Company's Registered Number: 3955206

# CATALYST MEDIA GROUP PLC

Report and financial statements for the year ended 31 March 2008

**Contents**

**Directors**

| | |
|---|---|
| Michael Rosenberg OBE | Chairman |
| Mark Hawtin | Non-executive Director |
| Melvin Lawson | Non-executive Director |
| Christopher Mills | Non-executive Director |

**Secretary**

CETC (Nominees) Limited
Quadrant House
17 Thomas More Street
Thomas More Square
London E1W 1YW

**Registered office and Company registration number**

Portland House
4 Great Portland Street
London W1W 8QJ
Registration number: 3955206

**Solicitors**

Lewis Silkin LLP
5 Chancery Lane
Clifford's Inn
London EC4A 1BL

Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA

**Nominated adviser & broker**

Strand Partners Limited
26 Mount Row
London W1K 3SQ

**Registrars**

Capita IRG Plc
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Auditors**

Nexia Smith and Williamson
25 Moorgate
London EC2R 6AY

**Tax advisers**

Middletons
Higher Langdon Farm
North Bovey
Newton Abbot
Devon
TQ13 8RR

**Bankers**

National Westminster Bank Plc
Hammersmith Branch
22 Kings Mall
London W6 0QD

During the year under review the Board of Catalyst Media Group Plc (CMG) has continued the process of reducing overheads with a view to focusing its main activity on the holding in Satellite Information Services (Holdings) Ltd ("SIS"). In addition it has progressed the development of the two games referred to in previous statements to shareholders, namely Tringo and Spoof.

The funds raised in the Placing and Open Offer on 10 April 2007 enabled the repayment of a significant proportion of the outstanding facility with Investec, which substantially de-geared the Group. The balance of the Investec facility was repaid using funds raised from new loans provided by NatWest Bank. As a consequence total debt as at 31 March 2008 amounted to £7.3 million (2007: £17.3 million).

In April 2008 Newsplayer International Limited was sold for £225,000. This completes the exit from previous businesses owned by the Group save for the development of the games referred to above. Royalties are still receivable from Global Media Services Inc until 31 December 2009.

For the year ended 31 March 2008 the Group showed profit after tax of £1.0 million (2007: a loss of £3.3 million). Net assets at the balance sheet date were £22.9 million (£11.9 million).

**SIS**

For the year to 31 March 2008 SIS reported revenues of £ 159 million (2007: £138 million) and profit before taxation of £26.1 million (2007: £24.3 million). CMG owns 20.54% of SIS and has accounted for its share of the profits of SIS as an equity-accounted associate in the consolidated financial statements.

SIS has three principal activities namely:

- The provision of satellite news gathering and associated transmission services through its market leading SISLINK division (Uplink Services);
- The long established business of providing integrated TV and information services delivered via satellite to licensed betting offices in the UK, Ireland and overseas (Racing Services); and
- The provision of TV production services for other broadcasters (Other Services).

The SISLINK division was materially increased in size by the acquisition on 1 April 2008 of the assets of 'BBC Outside Broadcasts', formerly a division of BBC Resources Limited.

During the year Turf TV launched a TV service providing coverage of horseracing to the UK and Ireland's Bookmakers. Despite this the SIS group has strengthened its position and is delivering all of the televised services into more than 65% of the market. It is now one of the most experienced television production and outside broadcast service providers in Europe. With the acquisition of the 'BBC Outside Broadcasts' the business has further enhanced its leading position. The SISLink division launched a US alliance with Intelsat, the world's leading supplier of commercial satellite services, to market its successful uPod product into the US market.

During the year ended 31 March 2008 SIS paid a dividend of £10 million to shareholders and has a policy in place to pay dividends of not less than 50% out of retained profits subject only to cash flow considerations.

## Directors

Anna Prestwich, the Chief Financial Officer of the company resigned in May 2008.

## AGM

The notice of AGM includes two items of special business. The first is a proposal to allow the Company to purchase shares in the market up to a limit of 15% of the issued share capital. While the company has no immediate plans to do so it does enable such action to be taken as and when the Board feels this would benefit shareholders.

The second is a proposal to extend the percentage of the share capital that can be issued for cash without the need to offer such shares to all shareholders. The present authority is limited to 5% and the current proposal is to increase this to 15%. This authority will expire on 4 April 2012.

## Conclusion

The future of the Company is now materially linked to the trading prospects for SIS. We are represented on the SIS Board and participate in major strategic decisions. SIS continues to trade profitably in its core businesses and the acquisition of the 'BBC Outside Broadcast' business will add significantly to the scale of the SISLink business which will also benefit from the joint venture with Intelsat. However during the year to 31 March 2009 SIS will incur one-off integration and acquisition costs relating to that business which may impact on earnings for that year.

The online games of Tringo and Spoof are not considered core businesses for the Company but in line with its contractual obligations, it is intended to find the best route to bring them to market as soon as practicable.

Meanwhile the overheads of CMG have been reduced and, excluding financing costs related to the SIS investment and the retirement of older debt and other exceptional costs, were £642,703 (2007: £989,447). The total administrative costs for 2008 include a number of non-recurring items. Costs incurred in the operation of our day-to-day continuing businesses in 2008 were approximately £379,900. For the year ending 31 March 2009 overheads are expected to continue to reduce.

**Michael Rosenberg OBE**
**Chairman**

**Date: 23 September 2008**

The directors present their annual report and the audited financial statements for the year ended 31 March 2008.

**Financial reporting**

The financial statements for 2008 have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group and Company adopted IFRSs with a transition date of 1 April 2006.

**Results and dividends**

The Group made a profit after taxation of £1.0 million (2007: loss of £3.3 million). Further details are shown in the Group income statement on page 13.

The Directors do not recommend a dividend.

**Principal activities**

The principal trading activity going forward is the continued development of an on-line gaming platform with fixed odds and exclusive head-to-head games.

The Group received royalties in the year from Global Media Services Inc ("GMS") which represent the deferred consideration for the disposal of the Group's interest in that business in 2007. GMS provides a range of technical services to enable the online distribution of audio-visual content

The Group also owns a 20.54% stake in Satellite Information Services (Holdings) Limited ("SIS"). The principal activities of SIS are:

- The provision of news gathering and associated transmission services through its market-leading SISLink division (uplink services), which now accounts for the major contribution to the continued profitability of SIS;
- The provision of integrated television and information services delivered via satellite to licensed betting offices in the United Kingdom, Ireland and overseas (racing services); and
- The provision of television production services for other broadcasters (other services).

On 1 April 2008 the SIS Outside Broadcast Limited, a wholly-owned subsidiary of SIS, acquired the assets of the 'BBC Outside Broadcasts' business a division of BBC Resources Limited.

**Review of the business**

A review of the business is included within the Chairman's Statement.

**Capital structure**

At 1 April 2007 the Company's issued share capital comprised 714,319,736 ordinary shares of 1 pence each.

On 4 April 2007 the Company raised £10.1 million net of expenses through the placing of 801,236,844 ordinary shares of 1 pence each with institutional and other investors and the issue of 1,298,763,156 ordinary shares of 1 pence each under an open offer. Also on 4 April 2007 the

Company's share capital was reorganised whereby each 1 pence old share was divided into one ordinary share of 0.1 pence and one deferred share of 0.9 pence.

Funds raised were used in part to reduce the Group's indebtedness and to provide working capital for the ongoing operations within the Group including development of its on-line gaming platform.

On 25 October 2007, the Company passed a resolution that every 100 issued and un-issued ordinary shares of 0.1p each in the capital of the Company are consolidated into 1 ordinary share of 10 pence, and so the authorised share capital of the Company became £13,000,000 divided into 65,711,223 ordinary shares of 10 pence each and 714,319,736 deferred shares of 0.9 pence each.

The current share capital of the Company comprises 28,143,197 ordinary shares of 10 pence each and 714,319,736 deferred shares of 0.9 pence each.

## Principal risks and uncertainties

### *Investment in SIS*

The principal investment of the Group is its 20.54% holding in Satellite Information Services (Holdings) Limited (SIS). The Group is entitled to appoint one director to the board of SIS which currently comprises nine directors, of which five are appointed by shareholders, three are independent and one is the chief executive. Although it can influence the board on strategic decisions, the Group is not in a position to control the day-to-day business and affairs of SIS other than with the support of other directors and a majority of shareholders of SIS.

SIS has adopted a formal dividend policy to pay out no less than 50% of distributable earnings subject to cash flow considerations. However any future dividends paid by SIS are, inter alia, dependent on the profitability of SIS and the resolutions of the board of SIS to declare such dividends.

There are a number of risks and uncertainties associated with the business of SIS which could potentially have an adverse impact on the value of the Group's investment.

- SIS operates in competitive markets. This can result in downward pressure on prices and loss of customers. SIS aims to mitigate this risk by expanding the range of products and services it offers.

- The customers of SIS rely upon real time data and uninterrupted content delivery. Loss of content would result in reduced quality of services and potentially reduced income. Therefore SIS has adopted advanced disaster recovery solutions and has built back up facilities which are located around the country.

### *Online gaming platform*

The Group has invested in the development of its on-line gaming platform. The development of these games is in the functional testing stage and no live offering has yet been made available to the public. The Group is exposed to the risk that the projected revenues from the on-line gaming platform may be below initial expectations.

The Board is closely monitoring the progress of the ongoing development of these games.

***Financial risks***

Dividend income from the Group's investment in SIS is currently a major source of new funding for the Group. Further information is provided in note 27 of the financial statements.

**Key Performance Indicators (KPIs)**

The Company's key performance indicators used by the Board in monitoring the general performance of the Group and its investments are:

***Earnings per share (EPS)***

EPS shows the relative performance year-on-year of the Group profitability measured as an amount of profit or loss attributable to one equity share. The calculation of earnings per share is based on the weighted average number of issued ordinary shares in issue for the financial year and the profit/(loss) after taxation attributable to ordinary shareholders. EPS in respect of continuing operations for the year and the previous year is shown in the Group income statement on page 13. The EPS shows an improvement in the performance of the Group from the previous year.

