4755803

Felix Group plc

Report and Financial Statements for the Year Ended 31 May 2007

Contents

Company Secretary
L J Sherratt

Company Number
04755803

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Chairman's Statement

Strategy Update
Since the publication of the Group's Interim Report in February, we have continued to manage the initial quantity of MAX BOX kiosks to capitalise on lessons learned across a range of sectors targeting those venues and customers that will assist us on reaching our short-term target of kiosk break-even

We are also providing kiosks to various UK multiples who wish to evaluate the MAX BOX in a sample number of their locations

Additionally, we have identified opportunities to generate incremental revenues from licensing our software We are aggregating our digital retail products and services for (i) 3rd party kiosk owners internationally (MAX BOX LITE Pro) and, (ii) installation on personal computers in the UK & overseas (MAX BOX LITE), in return for one-off license fees and an ongoing revenue share

UK Kiosk Estate
We are now operating across six sectors with a number of our venues consistently generating the revenues required to break-even Many more are currently close to this target without the benefit of planned advertising revenues and new digital content, which is expected to be integrated later this year We continue to (i) focus on maximising revenues from the estate and (ii) target UK multiples who would have the ability to roll-out large numbers of kiosks

The digital jukebox continues to be our best selling product and high footfall social/leisure sites are our consistently high performing venues However, we are seeing improvements in mobile top-ups and digital printing, especially in our new retail locations Products introduced over the last few months (e g Flowers and Fun Games) are generating incremental revenues and we expect this to continue In addition, as we deliver new digital content (including bespoke music download applications to both Mobile Phones and MP3 players) we are hopeful that retail sector revenues will grow significantly in line with the demand for music

The deployment of machines into our target retailers has been slower than anticipated but I am pleased to report that we are now starting to install machines along the UK High Street albeit on a trial basis In addition, a trial is about to commence with a major retailer using kiosks which will deliver a combined offering – Felix digital products plus an order point for the retailer's extended catalogue

In parallel, we have been working hard utilising our existing resources and with our suppliers to improve performance and reduce costs I am pleased to report that in the year to 31 May 2007 ongoing operating overhead was £0 5m below budget and further overhead reductions are planned for 2007/2008

The board is in agreement that it is prudent to continue to proceed slowly with multi-site venues until (i) we have consistently delivered the required revenue per machine and (ii) the commercial agreements include receivables finance, enabling us to conserve our cash

Opportunities for Incremental Revenues
An opportunity exists to license our software I P and 'know how to third party kiosk owners without significant further investment

Chairman's Statement (continued)

In October, Felix signed a licensing agreement with Kiosk Information Systems Inc who manufacture, supply and service self-service kiosks and kiosk applications The license grants them the right to install Felix software onto their new and existing kiosks in North America and worldwide Kiosk Information Systems Inc have supplied services to a variety of well known customers such as Wal-Mart, McDonald's, Disney, FEDEX and Mercedes Benz

In August, Felix signed a licensing agreement with ABK Group plc, a provider of leased laptop computers to University students and staff This agreement will see Felix's newly developed PC version of MAX BOX, called MAX BOX LITE, incorporated into the existing stock of 1600 laptops supplied by ABK through their exclusive arrangements with 12 UK Universities The commercial return to Felix is dependant upon the usage of software

Outlook

The MAX BOX proposition continues to evolve and we firmly believe our kiosk proposition (with the full effect of music download and advertising revenues) will achieve our short-term goal of break-even at machine contribution level as we deploy machines with our target retailers We continue to improve the quality of our service to customers and we are learning a great deal about the elements that lead to successful deployment

The availability of new revenue streams with lower operating costs, added to the commercial management of the UK kiosk estate means the Board remains optimistic for the future

Richard S Rose
Executive Chairman
25 October 2007

Chief Executive's Review

Strategy Update
Since the publication of the Group's Interim Report in February, we have continued to manage the initial quantity of kiosks installed across a number of sectors including pub & leisure, retail, banking, military bases, petrol forecourts and cinemas We currently have in excess of 120 kiosks installed with orders for over 100 more We are holding back on installs to ensure that as we roll-out with customers we have aligned objectives, the right quality sites and joint marketing initiatives We are confident that this strategy will generate the required returns going forward

We continue to improve our product offering, marketing and service to our customers which has led to a number of high profile retail trials These will help immensely in bringing MAX BOX to the consumer's attention, but also endorse 'Digital Retailing' into more mainstream acceptance as is the case in the USA These new placements will support the promotions that MAX BOX have been running for sometime in the pub and leisure sectors

New Applications
All of our versions of MAX BOX have a variety of applications that are chosen to suit the type of venue and demographics of the audience Our core applications are 'Everyone's a Winner', Jukebox, Mobile top-up and photo processing both live at the MAX BOX or prints delivered to home Additional applications include fun games, digital downloads (including ring tones, games and wallpaper), football pictures, ordering and delivering of flowers, and promotional offers Coming soon, music downloads to device, ordering and delivery of hampers, e-books and MP4 video content

Licensing Opportunities
A very important part of our future is our new licensing model for MAX BOX We have adapted a version of our software that can now be retrofitted to a number of existing installed kiosks both in the UK and the USA We have called this 'MAX BOX LITE Pro' This will enable a much faster roll-out of locations where the consumer will be able to utilise our facilities

Another software licensing opportunity may come from our kiosk monitoring system which is proving to be an extremely robust and user friendly package We are currently reviewing an opportunity to license this product for use on non MAX BOX kiosks

The final part of our licensing model is that from November, it will be possible to install MAX BOX LITE onto a laptop or home PC and have all the functionality of the kiosk at home This will be marketed in conjunction with third party brands for endorsement and credibility Felix will obtain a small license fee for each account signed up MAX BOX applications can then be accessed on your home PC The software will be distributed via either a download directly from our website or from a CD or USB memory stick distributed via the third party brand that will 'white label' MAX BOX LITE as if their own

The Group's Costs
Our costs for the year were below budget and we continue to manage cash carefully In the period since May, we have reduced headcount in line with the completion of the development phase of MAX BOX In addition, we are currently working through all areas of our cost base to identify further efficiencies where possible

Chief Executive's Review (continued)

As our installs increase and the license business grows, we envisage that Felix will move more to an outsource model enabling us to cope with higher volumes of potential concurrent transactions whilst retaining the required resilience and security

