

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000, who specialises in advising on the acquisition of shares and other securities.**

If you have sold or otherwise transferred all of your Existing Ordinary Shares, please immediately forward this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold only part of your holding of Existing Ordinary Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately. This document, which comprises an AIM admission document relating to Coolabi plc, has been prepared in accordance with the AIM Rules for Companies. Notwithstanding the foregoing, this document is not a prospectus and, accordingly, a copy of this document has not been delivered to the Financial Services Authority in accordance with the Prospectus Rules published by the Financial Services Authority.

**The Existing Ordinary Shares are admitted to trading on AIM. Application will be made for the Enlarged Issued Ordinary Share Capital (including the Consideration Shares to be issued pursuant to the Acquisition) to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange plc has not itself examined or approved the contents of this document.**

It is expected that Admission will become effective and that dealings will commence in the Enlarged Issued Ordinary Share Capital on 1 May 2007. Your attention is drawn in particular to the section entitled "Risk Factors" in Part II of this document.

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# Coolabi plc

*(Incorporated and registered in England and Wales with registered no. 3735898)*

## **Proposed acquisition of Purple Enterprises Limited Placing of 366,666,673 new Ordinary Shares at 1.5p per share Admission of the Enlarged Issued Ordinary Share Capital to trading on AIM and Notice of Extraordinary General Meeting**

*Nominated Adviser and Broker*

## **Evolution Securities Limited**

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### Share Capital on Admission

<i>Authorised Amount</i>	<i>Number</i>		<i>Issued and Fully Paid Amount</i>	<i>Number</i>
£7,000,000	700,000,000	Ordinary Shares of 1p each	£4,905,208.71	490,520,871

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The Directors whose names are set out on page 6 of this document, and the Company accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document, for which they are responsible, is in accordance with the facts and does not omit anything likely to affect the import of such information.

Your attention is drawn to the letter from the Chairman of the Company which is set out in Part I of this document and which recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting referred to below.

Evolution Securities Limited, which is authorised and regulated in the UK by the Financial Services Authority, is acting as nominated adviser, broker and financial adviser to the Company in connection with the matters described in this document. Persons receiving this document should note that Evolution Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Securities Limited or for advising any other person on the arrangements described in this document. Evolution Securities Limited has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in this document or for the omission of any information.

The Ordinary Shares will not be registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any state of the United States or qualify for distribution under any of the relevant securities laws of the Republic of Ireland, Canada, Australia or Japan, nor has any prospectus in relation to the Ordinary Shares been lodged with or registered by the Australian Securities and Investments Commission or the Japanese Ministry of Finance. Accordingly, subject to certain exceptions, the Ordinary Shares may not be, directly or indirectly, offered, sold, taken up, delivered or transferred in or into or within the Republic of Ireland, United States, Canada, Australia or Japan.

This document must not be copied or distributed by recipients (save as set out above) and, in particular, must not be distributed by any means, including electronic transmission, to persons with addresses in the Republic of Ireland, United States, Canada, Australia or Japan, their respective possessions and territories or to any citizen of any of them or to any corporation, partnership or other entity created or organised under the laws of any of them. Any such distribution could result in a violation of the laws of those countries. Overseas Shareholders and any person (including, without limitation, custodians, nominees and trustees) who have a contractual or other legal obligation to forward this document to a jurisdiction outside the UK should seek appropriate advice before taking any action.

**Notice of an Extraordinary General Meeting of Coolabi plc, to be held at 44 Southampton Buildings, London, WC2A 1AP at 11.00 a.m. on 30 April 2007, is set out at the end of this document. To be valid, the accompanying Form of Proxy for use in connection with the meeting should be completed, signed and returned to Capita Registrars, Proxy Processing Centre, Telford Road, Bicester, OX26 4LD, by post, or Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, by hand, as soon as possible and, in any event, by not later than 11.00 a.m. on 27 April 2007. The completion and return of Forms of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they so wish.**

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Proxy Forms	11.00 a.m. on 27 April 2007
Extraordinary General Meeting	11.00 a.m. on 30 April 2007
Dealings commence in the Placing Shares	8.00 a.m. on 1 May 2007
Completion of the Acquisition	1 May 2007
Delivery in CREST of Placing Shares	8.00 a.m. on 1 May 2007

## ACQUISITION AND PLACING STATISTICS

Placing Price	1.5 pence
Net proceeds of the Placing	£4.8 million
Number of Placing Shares to be issued pursuant to the Placing	366,666,673
Number of Ordinary Shares in issue following the Placing	490,520,871
Market Capitalisation at the Placing Price on Admission	£7.4 million
New Ordinary Shares expressed as a percentage of the Enlarged Issued Share Capital	74.8 per cent.

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	Companies Act 1985 and Companies Act 2006 (as applicable);
“Acquisition”	the proposed acquisition of the entire issued share capital of Purple by the Company pursuant to the Acquisition Agreement;
“Acquisition Agreement”	the conditional agreement dated 4 April 2007 between the Company and the Vendor relating to the Acquisition, further details of which are set out in this document;
“Act” or “Companies Act”	the Companies Act 1985 (as amended);
“Admission”	admission of the Enlarged Issued Ordinary Share Capital to trading on AIM becoming effective in accordance with the AIM Rules;
“AIM”	the AIM market of the London Stock Exchange;
“AIM Rules”	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange;
“Audit Committee”	the audit committee of the Board;
“Board” or “Directors”	the directors of the Company whose names are set out on Page 11 of this document;
“Company” or “Coolabi”	Coolabi plc;
“Code”	the City Code on Takeovers and Mergers;
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations);
“CREST Regulations”	the Uncertificated Securities Regulations 2001, as amended;
“Enlarged Group”	the Group as enlarged by the Acquisition;
“Enlarged Issued Ordinary Share Capital”	the enlarged issued ordinary share capital of the Company on Admission comprising the Existing Ordinary Shares and the Placing Shares;
“Evolution Securities”	Evolution Securities Limited, the Company’s nominated adviser and broker;
“Existing Ordinary Shares”	the 123,854,198 Ordinary Shares in issue at the date of this document;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company, notice of which is set out at the end of this document;
“Form of Proxy”	the form of proxy for use at the Extraordinary General Meeting, which is enclosed with this document;
“Group”	the Company and its subsidiaries;
“Hallmark”	Hallmark Cards plc;
“Historical Financial Information”	the Group’s financial statements for the periods ending 30 June 2004, 30 June 2005, 30 June 2006 and the six month period to 31 December 2006;
“IP”	intellectual property;
“London Stock Exchange”	London Stock Exchange plc;
“Official List”	the Official List of the United Kingdom Listing Authority;
“Ordinary Shares”	the ordinary shares of 1p each in the share capital of the Company;
“Panel”	the Panel on Takeovers and Mergers;

