758 | 41 | 109 | **5,476** | 4,217 |
| - in more than one year but not more than two years | 350 | 350 | - | - | - | 41 | **350** | 391 |
| - in more than two years but not more than five years | 1,050 | 1,050 | - | - | - | - | **1,050** | 1,050 |
| - in more than five years | 1,763 | 1,662 | - | - | - | - | **1,763** | 1,662 |
| | 3,697 | 3,412 | 4,900 | 3,758 | 41 | 150 | **8,638** | 7,320 |
| - unamortised loan arrangement fees | (77) | (87) | - | - | - | - | **(77)** | (87) |
| | 3,620 | 3,325 | 4,900 | 3,758 | 41 | 150 | **8,561** | 7,233 |

**23 Financial Instruments (continued)**

**(c) Maturity of financial liabilities**

**Company financial liabilities are due as follows:**

| | Bank loans 2006 £000 | Bank loans 2005 £000 |
|---|---|---|
| - in one year or less, or on demand | **534** | 350 |
| - in more than one year but not more than two years | **350** | 350 |
| - in more than two years but not more than five years | **1,050** | 1,050 |
| - in more than five years | **1,763** | 1,662 |
| | **3,697** | 3,412 |
| - unamortised loan arrangement fees | **(77)** | (87) |
| | **3,620** | 3,325 |

**(d) Borrowing Facilities**

The Group has the following undrawn committed facilities available at 31 March 2006 in respect of which all conditions precedent had been met at that date:

| | Floating Rate £000 | Total 2006 £000 | Total 2005 £000 |
|---|---|---|---|
| Expiring in less than one year | 346 | **346** | - |
| Expiring between one and two years | - | - | - |
| Expiring in more than two years | 1,303 | **1,303** | 2,500 |
| | 1,649 | **1,649** | 2,500 |

**(e) Fair values of financial assets and financial liabilities**

There was no difference between the fair values and the book values of the financial assets and financial liabilities.

**(f) Currency exposures**

As explained in the Chief Financial Officer's Review on pages 6 and 7, the Group does not hedge its foreign currency exposures.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

## 23 Financial Instruments (continued)

**Net foreign currency monetary assets**

| Functional currency of Group Operation | US Dollars £000 | Euros £000 | Total £000 |
|---|---|---|---|
| **- Sterling as at 31 March 2006** | **193** | **52** | **245** |
| - Sterling as at 31 March 2005 | 92 | 90 | 182 |

**(g) Financial assets**

The Group's financial assets comprise cash at bank or in hand which earns interest at floating rates, based on the relevant bank's commercial rates.

| Group cash at bank and in hand comprises | 2006 £000 | 2005 £000 |
|---|---|---|
| Sterling | **794** | 1,618 |
| **Total cash** | **794** | 1,618 |

## 24 Pensions

All of the employees are eligible to join the group's money purchase personal pension schemes. The assets are held separately from those of the group in an independently administered fund. The pension charge represents contributions payable by the group to the fund. During the year ended 31 March 2006 the pension cost charge was £206,000 (2005: £125,000). At 31 March 2006 £18,000 (2005: £6,000) was unpaid in respect of pension contributions.

## 25 Commitments under operating leases

As at 31 March 2006 the group had annual commitments under non-cancellable operating leases as set out below:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Land and buildings £000 | Other £000 | Land and Buildings £000 | Other £000 |
| Operating leases which expire: | | | | |
| Within one year | **58** | **10** | 30 | 13 |
| Between two to five years | **184** | **12** | 173 | 13 |
| | **242** | **22** | 203 | 26 |

## 26 Related party transactions

On 6 April 2005 the Group acquired 100% of the ordinary share capital in Classroom Multimedia Limited, for aggregate consideration of £422,000. The shares were acquired from the Trustees of The Maddocks Jones settlement, a family trust which is connected to Richard Jones, a director of DD Home Entertainment Limited, a wholly owned subsidiary of the group.

There were no other material transactions by the Group or the Company with related parties.

## 27 Reconciliation of operating profit to net cash outflow from operating activities

| | **2006 £000** | **2005 £000** |
|---|---|---|
| Operating profit | **885** | 1,085 |
| Amortisation of goodwill and film rights | **695** | 334 |
| Depreciation of tangible fixed assets | **367** | 286 |
| Increase in stocks | **(606)** | (309) |
| Decrease/(increase) in investment in programmes | **173** | (390) |
| Decrease/(increase) in debtors | **926** | (2,656) |
| (Decrease)/increase in creditors | **(1,374)** | 798 |
| Net cash inflow/(outflow) from operating activities | **1,066** | (852) |

Of the decrease in debtors, £280,000 (2005: £550,000 increase) of this balance was accounted for by the decrease in royalty advances paid for new products by the Group.