To this end, IBM is currently reviewing all our software in terms of capability and scalability to ensure we have the technology to meet the demands of our customers This action not only improves operational effectiveness but also gives our commercial partners added confidence in Felix as a service provider

We have negotiated an off balance sheet 'receivables finance' facility This means that we will be able to roll out future machine contracts without needing to utilise our own funds or without incurring debt directly Felix will still fund the initial trials, but subsequent roll-outs will then fit into the receivables finance model via venue rental agreements

Outlook

Felix has been first to market with the multi-functional retail kiosk proposition and we firmly believe we are now best placed to grasp the high street opportunity with branded partners and to bring digital retail to the UK

We have successfully broadened our range of offerings which now includes software available for third party kiosks and personal laptops The opportunity to launch in the US with our new trading partner KIS Inc is very exciting Their existing client base provides Felix with the potential to gain a footprint in the US market far quicker than we could ever have achieved directly

Finally, I would like to take this opportunity to thank all our staff who are working tirelessly to deliver a business which aims to produce impressive results for our customers and shareholders alike

Andrew Egan
Chief Executive Officer
25 October 2007

Directors

Richard Sidney Rose, *Executive Chairman*
Richard Rose, was formerly Chief Executive of Whittard of Chelsea plc, a multi site retailer of tea and coffee He joined Whittard in 2001 following a £3m loss and led a significant recovery in profits The business was sold to Baugur in 2006 Previously he was a Director of Hagemeyer (UK) Ltd, a distributor of professional products and services Prior to that he had been CEO of WF Electrical plc, a fully listed company, where he created a substantial improvement in shareholder value Hagemeyer purchased WF Electrical plc in 2000 He was also Non-Executive Chairman of AC Electrical where he led a hugely successful growth strategy resulting in a very substantial increase in shareholder value The business was sold to Wolseley in 2006 He is Chairman of Kiotech International plc and Non-Executive Chairman of Nanoscience Inc and Executive Chairman of Blueheath Group plc

Andrew Egan, *Chief Executive Officer*
Andrew Egan started his career as a stuntman for TV shows He later became a publicity and promotions consultant, which included work on the BA, BP and BT share launches and the launch of the Eurotunnel project In the early 1990s he became a sponsorship negotiator for several well known brands In 2000 he co-ordinated and promoted (alongside the DTI and The British Overseas Trade Board), the Orient Express rail/hotel project in Peru In 2001 he became involved in Felix Corporation Limited to develop and deliver the Everyone's A Winner concept

Lynda Jane Sherratt, *Group Finance Director & Company Secretary*
A qualified accountant, Lynda initially spent 6 years in various Finance roles at Ford Motor Company in Essex and Germany She spent the next ten years at Sportech plc which, operating under the Littlewoods brand provides all of the Littlewoods Online & Offline pools, sports betting, soft gaming and casino products Lynda held several senior positions at Littlewoods culminating in Operations Director – Interactive media which she held until 2005

Michael David Masters, *Non-Executive Director*
Michael worked for the Royal Bank of Scotland until 1989 when he joined Trinity plc as Finance Director In 1999 he was appointed Group Managing Director – Publishing, UK and Ireland, for Trinity Mirror plc until his retirement at the end of 2000 He was appointed Chairman of Incisive Media plc in 2000 He holds a number of other Non-Executive positions

Philip Ellis Kanas, FCA, *Non-Executive Director*
Philip Kanas is a chartered accountant who, until 1998, had been a partner in a number of firms of Chartered Accountants Since 1999, he has acted as a business consultant and also holds a number of other Non-Executive Directorships

Alan James Uren, *Non-Executive Director*
Alan has worked for over 40 years in the retail industry (38 of them for Dixons Stores Group) and retired in 2004 from his role as Managing Director of Dixons Group Business Services and the Group Operations Director Since retirement he has joined a number of companies as Associate and Non-Executive Director and is currently a Retail Advisor and Personal Coach in HSBC

Directors' Report

The Directors present their report and the audited financial statements of the Group for the year ended 31 May 2007

Principal activities
The principal activity of the Group during the year continued to be the development and manufacture of the Group's digital kiosk proposition plus evaluating the impact of the kiosk across a range of sectors

The principal activity of the Company for the year was that of a holding company

Results for the year and dividends
The Group's results for the year ended 31 May 2007 are shown in the profit and loss account on page 19

The Directors do not propose the payment of a dividend for the year

Review of the business
A detailed view of the business developments and future prospects for the Group are included in the Chairman's Statement and the Chief Executive's Review and a summary of which is included below

The Group's development during the year
Extending the range of products and services has seen the Group attract a wider audience across six market sectors The focus of the Group has been to target UK multiples who would have the ability to roll out large numbers of kiosks

Performance of the Group
We have grown the number of live kiosks from nil at the beginning of the financial year to over 120 (including 3 different kiosk models) by 31 May 2007 We have also increased the average revenues per kiosk as we learn more about our customers wants and needs For example we have increased the number of products and services from 6 when the kiosks were first introduced in September 2006 to 13 by 31 May 2007

The Group's position
The Group's cash at bank and in hand at 31 May 2007 was £680,000 (2006 – £534,000) Subsequently £4 15m (net of expenses) was received following a successful share placing on 12 July 2007

Principal risks and uncertainties facing the Group
The Directors consider that the carrying value of goodwill included in the Group Balance Sheet and the investment in and debt due from the subsidiary company included in the Holding Company Balance Sheet are supported by the financial forecasts of the business which we have approved However, we recognise that should actual results fall significantly short of the forecast then these values would need to be re-assessed

Whilst there is no evidence to date of a directly competing kiosk, the ability for competitors to develop capabilities to provide digital content through a kiosk clearly exists Given this, the Group continues to focus on product development

One of the greatest challenges the Group faces is to get customers to understand the concept of the kiosks and to identify the benefits of using them across a wide range of products and services

Another key challenge is for the Group to gain a sufficiently large enough estate to enjoy the benefits of size This will help attract suppliers with a nationwide presence and fully utilise the central operating system

Directors' Report (continued)

Use of financial instruments
Our financial risk management objectives are to ensure sufficient working capital for the Group This is achieved by careful management of our cash reserves Other than this, our use of financial instruments is not material for the assessment of the assets, liabilities, and financial position of the Group