“Placing”	the conditional placing by Evolution Securities pursuant to the Placing Agreement of the Placing Shares with institutional and other investors at the Placing Price;
“Placing Agreement”	the agreement dated 4 April 2007 between the Company, the Directors and Evolution Securities pursuant to which Evolution Securities has conditionally agreed to use reasonable endeavours to procure subscribers, or itself subscribe, for the Placing Shares, details of which are set out in paragraph 13.1 of Part VII of this document;
“Placing Price”	1.5 pence per Placing Share;
“Placing Shares”	366,666,673 new Ordinary Shares which are the subject of the Placing;
“Purple Enterprises”	Purple Enterprises Limited;
“Purple Ronnie”	the principal intellectual property asset owned and exploited by Purple Enterprises;
“Preference Shares”	the 230,000 5.5% cumulative redeemable preference shares of £1 each, having the rights attached to them as set out in the Articles of Association as summarised in paragraph 7.7 of Part VII of this document;
“Registrars”	Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU;
“Remuneration Committee”	the remuneration committee of the Board;
“Resolutions”	the resolutions set out in the notice of Extraordinary General Meeting at the end of this document;
“Shareholder”	holder of Ordinary Shares from time to time;
“Share Option Plans” or “the Plans”	the share option plans adopted by the Company, details of which are set out in paragraph 4 of Part VII of this document;
“Vendor”	Giles Andreae;
“Vendor Loan Note Instrument”	the loan note instrument relating to the issue of up to 1,500,000 Vendor Loan Notes to be executed by the Company in accordance with the terms of the Acquisition Agreement; and
“Vendor Loan Notes”	unsecured loan notes of £1 each to be created by the Company pursuant to the Vendor Loan Note Instrument to be issued to the Vendor subject to the terms of the Acquisition Agreement.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	William Harris ( <i>Chairman</i> ) Jeremy Banks ( <i>Chief Executive</i> ) Tim Ricketts ( <i>Finance Director</i> ) The Lord Brabourne ( <i>Non Executive Director</i> ) Lawrence Chrisfield ( <i>Non Executive Director</i> ) Linda James ( <i>Non Executive Director</i> )
<b>Registered and Head Office</b>	48 Broadley Terrace London NW1 6LG
<b>Company Secretary</b>	David Glennon
<b>Nominated Adviser and Broker</b>	Evolution Securities Limited 100 Wood Street London EC2V 7AN
<b>Solicitors to the Company</b>	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP
<b>Solicitors to the Placing</b>	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA
<b>Auditors</b>	Shipleys 10 Orange Street Haymarket London WC2H 7DQ
<b>Reporting Accountant</b>	Grant Thornton UK LLP Enterprise House 115 Edmund Street Birmingham B3 2HJ
<b>Registrar</b>	Capita Registrars The Registry 34 Beckenham Road Kent BR3 4TU

## PART I

### Letter from the Chairman of Coolabi plc

# Coolabi plc

(Registered in England and Wales No. 3393610)

#### Directors:

William Harris (*Chairman*)  
Jeremy Banks (*Chief Executive*)  
Tim Ricketts (*Finance Director*)  
The Lord Brabourne (*Non Executive Director*)  
Lawrence Chrisfield (*Non Executive Director*)  
Linda James (*Non Executive Director*)

#### Registered and Head Office:

48 Broadley Terrace  
London  
NW1 6LG

4 April 2007

To Shareholders and, for information only, to holders of options over Ordinary Shares

Dear Shareholders,

**Proposed acquisition of Purple Enterprises Limited  
Placing of 366,666,673 new Ordinary Shares at 1.5p per share  
Admission of the Enlarged Issued Ordinary Share Capital to trading on AIM  
and  
Notice of Extraordinary General Meeting**

#### Introduction

Coolabi today announced that it had, conditional, *inter alia*, on the approval of its Shareholders, agreed to acquire the entire issued share capital of Purple Enterprises. Purple Enterprises is the sole owner of Purple Ronnie and certain other children's intellectual property assets.

Initial consideration of £3.3 million is payable in cash on completion. A further £0.6 million will be paid upon completion to acquire the cash in the business at completion as further detailed in paragraph 13.3 of Part VII, with up to a further £1.5 million payable based upon the financial performance of Purple Ronnie over a two year period after the completion of the Acquisition.

In order to fund the Acquisition, the Company also announced today that it is raising approximately £5.5 million (before expenses) for the Enlarged Group by means of a Placing of 366,666,673 new Ordinary Shares at 1.5p per share.

The proposed Acquisition is classified as a "reverse takeover" under the AIM Rules by virtue of its size. As such, it is subject to the approval of Shareholders, which is to be sought at the Extraordinary General Meeting, the notice in respect of which is set out at the end of this document. Further details of the Acquisition and the Acquisition Agreement are set out below and in Part VII of this document.

The purpose of this document is to provide you with information about the background to and the reasons for the Acquisition, to explain why the Board considers the Acquisition and the Placing to be in the best interests of the Company and its Shareholders as a whole and why the Directors recommend that you vote in favour of the Resolutions to be proposed at the EGM.

#### Enlarged Group Overview

##### *Information on Coolabi*

The Group specialises in the ownership, development, production and creative management of wholly owned and/or licensed intellectual property assets and their global exploitation.