***Net asset value and net asset value per share.***

The net asset value per share of the Group is 81.5 pence (2007: 166.2 pence). Although the net asset value in total has improved in the year; mainly due to the issue of equity shares in the year, the receipt of a dividend from SIS and reduction in the year of debt from £17.3 million to £7.3 million, the net asset value per share reflects additional shares issued in the placing and open offer on 4 April 2007. The net asset value of the Group at 31 March 2008 and 31 March 2007 is shown on the Group balance sheet on page 14.

***Other measures***

The Board closely monitors Group cash projections and the comparison of operating costs to budgeted costs.

| | **2008** | **2007** |
|---|---|---|
| | **£** | **£** |
| Cash balances at 31 March | 1,209,088 | 1,948,586 |
| Operating costs prior to exceptional expenditure | 642,703 | 989,447 |

In addition to the above the Board also considers non-financial factors such as the Group's compliance with Corporate Governance Standards.

## Directors

The Directors of the Company during the year were:

| | |
|---|---|
| Michael Rosenberg OBE | Chairman |
| Mark Hawtin | Non-executive Director |
| Melvin Lawson | Non-executive Director |
| Christopher Mills | Non-executive Director |
| Anna Prestwich | Resigned 28 May 2008 |

The Company has Directors' and Officers liability insurance in place.

## Employees

The Group had one employee other than the Directors at 31 March 2008. The average number of employees during the year was two.

## Post-balance sheet events

There were no significant post-balance sheet events.

## Policy and practice on the payment of creditors

The policy of the Group is to settle supplier invoices within the terms and conditions of trade agreed with individual suppliers. At the year-end the Group had an average of 71 days (2007 – 85 days) purchases outstanding.

## Political and charitable donations

The Group made charitable donations totaling £500 during the year (2007 – £2,500). The Company made no political donations.

## Going concern

The directors can report that based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

## Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware: and
- that director has taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

A resolution to reappoint Nexia Smith & Williamson as auditors to the Company will be proposed at the forthcoming Annual General Meeting (notice of which is set out on page 59).

## Corporate governance

### *Internal financial control*

The Group operates a system of internal financial control commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a comprehensive system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board. The Board has responsibility for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. The Group does not currently have, nor considers there is currently a need for, an internal audit function.

## Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In relation to the Group financial statements, the directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and its financial performance and cash flows for that period. In relation to the Company's financial statements, the directors are required by law to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company for that period. In preparing the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in applicable accounting standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- State that the Group has complied with the applicable accounting standards subject to any material departures disclosed and explained in 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 Group and of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors have a reasonable expectation that the Group has 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 financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Annual General Meeting

Notice of the Annual General Meeting of the Company for 2008 is on page 59.

On behalf of the Board

Michael Rosenberg OBE
Chairman.
23 September 2008

**Independent auditors' report to the shareholders of Catalyst Media Group plc**

We have audited the Group and parent Company financial statements (the 'financial statements') of Catalyst Media Group plc for the year ended 31 March 2008 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, the Group and parent Company Statements of Changes in Equity, and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985 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).

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 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 the information specified by law regarding directors' remuneration and transactions with the Company 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 and the Chairman's 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's and parent Company's affairs as at 31 March 2008 and of the Group's profit 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.

Nexia Smith & Williamson

**Nexia Smith & Williamson**
Chartered Accountants
Registered Auditors

25 Moorgate
London
EC2R 6AY

Date: 23 September 2008

## Consolidated income statement

| | Note | 2008 £ | 2007 £ |
|---|---|---|---|
| Revenue | **3** | 130,337 | 40,742 |
| Cost of sales | | - | (985) |
| Gross profit | | 130,337 | 39,757 |
| Administrative expenses | | (642,703) | (989,447) |
| Loss on sale of subsidiary | | (21,561) | - |
| Share-based payments released | | - | 83,920 |
| Profit on sale of investment | | - | 151,075 |
| Impairment of goodwill | | - | (1,840,615) |
| Impairment of development costs | **13** | (129,254) | (1,060,097) |
| Total administrative expenses | | (793,518) | (3,655,164) |
| Operating loss | | (663,181) | (3,615,407) |
| Financial income | **10** | 64,646 | 7,666 |
| Financial costs | **11** | (1,809,778) | (1,227,128) |
| Net financial costs | | (1,745,132) | (1,219,462) |
| Share of profit from equity-accounted associate | **19** | 2,814,023 | 1,307,692 |
| Profit/(loss) before taxation | | 405,710 | (3,527,177) |
| Taxation | **14** | 687,000 | 1,010,757 |
| Profit/(loss) for the year from continuing operations | | 1,092,710 | (2,516,420) |
| Loss for the year from discontinued operations | **5** | (132,634) | (754,791) |
| Profit/(loss) for the year | | 960,076 | (3,271,211) |
| Loss for the period attributable to minority interests | | - | 198,371 |
| Profit/(loss) attributable to equity holders of the Company | | 960,076 | (3,072,840) |
| *Earnings/(loss) per share* | | | |
| Basic | **15** | 3.4p | (44.8p) |
| Diluted | **15** | 3.4p | (44.8p) |
| *Earnings/(loss) per share from continuing operations:* | | | |
| Basic | **15** | 3.9p | (33.8p) |
| Diluted | **15** | 3.9p | (33.8p) |

The notes on pages 21 to 57 form part of these financial statements.

## Consolidated balance sheet

| | Note | 2008<br>£ | 2007<br>£ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | **16** | - | 104,744 |
| Intangible assets | **17** | 66,447 | 230,349 |
| Property, plant and equipment | **18** | 758 | 54,892 |
| Investment in associate | **19** | 28,909,152 | 28,148,814 |
| | | 28,976,357 | 28,538,799 |
| **Current assets** | | | |
| Trade and other receivables | **21** | 526,190 | 1,401,669 |
| Cash and cash equivalents | **22** | 1,209,088 | 1,948,586 |
| | | 1,735,278 | 3,350,255 |
| **Total assets** | | 30,711,635 | 31,889,054 |
| **Equity and liabilities** | | | |
| **Capital and reserves attributable to equity holders of the parent** | | | |
| Share capital | **23** | 9,243,197 | 7,143,197 |
| Share premium | | 38,904,450 | 30,896,287 |
| Merger reserve | | 2,402,674 | 2,402,674 |
| Share option reserve | **24** | - | 388,526 |
| Retained deficit | | (27,610,843) | (28,959,445) |
| **Total equity** | | 22,939,478 | 11,871,239 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | **25** | 7,312,689 | 17,305,000 |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | **25** | - | 160,000 |
| Trade and other payables | **26** | 459,468 | 2,552,815 |
| | | 459,468 | 2,712,815 |
| **Total equity and liabilities** | | 30,711,635 | 31,889,054 |

The financial statements were approved by the Board of Directors and authorised for issue on 23 September 2008.

Michael Rosenberg OBE
Director

The notes on pages 21 to 57 form part of these financial statements.

**Consolidated statement of changes in equity**

**Attributable to equity holders of the Company**

| | Share Capital | Share Premium | Merger Reserve | Share option reserve | Retained deficit | Total shareholders equity | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ |
| At 1 April 2006 | 6,272,361 | 27,928,193 | 2,402,674 | 472,446 | (25,688,234) | 11,387,440 | 2,248,420 | 13,635,860 |
| Loss for the year | - | - | - | - | (3,271,211) | (3,271,211) | (198,371) | (3,469,582) |
| Total recognised income and expense for the year | - | - | - | - | (3,271,211) | (3,271,211) | (198,371) | (3,469,582) |
| Minority interest acquired in the year | - | - | - | - | - | - | (2,050,049) | (2,050,049) |
| Shares issued in year | 870,836 | 2,968,094 | - | - | - | 3,838,930 | - | 3,838,930 |
| Share-based payment adjustment (note 24) | - | - | - | (83,920) | - | (83,920) | - | (83,920) |
| At 31 March 2007 | 7,143,197 | 30,896,287 | 2,402,674 | 388,526 | (28,959,445) | 11,871,239 | - | 11,871,239 |
| At 1 April 2007 | 7,143,197 | 30,896,287 | 2,402,674 | 388,526 | (28,959,445) | 11,871,239 | - | 11,871,239 |
| Profit for the year | - | - | - | - | 960,076 | 960,076 | - | 960,076 |
| Total recognised income and expense for the year | - | - | - | - | 960,076 | 960,076 | - | 960,076 |
| Shares issued in year | 2,100,000 | 8,400,000 | - | - | - | 10,500,000 | - | 10,500,000 |
| Share issue expenses | - | (391,837) | - | - | - | (391,837) | - | (391,837) |
| Share-based payment adjustment (note 24) | - | - | - | (388,526) | 388,526 | - | - | - |
| At 31 March 2008 | 9,243,197 | 38,904,450 | 2,402,674 | - | (27,610,843) | 22,939,478 | - | 22,939,478 |

The notes on pages 21 to 57 form part of these financial statements.