Substantial shareholdings
As at 31 July 2007 the Company had been notified of the following holdings of 3% or more of its issued share capital other than the Directors' holdings

	Number of ordinary shares	%
Schroder Investment Management	67,201,596	28%
Gartmore Investment Management	33,288,331	14%
Universities Superannuation Scheme	23,893,200	10%
Urgel	13,133,250	5%
Credite Suisse	7,414,067	3%

Going concern
After making due enquiries in accordance with the Code of Best Practice the Directors consider that the Group has adequate resources to continue its operations for the foreseeable future Accordingly, the financial statements have been prepared on the going concern basis

Share capital
Details of issues of share capital in the holding company and share options are contained in note 18 to these financial statements

Post balance sheet events
On 12 July 2007 the Company issued 57,680,000 ordinary shares of 1p each at a premium of 6 5p per share This issue raised £4 15m net of expenses

Directors' Report (continued)

Directors and their interests

The interests of the Directors in the ordinary shares of the Company are shown below

	31 May 2007 1p ordinary shares Number	1 June 2006 1p ordinary shares Number
M P Neville	–	–
A Egan and J Ballard	18,457,724	18,457,724
A Egan	100,000	–
P E Kanas	350,000	250,000
A Uren	–	–
J Liwosz (resigned 30 June 2006)	–	–
L J Sherratt	–	–
R S Rose	–	–
M D Masters	–	–

M P Neville and J Ballard stepped down as Non-Executive Chairman and Non-Executive Director with effect from 31 August 2006

Felix Holdings Limited holds 18,457,724 shares in Felix Group plc which are held for the ultimate benefit of A Egan, J Ballard and another party

L J Sherratt was appointed as a director on 1 July 2006

R S Rose and M D Masters were appointed as Non-Executive Chairman and Non-Executive Director respectively with effect from 1 September 2006 R S Rose was subsequently appointed Executive Chairman with effect from 1 October 2007

Since 31 May 2007 A Uren and M D Masters acquired 66,667 and 133,333 1p ordinary shares respectively

In accordance with the Articles of Association, L J Sherratt and M D Masters will retire at the Annual General Meeting and, being eligible, offer themselves for re-election

Directors' Report (continued)

The interests of the Directors in options to acquire shares are shown below

	31 May 2007 1p ordinary shares Number	1 June 2006 1p ordinary shares Number
A Egan	5,750,000	5,750,000
J Liwosz	–	2,800,000
L J Sherratt	1,750,000	–
R S Rose	807,754	–
M J Masters	75,000	–
A Uren	75,000	–
P E Kanas	–	–

J Liwosz previously had options to acquire 1p ordinary shares which lapsed on 31 December 2006

Creditor payment policy
It is the policy of the Group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations At 31 May 2007, there were 16 days purchases remaining unpaid (2006 – 60 days)

Charitable donations
The Group made charitable donations of £930 during the period (2006 – £4,395)

Auditors
In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of UHY Hacker Young as the auditors of the Company

Statement to the Auditors
In the case of each current director as at 25 October 2007

So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware and

Directors' Report (continued)

He/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of the information

This report was approved by the Board on 25 October 2007 and signed on its behalf by

L J Sherratt

L J Sherratt
Company Secretary

Corporate Governance Statement

CODE OF BEST PRACTICE

The Board acknowledges the importance of the Combined Code ("the Code") and has reviewed the Group's consistency with the provisions of the Code as appended to the Listing Rules of the Financial Services Authority This statement explains how the Company has voluntarily applied the principles of the Code and confirms that it has consistently complied with these requirements throughout the year

THE BOARD OF DIRECTORS

The Company is controlled and led by the Board of Directors with an established schedule of matters reserved for their specific approval The Board met regularly throughout the year and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and consideration of significant financial matters It reviews the strategic direction of the Company and its individual operating subsidiary, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programmes

The function of the Chairman is to supervise the Board and to ensure its effective control of the business, and that of the Chief Executive is to manage the Company on the Board's behalf

All Board members have access, at all times, to sufficient information about the business, to enable them to fully discharge their duties Also, procedures exist covering the circumstances under which the Directors may need to obtain independent professional advice

The Board has established the following committees to fulfil specific functions

The Audit Committee is chaired by P E Kanas and until 31 August 2006 also comprised J Ballard and M P Neville From 1 September 2006 onwards it has been chaired by P E Kanas and also comprises R S Rose and M D Masters It meets on a regular basis, monitoring and reviewing the Group's financial reporting and internal control procedures

Due to the nature and size of the Group at present it would not be appropriate for the Group to have its own internal audit department reporting directly to the Audit Committee

The Remuneration Committee is chaired by A Uren and until 31 August 2006 also comprised J Ballard and M P Neville From 1 September 2006 onwards it has been chaired by A Uren and also comprises R S Rose and M D Masters Meetings were convened during the year to monitor, assess and report to the full Board on all aspects and policy relating to nomination, appointment and remuneration of executive Directors

The Board, as a whole, determines the remuneration of the Non-Executive Directors

Corporate Governance Statement (continued)

INTERNAL CONTROL

The Board is responsible for ensuring that the Group maintains adequate internal control over the business and its assets

The effectiveness of the Group's system of internal financial controls, for the year to 31 May 2007 and for the period to the date of approval of the financial statements, has been reviewed by the Directors Although they are aware that no system can provide for absolute assurance against material misstatement or loss, they are satisfied that effective controls are in place

On the wider aspects of internal control, relating to operational and compliance controls and risk management, as required by provision D 2 1 of the Code, the Board, in setting the control environment, now identifies, reviews, and regularly reports on the key areas of business risk facing the Group

The Executive Directors maintain close day to day involvement in all of the Group's activities which enables control to be achieved and maintained This includes the comprehensive review of both management and technical reports, interest rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash control procedures In this way, the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner

RELATIONS WITH SHAREHOLDERS

The Company maintains effective contact with its principal shareholders and welcomes communications from its private investors

Report of the Remuneration Committee

COMPLIANCE

This report by the Remuneration Committee, on behalf of the Board, contains full details of the remuneration of each Director during the year under review

DIRECTORS' REMUNERATION POLICY

The Committee aims to ensure that the remuneration packages offered are competitive and are designed to attract, retain and motivate executives of the right calibre