These rights are currently managed through one or both of Coolabi's two principal divisions, TV Production and Licensing, including:

- *King Arthur's Disasters (owned)*  
A BAFTA nominated animated comedy for 6-11 year olds. The TV series ranked as CITV's highest rating new show in spring 2005 and is voiced by, amongst others, Rik Mayall and 'Little Britain' star Matt Lucas.
- *Caillou (agent)*  
A pre-school animated TV series which is to be broadcast on Cartoonito, part of the Cartoon Network in the UK.
- *The Doodlebops (agent)*  
The Doodlebops are a pre-school, brightly coloured pop group who have recently been successfully launched in the USA. The series is broadcast on Playhouse Disney in the UK.
- *Hammer Films (agent)*  
The iconic UK brand based on the classic horror feature films predominantly made in the 1960s.
- *Iloveegg (agent)*  
A web-based (with the exception of Japan where it is shown on television) flash animation property featuring a large number of egg characters.
- *Scarlett and Crimson (owned)*  
Jointly owned by Coolabi, Scarlett and Crimson features two girls who are comfortable with being different and who provide an alternative to the pink and frilly doll culture.
- *Somebunny To Love (agent)*  
A gift property featuring the charming illustrations of Michael Abrams presented on a range of gift products and greetings cards.

In addition, the Company continues to exploit and derive income from its library of completed feature films and television dramas, including both series of the children's drama Sir Gadabout.

#### **Information on Purple Enterprises**

Purple Enterprises is the owner of Purple Ronnie. Purple Ronnie was created in 1987 and has appeared on over 44 million themed greeting cards and in two million books, reaching the Sunday Times top 10 bestsellers lists every year since 2002. Purple Ronnie's extensive range of merchandise encompasses cards, mugs, toiletries, books, gadgets, confectionery, streetwear, stationery, toys, housewares and accessories.

At present the majority of sales are derived from the UK but the brand is to be tested by Hallmark in the United States of America, the initial results of which are expected by the end of 2007. On 6 September 2006, Hallmark entered into a new five year contract to continue to license Purple Ronnie.

Based on the Directors analysis, the turnover of Purple Enterprises for the three years ended 31 March 2004, 2005 and 2006 and the nine months ended 31 December 2006 can be analysed as follows:

	<i>Nine months ended 31 December 2006 £</i>	<i>2006 £</i>	<i>Year ended 31 March</i>	
			<i>2005 £</i>	<i>2004 £</i>
Greetings Cards	462,827	749,637	584,010	161,230
Books	56,084	108,946	185,392	153,145
Merchandising	111,784	175,488	314,636	173,328
Total Turnover	<u>630,695</u>	<u>1,034,071</u>	<u>1,084,038</u>	<u>487,703</u>

The turnover set out above for Purple Enterprises represents the royalty income received before costs of creation and licensing commission. Purple Enterprises has historically been represented by The Licensing Company Limited, a licensing and merchandising agent. The agency agreement with The Licensing Company Limited can be terminated at short notice.

Shareholders attention is drawn to the Accountant's Report and financial information on Purple Enterprises set out in Sections A and B respectively of Part V of this document. Shareholders are also reminded that they should read the whole of this document and not rely on the summary information attached above.

### **The Market Opportunity**

Purple Ronnie has been managed and owned by its creator since inception twenty years ago. Coolabi has the management team and infrastructure to facilitate the further exploitation of Purple Ronnie. Opportunities might include taking Purple Ronnie into new media and new territories.

### **Strategy of the Enlarged Group**

The Company will continue to pursue the growth of its business through the development of its existing portfolio of intellectual property as well as via selective acquisitions to increase the number and range of properties in the Company's portfolio.

Intellectual property assets will continue to be developed and managed across both of its principal divisions.

### **Current trading and prospects**

Coolabi announced its interim results for the six months ended 31 December 2006 on 30 March 2007.

### **Details of the Placing and use of proceeds**

The Company is seeking additional investment to enable the Company to finance the cash payable pursuant to the Acquisition Agreement. The Company is proposing to raise up to approximately £5.5 million, before expenses, by the issue of 366,666,673 new Ordinary Shares which have been conditionally placed with institutional and other investors, pursuant to the Placing, at 1.5p per Placing Share. The Placing Shares will represent 74.8 per cent. of the Enlarged Issued Ordinary Share Capital. The Placing Shares will be issued credited as fully paid and will, on issue, rank *pari passu* with the Existing Ordinary Shares.

All of the Placing Shares being offered in the Placing are being placed by Evolution Securities and the Placing has been fully underwritten by Evolution Securities pursuant to the Placing Agreement. Evolution Securities, as agent for the Company, has agreed conditionally to use its reasonable endeavours to procure subscribers, or itself to subscribe, for the Placing Shares pursuant to the terms of the Placing Agreement. Further details of the Placing Agreement are set out in paragraph 13.1 of Part VII of this document.

The Placing is conditional, *inter alia*, upon Shareholder approval at the EGM.

The Placing has been structured as a private placing, and Shareholders are therefore being asked to pass at the EGM the Resolutions which will disapply Shareholders' pre-emption rights and renew the authority of the Directors to allot relevant securities. The primary reason for there being no offer to Shareholders to purchase or subscribe for the Placing Shares is that the Directors believe it to be in the best interests of the Company and Shareholders as a whole to procure in the most cost-effective manner the funds necessary for completion of the Acquisition.

### **Directors' interests**

All of the Directors of the Company, who currently hold between them interests in 35,984,504 Ordinary Shares representing 29.1 per cent. of the issued share capital of the Company, have irrevocably undertaken to subscribe for 7,500,001 Placing Shares at the Placing Price.

On Admission, the Directors between them will hold 8.86 per cent. of the Enlarged Issued Ordinary Share Capital. Further details of the Directors interests can be found in paragraph 4 and 8 of Part VII of this document.