The following describes the nature and purpose of each reserve within owners' equity.

| | |
|---|---|
| Share capital | Amount subscribed for shares at nominal value. |
| Share premium | Amount subscribed for share capital in excess of nominal value. |
| Merger reserve | Amounts arising from the merger of subsidiary investments. |
| Share option reserve | Amounts credited to equity in respect of options to acquire ordinary shares in the Company expensed in profit and loss as share-based payments. |
| Retained deficit | Cumulative profit/(loss) of the Group attributable to equity shareholders. |

**Consolidated cash flow statement**

| | Note | 2008 £ | 2007 £ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before taxation including discontinued operations | | 273,076 | (4,281,968) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | | 168,522 | 1,863,581 |
| Share of profit from associate | | (2,814,023) | (1,307,692) |
| Loss/(profit) from sale of subsidiary and interest in associate | | 61,566 | (151,705) |
| Loss on sale of plant and equipment | | 113 | - |
| Finance income | | (64,646) | (7,666) |
| Finance expense | | 1,809,778 | 1,227,128 |
| Corporation taxes recovered | | 618,887 | 1,010,758 |
| Equity-settled share-based payment credit | | - | (83,920) |
| **Net cash flow from operating activities before changes in working capital** | | 53,273 | (1,731,484) |
| Decrease/(increase) in trade and other receivables | | 256,592 | (919,025) |
| Increase/(decrease) in trade and other payables | | (1,442,966) | 1,398,984 |
| **Net cash flow used in operating activities** | **5** | (1,133,101) | (1,251,525) |
| **Investing activities** | | | |
| Payments for property, plant and equipment | | (669) | (1,982) |
| Payments in respect of development licences | | - | (950,000) |
| Dividend received from associate | | 2,053,685 | - |
| Interest received | | 64,646 | 7,666 |
| Sale of subsidiary | | 93,248 | - |
| Acquisition of minority interest | | - | (3,742,926) |
| **Net cash flow from investing activities** | | 2,210,910 | (4,687,242) |
| **Financing activities** | | | |
| Issue of ordinary shares | | 10,500,000 | 2,618,634 |
| Cost of share issue | | (391,837) | - |
| Proceeds from long-term borrowings | | 7,312,689 | 17,305,000 |
| Repayment of long-term borrowings | | (17,465,000) | (11,443,403) |
| Interest and early redemption fees paid | | (1,773,159) | (1,227,128) |
| **Net cash flow from financing activities** | | (1,817,307) | 7,253,103 |
| **Net (decrease)/increase in cash and cash equivalents in the year** | | (739,498) | 1,314,336 |
| Cash and cash equivalents at the beginning of the year | | 1,948,586 | 634,250 |
| **Cash and cash equivalents at the end of the year** | **22** | 1,209,088 | 1,948,586 |

The notes on pages 21 to 57 form part of these financial statements.

## Company balance sheet

| | Note | 2008<br>£ | 2007<br>£ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | **17** | 42,954 | 77,602 |
| Property, plant and equipment | **18** | 758 | 580 |
| Investments | **20** | 17,074,292 | 17,203,552 |
| | | 17,118,004 | 17,281,734 |
| **Current assets** | | | |
| Trade and other receivables | **21** | 5,933,744 | 1,918,460 |
| Cash and cash equivalents | **22** | 1,164,892 | 1,904,344 |
| | | 7,098,636 | 3,822,804 |
| **Total assets** | | 24,216,640 | 21,104,538 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | **23** | 9,243,197 | 7,143,197 |
| Share premium | | 38,904,450 | 30,896,287 |
| Merger reserve | | 2,912,060 | 2,912,060 |
| Share option reserve | **24** | - | 388,526 |
| Retained deficit | | (30,748,298) | (29,712,499) |
| **Total equity** | | 20,311,409 | 11,627,571 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | **25** | 3,500,000 | - |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | **25** | - | 160,000 |
| Trade and other payables | **26** | 405,231 | 9,316,967 |
| | | 405,231 | 9,476,967 |
| **Total equity and liabilities** | | 24,216,640 | 21,104,538 |

The financial statements were approved by the Board of Directors and authorised for issue on 23 September 2008

Michael Rosenberg OBE
Director

The notes on pages 21 to 57 form part of these financial statements.

**Company statement of changes in equity**

**Attributable to equity holders of the Company**

| | Share Capital | Share Premium | Merger Reserve | Share option reserve | Retained Deficit | Total shareholders equity |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| At 1 April 2006 | 6,272,361 | 27,928,193 | 2,912,060 | 472,446 | (23,560,459) | 14,024,601 |
| Loss for the year | - | - | - | - | (6,152,040) | (6,152,040) |
| Total recognised income and expense for the year | - | - | - | - | (6,152,040) | (6,152,040) |
| Minority interest acquired in the year | - | - | - | - | - | - |
| Shares issued in year | 870,836 | 2,968,094 | - | - | - | 3,838,930 |
| Share-based payment adjustment (note 24) | - | - | - | (83,920) | - | (83,920) |
| At 31 March 2007 | 7,143,197 | 30,896,287 | 2,912,060 | 388,526 | (29,712,499) | 11,627,571 |
| At 1 April 2007 | 7,143,197 | 30,896,287 | 2,912,060 | 388,526 | (29,712,499) | 11,627,571 |
| Loss for the year | - | - | - | - | (1,424,325) | (1,424,325) |
| Total recognised income and expense for the year | - | - | - | - | (1,424,325) | (1,424,325) |
| Shares issued in year | 2,100,000 | 8,400,000 | - | - | - | 10,500,000 |
| Share issue expenses | - | (391,837) | - | - | - | (391,837) |
| Share-based payment adjustment (note 24) | - | - | - | (388,526) | 388,526 | - |
| At 31 March 2008 | 9,243,197 | 38,904,450 | 2,912,060 | - | (30,748,298) | 20,311,409 |

The notes on pages 21 to 57 form part of these financial statements.

**Company cash flow statement**

| | Note | 2008 £ | 2007 £ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss before taxation | | (1,645,327) | (5,848,097) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | | 164,399 | 2,091,051 |
| Finance income | | (63,289) | (6,304) |
| Finance expense | | 475,375 | 36,623 |
| Corporation taxes recovered | | 221,000 | - |
| Equity-settled share-based payment credit | | - | (83,920) |
| **Net cash flow from operating activities before changes in working capital** | | (847,842) | (3,810,647) |
| (Increase)/decrease in trade and other receivables | | (4,015,284) | 2,358,287 |
| (Decrease)/increase in trade and other payables | | (9,071,734) | 9,403,989 |
| **Net cash flow (used in)/from operating activities** | | (13,934,860) | 7,951,629 |
| **Investing activities** | | | |
| Payments for property, plant and equipment | | (669) | - |
| Payments in respect of development licences | | - | (950,000) |
| Interest received | | 63,289 | 6,304 |
| Investment in Group companies | | - | (6,661,375) |
| **Net cash flow from investing activities** | | 62,620 | (7,605,071) |
| **Financing activities** | | | |
| Issue of ordinary shares | | 10,500,000 | 2,618,634 |
| Cost of share issue | | (391,837) | - |
| Proceeds from long-term borrowings | | 3,500,000 | - |
| Repayment of long-term borrowings | | - | (1,640,612) |
| Interest paid | | (475,375) | (36,623) |
| **Net cash flow from financing activities** | | 13,132,788 | 941,399 |
| **Net increase/(decrease) in cash and cash equivalents in the year** | | (739,452) | 1,287,957 |
| Cash and cash equivalents at the beginning of the year | | 1,904,344 | 616,387 |
| **Cash and cash equivalents at the end of the year** | **22** | 1,164,892 | 1,904,344 |

The notes on pages 21 to 57 form part of these financial statements.

## 1 Basis of preparation and significant accounting policies

These consolidated financial statements of Catalyst Media Group plc have been prepared in accordance with accepted International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively "IFRSs") as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated financial statements are the first Catalyst Media Group plc financial statements to be prepared in accordance with IFRS, the transition date being 1 April 2006.

### First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 'First-time Adoption of International Financial Reporting Standards

- Business combinations effected before 1 April 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- Only those exchange differences arising on the retranslation of foreign operations since 1 April 2006 have been recognised as a separate component of equity, with the related reserve being set to zero at that date. There have been no material movements to this reserve since this date.
- IFRS2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

Judgments made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2 below.

### Companies Act s230 exception

The Company has taken advantage of the exemptions allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group profit for the year included a loss on ordinary activities after tax of £1,424,325 (2007: loss of £6,152,040) in respect of the Company which is dealt with in the financial statements of the parent Company.

***Standards, amendments and interpretations to published standards not yet effective.***

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009)
- IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009)
- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009)
- IFRS 2: Share Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009)
- IFRS 8: Operating Segments (effective as of 1 January 2009)
- IFRIC Interpretation 12: Service Concession Arrangements (effective as of 1 January 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009 – not yet endorsed by the EU)
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2008 – not yet endorsed by the EU)

The Directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption with the exception of IFRS 3: Business Combinations (Revised), which will require transaction costs arising on business combinations to be expensed to the income statement as opposed to the existing treatment of capitalisation, in the event that acquisitions are undertaken.

**Basis of consolidation**

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiaries have been included from the date of acquisition using the merger method of accounting or the purchase method of accounting as appropriate.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### Merger accounting

In accordance with the exemption in IFRS 1 where merger accounting has been used in years prior to the transition date the accounting method used for the relevant purchase transactions has not been restated.

### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. The acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Where the fair value of consideration paid exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired the resulting difference is classified as goodwill and presented as a non-current intangible asset. Where the fair value of consideration paid is lower than the fair value of identifiable assets, liabilities and contingent liabilities acquired the difference is taken to the income statement. Goodwill arising from business combinations is assessed for impairment annually.

The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Where the value of a business combination increases as a result of the purchase of all or part of a minority interest in an existing subsidiary the purchase method as set out above is applied proportionately to the increase in investment as set out above. The relevant proportion of the results of the acquired operations is included in the Consolidated Income Statement from the date of the relevant acquisition.

### Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortised over a period of 3 to 20 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

**Development expenditure**

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

**Licences**

Licence rights acquired are amortised over the period of the licence to exploit such rights, typically five to ten years. Licences acquired during the year do not start to run until the products to which they relate to are used. Provision is made for any impairment in value, and that is reviewed on an annual basis.