EMOLUMENTS OF THE DIRECTORS

	Salaries £	Fees £	Compensation for loss of office £	Benefits in-kind £	Pension Contributions £	2007 Total £	2006 Total £
M P Neville	–	20,000	–	–	–	20,000	61,500
A D Waddell	–	–	–	–	–	–	24,734
A Egan*	120,000	–	–	29,064	9,600	158,664	289,371
J Ballard	–	3,750	–	–	–	3,750	17,500
P E Kanas**	–	15,000	–	–	–	15,000	16,500
A Uren ***	–	15,000	–	–	–	15,000	16,500
J Liwosz	64,167	–	30,000	88	4,667	98,922	95,723
L J Sherratt	103,567	–	–	196	7,813	111,576	–
R S Rose	–	22,500	–	–	–	22,500	–
M D Masters	18,750	–	–	–	–	18,750	–
	306,484	76,250	30,000	29,348	22,080	464,162	521,828

* Highest-paid Director

** Chairman of the Audit Committee

*** Chairman of the Remuneration Committee

PENSIONS

A defined contribution pension scheme exists to provide benefits for A Egan and L J Sherratt The Non-Executive Directors' emoluments are not pensionable

The current scheme is a Group Personal Pension Scheme managed by Scottish Widows plc

Report of the Remuneration Committee (continued)

DIRECTORS' SERVICE CONTRACTS

The service contracts of A Egan and L J Sherratt are both terminable on twelve months notice

The Non-Executive Directors' appointments are terminable on six months notice, subject always to earlier termination in specified circumstances

DIRECTORS' SHARE OPTIONS

Details of the individual 1p ordinary share options held by the Directors as at 31 May 2007, which are summarised in the Directors' Report on page 10, are as follows

Director	Exercise period	Option price (p)	Number of Shares
A Egan	The options were granted on 22 December 2005 and are exercisable on the achievement of performance criteria and no later than 21 December 2015	1p	5,750,000
L J Sherratt	The options were granted on 14 July 2006 1,000,000 are exercisable on the achievement of performance criteria and no later than 13 July 2016	12 38p	1,750,000
A Uren	The options were granted on 14 July 2006 with no specific performance criteria and are exercisable no later than 13 July 2016	12 38p	75,000
R S Rose	The options were granted on 4 September 2006 with no specific performance criteria and are exercisable no later than 3 September 2016	12 38p	807,754
M D Masters	The options were granted on 4 September 2006 with no specific performance criteria and are exercisable no later than 3 September 2016	12 38p	75,000

Due to an administrative oversight, the share options granted to A Egan were replaced on 14 July 2006 The number of share options remains the same, as do the exercise price and performance conditions

The market price of the Company's shares at 1 June 2006 was 9 5p and at 31 May 2007 was 8 1p, with a highest value in the year of 12 38p

This report was approved by the Board on 25 October 2007 and signed on its behalf by

A Uren
Chairman of the Remuneration Committee

Statement of Directors' Responsibilities in respect of the Financial Statements

The following statement, which should be read in conjunction with the Report of the Auditors set out on pages 17 and 18, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and Auditors in relation to the financial statements

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy the financial position of the Group enabling them to ensure that the financial statements comply with the Companies Act 1985

The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

In accordance with the Companies Act 1985, the Directors are required to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the profit or loss for that period

The Directors consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going-concern basis in preparing the accounts

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website It is important to bear in mind that legislation in the UK governing the preparation and dissemination of financial statements may differ from other jurisdictions

This statement was approved by the Board on 25 October 2007 and approved on its behalf by

L J Sherratt
Company Secretary

Independent Auditors' Report

Registered Auditor

St James Building
79 Oxford Street
Manchester M1 6HT

25 October 2007

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF FELIX GROUP PLC

We have audited the financial statements of the Group and Parent Company (the "financial statements") for the year ended 31 May 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the directors' emoluments disclosure contained within the Report of the Remuneration Committee and relevant notes These financial statements have been prepared under the historical cost convention using the accounting policies set out therein

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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 are Ireland)

We report to you our audit opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group 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, the Chief Executives Review the Corporate Governance Statement and the unaudited part of the Report of the Remuneration Committee We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Independent Auditors' Report (continued)

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 an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent 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 Parent Company's affairs as at 31 May 2007 and of the Group's loss for the year then ended,
- The financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985,
- The information given in the Directors' Report is consistent with the financial statements

UHY Hacker Young
Registered Auditor
Chartered Accountants

UHY Hacker Young

Group Profit and Loss Account

Year ended 31 May 2007

	Note	2007 £'000	As re-stated 2006 £ 000
TURNOVER	2	**81**	3
Cost of sales		**(598)**	(724)
GROSS LOSS		**(517)**	(721)
Administrative expenses		**(4,976)**	(4,313)
OPERATING LOSS	3	**(5,493)**	(5,034)
Interest receivable	5	**124**	67
Interest payable	6	**(5)**	(13)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	**(5,374)**	(4,980)
Taxation	7	**–**	–
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	19	**(5,374)**	(4,980)
LOSS PER SHARE – BASIC	8	**(2 951)p**	(4 107)p

There are no recognised gains or losses other than those passing through the profit and loss account

All operations are continuing

Group Balance Sheet
As at 31 May 2007

	Note	2007 £'000	As re-stated 2006 £'000
FIXED ASSETS			
Investments	10	**250**	–
Intangible assets	11	**8,756**	10,052
Tangible assets	12	**901**	455
		9,907	10,507
CURRENT ASSETS			
Stock	13	**600**	13
Debtors	14	**144**	413
Cash at bank and in hand		**680**	534
		1,424	960
CREDITORS amounts falling due within one year	15	**(295)**	(569)
NET CURRENT ASSETS		**1,129**	391
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,036**	10,898
CREDITORS amounts falling due after more than one year	16	**(48)**	(8)
		10,988	10,890
CAPITAL AND RESERVES			
Called up share capital	18	**1,827**	1,277
Share premium account	19	**12,401**	7,764
Merger reserve	19	**10,830**	10,830
Profit and loss account	19	**(14,070)**	(8,981)
EQUITY SHAREHOLDERS' FUNDS	20	**10,988**	10,890