### **Principal Terms of the Acquisition Agreement**

Under the terms of the Acquisition Agreement, Coolabi has conditionally agreed to acquire the entire issued share capital of Purple Enterprises. An initial consideration of £3.3 million is payable in cash on completion. A further £600,000 will be paid upon completion to acquire the

cash in the business at completion as further detailed in paragraph 13.3 of Part VII, with a further £1.5 million payable based upon the financial performance of Purple Ronnie over a two year period after the completion of the Acquisition. Upon completion North American distribution rights to Purple Ronnie will be granted to a newly incorporated company, PRNA Limited. The Company will own 51 per cent. of PRNA Limited, with the remaining 49 per cent. owned by the Vendor. PRNA Limited is then appointing Coolabi as its representative in North America to exploit these rights.

The Acquisition Agreement is conditional, *inter alia*, on the passing of the Resolutions at the Extraordinary General Meeting and Admission. Further details of the Acquisition Agreement are set out at paragraph 13.3 of Part VII of this document.

### Financial effects of the Acquisition and Placing

The Acquisition and the Placing are expected to materially strengthen the Company's balance sheet and provide the Enlarged Group with funding to pursue its strategy. The Company's shareholder base will be widened and it is expected that the liquidity of the Ordinary Shares will be enhanced.

An unaudited pro forma statement of net assets of the Enlarged Group prepared for illustrative purposes only and showing the impact of the Acquisition and Placing is set out in Part VI of this document.

### Summary Financial Information

#### (i) Coolabi

The audited consolidated results of Coolabi for the years ended 30 June 2004, 2005 and 2006 and the unaudited interim results for the six months ended 31 December 2006 have been extracted without material adjustment from the financial information set out in Parts III and Part IV of this document.

	Six months ended 31 December		Year ended 30 June	
	2006	2006	2005	2004
	£	£	£	£
Turnover	717,530	108,006	79,373	203,086
Operating (loss)	(333,441)	(618,124)	(587,793)	(387,312)
Loss on ordinary activities before taxation	(334,938)	(641,077)	(576,297)	(403,676)
Loss transferred to reserves deficit	(334,938)	(641,077)	(576,297)	(403,676)
Net assets	59,797	598,902	632,929	93,801

#### (ii) Purple Enterprises

The audited results of Purple Enterprises for the years ended 31 March 2004, 2005 and 2006 and for the period ended 31 December 2006 have been extracted without material adjustment from the financial information set out in Section B of Part V of this document.

	Nine months ended 31 December		Year ended 31 March	
	2006	2006	2005	2004
	£	£	£	£
Turnover	630,695	1,034,071	1,084,038	487,703
Operating profit	273,436	278,202	352,327	211,834
Profit on ordinary activities before taxation	290,791	293,619	372,259	232,979
Profit for the financial period	225,617	236,880	289,950	188,092
Net assets	786,732	671,115	544,235	806,285

## **Directors of the Enlarged Group**

*William Harris (Chairman), aged 50*

William was Chief Executive of Gullane Entertainment plc until 2002. He helped grow the business from a six-person, £400k turnover business into a London Stock Exchange listed company with a turnover of over £50m, 150 employees and offices in the UK, US, Canada and Japan. As Chief Executive he led the transformation of Gullane from a one-property company (Thomas the Tank Engine) into a broadly based family entertainment studio, through organic growth and a series of acquisitions of rights and properties, including the underlying rights to Thomas the Tank Engine, Guinness World Records, Media Merchants, Fireman Sam and David & Charles Children's Books. During this period Gullane's share price increased from £1.30 to £4.30, its market capitalisation from £31m to £133m and earnings per share from 6.66p to 20.85p. Gullane was acquired by HIT Entertainment PLC in September 2002.

*Jeremy Banks (Chief Executive), aged 35*

Jeremy joined Coolabi plc as Chief Executive in September 2006. Prior to joining Coolabi, he had been Group Commercial Director and Group Finance Director at Chorion plc from 2001 through until its acquisition by 3i in 2006. Previously, Jeremy had joined Guinness Mahon Development Capital shortly before it was bought out by its management to form ProVen Private Equity, the niche venture capital house whose focus was media and branded content transactions. Jeremy is a chartered accountant.

*Tim Ricketts (Finance Director), aged 42*

Tim joined Coolabi plc as Finance Director in February 2007. He is a chartered accountant and has significant experience in the commercial, operational and financial management of media and technology businesses both in the UK and worldwide. During nine years with United News & Media plc, Tim held various senior posts including Finance Director of Anglia Television Limited, Meridian Broadcasting Limited and United Newspapers Limited. In 2001 he became the Group Finance Director of Gullane Entertainment PLC. Upon Gullane's takeover by HIT Entertainment plc in 2002, he ran the online betting data and technology group TurfTrax Holdings Limited as Group Managing Director until its acquisition in 2006.

*The Lord Brabourne (Non Executive Director), aged 59*

The Lord Brabourne has extensive experience within the media industries. He was a director of Capital Radio from 1974 to 1986. In 1980 The Lord Brabourne was a founder director and shareholder of Satellite Television plc, which became Sky Television and is now BskyB. He remained on the board until 1989. In 1981 The Lord Brabourne was founding Chairman and shareholder of the Britt Allcroft Group, which became a successful children's character and merchandising business. In 2002 the company, then called Gullane Entertainment, merged with Hit Entertainment to create the largest children's television entertainment and copyright business in Europe. He is currently Chairman of Argenta Private Capital Limited and of Argenta Holdings plc.

*Lawrence Chrisfield FCA., ATII. (Non Executive Director), aged 68*

Lawrence is a chartered accountant and a member of the Institute of Taxation. For over thirty years Lawrence has been specialising in the entertainment and media field. He set up, and for many years headed, the UK Entertainment & Media group of Ernst & Young and was also Chairman of its Media European Network. Lawrence retired as a partner with Ernst & Young in 1997. Latterly he has concentrated on the film and television industry. His current industry appointments include the Chairmanship of The British Film Advisory Group and Lawrence's non-executive directorships include Rainmaker Films Limited and Redbus Group Limited, where he is also Chairman.