## 28 Reconciliation of net cash inflow to movement in net debt

| | **2006 £000** | **2005 £000** |
|---|---|---|
| Decrease in cash in the year | **(1,966)** | (3,632) |
| Cash (outflow)/inflow from increase in debt and lease financing | **(186)** | 172 |
| Change in net debt resulting from cash flows being Movement in net debt | **(2,152)** | (3,460) |
| Net debt at start of year | **(5,615)** | (2,155) |
| Net debt at end of year (note 29) | **(7,767)** | (5,615) |

## 29 Analysis of net debt

| | At 1 April 2005 £000 | Cash flow £000 | Non cash Movements £000 | At 31 March 2006 £000 |
|---|---|---|---|---|
| Cash at bank and in hand | 1,618 | (824) | - | **794** |
| Overdrafts | (3,758) | (1,142) | - | **(4,900)** |
| Cash | (2,140) | (1,966) | - | **(4,106)** |
| Debt due within one year | (340) | 165 | **(350)** | **(525)** |
| Debt due after one year | (2,985) | (450) | **340** | **(3,095)** |
| Finance leases | (150) | 109 | - | **(41)** |
| Financing | (3,475) | (176) | **(10)** | **(3,661)** |
| Total | (5,615) | (2,152) | **(10)** | **(7,767)** |

Non-cash charges comprise amortisation of issue costs relating to debt issues and transfers between categories of finance leases.

## 30 Capital expenditure commitments

Capital expenditure authorised and contracted for, but not provided in the financial statements, amounts to £Nil (2005: £ Nil) for the group and £Nil for the company (2005: £Nil).

**NOTICE OF ANNUAL GENERAL MEETING**

**MEDAL ENTERTAINMENT & MEDIA PLC**

Notice is given that the annual general meeting of Medal Entertainment & Media PLC (the **"Company"**) will be held at the offices of Nabarro Nathanson, Lacon House, 84 Theobald's Road, London WC1X 8RW on 29 September 2006 at 10am for the following purposes:

**ORDINARY BUSINESS**

1. To receive and adopt the report of the Directors and the financial statements of the Company for the year ended 31 March 2006;

2. To approve the Directors Remuneration Report of the Company for the year ended 31 March 2006;

3. To re-elect Brook Land as a director of the Company; who retires by rotation in accordance with the Company's articles of association;

4. To re-elect Stephen Ayres as a Director of the Company; who retires by rotation in accordance with the Company's articles of association;

5. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting; and

6. To authorise the directors to fix the auditors' remuneration.

To consider and, if thought fit, pass the following resolution 7 as an ordinary resolution and, in the case of resolutions 8 and 9, as special resolutions.

**SPECIAL BUSINESS**

7. THAT the directors be and they are hereby generally and unconditionally authorised, in substitution for all subsisting authorities, to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Companies Act 1985 (the **"Act"**)) up to an aggregate nominal amount of £503,206 (representing one-third of the Company's issued share capital as at the date of the Notice convening the annual general meeting at which this resolution is to be proposed) provided that this authority shall expire fifteen months from the date of this resolution or at the conclusion of Company's next annual general meeting if earlier (unless renewed or extended prior to such time), except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired;

8 THAT, subject to and conditional upon the passing of resolution number 7 above, the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the **"Act"**), to allot equity securities (as defined in section 94 of the Act) wholly for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them, subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of 75,487;

PROVIDED THAT this authority shall expire on the conclusion of the next annual general meeting of the Company after the passing of this resolution or fifteen months from the date of this resolution, whichever is the earlier (unless renewed or extended prior to such time), except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired;

9. THAT the Company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (the **"Act"**), to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 10p each in the capital of the Company (**"Ordinary Shares"**) on such terms and in such manner as the directors may from time to time determine provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 2,264,605 (representing 15 per cent. of the Company's issued ordinary share capital as at the date of the Notice convening the annual general meeting at which this resolution is to be proposed);

(b) the minimum price which may be paid for an Ordinary Share is 10p (exclusive of expenses and advance corporation tax (if any) payable by the Company);

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share derived from the AIM Appendix to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased (exclusive of expenses and advance corporation tax (if any) payable by the Company); and

(d) the authority conferred shall expire unless previously revoked or varied at the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is the earlier), except that the Company may before such expiry enter into a contract of purchase for the Ordinary Shares under which such purchase may be completed or executed wholly or partly after the expiration of this authority.

**Registered Office:**

Lacon House
84 Theobalds Road
London WC1X 8RW

**By order of the Board**

Mariana Spater
Secretary
30 August 2006

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.