These financial statements were approved by the Board on 25 October 2007

A Egan
Chief Executive Officer

Holding Company Balance Sheet

As at 31 May 2007

	Note	2007 £'000	As re-stated 2006 £ 000
FIXED ASSETS			
Investments	10	**11,650**	11,400
CURRENT ASSETS			
Debtors due within one year	14	**12**	58
Debtors due after more than one year	14	**11,452**	7,230
Cash at bank and in hand		**482**	266
		11,946	7,554
CREDITORS: amounts falling due within one year	15	**(46)**	(155)
NET CURRENT ASSETS		**11,900**	7,399
TOTAL ASSETS LESS LIABILITIES		**23,550**	18,799
CAPITAL AND RESERVES			
Called up share capital	18	**1,827**	1,277
Share premium account	19	**12,401**	7,764
Merger reserve	19	**10,830**	10,830
Profit and loss account	19	**(1,508)**	(1,072)
EQUITY SHAREHOLDERS' FUNDS	20	**23,550**	18,799

These financial statements were approved by the Board on 25 October 2007

Signed on behalf of the Board

A Egan

Chief Executive Officer

Group Cash Flow Statement

Year ended 31 May 2007

	Note	2007 £'000	2006 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21	**(4,386)**	(3,531)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**124**	67
Interest paid		**(5)**	(13)
		119	54
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Proceeds from the sale of tangible assets		**–**	12
Payments to acquire tangible assets		**(514)**	(415)
		(514)	(403)
ACQUISITIONS AND DISPOSALS			
Payments to acquire investments		**(250)**	–
NET CASH OUTFLOW BEFORE FINANCING		**(5,031)**	(3,880)
FINANCING			
Issue of shares net of costs		**5,187**	3,936
Repayment of short term loans		**–**	(392)
Repayment of finance lease and hire purchase contracts		**(10)**	(9)
NET CASH INFLOW FROM FINANCING		**5,177**	3,535
INCREASE/(DECREASE) IN CASH	22 & 23	**146**	(345)

Notes to the Financial Statements
Year ended 31 May 2007

1 **ACCOUNTING POLICIES**

The financial statements are prepared using the following accounting policies which have been consistently applied

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries

Subsidiary undertakings are consolidated using the acquisition method

The Group has taken advantage of Section 131 of the Companies Act 1985 and has credited the premium arising on the acquisition of Felix Corporation Limited to a merger reserve The comparative figures for share premium in 2006 have been re-stated to reflect this change in accounting policy

The Company has taken advantage of Section 230 of the Companies Act 1985 not to produce its own profit and loss account

Acquisitions and disposals

On the acquisition of a business, fair values are attributable to the Group's share of separable net assets Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the period of acquisition

Goodwill

For acquisitions of a business, purchased goodwill is capitalised in the period in which it arises and is amortised over its estimated economic life The Directors regard 10 years as a reasonable period for the estimated economic life of goodwill

Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts

Taxation

Deferred taxation 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 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 arising from revaluations of fixed assets where there is no commitment to sell the asset Deferred tax assets are recognised to the extent that it is regarded as likely that they will be recovered Deferred tax assets and liabilities are not discounted

Notes to the Financial Statements (continued)

Leases
Assets held under finance leases and hire purchase agreements are capitalised as tangible fixed assets and depreciated in accordance with the Group's depreciation policy The capital element of future lease payments is included in the balance sheet as obligations under finance leases and hire purchase agreements Payments are apportioned between the finance element which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease period

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Plant & machinery – MAX BOX	4 years straight line
Plant & machinery – Other	25% reducing balance basis
Fixtures, fittings & equipment	25% reducing balance basis
Motor vehicles	25% reducing balance basis
Assets under construction	0%

In the year to 31 May 2007 MAX BOX machines have been manufactured and installed in customer venues The Board consider a depreciation policy of 4 years straight line to be more prudent and appropriate than the existing policy for other plant and machinery

Pensions
The Group operates insured defined contribution pension schemes for Executive Directors and certain employees Contributions to the schemes are recognised in the profit and loss account as they accrue

Stocks
Stock is valued at the lower of cost and net realisable value

Fixed asset investments
Investments are stated at cost less any provision for the permanent diminution in value

Going concern
The financial statements have been prepared under the going concern basis which assumes that the Company and Group will continue in operational existence for the foreseeable future During the year ended 31 May 2007, the Group made a loss before taxation of £5,374,000 Since the balance sheet date the Group has incurred further losses funded by cash reserves

The Group's progress has been slower than originally envisaged as the development of the machines into targeted retailers has been slower than anticipated

Notes to the Financial Statements (continued)

The Company also raised £4 15m (net of expenses) following a share placing in July 2007, which is intended to assist the Group to implement it strategy as a low cost retailer and kiosk developer in the UK and to speed up distribution by aggregating digital retail products and services for third party kiosk owners internationally in return for license fees and revenue share

Based on current forecasts the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis If the Group was unable to continue in operational existence for the foreseeable future, adjustments would need to be made to reduce the balance sheet values to recoverable amounts, to provide for future liabilities that may arise and to reclassify fixed assets as current assets

Research and development
Research and development expenditure is written off to the profit and loss account in the period in which it is incurred

Financial instruments
The Group uses certain financial instruments in its operating and investing activities that are appropriate to the Group's strategy and circumstances

Financial instruments currently comprise cash, short term debtors and creditors The Group regularly reviews the funding opportunities available to it in order to finance its operations including considering the use of borrowing, as well as equity, to fund short term cash requirements

The Group has taken advantage of the exemptions available under FRS13 for the disclosures relating to short-term debtors and creditors

Share based payments
During the year the Group has adopted FRS20 and re-stated comparatives accordingly

The fair value of shares/options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the share/option

In accordance with the transitional provision of FRS20 no expenses are recorded in respect of grants made prior to 27 November 2002 or which have vested by 1 January 2006

2 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss on ordinary activities before taxation arise from the Group's principal activity and originate in the United Kingdom

3. OPERATING LOSS

The Group operating loss is shown after charging

		2007 £'000	2006 £'000
Depreciation on tangible assets	– owned	**74**	22
	– held under finance leases & hire purchase contracts	**15**	10
Loss on disposal of tangible assets		**25**	8
Amortisation of goodwill		**1,296**	1,296
Rentals under operating leases	– land and buildings	**67**	47
	– other	**1**	–
Auditors' fees	– audit fees	**23**	17
	– taxation	**3**	4
	– review of interim accounts	**3**	4
	– consultancy	**1**	8