*Linda James (Non Executive Director), aged 48*

Linda is an entrepreneur and award-winning independent producer and executive producer of over 20 drama series, 6 TV movies and 5 feature films. Co-founder of Red Rooster Film and Television Entertainment (which she sold to Chrysalis Plc) and Alibi Communications, she now

jointly owns and runs Sly Fox Films with director/producer Stephen Bayly. Linda is on the boards of the Wales Creative IP Fund, the UK Film Council's regional film agency, Screen South, and the South East Media Network (SEMN) for SEEDA (the South East Economic Development Agency). She is also a Trustee of the National Film and Television School (NFTS) and chairs the Childrens Film and Television Foundation (CFTF).

### **Corporate Governance**

The Company has taken steps to ensure that, where practicable for a company of its size, the principles of good governance and code of best practice (the "Combined Code") are complied with and the appropriate corporate governance structures have been put in place.

The Board of the Enlarged Group will comprise two executive Directors and four non-executive Directors. The Company holds Board meetings throughout the year at which reports relating to the Company's operations, together with financial reports, are considered. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

The members of the Audit Committee are The Lord Brabourne, Lawrence Chrisfield and William Harris. Within its agreed terms of reference, the Audit Committee will meet semi-annually and it is responsible for ensuring that the financial performance of the Company is properly monitored and reported on. It has the opportunity to meet with the Company's auditors without executive Board members being present and will review reports relating to accounts and internal control systems.

The Remuneration Committee comprises Lawrence Chrisfield, Linda James and William Harris. Within its agreed terms of reference, the Remuneration Committee considers and determines the remuneration of the executive and non-executive Directors and senior employees of the Group and also considers and determines incentive arrangements for executives and employees including the Company's share option arrangements.

The terms of reference prevent any member of the Remuneration Committee who is an executive Director from taking part in any discussions or decisions relating to his own remuneration.

The Company will take all reasonable steps to ensure compliance by Directors and applicable employees with the provisions of the AIM Rules relating to dealings in securities.

### **Dividend Policy**

The Directors intend to retain future earnings from operations to finance the development and acquisition of intellectual property assets. As a result, the Directors do not anticipate paying cash dividends in the foreseeable future.

### **Admission to AIM, Settlement and Dealings**

Application will be made to the London Stock Exchange for the Enlarged Issued Ordinary Share Capital to be admitted to trading on AIM upon completion of the Acquisition and the Placing. Subject to completion of the Acquisition and the Placing, it is expected that such Admission will become effective and trading in the Enlarged Issued Ordinary Share Capital will commence on 1 May 2007. If the Acquisition and the Placing are not completed, the Existing Ordinary Shares will continue to be traded on AIM, but the Placing Shares will not be admitted to AIM.

### **EIS and VCT Qualifying Investments**

An application to the Small Companies Enterprise Centre of HM Revenue & Customs in respect of the Company's status for the Enterprise Investment Scheme ("EIS") and the Venture Capital Trust ("VCT") scheme has been submitted and a response is awaited. Based on advice received, the Directors consider that, following the acquisition of Purple Enterprises, the shares in the Company are likely to be a qualifying investment for the purposes of the EIS and VCT schemes in the foreseeable future. Their view is based on the assumption that the whole or greater part (in

terms of value) of the Purple Intellectual Property Rights have been created by Purple Enterprises. Furthermore, the Group's activities are, however, made up of both qualifying and non-qualifying activities for these purposes, such that the reliefs could be withdrawn in the event that the qualifying activities become less than the substantial part of the group's overall business.

The EIS and VCT legislation is complex, and the Company cannot undertake that its shares will qualify or always continue to qualify although there is no present intention to take any action which would result in relief being denied or withdrawn.

### **Extraordinary General Meeting**

You will find set out at the end of this document a notice convening the Extraordinary General Meeting of the Company to be held at 44 Southampton Buildings, London, WC2A 1AP at 11.00 a.m. on 30 April 2007. At this meeting the following resolutions will be proposed:

- (1) an ordinary resolution to approve the Acquisition;
- (2) an ordinary resolution to increase the authorised share capital of the Company from £3,300,000 to £7,000,000 by the creation of 370,000,000 Ordinary Shares of 1p each;
- (3) an ordinary resolution to give the Directors authority under Section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £5,301,736 such authority expiring at the conclusion of the next Annual General Meeting; and
- (4) a special resolution to disapply the statutory pre-emption rights contained in Section 89(1) of the Act for the purposes of the Placing, to permit certain future issues to Shareholders on a pre-emptive basis and for the allotment of equity securities for cash up to an aggregate nominal amount of £490,521 such authority expiring at the conclusion of the Company's next Annual General Meeting.

### **Action to be taken**

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not they propose to attend the Extraordinary General Meeting, Shareholders are requested to complete the Form of Proxy and return it to Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD, by post, or Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by hand, as soon as possible and, in any event, so as to arrive no later than 11.00 a.m. on 27 April 2007.

The completion and return of a Form of Proxy will not prevent a Shareholder from attending the EGM and voting in person if he or she so wishes. Shareholders who are CREST members should refer to their CREST sponsors regarding the action to be taken in connection with this document.

### **Additional information**

Your attention is drawn to the risk factors set out in Part II of this document and to Parts III to VII of this document which contains further additional information on the Enlarged Group.

### **Recommendation**

The Directors unanimously recommend Shareholders to vote in favour of the Resolutions as they have irrevocably undertaken to do in respect of their registered shareholdings, which total 27,304,783 Ordinary Shares (representing approximately 22.1 per cent. of the Existing Ordinary Shares).

Yours faithfully

William Harris  
*Chairman*

## PART II

### Risk Factors

**In addition to all other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss that might result from such investment. If you are in any doubt about the action you should take, you should consult a professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

#### **1. Investment in AIM listed securities**

Investment in securities traded on AIM is perceived to involve a higher degree of risk than an investment in companies whose securities are listed on the Official List. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

#### **2. Share price volatility and liquidity**

The listed securities of emerging and smaller companies are often less liquid than securities of companies that are listed on the Official List. As such, an investment in the Ordinary Shares may be difficult to realise. The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

#### **3. Adoption of International Financial Reporting Standards**

All companies listed on AIM are required to prepare their statutory financial statements for any financial period starting after 1 January 2007 under International Financial Reporting Standards ("IFRS") rather than United Kingdom Generally Accepted Accounting Practice. The Directors are aware of this requirement and intend that the financial statements of the Enlarged Group for the year ending 30 June 2008, which is the first period where the requirement applies, will be prepared on this basis. The adoption of IFRS may have a material impact on the reported results, balance sheets and cash flow statements of the Enlarged Group.