**Property, plant and equipment**

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Plant and equipment are depreciated using the straight-line method based on estimated useful lives.

The annual rate of depreciation for each class of depreciable asset is:

- Fixtures and fittings - 25% straight line
- Office equipment - 25% straight line

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the income statement.

**Investment in an associate**

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.
The financial statements of the associate are prepared for the same reporting period as the parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill*

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

*Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in profit or loss.

**Financial instruments**

*Financial assets*

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

***Trade and other receivables:*** These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

***Cash and cash equivalents:*** These include cash in hand, deposits held at call with banks and bank overdrafts.

*Financial liabilities*

The Group classifies its financial liabilities as:

***Interest-bearing loans and borrowings:*** Group's financial liabilities at amortised cost comprise loans from financial institutions. These are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

***Trade and other payables:*** These are initially recognised at fair-value and then carried at amortised cost. These arise principally from the receipt of goods and services.

**Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

**Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

**Share-based payment transactions**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 24.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in note 15).

**Leases**

Operating lease rentals are charged to income in equal annual amounts over the lease term.

**Foreign currency**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed pound sterling which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is pound sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in pound sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and where material are transferred to the Group's translation reserve.

On transition to IFRS, the Group has taken advantage of the exemption offered under IFRS 1 and assumed zero brought forward translation differences on subsidiary undertakings as at 1 January 2006.

**Taxation**

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax recoverable comprises amounts receivable in respect of consortium tax relief arising from the surrender of taxable losses to the Group's associate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**Operating profit and loss**

Operating profit and loss comprises revenues less cost of sales and administrative expenses, including exceptional expenditures where relevant from continuing operations. Operating profit and loss attributed to discontinued operations is included as part of the net result of these operations and is disclosed separately.

## 2 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

***(i) Valuation of Goodwill and other intangible assets***

The value of the Group's goodwill and other intangible assets is dependent upon the success of the Group in exploiting its current technology and business base. The estimation of future revenue flows relating to these assets is uncertain and will also be affected by competition and potential new regulatory legislation and related requirements.

***(ii) Share-based payments***

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

### 3 Revenue

An analysis of the Group's revenue and income is as follows:

| | 2008 £ | 2007 £ |
|---|---|---|
| Leisure and media – continuing | 130,337 | 40,742 |
| Leisure and media – discontinued (note 5) | 34,202 | 243,075 |
| **Total revenue** | 164,539 | 283,817 |

### 4 Segmental analysis

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments. The Group operated in the year in one segment, leisure and media and in one principal geographic area – the United Kingdom (UK). In April 2007 the Group sold its operations in the United States of America. Royalties were received from Global Media Services Inc in the year representing deferred consideration arising from the disposal of the Group's interest in that business in 2006. Management considers that this revenue arises from UK managed operations and is included within revenue arising from leisure and media activities in note 3.

The Group also holds a strategic investment in Satellite Information Services (Holdings) Limited.

| **Year ended 31 March 2008** | **SIS** £ | **Leisure and media** £ | **Unallocated activities** £ | **Total** £ |
|---|---|---|---|---|
| Revenue | - | 130,337 | - | 130,337 |
| Segment result | - | (663,181) | - | (663,181) |
| Finance income | - | - | 64,646 | 64,646 |
| Finance costs | - | - | (1,809,778) | (1,809,778) |
| Share of profit of associate (note 19) | 2,814,023 | - | - | 2,814,023 |
| Discontinued operations (note 5) | - | (132,634) | - | (132,634) |
| Profit before tax | 2,814,023 | (795,815) | (1,745,132) | 273,076 |
| Tax | - | - | 687,000 | 687,000 |
| Profit for the year | 2,814,023 | (795,815) | (1,058,132) | 960,076 |
| Segment assets | 28,909,152 | 1,802,484 | - | 30,711,636 |
| Segment liabilities: | | | | |
| Continuing operations | - | (7,730,853) | - | (7,730,853) |
| Discontinued operations (note 5) | - | (41,305) | - | (41,305) |
| Total liabilities | - | (7,772,158) | - | (7,772,158) |
| Net assets | 28,909,152 | (5,969,674) | - | 22,939,478 |

-

**Other segmental information**

All capital expenditure, depreciation and amortisation and impairment charges in 2008 related to the Leisure and media segment.

| **Year ended 31 March 2007** | **SIS** | **Leisure and media** | **Unallocated activities** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Revenue | - | 40,742 | - | 40,742 |
| Segment result | - | (3,615,407) | - | (3,615,407) |
| Finance income | - | - | 7,666 | 7,666 |
| Finance costs | - | - | (1,227,128) | (1,227,128) |
| Share of profit of associate (note 19) | 1,307,692 | - | - | 1,307,692 |
| Discontinued operations (note 5) | - | (754,791) | - | (754,791) |
| Profit before tax | 1,307,692 | (4,370,198) | (1,219,462) | (4,281,968) |
| Tax | - | - | 1,010,757 | 1,010,757 |
| Minority interest | - | 198,371 | - | 198,371 |
| Profit for the year | 1,307,692 | (4,171,827) | (208,705) | 3,072,840 |
| Segment assets | 28,148,814 | 3,740,240 | - | 31,889,054 |
| Segment liabilities: | | | | |
| Continuing operations | - | (19,587,783) | - | (19,587,783) |
| Discontinued operations (note 5) | - | (430,032) | - | (430,032) |
| Total liabilities | - | (20,017,815) | - | (20,017,815) |
| Net assets | 28,148,814 | (16,277,575) | - | 11,871,239 |

**Other segmental information**

All capital expenditure, depreciation and amortisation and impairment charges in 2007 related to the Leisure and media segment.

| **5 Discontinued operations** | **Note** | **2008 £** | **2007 £** |
|---|---|---|---|
| Revenue | **3** | 34,202 | 243,075 |
| Cost of sales | | (1,948) | - |
| Gross profit | | 32,254 | 243,075 |
| Administrative expenses | | (164,888) | (997,866) |
| Loss before taxation | **4** | (132,634) | (754,791) |
| Earnings/(loss) per share arising from discontinued operations: | | | |
| Basic | **15** | (0.5p) | (11.0p) |
| Diluted | **15** | (0.5p) | (11.0p) |

The net liabilities attributable to the discontinued operations were £41,305 (2007: £430,032). There were no non-current assets attributed to the discontinued operations in 2007 or 2008. The effect of taxation losses attributable to these businesses is not material for 2007 and 2008. Included within net cash flow used in operating activities are cash outflows of £132,215 (2007:£729,068). There are no investing or financing cash flows from the discontinued group.

**6 Operating loss (Group):**

| | **2008 £** | **2007 £** |
|---|---|---|
| **Operating profit/(loss) for the year is stated after charging/(crediting):** | | |
| Depreciation of plant and equipment | 4,620 | 22,967 |
| Staff costs (see note 7) | 239,639 | 748,305 |
| Impairment of goodwill | 104,744 | 12,608 |
| Foreign exchange losses | 32,153 | - |
| Share-based payment adjustment | - | (83,920) |
| Impairment of intangible assets | 163,902 | 872,378 |
| Auditors' remuneration (note 9) | 79,300 | 114,750 |
| Operating lease rentals | 50,000 | 50,000 |

**Operating loss (Company):**

| | 2008 £ | 2007 £ |
|---|---|---|
| **Operating profit/ (loss) for the year is stated after charging/(crediting):** | | |
| Depreciation of plant and equipment | 491 | 435 |
| Staff costs (see note 7) | 180,959 | 595,319 |
| Auditors' remuneration (note 9) | 5,000 | 5,000 |
| Share-based payment adjustment | - | (83,920) |
| Operating lease rentals | 50,000 | 50,000 |

**7 Staff numbers and costs (Group and Company):**

The average number of persons, including executive directors, was:

| | 2008 Number | 2007 Number |
|---|---|---|
| Selling and distribution | - | 2 |
| Administration | 2 | 4 |
| | 2 | 6 |

Staff costs for the above persons, including executive and non executive directors were:

| | 2008 £ | 2007 £ |
|---|---|---|
| Wages and salaries | 209,085 | 667,824 |
| Social security costs | 22,891 | 72,220 |
| Other staff benefits | 7,663 | 8,261 |
| | 239,639 | 748,305 |

**8 Directors' emoluments:**

Directors' emoluments for the period that each individual served as a director were as follows:

| | 2008 £ | 2007 £ |
|---|---|---|
| Salaries and fees | 169,794 | 381,089 |
| Compensation for loss of office | - | 191,666 |
| Other staff benefits | 7,663 | 22,564 |
| | 177,457 | 595,319 |

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest-paid director was £102,383 (2007: £400,310, including £191,666 of compensation for loss of office). There are no key management personnel other than the Directors. Directors emoluments analysed by director are shown in note 32.

## 9 Auditors' remuneration (Group and Company)

| | 2008 £ | 2007 £ |
|---|---|---|
| Fees payable for the audit of the Group's financial statements | 25,000 | 42,000 |
| Fees payable for the audit of the Company's financial statements | 5,000 | 5,000 |
| Fees payable for other services | 49,300 | 67,750 |
| | 79,300 | 114,750 |

## 10 Finance income

| | 2008 Group £ | 2007 Group £ | 2008 Company £ | 2007 Company £ |
|---|---|---|---|---|
| Interest receivable | 64,646 | 7,666 | 63,289 | 6,304 |

## 11 Finance expenses

| | 2008 Group £ | 2007 Group £ | 2008 Company £ | 2007 Company £ |
|---|---|---|---|---|
| Interest payable | 841,909 | 1,227,128 | 475,375 | 36,623 |
| Amortisation of transaction costs | 36,619 | - | - | - |
| Finance redemption fees (note 12) | 931,250 | - | - | - |
| | 1,809,778 | 1,227,128 | 475,375 | 36,623 |

## 12 Fees arising on retirement of long-term debt

Early redemption fee in a subsidiary of the Company, crystalising upon the early retirement of long-term borrowings.