4 STAFF COSTS AND EMPLOYEES

	2007 £'000	2006 £'000
Wages and salaries	**1,375**	1,174
Fees	**76**	120
Social security costs	**157**	142
Other pension costs	**88**	64
	1,696	1,500

The average monthly number of employees, including Executive Directors, during the period was as follows

	2007 Number	2006 Number
Administration and management	**24**	17
Operational and sales	**6**	4
	30	21

Details of the Directors' remuneration are given in the Report of the Remuneration Committee on pages 14 and 15

Notes to the Financial Statements (continued)

5 INTEREST RECEIVABLE

	2007 £'000	2006 £ 000
Bank interest	**124**	67

6 INTEREST PAYABLE

	2007 £'000	2006 £ 000
Hire purchase and finance lease contracts	**3**	2
Other interest	**2**	11
	5	13

7 TAXATION

(a) No taxation liability is expected to arise due to the loss for the year

(b) Factors affecting the tax charge for the year

	2007 £'000	As re-stated 2006 £'000
Loss on ordinary activities for the year before taxation	**(5,374)**	(4,980)
Loss on ordinary activities for the year before taxation multiplied by standard rate of UK corporation tax of 30% (2006 – 30%)	**(1,612)**	(1,494)
Effects of		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**487**	435
Depreciation for the period in excess of Capital allowances	**25**	10
Tax losses carried forward	**1,100**	1,049
Current tax charge	**–**	–

(c) Factors that may affect future tax charges – The Group has approximate unutilised tax losses amounting to £11,496,000 (2006 – £7,837,000) the value of which is not recognised in the balance sheet These losses and other timing differences represent a potential deferred taxation asset of £3,485,000 (2006 – £2,348,000) which would be recoverable should the company make sufficient suitable taxable profits in the future

Notes to the Financial Statements (continued)

8 LOSS PER SHARE

The calculation of basic loss per share is based on a loss of £5,374,000 (2006 – £4,980,000) and on 182,055,486 (2006 – 121,245,378) ordinary shares, being the weighted average number of ordinary shares in issue during the period

As the Group reports a loss for the period then, in accordance with Financial Reporting Standard Number 14, the share options in issue are not considered dilutive

9. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts The Parent Company's loss for the financial year amounted to £436,019 (2006 – £591,105)

10 INVESTMENTS

	Group Other investments £'000	Company Subsidiary under-takings £'000	Other investments £ 000	Total £'000
Cost				
At 1 June 2006	–	11,400	–	11,400
Additions	250	–	250	250
At 31 May 2007	250	11,400	250	11,650
Provisions				
At 1 June 2006 and at 31 May 2007	–	–	–	–
Net book value				
At 31 May 2007	250	11,400	250	11,650
At 1 June 2006	–	11,400	–	11,400

Details of the investments in which the Company (unless indicated) holds 50% or more of the nominal value of any class of share capital are as follows

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
Felix Corporation Limited	Ordinary shares	100%	*
Chestnut Prospects Limited	Ordinary shares	100%	Dormant

*This is the principal trading company in the Group

Notes to the Financial Statements (continued)

11 INTANGIBLE ASSETS

Group	Goodwill £'000	Other £ 000	Total £'000
Cost			
At 1 June 2006	12,969	–	12,969
Additions	–	75	75
Disposals	–	(75)	(75)
At 31 May 2007	12,969	–	12,969
Amortisation			
At 1 June 2006	2,917	–	2,917
Provided during the year	1,296	–	1,296
At 31 May 2007	4,213	–	4,213
Net book value at 31 May 2007	8,756	–	8,756
Net book value at 31 May 2006	10,052	–	10,052

On 4 September 2006 the Group acquired the digital kiosk business of 4Kiosk Solutions Limited The consideration was £75,000 in respect of intellectual property and software This was included in the Group balance sheet at 30 November 2006 at cost but it has subsequently been decided to expense this balance to administrative expenses within the profit and loss account for the year

Goodwill arising on the acquisition of Felix Corporation Limited is being amortised evenly over its estimated useful economic life of 10 years

Notes to the Financial Statements (continued)

12 TANGIBLE ASSETS

Group	Assets under Construction £ 000	Plant and machinery £ 000	Fixtures, fittings & equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost					
At 1 June 2006	349	29	116	57	551
Additions	488	5	23	68	584
Transfers	(523)	523	–	–	–
Disposals	–	(35)	–	(57)	(92)
At 31 May 2007	314	522	139	68	1,043
Depreciation					
At 1 June 2006	–	9	61	26	96
Provided during the year	–	57	18	14	89
On disposals	–	(17)	–	(26)	(43)
At 31 May 2007	–	49	79	14	142
Net book value at 31 May 2007	314	473	60	54	901
Net book value at 31 May 2006	349	20	55	31	455

The Group's motor vehicles include assets held under finance leases and hire purchase contracts with a net book value of £54,116 (2006 – £29,945)

13 STOCK

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Machine parts	**600**	13	–	–

Notes to the Financial Statements (continued)

14 DEBTORS

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Trade debtors	**27**	27	**–**	–
Amounts due from group undertaking	**–**	–	**11,452**	7,230
Prepayments and accrued income	**66**	259	**6**	26
Other debtors	**51**	127	**6**	32
	144	413	**11,464**	7,288

The amount due to the Company from a Group undertaking of £11,452,000 (2006 – £7,230,000) is due after more than one year The Board consider that based on the Group's financial forecasts this balance is recoverable

15 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£ 000
Obligations under finance leases and hire purchase contracts	**10**	13	**–**	–
Trade creditors	**111**	419	**3**	139
Taxation and social security costs	**46**	3	**–**	–
Accruals and deferred income	**128**	134	**43**	16
	295	569	**46**	155

Obligations under finance leases and hire purchase contracts are secured on the assets financed

Notes to the Financial Statements (continued)

16 CREDITORS AMOUNTS FALLING AFTER MORE THAN ONE YEAR

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£ 000
Obligations under finance leases and hire purchase contracts	**48**	8	**–**	–

Repayable as follows

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Between 1 and 2 years	**10**	8	**–**	–
Between 2 and 5 years	**38**	–	**–**	–
	48	8	**–**	–

17 FINANCIAL INSTRUMENTS

The Group's policies as regards derivatives and financial instruments are set out in the accounting policies in note 1 The Group does not trade in financial instruments