#### **4. Business risk factors**

##### *Key personnel*

The Enlarged Group's future success is largely dependent upon its senior management, and in particular, its executive Directors. The departure from the Enlarged Group of any of the executive Directors or certain senior employees could have a material adverse effect on the Enlarged Group. The Enlarged Group has provided certain senior management and key employees with share options to reward them for their contribution to the Enlarged Group's performance and to encourage them to remain with the Enlarged Group. However, the retention of the services of these people cannot be guaranteed. The Enlarged Group may be adversely affected by an inability to recruit and retain sufficient personnel of the right calibre.

##### *Competition*

The commercial success of the properties exploited by the Group is dependent upon factors beyond the control of the Group, such as changing consumer preferences. The failure of the Group to maintain a significant consumer following for its brands could adversely affect the

business of the Group. There can be no assurance that the IP owned and exploited by the Group will continue to be successfully exploited or that current levels of popularity and revenues derived from exploitation of such IP will be sustained.

#### *Current operating results as an indication of future results*

The Enlarged Group's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Accordingly, investors should not rely on comparisons with the Enlarged Group's results to date as an indication of future performance. Factors that may affect the Enlarged Group's operating results include increased competition, an increased level of expenses, slower than expected take-up by broadcasters of its programmes and changes to the statutory and regulatory regime in which it operates. It is possible that, in the future, the Enlarged Group's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Company's shares may decline significantly.

#### *The need to raise additional capital in the future*

The Enlarged Group's growth and profitability may be reliant in the future on its ability to access capital for further development. Additional equity fundraising on the capital markets may be dilutive for existing Shareholders, and debt-based funding may bind the Enlarged Group to restrictive covenants and curb its operating activities. Inability to access funding may result in a curtailment of the scale or scope of the Enlarged Group's business.

#### *IP protection*

To the extent the Enlarged Group considers prudent, the Enlarged Group relies, and will in the future rely upon, international IP laws and third party non-disclosure agreements to protect its IP rights. Despite precautions taken by the Enlarged Group (to the extent that the Enlarged Group considers them to be commercially reasonable) to protect its IP rights, unauthorised parties may attempt to copy, or otherwise obtain and use, its IP or the programmes in which its IP is incorporated. There can be no assurance that the IP required by the Enlarged Group to develop, produce and sell its programmes will not be challenged or that the IP belonging to the Enlarged Group will continue to be owned by it indefinitely. To the extent that IP rights protect the Enlarged Group's programmes, litigation may be necessary to protect such rights and could result in substantial costs to, and diversion of effort by, the Enlarged Group with no guarantee of success. The failure of the Enlarged Group to protect its proprietary information, and the expense of doing so, could have a material adverse effect on its operating results and financial condition.

#### *IP claims against the Company*

From time to time the Enlarged Group may be the subject of third party claims that its products have misappropriated or infringed the IP rights of others with respect to their previously-developed or acquired content and related IP. There can be no guarantee that infringement or misappropriation claims (or claims for indemnification resulting from such claims) will not be asserted or prosecuted against the Enlarged Group, or that any assertions or prosecutions will not materially adversely affect its business, financial standing or operations. Irrespective of the validity or the successful assertion of such claims, the Enlarged Group may incur significant costs and diversion of resources in defending such claims, which may have a material adverse effect on the Enlarged Group's business, financial standing or operations.

#### *Reliance on certain clients*

The Enlarged Group, through its acquisition of Purple Enterprises will be reliant on Hallmark for a material proportion of its future revenue. Whilst at present good relationships exist between Purple Enterprises and Hallmark as evidenced by the signing of a new five year contract to licence Purple Ronnie, there can be no guarantee that this will continue in the future.

The Enlarged Group may enter into further agreements in the future which form a significant proportion of the Enlarged Groups earnings. There can be no guarantee what terms these contracts will be on.

### *The Entertainment Industry*

Operating in the entertainment content and merchandising industries involves a substantial degree of risk.

As the Company's business and operating results will ultimately depend upon the appeal to consumers of the brands and programming it owns and, in future, acquires, a decline in the popularity of current brands or the failure of new brands to achieve and sustain market acceptance could result in reduced overall revenues, which could have a material adverse effect on the Enlarged Group's business, financial standing and operations. Furthermore, consumer preferences with respect to entertainment are continuously changing and are difficult to predict and can vary from months to years. Accordingly, there can be no assurances that:

- any brands or programming acquired by the Enlarged Group will continue to be popular for any significant period of time after such acquisition;
- any new brands or programming the Enlarged Group represents or produces will achieve an adequate degree of popularity or will achieve popularity quickly enough to maintain retail support; or
- any brand's life cycle will be adequate to permit the Enlarged Group to recover advance payments, guarantees, development, marketing, royalties and other costs.

The Enlarged Group's success will depend on the experience and judgement of the Enlarged Group's management to select and develop or acquire suitable brand and production opportunities within the entertainment industry.

The Enlarged Group's failure to anticipate, identify and react successfully to consumer preferences and the platforms on which consumers view content could have a material adverse effect on its revenues, profitability and operations. In addition, the volatility of consumer preferences may cause the Enlarged Group's revenues and net income to vary significantly between comparable periods.

### *Technological Changes*

The entertainment industry is continuing to undergo significant changes, primarily due to technological developments. Whilst the Directors believe that new platforms for the delivery of entertainment will provide significant opportunities for the Enlarged Group, if the Enlarged Group is unable to exploit new delivery channels its business, results of operations or financial standing could adversely affect the Enlarged Group. In addition, success in these new channels could diminish results in channels where the executive Directors have previously enjoyed success and built up expertise.