   (a) 2. A form of proxy is provided with this notice and instructions for use are shown on the form. In order to be valid a completed appointment of proxy must be returned by post, by courier or by hand to the Company's Registrar, Capita Registrars, Proxies Department, P.O. Box 25, 34 Beckenham Road, BECKENHAM BR3 4BR

   and received by the Company not less than 48 hours before the time fixed for the meeting.

3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (except Saturdays, Sundays and public holidays) until the date of the meeting and at the place of the meeting for 15 minutes prior to and during the meeting:

   (a) the register of directors' interests (and their families) in shares of the Company;

   (b) copies of directors' service contracts (other than contracts expiring or determinable by the Company in less than one year); and

   (c) copies of the Company's memorandum and articles of association.

4. The Company specifies, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, that only those shareholders registered in the register of members of the Company as at 10am on 27 September shall be entitled to attend or vote at the general meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

## MINUTES OF ANNUAL GENERAL MEETING

## MEDAL ENTERTAINMENT & MEDIA PLC

**("Company")**

Minutes of the Annual General Meeting of the Company duly convened and held at the offices of Nabarro Nathanson, Lacon House, Theobald's Road, London, WC1X 8RW on 29 September 2006 at 10.00 a.m.

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Present:

In attendance:

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### 1. QUORUM AND NOTICE

A quorum being present, the chairman declared the meeting open and the notice convening the meeting was taken as read.

### 2. ORDINARY BUSINESS

2.1 The chairman proposed resolution 1 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

2.2 The chairman proposed resolution 2 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

2.3 The chairman proposed resolution 3 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

2.4 The chairman proposed resolution 4 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

2.5 The chairman proposed resolution 5 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

2.6 The chairman proposed resolution 6 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

## 3. SPECIAL BUSINESS

3.1 The chairman proposed resolution 7 set out in the notice of the meeting as an ordinary resolution and the resolution was passed on a show of hands.

3.2 The chairman proposed resolution 8 set out in the notice of the meeting as a special resolution and the resolution was passed on a show of hands.

3.3 The chairman proposed resolution 9 set out in the notice of the meeting as a special resolution and the resolution was passed on a show of hands.

## 4. CLOSE

There being no further business the chairman declared the meeting closed.

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Chairman

Company Number: 04174013

THE COMPANIES ACTS 1985 AND 1989

PUBLIC COMPANY LIMITED BY SHARES

A41 *ASX9NJFT* 53
COMPANIES HOUSE 06/10/2006

RESOLUTIONS

of

MEDAL ENTERTAINMENT & MEDIA PLC

("the Company")

At the annual general meeting of the Company duly convened and held at the offices of Nabarro Nathanson, Lacon House, Theobald's Road, London WC1X 8RW on 29 September 2006 the following resolutions were duly passed:-

**Ordinary Resolution**

1. THAT the directors be and they are hereby generally and unconditionally authorised, in substitution for all subsisting authorities, to exercise all the powers of the Company to allot relevant securities (as defined in section 80 of the Companies Act 1985 (the "**Act**")) up to an aggregate nominal of £503,206 (representing one-third of the Company's issued share capital as at the date of the Notice convening the annual general meeting at which this resolution is to be proposed) provided that this authority shall expire fifteen months from the date of this resolution or at the conclusion of the Company's next annual general meeting if earlier (unless renewed or extended prior to such time), except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired.

**Special Resolutions**

2. THAT, *subject to and conditional upon the passing of resolution number 1 above*, the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "**Act**"), to allot equity securities (as defined in section 94 of the Act) wholly for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them, subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £75,487;

PROVIDED THAT this authority shall expire on the conclusion of the next annual general meeting of the Company after the passing of this resolution or fifteen months from the date of this resolution, whichever is the earlier (unless renewed or extended prior to such time), except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired;

3. THAT the Company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (the **"Act"**), to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 10p each in the capital of the Company (**"Ordinary Shares"**) on such terms and in such manner as the directors may from time to time determine provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 2,264,605 (representing 15 per cent. of the Company's issued ordinary share capital as at the date of the Notice convening the annual general meeting which this resolution is to be proposed);

(b) the minimum price which may be paid for an Ordinary Share is 10p (exclusive of expenses and advance corporation tax (if any) payable by the Company);

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share derived from the AIM Appendix to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased (exclusive of expenses and advance corporation tax (if any) payable by the Company); and

(d) the authority conferred shall expire unless previously revoked or varied at the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is the earlier), except that the Company may before such expiry make a contract of purchase for the Ordinary Shares under which such purchase may be completed or executed wholly or partly after the expiration of this authority.

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Chairman