Short-term debtors and creditors have been omitted from all disclosures

Interest rate risk profile

Financial assets

The Group has no financial assets, other than short-term debtors and sterling cash deposits of £680,000 (2006 – £534,000) The cash deposits attract variable rates of interest and an analysis of the rates at the period end is as follows

Interest rate %	Amount £'000
5 25	436
3 25	244
	680

Currency exposures

At 31 May 2007 and 31 May 2006 the Group had no currency exposures

Notes to the Financial Statements (continued)

18 SHARE CAPITAL

	2007	2006
Group and Company	**£'000**	£'000
Authorised		
500,000,000 ordinary shares of 1p each	**5,000**	5,000
Allotted, called up and fully paid		
182,658,226 (2006 – 127,658,226) ordinary shares of 1p each	**1,827**	1,277

	£'000
At 1 June 2006	**1,277**
New shares issued under share placings	**550**
At 31 May 2007	**1,827**

On 4 June 2006, the company issued 55,000,000 ordinary shares of 1p each at a premium of 9p per share

Share options

The share options in issue which all relate to ordinary shares of 1p are as follows

Date granted	Exercise price	Number of options at 1 June 2006	Granted in period	Exercised in period	Lapsed in period	Number of options at 31 May 2007	Exercise Period
14 July 2003	5p	2 250 000	–	–	–	2 250 000	14 July 2003 to 13 July 2013
8 March 2004	3 74p	1 437 284	–	–	–	1,437 284	8 March 2004 to 21 January 2014
8 March 2004	3 74p	240 635	–	–	–	240,635	17 February 2005 to 16 February 2009
8 March 2004	20p	750 000	–	–	–	750 000	8 March 2005 to 7 March 2009
22 December 2005	1p	8 550,000	–	–	(2 800,000)	5 750 000	22 December 2005 to 21 December 2015
14 July 2006	12 38p	–	3 435 000	–	(50,000)	3 385 000	14 July 2006 to 13 July 2016
17 July 2006	12 38p	–	75 000	–	–	75 000	17 July 2006 to 16 July 2016
4 September 2006	12 38p	–	882 754	–	–	882 754	4 September 2006 to 3 September 2016
1 February 2007	4 75p	–	75 000	–	–	75 000	1 February 2007 to 31 January 2017
16 April 2007	8p	–	100 000	–	–	100 000	16 April 2007 to 15 April 2017

No options were exercised in the period The options of two employees who ceased employment in the period lapsed

Notes to the Financial Statements (continued)

19 RESERVES

Group	Merger reserve £'000	Share premium account £ 000	Profit and loss account £'000
At 1 June 2006 – as previously reported	–	18,594	(8,981)
Prior year adjustment – acquisition of subsidiary	10,830	(10,830)	–
At 1 June 2006 – as re-stated	10,830	7,764	(8,981)
Arising during the year	–	4,950	–
Expenses of share issue	–	(313)	–
Share option – charge included in loss for year	–	–	285
Loss for the year	–	–	(5,374)
At 31 May 2007	10,830	12,401	(14,070)

Company	Merger reserve £ 000	Share premium account £ 000	Profit and loss account £'000
At 1 June 2006 – as previously reported	–	18,594	(1,072)
Prior year adjustment – acquisition of subsidiary	10,830	(10,830)	–
At 1 June 2006 – as re-stated	10,830	7,764	(1,072)
Arising during the year	–	4,950	–
Expenses of share issue	–	(313)	–
Loss for the year	–	–	(436)
At 31 May 2007	10,830	12,401	(1,508)

During the year the Group has adopted FRS 20 and re-stated comparatives accordingly The effect of this change in accounting policy has been to increase the current year loss by £285,000 and increase the previous years loss by £56,000 This has no cash impact

The Group has taken advantage of Section 131 of the Companies Act 1985 and has credited the premium arising on the acquisition of Felix Corporation Limited to a merger reserve The comparative figures for share premium in 2006 have been re-stated to reflect this change in accounting policy

Notes to the Financial Statements (continued)

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2007 £'000	As re-stated 2006 £'000	Company 2007 £'000	2006 £'000
Loss for the financial year	**(5,374)**	(4,980)	**(436)**	(591)
Share option charge included in loss for the year	**285**	56	**–**	–
Issue of shares (net of costs)	**5,187**	3,936	**5,187**	3,936
Net increase/(decrease) for the year	**98**	(988)	**4,751**	3,345
Shareholders' funds brought forward	**10,890**	11,878	**18,799**	15,454
Shareholders' funds carried forward	**10,988**	10,890	**23,550**	18,799

21 RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2007 £'000	As re-stated 2006 £ 000
Operating loss	**(5,493)**	(5,034)
Depreciation	**89**	32
Loss on disposal	**25**	8
Amortisation	**1,296**	1,296
Share option cost	**285**	56
Movement in stocks	**(587)**	20
Movement in debtors	**270**	(168)
Movement in creditors	**(271)**	259
Net cash outflow from operating activities	**(4,386)**	(3,531)

22 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 June 2006 £'000	Cash flows £ 000	Non cash movements £'000	At 31 May 2007 £'000
Cash at bank and in hand	534	146	–	**680**
Debt due within one year				
Finance leases and hire purchase	(12)	5	(3)	**(10)**
Debt due in more than one year				
Finance leases and hire purchase	(8)	5	(45)	**(48)**
	(20)	10	(48)	**(58)**
Net funds	514	156	(48)	**622**

Notes to the Financial Statements (continued)

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2007 £'000	2006 £ 000
Change ın net funds resultıng from cash flows	**146**	(345)
Cash outflow from decrease ın debt and lease financıng	**10**	401
Changes ın net funds resultıng from cash flows	**156**	56
Hıre purchase	**(48)**	–
Net funds brought forward	**514**	458
Net funds carrıed forward	**622**	514

24 COMMITMENTS

	Land and buıldıngs 2007 £'000	Land and buıldıngs 2006 £ 000	Other 2007 £'000	Other 2006 £ 000
(a) At 31 May 2007 and 31 May 2006 the Group had annual commıtments under operatıng leases expırıng as follows				
Between 2 and 5 years	**–**	–	**2**	3
In over 5 years	**77**	46	**–**	–