## 13 Impairment of development costs

In order to reflect the uncertain revenue stream that may be generated from the Group's investment in gaming development costs the directors have concluded that it is necessary to write down the value of this investment.

| **14 Taxation (Group)** | **2008** | **2007** |
|---|---|---|
| | **£** | **£** |
| Current tax | 624,519 | 879,740 |
| Under-provision in respect of prior periods | 62,481 | 72,067 |
| Deferred tax | - | 58,950 |
| Total tax credit for the year | 687,000 | 1,010,757 |

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

*Factors affecting tax charge for the year*

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).

| | **2008** | **2007** |
|---|---|---|
| | **£** | **£** |
| Profit/(loss) before tax including discontinued activities | 273,076 | (4,281,968) |
| Tax on loss at standard rate of 30% | 81,923 | (1,284,590) |
| Expenses not deductible for tax purposes | 22,462 | 864,217 |
| Income not taxable | (727,649) | (451,258) |
| Other timing differences | (1,255) | (8,109) |
| Under-provision in respect of prior periods | (62,481) | (72,067) |
| Deferred tax | 223,333 | (58,950) |
| Tax losses for which no deferred tax asset was recognised | (223,333) | - |
| Current tax credit | (687,000) | (1,010,757) |

***Factors that may affect the future tax charge***

Deferred tax has not been provided in respect of timing differences relating primarily to revenue losses and management expenses as there is insufficient evidence that the benefit of the losses will be recovered. The amount of the asset not recognised is £3,287,900 (2007: £2,954,400). After 31 March 2008, a change in UK corporation tax rate was announced. The above deferred tax asset has been calculated based on a UK tax rate of 28% as applicable at 1 April 2008.

## 15 Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share arising is based upon the net profit after tax and minority interests attributable to ordinary shareholders of £960,076 (2007: loss of £3,072,840) and a weighted average number of shares in issue for the year of 27,971,066 (2007: 6,862,178 restated).

The calculation of the basic earnings/(loss) per share arising in respect on continuing operations is based upon the net profit after tax and minority interests attributable to ordinary shareholders of £1,092,710 (2007: loss of £2,318,049) and a weighted average number of shares in issue for the year of 27,971,066 (2007: 6,862,178 restated).

The calculation of the basic loss per share arising from discontinued operations (note 5) is based upon the net loss after tax and minority interests attributable to ordinary shareholders of £132,634 (2007: loss of £754,791) and a weighted average number of shares in issue for the year of 27,971,066 (2007: 6,862,178 restated).

### Diluted earnings per share

The calculation of the diluted earnings/(loss) per share arising is based upon the net profit after tax and minority interests attributable to ordinary shareholders of £960,076 and a weighted average number of shares in issue for the year of 28,151,066. The diluted loss per share in 2007 is the same as the basic loss per share in 2007 as the losses have an anti-dilutive effect.

The calculation of the basic earnings/(loss) per share arising in respect on continuing operations is based upon the net profit after tax and minority interests attributable to ordinary shareholders of £1,092,710 and a weighted average number of shares in issue for the year of 28,151,066. The diluted loss per share from continuing operations in 2007 is the same as the basic loss per share from continuing operations in 2007 as the losses have an anti-dilutive effect.

Reconciliation of basic and diluted number of shares in issue:

| | **Year ended 31 March 2008 Group No** |
|---|---|
| Weighted average number of shares in issue | 27,971,066 |
| Warrants to subscribe for shares in the Company | 180,000 |
| Diluted weighted average number of shares in issue | 28,151,066 |

## 16 Goodwill

| | 2008 |
|---|---|
| | **Group** |
| | **£** |
| **At 1 April 2006** | 117,352 |
| Effect of acquisition of minority interest in Catalyst Media Holdings Limited | 5,929,578 |
| Acquisition of minority interest | (2,050,049) |
| Transfer to cost of investment in associate (note 19) | (3,892,137) |
| **At 31 March 2007** | 104,744 |
| Foreign exchange differences | (9,767) |
| Disposal of Newsplayer International Inc | (94,977) |
| **At 31 March 2008** | - |

## 17 Intangible assets

| **Group** | **Development expenditure 2008 £** | **Licences 2008 £** | **Total 2008 £** |
|---|---|---|---|
| **Cost** | | | |
| **At 1 April 2006** | 144,287 | - | 144,287 |
| Additions | 8,460 | 950,000 | 958,460 |
| **At 31 March 2007 and 31 March 2008** | 152,747 | 950,000 | 1,102,747 |
| **Amortisation** | | | |
| **At 1 April 2006** | - | - | - |
| Impairment charge | - | (872,398) | (872,398) |
| **At 31 March 2007** | - | (872,398) | (872,398) |
| Impairment charge | (129,254) | (34,648) | (163,902) |
| **At 31 March 2008** | (129,254) | (907,046) | (1,036,300) |
| **Net book value** | | | |
| At 31 March 2008 | 23,493 | 42,954 | 66,447 |
| At 31 March 2007 | 152,747 | 77,602 | 230,349 |
| At 1 April 2006 | 144,287 | - | 144,287 |

**17 Intangible assets - continued**

| **Company** | **Licences 2008 £** |
|---|---|
| **Cost** | |
| **At 1 April 2006** | **-** |
| Additions | 950,000 |
| **At 31 March 2007 and 31 March 2008** | 950,000 |
| **Amortisation** | |
| **At 1 April 2006** | - |
| Impairment charge | (872,398) |
| **At 31 March 2007** | (872,398) |
| Impairment charge | (34,648) |
| **At 31 March 2008** | (907,046) |
| **Net book value** | |
| At 31 March 2008 | 42,954 |
| At 31 March 2007 | 77,602 |
| At 1 April 2006 | - |

### 18 Property, plant and equipment

| **Group** | **Office equipment 2008 £** |
|---|---|
| **Cost** | |
| **At 1 April 2006** | 441,809 |
| Additions | 3,399 |
| Disposals | (1,700) |
| Foreign exchange differences | (13,489) |
| **At 31 March 2007** | 430,019 |
| | |
| Additions | 669 |
| Disposals | (106,615) |
| **At 31 March 2008** | 324,073 |
| | |
| **Depreciation** | |
| **At 1 April 2006** | (352,443) |
| Charge for the year | (22,967) |
| Disposals | 283 |
| **At 31 March 2007** | (375,127) |
| | |
| Charge for the year | (4,620) |
| Disposals | 56,432 |
| **At 31 March 2008** | (323,315) |
| | |
| **Net book value** | |
| At 31 March 2008 | 758 |
| | |
| At 31 March 2007 | 54,892 |
| | |
| At 1 April 2006 | 89,366 |

**18 Property, plant and equipment - continued**

| **Company** | **Office equipment 2008 £** |
|---|---|
| **Cost** | |
| **At 1 April 2006** | 90,357 |
| Additions | - |
| Disposals | - |
| **At 31 March 2007** | 90,357 |
| Additions | 669 |
| Disposals | - |
| **At 31 March 2008** | 91,026 |
| **Depreciation** | |
| **At 1 April 2006** | (89,342) |
| Charge for the year | (435) |
| Disposals | - |
| **At 31 March 2007** | (89,777) |
| Charge for the year | (491) |
| Disposals | - |
| **At 31 March 2008** | (90,268) |
| **Net book value** | |
| At 31 March 2008 | 758 |
| At 31 March 2007 | 580 |
| At 1 April 2006 | 1,015 |

| **19 Investment in associate** | **Share of net assets** | **Fair Value of Intangibles** | **Total** |
|---|---|---|---|
| | **Group £** | **Group £** | **Group £** |
| **Cost** | | | |
| **At 1 April 2006** | 2,946,454 | 22,447,965 | 25,394,419 |
| Additions – share of profit | 1,731,000 | - | 1,731,000 |
| Amortisation charged in year | - | (423,308) | (423,308) |
| Disposal | (2,445,434) | - | (2,445,434) |
| Transfer from goodwill (note 16) | 3,892,137 | - | 3,892,137 |
| **At 31 March 2007** | 6,124,157 | 22,024,657 | 28,148,814 |
| | | | |
| Additions – share of profit | 3,660,639 | - | 3,660,639 |
| Amortisation charged in year | - | (846,616) | (846,616) |
| Dividend received | (2,053,,685) | - | (2,053,685) |
| **At 31 March 2008** | 7,731,111 | 21,178,041 | 28,909,152 |

The Group's interest in the associate, Satellite Information Services (Holdings) Limited, a company incorporated in Great Britain, (SIS) is held by Alternateport Limited. Alternateport Limited holds an investment of 20.54% in the equity share capital of SIS and is entitled to appoint a director and alternate director to the SIS board. This right has been exercised since acquisition. Alternateport Limited is a wholly-owned subsidiary of Catalyst Media Holdings Limited (CMHL) a wholly-owned subsidiary of the Company. In 2007 the Company acquired the remaining 20% holding in CMHL it did not own and the amount apportioned to goodwill on this acquisition has been transferred to the cost of investment in the associate. In 2007 the Group disposed of part of its holding in SIS representing 1.67% of the equity share capital of SIS. The intangible assets recognised upon acquisition of the Group's interest represent customer contracts and relationships. These are amortised over a period of 20 years.

| **Share of profit of associate** | **2008 Group £'000** | **2007 Group £'000** |
|---|---|---|
| Revenue: | | |
| UK racing | 25,029 | 20,950 |
| Satellite uplink services | 2,860 | 2,349 |
| Other services | 4,764 | 5,146 |
| Total revenue | 32,653 | 28,445 |
| | | |
| Operating profit | 4,956 | 4,806 |
| Net interest receivable | 401 | 191 |
| Profit before tax | 5,357 | 4,997 |
| Taxation | (1,673) | (1,515) |
| Share of profit after taxation | 3,684 | 3,482 |
| Share of other reserve movements | (23) | (1,751) |
| Retained profit transferred to reserves | 3,661 | 1,731 |
| Amortisation of fair-value of intangible asset | (847) | (423) |
| Net income from associate | 2,814 | 1,308 |