## PART III

### Financial Information on Coolabi plc

The financial information on Coolabi plc for the three years ended 30 June 2006 set out below does not constitute full statutory accounts within the meaning of Section 240 of the Companies Act 1985 but has been extracted without material adjustment from the audited accounts of the Group for the three years ended 30 June 2004, 30 June 2005 and 30 June 2006. Audited statutory financial statements for each year, on which unqualified reports (not containing a statement under section 237(2) or 237(3) of the Companies Act 1985) have been given by Shipleys LLP, Chartered Accountants and Registered Auditors, 10 Orange Street, Haymarket, London WC2H 7DQ, have been delivered to the Registrar of Companies in England and Wales.

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2006 £	2005 £	2004 £
<b>Turnover</b>	2	108,006	79,373	203,086
Cost of sales		<u>(32,370)</u>	<u>(38,349)</u>	<u>(192,632)</u>
Gross profit		75,636	41,024	10,454
Administrative expenses		<u>(693,760)</u>	<u>(628,817)</u>	<u>(397,766)</u>
<b>Operating loss</b>	3	(618,124)	(587,793)	(387,312)
Joint venture – share of operating loss		(30)	(838)	—
Interest payable and similar charges	5	(32,084)	—	(16,667)
Interest receivable and similar income	4	<u>9,161</u>	<u>12,334</u>	<u>303</u>
<b>Loss on ordinary activities before taxation</b>		<u>(641,077)</u>	<u>(576,297)</u>	<u>(403,676)</u>
Tax on loss on ordinary activities		—	—	—
<b>Loss transferred to reserves deficit</b>	18	<u>(641,077)</u>	<u>(576,297)</u>	<u>(403,676)</u>
<b>Basic loss per share</b>		(1.3p)	(1.6p)	(3.2p)
<b>Fully diluted loss per share</b>		(1.1p)	(1.3p)	(2.6p)

All amounts relate to continuing activities.

There were no recognised gains or losses in any year other than the loss for the financial year and all profits or losses have been accounted for on an historical cost basis.

## CONSOLIDATED BALANCE SHEET

	Note	2006 £	2005 £	2004 £
<b>Fixed assets</b>				
Intangible assets	9	292,220	291,701	308,145
Tangible assets	10	16,054	6,131	8,203
Joint venture:	11			
– share of gross assets		199,536	209,111	—
– share of gross liabilities		(199,536)	(191,884)	—
		<u>308,274</u>	<u>315,059</u>	<u>316,348</u>
<b>Current assets</b>				
Work in progress	12	3,937	1,250	100,390
Debtors	13	86,203	50,516	28,428
Cash at bank and in hand	14	664,616	595,106	87,932
		<u>754,756</u>	<u>646,872</u>	<u>216,750</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(184,253)</u>	<u>(62,478)</u>	<u>(189,297)</u>
<b>Net current assets</b>		<u>570,503</u>	<u>584,394</u>	<u>27,453</u>
<b>Creditors: amounts falling due after one year</b>	16	<u>(230,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>
Deferred income		(49,875)	(16,524)	—
<b>Net assets</b>		<u><u>598,902</u></u>	<u><u>632,929</u></u>	<u><u>93,801</u></u>
<b>Capital and reserves</b>				
Called up share capital	17	1,138,541	508,541	216,625
Share premium account	18	2,407,667	2,430,617	1,607,108
Shares to be issued	17	204,167	204,167	204,167
Profit and loss account	18	(3,151,473)	(2,510,396)	(1,934,099)
<b>Equity shareholders' funds</b>		<u><u>598,902</u></u>	<u><u>632,929</u></u>	<u><u>93,801</u></u>

## CONSOLIDATED CASH FLOW STATEMENT

	Note	2006 £	2005 £	2004 £
<b>Net cash outflow from operating activities</b>	25	(469,804)	(502,863)	(290,829)
<b>Returns on investments and servicing of finance</b>				
Interest received		9,161	12,334	303
Interest paid and similar charges		<u>(32,084)</u>	<u>—</u>	<u>(16,667)</u>
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		(22,923)	12,334	(16,364)
<b>Capital expenditure</b>				
Purchase of intangible fixed assets		(16,961)	—	—
Purchase of tangible fixed assets		<u>(15,438)</u>	<u>(1,529)</u>	<u>(6,816)</u>
		(32,399)	(1,529)	(6,816)
<b>Acquisitions</b>				
Purchase of subsidiary expenditure		—	—	(110,867)
Net funds acquired with subsidiary undertakings		—	—	1,176
Investment in joint venture		<u>(900)</u>	<u>(26,584)</u>	<u>—</u>
		(900)	(26,584)	(109,691)
<b>Cash outflow before use of liquid resources and financing</b>		(526,026)	(518,642)	(423,700)
<b>Financing</b>				
Issue of ordinary share capital		607,050	1,115,425	543,047
Issue of preference shares		<u>—</u>	<u>—</u>	<u>250,000</u>
		607,050	1,115,425	793,047
<b>Increase in cash</b>	26	<u><u>81,024</u></u>	<u><u>596,783</u></u>	<u><u>369,347</u></u>

**NOTES TO THE FINANCIAL INFORMATION**

**1. ACCOUNTING POLICIES**

**Accounting basis and standards**

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

**Basis of consolidation**

The Group financial statements incorporate a consolidation of the financial statements of the company and its subsidiary undertakings.

**Turnover**

Turnover represents the amounts invoiced and accrued during the year in respect of production/licence fees and the exploitation of film and television rights to the extent that projects are completed or delivered during the year.

**Intangible fixed assets**

Goodwill on consolidation, representing the excess of the consolidation paid over the fair value of the identifiable net assets of subsidiary undertakings at the date of acquisition, is capitalised and amortised over its estimated useful life.

Goodwill on consolidation is being amortised over twenty years, as the directors believe this to be the economic useful life.