The Company had no annual payment oblıgatıons under operatıng leases

(b) Capıtal commıtments

The Group had capıtal commıtments at 31 May 2007 of £17,000 whıch were ın respect of components to manufacture ıts MAX BOX retaıl kıosk (2006 – £968,000)

The Company had no capıtal commıtments at eıther 31 May 2007 or 31 May 2006

25 PENSIONS

The Group operates ınsured defined contrıbutıon pensıon schemes for the benefit of certaın Executıve Dırectors and employees The assets of the schemes are held separately from those of the Group ın ındependently admınıstered funds The pensıon cost charges represent contrıbutıons payable to the funds and amount to £145,346 (2006 – £64,113) Accrued pensıon costs at the year end totalled £nıl (2006 – £nıl)

26 RELATED PARTY TRANSACTIONS

In the 12 months to 31 May 2007, A Uren was paıd £10,000 (2006 – £8,000) ın fees for consultancy servıces to Felıx Corporatıon Lımıted

27 POST BALANCE SHEET EVENTS

On 12 July 2007 the Company ıssued 57,680,000 ordınary shares of 1p each at a premıum of 6 5p per share Thıs ıssue raısed £4 15m net of expenses

The financıal statements were authorısed for ıssue by the Board on 25 October 2007

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Felix Group plc will be held at Cherry Tree House, Cherry Tree Lane, Rostherne, Cheshire WA14 3RZ on 21 November 2007 at 12 00 noon for the following purposes

ORDINARY BUSINESS

1 To receive and adopt the Reports of the Directors and Auditors and the Financial Statements for the year ended 31 May 2007

2 To re-elect as a Director L J Sherratt who retires in accordance with the Company's Articles of Association and offers herself for re-election

3 To re-elect as a Director M D Masters who retires in accordance with the Company's Articles of Association and offers himself for re-election

4 To re-appoint UHY Hacker Young as Auditors of the Company and to authorise the Audit Committee to determine their remuneration

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution as an ordinary resolution

5 **THAT**, the Directors be and hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in section 80(2) (as amended) of the Act) of the Company up to a maximum aggregate nominal amount of £120,338 (representing 5 per cent of the issued share capital of the Company at the date of this notice) during the period from the date of the passing of the resolution until the earlier of the conclusion of the next Annual General Meeting of the Company in 2008 or the date falling fifteen months from the date of the passing of this resolution, at the end of which period such authority will expire unless previously varied or revoked by the Company in a general meeting of the shareholders, provided that the Company shall be entitled under the authority hereby conferred to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority pursuant to such offer or agreement as if such authority had not expired

Notice of Annual General Meeting (continued)

To consider and, if thought fit, to pass the following resolution as a special resolution

6 **THAT,** in substitution for any existing and unexercised authorities and subject to the passing of resolution 5, the Directors be and are hereby empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) pursuant to the general authority to allot relevant securities given to the Directors by resolution 5 as if section 89(1) of the Act did not apply to such allotment **PROVIDED THAT** such power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £120,338 (representing 5 per cent of the issued share capital at the date of this notice) such authority to expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company in 2008 or the date falling fifteen months following from the date of the passing of this resolution, unless renewed or extended prior to such time

By order of the Board

L J Sherratt

Company Secretary

25 October 2007

Notes

1 A member entitled to attend and vote at the meeting convened by this notice may appoint one or more proxies to attend and, on a poll, vote instead of him

2 The proxy need not be a member of the company Appointment of a proxy will not preclude a member from attending and/or voting at the meeting

3 A form of proxy for use at the meeting is enclosed and, if used should be lodged at the address stated thereon prior to 12 noon on 19 November 2007

4 The time by which a person must be entered on the register of members in order to have the right to attend or vote at the Annual General Meeting is 12 00 noon on 19 November 2007 Changes to entries on the register of members after that time and date will be disregarded in determining the rights of any person to attend or vote at the meeting

Form of Proxy

For use only by holders of ordinary shares having the right to attend and vote at the Annual General Meeting of the Company to be held at Cherry Tree House, Cherry tree Lane, Rostherne, Cheshire, WA14 3RZ on 21 November 2007 at 12 00 noon

I/We of

(BLOCK CAPITALS PLEASE)

being a Member/Members of Felix Group plc appoint the Chairman of the meeting or

of

as my/our proxy to vote and act for me/us on my/our behalf at such Annual General Meeting and at any adjournment thereof in connection with the following resolutions of which notice has been given

Resolution **Ordinary business**

1 To receive and adopt the Reports of the Directors and Auditors and the Accounts for the period ended 31 May 2007 FOR/AGAINST*

2 To re-elect L J Sherratt as a Director of the Company FOR/AGAINST*

3 To re-elect M D Masters as a Director of the Company FOR/AGAINST*

4 To re-appoint UHY Hacker Young as auditors of the Company and to authorise the Audit Committee to determine their remuneration FOR/AGAINST*

Resolution **Special business**

5 To authorise the Directors to allot equity securities under Section 80 of Companies Act 1985 FOR/AGAINST*

6 To authorise the Directors to allot equity securities under Section 95 of Companies Act 1985 (as if Section 89(1) of that Act did not apply) FOR/AGAINST*

(*Strike out whichever is not desired)

Signed Dated

Notes

1 A person entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him or her A proxy need not be a member of the Company To be valid the instrument appointing a proxy together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must reach the Company s registrars Capita Registrars Proxies Department, PO Box 25, Beckenham, Kent BR3 4BR, by 12 00 noon on 19 November 2007

2 A person who has appointed a proxy may nevertheless attend the meeting and vote, in which case any votes cast by the proxy will be superseded

3 You may, if you wish delete the words Chairman of the meeting' and substitute the name(s) of your choice If you do so you must initial such alteration

4 In the case of a corporation this form must be executed under its common seal or under the hand of an officer or attorney so authorised In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown If one or more joint holders votes either personally or by proxy that one of them whose name stands first in the register of members shall alone be entitled to vote

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BUSINESS REPLY SERVICE
Licence No MB 122

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Capita Registrars
Proxies Department
PO Box 25
Beckenham
Kent
BR3 4BR

FIRST FOLD

SECOND FOLD

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Telephone 01565 831100 Fax 01565 831101 website www felixgroupplc com
Company Registration No 04755803 (England & Wales)
Registered office as above
Perivan Financial Print 210541