**Share of net assets and liabilities of associate**

| | | |
|---|---|---|
| Net assets | 13,998 | 11,908 |
| Net liabilities | (6,175) | (5,688) |
| Net equity | 7,823 | 6,220 |
| Other adjustments | (92) | (96) |
| | 7,731 | 6,124 |

| **20 Investments** | **Shares in subsidiaries Company £** |
|---|---|
| **Cost** | |
| **At 1 April 2006** | 11,760,394 |
| Additions | 6,661,375 |
| Impairment | (1,218,217) |
| **At 31 March 2007** | 17,203,552 |
| | |
| Disposals | (6) |
| Impairment | (129,254) |
| **At 31 March 2008** | 17,074,292 |

Details of the investments are as follows:

| | **Country of incorporation and operation** | **Activity** | **Percentage of ordinary shares held** |
|---|---|---|---|
| Newsplayer Limited*** | Great Britain | Technical and marketing services | 100 |
| Newsplayer International Limited*** | Guernsey | Website administration and finance | 100 |
| Spoof.com Limited | Great Britain | Skilled Games | 100 |
| NPG Inc** | United States | Website services | 100 |
| Betelgeuse Productions Inc | United States | Not trading | 100 |
| Alternateport Limited* | Great Britain | Investment Company | 100 |
| Catalyst Media Holdings Limited | Great Britain | Investment Company | 100 |
| Newsplayer Group Limited | Great Britain | Holding Company | 100 |
| VideoTV Plc | Great Britain | Dormant | 100 |
| Catalyst Media Services Limited | Great Britain | Dormant | 100 |
| Stable Technology Investment Limited | Great Britain | Dormant | 100 |

* A subsidiary of Catalyst Media Holdings Limited

****** Disposed of NPG Inc in April 2007

*** Disposed of Newsplayer Limited and Newsplayer International Limited April 2008

| **21 Trade and other receivables** | **2008 Group £** | **2007 Group £** | **2008 Company £** | **2007 Company £** |
|---|---|---|---|---|
| Trade debtors | 24,190 | 134,523 | 24,190 | 7,923 |
| Less provision for impairment | - | (19,573) | - | - |
| Trade debtors – net | 24,190 | 114,950 | 24,190 | 7,923 |
| Amounts owed by Group companies | - | - | 5,424,554 | 760,535 |
| Prepayments | 58,914 | 512,254 | 58,914 | 428,913 |
| Other debtors | 443,086 | 774,465 | 426,086 | 721,089 |
| | 526,190 | 1,401,669 | 5,933,744 | 1,918,460 |
| Included above are amounts due in more than one year of: | 55,871 | 87,230 | 5,255,425 | 847,765 |

At the balance sheet date none of the trade and other receivables are past due but not impaired.

| **22 Cash and cash equivalents** | **2008 Group £** | **2007 Group £** | **2008 Company £** | **2007 Company £** |
|---|---|---|---|---|
| Cash at bank | 1,209,088 | 1,948,586 | 1,164,892 | 1,904,344 |

Cash and cash equivalents comprise cash.

| **23 Share capital** | **2008 Group and Company £** | **2007 Group and Company £** |
|---|---|---|
| **Authorised:** | | |
| 65,711,223 (2007 restated: 9,500,000) ordinary shares of 10 pence each | 6,571,122 | 950,000 |
| 7,143,197 (2007:nil) deferred shares of 0.9 pence each | 6,428,878 | - |
| | 13,000,000 | 950,000 |
| **Called up, allotted and fully paid:** | | |
| 28,143,197 (2007 restated: 7,143,197) ordinary shares of 10 pence each | 2,814,319 | 7,143,197 |
| 714,319,736 (2007:nil) deferred shares of 0.9 pence each | 6,428,878 | - |
| | 9,243,197 | 7,143,197 |

There have been the following changes in the issued share capital during the year:

On 4 April 2007 the Company raised £10.1 million with a placing of 801,236,844 new ordinary shares of 1 pence each and an open off of 1,298,763,156 new ordinary shares of 1 pence. The new shares rank pari passu with the existing ordinary shares of 1p. These shares were divided into one 0.1 pence ordinary share and one deferred share in accordance with the capital reorganisation described below.

On 4 April 2007, the Company completed a capital re-organisation with each of the existing issued and unissued ordinary shares of 1p each being sub divided into one new ordinary share of 0.1p (ordinary share) and one deferred share.

On 25 October 2007, the Company passed a resolution that every 100 issued and un-issued ordinary shares of 0.1p each in the capital of the Company are consolidated into 1 ordinary share of 10 pence, and so the authorised share capital of the Company became £13,000,000 divided into 65,711,223 ordinary shares of 10 pence each and 714,319,736 deferred shares of 0.9 pence each.

At 31 March 2008, there were no (2007 restated: 55,000) unapproved share options under the Executive Share Option Scheme and no (2007 restated: 244,705) EMI share options. There were 180,000 warrants in issue (2007 restated: 180,000) exercisable at any time up to and including the 27 May 2010 exercisable at £2.50 per share and further warrants in issue for 1 per cent of the issued share capital of the Company at the time of exercise of the warrant exercisable at any time up to and including 4 August 2010. The warrants are exercisable at £4.00 per share.

## 24 Share-based payments (Group and Company)

### Equity-settled share option scheme.

The Company issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Company operated two share option schemes: the Share Option Plan adopted in May 2000 and the Enterprise Management Incentive Plan adopted in August 2005. The fair value of the Share Option Plan was measured by use of the Black Scholes model and the fair value of the Enterprise Management Incentive Plan was measured by use of the Monte Carlo model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability and exercise restrictions.

Under both the Company's share option schemes, options are exercisable after three years from the issue date at a price equal to the quoted market price of the Company's shares on the date of grant. Options are forfeited if the employee leaves the Group before the options vest after six months from the departure date of leaving the Group.

Details of the total share options outstanding during the year are as follows:

| | 31 March 2008 | | 31 March 2007 | |
|---|---|---|---|---|
| | No of share options | Weighted average exercise price £ | No of share options Restated | Weighted average exercise price Restated £ |
| Outstanding at beginning of year | 299,705 | 4.83 | 299,705 | 4.83 |
| Granted during the year | - | - | - | - |
| Cancelled during the year | (299,705) | 6.35 | - | - |
| Outstanding at the end of the year | - | 4.36 | 299,705 | 4.83 |
| Exercisable at the end of the year | - | 4.50 | 10,000 | 20.00 |

No share options were exercised in the year.

In the year an amount of £388,526 was credited to the retained deficit (2007: nil) in respect of adjustments arising from the cancellation of share-options. In 2007 an amount of £83,920 was credited to administrative costs in respect of adjustments to fair-value arising from changes to non-market conditions attaching to the share options in issue.

As explained in note 23 the number of share options outstanding has been adjusted for the consolidation of the share capital of the Company.

**24 Share-based payments (Group and Company) - continued**

The input into the Black Scholes model for the Share Option Plan which was used to value options granted before 4 August 2005 are as follows:

| | 2003 Restated | 2004 Restated |
|---|---|---|
| Weighted average share price | £34 | £34 |
| Weighted average exercise price | £20 | £20 |
| Expected volatility (two year average of Company share price) | 52%-174% | 73%-75% |
| Expected option life | 3.5 years | 3.5 years |
| Employee exit rate | 30% | 30% |
| Risk free rate | 4% | 4% |
| Expected dividend yield | Nil | nil |

The input into the Monte Carlo model for the Enterprise Management Incentive plan which was used to value the remaining options are as follows:

| | 2006 Restated |
|---|---|
| Weighted average share price | £4 |
| Weighted average exercise price | £4 |
| Expected volatility (two year average of Company share price) | 60% |
| Expected option life | 3 years |
| Employee exit rate | 30% |
| Risk free rate | 4.3-4.6% |
| Expected dividend yield | Nil |

There were no options issued in the year ended 31 March 2008 (2007: nil).

### 25 Interest-bearing loans and borrowings

| | Non-current Group £ 2008 | Non-current Group £ 2007 | Non-current Company £ 2008 | Non-current Company £ 2007 |
|---|---|---|---|---|
| NASCIT loan (see below) | 3,500,000 | - | 3,500,000 | - |
| NatWest loan | 3,812,689 | - | - | - |
| Investec loan facility | - | 17,305,000 | - | - |
| | 7,312,689 | 17,305,000 | 3,500,000 | - |

| | Current Group £ 2008 | Current Group £ 2007 | Current Company £ 2008 | Current Company £ 2007 |
|---|---|---|---|---|
| Convertible loan notes | - | 160,000 | - | 160,000 |

On 24 August 2007, CMG borrowed a further £3.91m from National Westminster Bank plc which is due to repaid no later than 31 December 2010. Interest is rolled up into the loan balance and is payable at 2.75% margin above the Bank of England base rate. The terms of the loan contain a condition that if the Company's interest-bearing indebtedness outstanding at 31 October 2008 is not less than £2.75 million then an additional fee of £250,000 will be added to the loan value. This fee has not been accrued within the financial statements. The Group is required to apply all SIS dividends received against this loan in priority to other uses. The loan is also secured by a fixed and floating charge over the Group's assets.

On 10 April 2007, the Company borrowed £3.5m from North Atlantic Smaller Companies Investment Trust (NASCIT) and Oryx International Growth Fund Limited which is due to be repaid by 10 April 2009. Interest is paid quarterly and is payable at a fixed rate of 13.25% per annum. The loan has now been amalgamated into NASCIT only and it has a second fixed and floating charge over the Group's assets after NatWest.

The loan facility with Investec Bank (UK) Limited was a total facility of £18,605,000 of which £17,305,000 had been drawn down by 31 March 2007. The loan was repaid in full during the year.

The £160,000 convertible loan note was repaid in full during the year. No element of the loan was converted into the Company's share capital.

The fair-value of interest-bearing borrowings is shown in note 27.

## 25 Interest-bearing loans and borrowings - continued

### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced. Amounts shown are capital and interest repayments.

| | Effective interest rate | Group Total £ 2008 | Group Current £ 2008 | Group 1 - 2 Years £ 2008 | Group 2 - 5 years £ 2008 |
|---|---|---|---|---|---|
| Cash at bank and other deposits | 4.5% | 1,213,318 | 1,213,318 | - | - |
| NatWest loan | 8.22% | (4,700,664) | (313,403) | (313,403) | (4,073,858) |
| NASCIT loan | 13.25% | (3,976,455) | (463,750) | (3,512,705) | - |

| | Effective interest rate | Company Total £ 2008 | Company Current £ 2008 | Company 1 - 2 Years £ 2008 | Company 2 - 5 Years £ 2008 |
|---|---|---|---|---|---|
| Cash at bank and other deposits | 4.5% | 1,168,774 | 1,168,774 | - | - |
| NASCIT loan | 13.25% | (3,976,455) | (463,750) | (3,512,705) | - |

| **26 Trade and other payables** | **2008 Group £** | **2007 Group £** | **2008 Company £** | **2007 Company £** |
|---|---|---|---|---|
| Trade payables | 50,570 | 386,817 | 49,442 | 284,913 |
| Amounts due to Group companies | - | - | 40,489 | 7,991,250 |
| Other tax and social security | 11,646 | 131,086 | 11,396 | 2,265 |
| Other creditors | 116,369 | 1,319,904 | 234,343 | 525,500 |
| Accruals and deferred income | 280,883 | 715,008 | 69,561 | 513,039 |
| | 459,468 | 2,552,815 | 405,231 | 9,316,967 |

There is no material difference between the fair-values and books values of Trade and other payables.

## 27 Financial instruments

In common with other businesses, the Group and Company (the ‘Group’) is exposed to risks that arise from its use of financial instruments. This note describes the Group’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

Substantive changes to the Group’s exposure to interest-bearing indebtedness are disclosed in note 26. Proceeds from the issue of the Company’s shares have been utilised to reduce interest-bearing loans and borrowings within the Group and also to reduce the Company’s indebtedness to Group companies. There have been no other substantive changes in the Group’s exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

***Principal financial instruments***

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

| **Group** | **2008 £** | **2007 £** |
|---|---|---|
| Trade and other receivables | 527,907 | 1,401,669 |
| Cash and cash equivalents | 1,209,088 | 1,948,586 |
| Trade and other payables | (559,934) | (2,552,815) |
| Interest-bearing loans and borrowings | (7,312,689) | (17,305,000) |
| Convertible loan notes | - | (160,000) |

| **Company** | **2008** £ | **2007** £ |
|---|---|---|
| Trade and other receivables | 5,912,744 | 1,918,460 |
| Cash and cash equivalents | 1,164,892 | 1,904,344 |
| Trade and other payables | (421,699) | (9,316,967) |
| Interest-bearing loans and borrowings | (3,500,000) | - |
| Convertible loan notes | - | (160,000) |

***General objectives, policies and processes***

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from financial consultants through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

*Credit risk*

Credit risk arises principally from the Group's and Company's trade and other receivables and cash and cash equivalents. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

*Liquidity risk*

Liquidity risk arises from the Group's and Company's management of working capital and the amount of funding committed to its gaming software development programme. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group and Company arise in respect of administrative expenditure, trade and other payables and the servicing of interest-bearing debt. Trade and other payables is all payable within three months.

Further discussion of the Group's liquidity position is set out in the Directors' Report and further information in respect of the Group and Company interest-bearing indebtedness is disclosed in note 26.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

*Interest rate risk*

The Group and the Company are exposed to interest rate risk in respect of its interest-bearing loans and borrowings which are variable rate instruments. The Group and Company are also exposed to interest rate risk in respect of surplus funds held on deposit. The Board does not currently undertake hedging arrangements.

**Interest rate table**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit or before tax (through the impact on floating rate borrowings) and cash flows. There is no impact on the Group's equity.

| | **Change in rate** | **2008 £** | **Change in rate** | **2007 £** |
|---|---|---|---|---|
| Sterling | - 0.5% | 36,563 | - 0.5% | 86,525 |
| | - 1.0% | 73,126 | - 1.0% | 173,050 |
| | - 1.5% | 109,689 | - 1.5% | 259,575 |
| Sterling | + 0.5% | (36,563) | + 0.5% | (86,525) |
| | + 1.0% | (73,126) | + 1.0% | (173,050) |
| | + 1.5% | (109,689) | + 1.5% | (259,575) |

| **Fair value of financial liabilities** | **2008 £** | **2007 £** |
|---|---|---|
| Bank loans | 4,108,748 | 19,122,313 |
| Other loans | 3,739,946 | 202,200 |
| Trade and other payables | 459,468 | 451,699 |
| | 8,308,162 | 19,776,212 |

The fair value of the bank loans has been calculated at 31 March 2008 as the interest rate is variable bank base rate plus a margin which management consider that that reflects current interest rates and current spreads for the entity. The fair value of the other loans has been calculated by discounting the future cash flows at the market rate that reflects current interest rates and current spreads for the entity. The fair-value of trade and other payables is equal to the book values.

*Capital*

The Group considers its capital to comprise its ordinary share capital, share premium, merger reserve, share option reserve and the retained deficit as its capital reserves. In managing its capital, the Group’s primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs.

Details of the Group and Company capital are disclosed in the Group and Company statement of changes in equity.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

*Currency risk*

The Group and the Company are not exposed to any significant currency risk.

| **28 Operating lease commitments** | **2008 Property leases Group and Company £** | **2007 Property leases Group and Company £** |
|---|---|---|
| Within one year | 50,000 | 50,000 |
| Between one and two years | 45,833 | 50,000 |
| Between two and five years | - | 45,833 |

## 29 Contingent liabilities

The Group is potentially liable to pay further consideration in respect of the acquisition of Spoof Limited in 2006 dependent upon the completion of and the financial performance of completed games software. The additional consideration will, if the performance criteria are achieved, be payable in the form of new equity shares in the Company. The maximum number of ordinary shares potentially issuable is 171,718.

## 30 Post-balance sheet events

There are no significant post-balance sheet events arising since 31 March 2008 other than those already disclosed within these financial statements.

## 31 Capital commitments

There were no capital commitments outstanding at 31 March 2008 for the Group and the Company.

## 32 Related-party transactions

Royalty payments of £176,250 were due to David Paradine Productions Limited, a Company controlled by Sir David Frost OBE of which was settled in full in May 2007. Sir David Frost is a former director of the Company.

Northern Atlantic Value LLP (NAV) and Oryx International Growth Fund Limited (together known as NASCIT), of which Christopher Mills is a director, made a loan facility to the Company of £4 million on 10 April 2007 of which £3.5 million is drawn down and which has now been amalgamated into NAV only and they have taken a second security position to RBS NatWest. NAV also have an interest in 3,135,550 ordinary shares of 10p each which represented 11.14% of the total issued share capital of the Company. See also note 25.

Melvin Lawson and his associated companies ("Lawson") has an interest in 3,615,486 ordinary shares of 10p each in Catalyst which represented 12.85% of the total issued share capital of the Company.

Mark Hawtin has an interest in 2,010,117 ordinary shares of 10p each in Catalyst which represented 7.14% of the total issued share capital of the Company.

Michael Rosenberg has an interest in 10,520 ordinary shares of 10p each in Catalyst which represented 0.15% of the total issued share capital of the Company.

The Directors received the following emoluments in the year:

| | Salary and fees | Other benefits | Compensation for loss of office | Total |
|---|---|---|---|---|
| | 2008 | 2008 | 2008 | 2008 |
| | £ | £ | £ | £ |
| A Prestwich | 100,000 | 2,383 | - | 102,383 |
| P Duffen | - | 5,280 | - | 5,280 |
| M Rosenberg OBE | 36,670 | - | - | 36,670 |
| M Hawtin | 5,833 | - | - | 5,833 |
| C Mills | 5,833 | - | - | 5,833 |
| M Lawson | 5,833 | - | - | 5,833 |
| Sir D Frost | 15,625 | - | - | 15,625 |
| | 169,794 | 7,663 | - | 177,457 |

| | Salary and fees | Other benefits | Compensation for loss of office | Total |
|---|---|---|---|---|
| | 2007 | 2007 | 2007 | 2007 |
| | £ | £ | £ | £ |
| A Prestwich | 120,833 | 6,676 | - | 127,509 |
| P Duffen | 192,756 | 15,888 | 191,666 | 400,310 |
| M Rosenberg OBE | 42,500 | - | - | 42,500 |
| M Hawtin | - | - | - | - |
| C Mills | - | - | - | - |
| M Lawson | - | - | - | - |
| Sir D Frost | 25,000 | - | - | 25,000 |
| | 381,089 | 22,564 | 191,666 | 595,319 |

### 33 Transition to International Financial Reporting Standards

The Group and Company reported under UK GAAP in its previous published financial statements for the year ended 31 March 2007. The analysis below shows a reconciliation of net assets as reported under UK GAAP as at 1 April 2006, and 31 March 2007 for the Group to the revised net loss and assets under International Financial Reporting Standards (IFRS) as reported in these financial statements. There were no material changes to the equity or profit and loss of the Company.

As stated in the Basis of Preparation, these are the Group's first consolidated financial statements covered by IFRS.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out below.

**Significant changes to the cash flow statement**

None of the adjustments arising from the transition to IFRS relate to cash and therefore there is no impact on the reported cash flows.

**Reconciliation of equity at 1 April 2006**

| | UK GAAP | Adjustment a | Adjustment b | IFRS |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Non-current assets** | | | | |
| Property, plant and equipment | 89,367 | - | - | 89,367 |
| Goodwill | 3,067,352 | (2,950,000) | - | 117,352 |
| Other financial assets | 22,193,670 | 2,950,000 | 250,749 | 25,394,419 |
| **Current assets** | | | | |
| Trade and other receivables | 472,438 | - | - | 472,438 |
| Cash and cash equivalents | 634,250 | - | - | 634,250 |
| **Current liabilities** | | | | |
| Trade and other payables | (4,022,475) | - | - | (4,022,475) |
| **Non-current liabilities** | | | | |
| Long-term borrowings | (9,049,491) | - | - | (9,049,491) |
| **Net assets** | 13,385,111 | - | 250,749 | 13,635,860 |
| | | | | |
| **Equity** | | | | |
| Share capital | 6,272,361 | - | - | 6,272,361 |
| Share premium account | 27,928,193 | - | - | 27,928,193 |
| Merger reserve | 2,402,674 | - | - | 2,402,674 |
| Profit and loss account | (25,938,983) | - | 250,749 | (25,688,234) |
| Shares option reserve | 472,446 | - | - | 472,446 |
| **Total equity** | 11,136,691 | - | 250,749 | 11,387,440 |
| Minority interest | 2,248,420 | - | - | 2,248,420 |
| | 13,385,111 | - | 250,749 | 13,635,860 |

**Reconciliation of equity at 31 March 2007**

| | UK GAAP | Adjustments | | | IFRS |
|---|---|---|---|---|---|
| | | a | c | d | |
| | £ | £ | £ | £ | £ |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 54,892 | - | - | - | 54,892 |
| Goodwill | 6,928,068 | (6,842,103) | 18,779 | - | 104,744 |
| Other intangible assets | 230,349 | - | - | - | 230,349 |
| Investments in associates | 21,730,019 | 6,842,103 | - | (423,308) | 28,148,814 |
| **Current assets** | | | | | |
| Trade and other receivables | 1,401,669 | - | - | - | 1,401,669 |
| Cash and cash equivalents | 1,948,586 | - | - | - | 1,948,586 |
| **Current liabilities** | | | | | |
| Trade and other payables | (2,552,815) | - | - | - | (2,552,815) |
| Current portion of long-term borrowings | (160,000) | - | - | - | (160,000) |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | (17,305,000) | - | - | - | (17,305,000) |
| **Net assets** | 12,275,768 | - | 18,779 | (423,308) | 11,871,239 |
| Equity | | | | | |
| Share capital | 7,143,197 | - | - | - | 7,143,197 |
| Share premium account | 30,896,287 | - | - | - | 30,896,287 |
| Merger reserve | 2,402,674 | - | - | - | 2,402,674 |
| Profit and loss account | (28,554,916) | - | 18,779 | (423,308) | (28,959,445) |
| Shares option reserve | 388,526 | - | - | - | 388,526 |
| **Total equity** | 12,275,766 | - | 18,779 | (423,308) | 11,871,239 |

**Reconciliation of profit for the year to 31 March 2007**

| | UK GAAP | Adjustments c | Adjustments d | Adjustments e | IFRS |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Revenue | 283,818 | - | - | - | 283,818 |
| Cost of sales | (16,674) | - | - | - | (16,674) |
| Gross profit | 267,144 | - | - | - | 267,144 |
| Other income | 151,705 | - | - | - | 151,705 |
| Administrative costs | (4,807,826) | 18,779 | | | (4,789,047) |
| Operating loss | (4,388,977) | 18,779 | - | - | (4,370,198) |
| Finance income | 102,666 | - | - | (95,000) | 7,666 |
| Finance costs | (1,227,128) | - | - | - | (1,227,128) |
| Net finance cost | (1,124,462) | - | - | (95,000) | (1,219,462) |
| Share of profit of associates | 2,394,000 | - | (423,308) | (663,000) | 1,307,692 |
| Profit before tax | (3,119,439) | 18,779 | (423,308) | (758,000) | (4,281,968) |
| Income tax expense | 252,757 | - | - | 758,000 | 1,010,757 |
| Loss for the year | (2,866,682) | 18,779 | (423,308) | - | (3,271,211) |
| Loss attributable to minority interest | 198,371 | - | - | - | 198,371 |
| | (2,668,311) | 18,779 | (423,308) | - | (3,072,840) |

**Notes to the reconciliations:**

a) UK GAAP adjustment to reclassify items previously reported in goodwill to investment in associate.

b) Reversal of provision against investment now classified as an investment in associate.

c) In accordance with IFRS 3, goodwill arising on the acquisition of a subsidiary is no longer amortised and therefore any adjustment to amortise goodwill under UK GAAP during the year since transition to IFRS has been reversed.

d) In accordance with IAS 28 (Investments in associates) a fair value exercise has been carried out in accordance with the principles of IFRS 3 (Business combinations). As a consequence, certain intangible assets (customer contracts and relationships) with a finite life have been recognised with related deferred tax liabilities and are carried within the Group's share of net assets in its associate within the 'Investment in associate' caption in the financial statements in accordance with IAS 28. These intangible assets are amortised over their useful economic life (which the Board consider to be 20 years) with the related deferred tax liability released over the same period.

e) In accordance with IAS 28 only the profit after tax is disclosed in respect of the share of the profit from associates which has led to a reclassification from the UK GAAP presentation.

## CATALYST MEDIA GROUP PLC

*(Registered in England and Wales with number 03955206)*

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighth annual general meeting (the "**AGM**") of Catalyst Media Group Plc (the "**Company**") will be held on Monday 27th October, 2008 at the offices of Lewis Silkin, 5 Chancery Lane, Clifford's Court London EC4A 1BL at 11.00am for the purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 5 are to be proposed as ordinary resolutions and resolutions 6 and 7 are to be proposed as special resolutions:

Ordinary Resolutions

1. **To receive the audited financial statements and the report of the directors and the auditors for the Company for the year ended 31 March 2008.**
2. **To approve the directors' remuneration report for the Company for the year ended 31 March 2008.**
3. **To reappoint Nexia Smith & Williamson as auditors of the Company to hold office until the conclusion of the next annual general meeting.**
4. **To authorise the directors to fix the remuneration of the auditors.**
5. **To re-elect Michael Rosenberg as a director.**

Special Resolutions

6. **The directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "**Act**") to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution of the members passed on 4 April 2007 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 any other pre-emptive offer in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or any legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange in any territory or by virtue of shares being represented by depositary receipts or any other matter whatever; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £422,147.90 (being fifteen per cent. of the issued ordinary share capital of the Company at the date of this resolution),

   and shall expire on 4 April 2012 unless and to the extent that such authority is renewed or extended prior to such time and, except that the Company may, before such expiry, make an offer or an 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 authority conferred by this resolution had not expired, and all unexercised authorities previously granted to the directors to allot equity securities be and are hereby revoked provided that the resolution shall not affect the right of the directors to allot equity securities in pursuance of any offer or agreement entered into prior to the date of this resolution.

7. **Subject to, and in accordance with the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of the Company provided that:**

   (a) the maximum number of ordinary shares hereby authorised to be acquired is 4,221,479 (being fifteen per cent. of the issued ordinary shares of the Company at the date of this resolution);

   (b) the minimum price which may be paid for an ordinary share is the nominal value of such share;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share in the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased;

   (d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company, or if earlier, on the date which is eighteen months from the date the passing of this resolution;

   (e) the Company may make any purchase of its ordinary shares pursuant to a contract concluded before the authority hereby conferred expires and which will or may be executed wholly or partly after the expiry of such authority; and

   (f) all ordinary shares purchased pursuant to the authority conferred by this resolution shall be cancelled immediately on completion of the purchase or held in treasury (provided that the aggregate nominal value of shares held as treasury shares shall not at any time exceed ten per cent. of the issued ordinary share capital of the Company at any time).

By order of the Board

***Michael Rosenberg*** *Chairman*

*Registered Office:*
Portland House
4 Great Portland Street
London W1W 8QJ

*Date: 23 September 2008*

**Notes:**

1. Only the holders of ordinary shares are entitled to attend the meeting and vote, subject to note 4 below. A member entitled to attend and vote may appoint one or more proxies to attend, speak and vote on his behalf at the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. A proxy need not be a member of the Company but must attend the meeting to represent him.

2. A form of proxy is provided. To be effective, a form of proxy (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority) must be completed, signed and lodged with the Company's registrar, Capita Registrars, The Registry, 34 Beckenham Road, Kent, BR3 4BR no later than 48 hours before the time of the meeting. Depositing a completed form of proxy will not preclude a member from attending the meeting and voting in person.

3. A shareholder which is a corporation (including a company) (a "corporation") and which wishes to be represented at the meeting by a person with authority to speak, vote on a show of hands and vote on a poll (a "corporate representative") must submit a certified copy of the resolution giving the relevant authority to that corporate representative to the registered office (for the attention of the directors) by the same deadline as in note 2 above. A corporate representative has the same powers on behalf of the corporation he/she represents as that corporation could exercise if it were an individual member of the Company. Alternatively, a corporation may complete and return a form of proxy.

4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.00pm on Thursday 23rd October 2008. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.

6. Copies of the following documents will be available for inspection at the Company's registered office, during normal business hours, on any day (Saturdays, Sundays and public holidays excepted) from the date of this notice until the day 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 in the share capital of the Company; and

(b) copies of the directors’ service contracts.