For intellectual property rights, amortisation is provided at rates calculated to write off the cost of the assets less estimated residual value over their estimated useful lives as follows:

Intellectual property rights                      20% straight line

**Tangible fixed assets and depreciation**

Tangible fixed assets are stated at purchase cost.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and fittings                              20% straight line  
Computer equipment                              33% straight line

**Work in progress, development costs and recoverable distribution expenses**

These costs represent expenditure on projects in development, production and distribution and are valued at the lower of cost and net realisable value. These costs are carried forward only when, in the opinion of the directors, there is a clearly defined project, and the recovery of these costs can reasonably be expected. Where production has been financed by non-recourse loans, the company makes provision in full against such 'ring fenced' expenditure as it is incurred. The related non-recourse loans are only repayable to the extent that revenues are generated from the exploitation as it is incurred. The related non-recourse loans are only repayable to the extent that revenues are generated from the exploitation of the asset to which they relate. Accordingly, full matching provision will be made in respect of these liabilities, with no overall net effect on the profit and loss account. Any revenues subsequently received are recognised on receipt, and a corresponding release of both the rights and loan provisions to the profit and loss account.

**Sales and leaseback transactions**

Where film and television assets have been partly financed via sale and leaseback arrangements, the proceeds of the sale of the master negative, and the corresponding loan obligation in respect of the lease rental commitment over the period of the lease, are shown by way of a note to the accounts as it is considered that this properly reflects the nature of the transactions as a refinancing of the original production cost.

## Foreign currency

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

## Deferred taxation

Deferred tax arises as a result of including items of income and expenditure in taxation computations in periods different from those in which they are included in the company's accounts. Deferred tax is provided in full on timing differences, which result in an obligation to pay more tax at a future date, at the current tax rates and laws. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Operating leases

Rentals under operating leases are charged on a straight line basis over the terms of the lease.

## 2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover attributable to a geographical markets outside the United Kingdom amounted to 22% (2005: 21%) (2004: 78%). The Group operates solely within a single market and therefore no further segmental analysis is provided.

## 3. OPERATING LOSS

Operating loss is stated after charging:

	2006	2005	2004
	£	£	£
Depreciation – owned assets	5,515	3,601	1,676
Amortisation of intangible assets			
– acquired rights	1,070	1,072	386
– goodwill	15,372	15,372	3,843
Auditors' remuneration – audit fee	5,000	5,000	5,000
Auditors' remuneration – non audit fees	3,500	3,500	3,500

## 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006	2005	2004
	£	£	£
Bank interest	9,161	12,334	303

## 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005	2004
	£	£	£
Interest payable on preference shares	32,084	—	3,729
Bank charges	—	—	12,938

## 6. EMPLOYEE INFORMATION AND DIRECTORS' EMOLUMENTS

The average monthly number of persons employed by the Group (including directors) during the year was:

	2006	2005	2004
	Number	Number	Number
Development, sales and administration	10	11	9

Total remuneration, including directors, was:

	2006 £	2005 £	2004 £
Wages and salaries	253,778	318,760	185,447
Social security costs	36,460	46,278	19,767
	<u>290,238</u>	<u>365,038</u>	<u>205,214</u>

Remuneration in respect of directors, which comprised salaries and fees only, was as follows:

	2006 £	2005 £	2004 £
W Harris	25,000	25,000	4,533
The Lord Brabourne	3,500	3,500	1,000
L Chrisfield	15,000	15,000	3,125
D Harrison	—	3,000	500
R Holmes	102,075	112,600	105,574
L James	15,000	15,000	4,590
T Hilton	20,000	12,765	—
	<u>180,575</u>	<u>186,865</u>	<u>119,322</u>

## 7. EARNINGS PER SHARE

In accordance with Financial Reporting Standard 22 Earnings Per Share (2005 and 2004 Financial Reporting Standard 14 Earnings Per Share), loss per share has been calculated on the loss for the year ended 30 June 2006 of £641,077 and 51,386,617 ordinary shares (2005: £576,297 and 35,098,696 ordinary shares, 2004: £403,676 and 12,555,196 ordinary shares), being the weighted average number of shares in issue during the year. The fully diluted loss per share has been calculated on the loss for the year ended 30 June 2006 of £641,077 and 56,192,937 ordinary shares (2005: £576,297 and 42,884,974 ordinary shares, 2004: £403,676 and 15,740,676 ordinary shares), being the weighted average number of shares in issue or under option during the year.

## 8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £	2005 £	2004 £
United Kingdom corporation tax on losses in the period	—	—	—
Adjustment for prior years	—	—	—
Total current tax	<u>—</u>	<u>—</u>	<u>—</u>
<b>Factors affecting the tax charge for the period</b>			
Loss on ordinary activities before taxation	<u>(641,077)</u>	<u>(576,297)</u>	<u>(403,676)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(192,323)	(172,889)	(121,103)
Expenses not deductible for tax purposes	15,378	1,584	1,526
Capital allowances for the year in excess of depreciation	463	965	(495)
Losses carried forward to set off against future profits	<u>176,482</u>	<u>170,340</u>	<u>120,072</u>
Current tax charge	<u>—</u>	<u>—</u>	<u>—</u>

At 30 June 2006, cumulative trading losses of £1,008,000 (2005: £838,000, 2004: £558,000), computed at the future rate of corporation tax of 30% (2005 and 2004: 30%), were available for offset against future profits.

## 9. INTANGIBLE FIXED ASSETS

	<i>Intellectual rights</i> £	<i>Goodwill</i> £	<i>Total</i> £
<b>Cost</b>			
At 1 July 2003	—	—	—
Additions	—	307,438	307,438
Acquired	5,351	—	5,351
	<u>5,351</u>	<u>307,438</u>	<u>312,789</u>
At 30 June 2004 and 30 June 2005	5,351	307,438	312,789
Additions	16,961	—	16,961
	<u>16,961</u>	<u>—</u>	<u>16,961</u>
At 30 June 2006	<u>22,312</u>	<u>307,438</u>	<u>329,750</u>
<b>Depreciation</b>			
At 1 July 2003	—	—	—
Charge for the year	801	3,843	4,644
	<u>801</u>	<u>3,843</u>	<u>4,644</u>
At 30 June 2004	801	3,843	4,644
Charge for the year	1,072	15,372	16,444
	<u>1,072</u>	<u>15,372</u>	<u>16,444</u>
At 30 June 2005	1,873	19,215	21,088
Charge for the year	1,070	15,372	16,442
	<u>1,070</u>	<u>15,372</u>	<u>16,442</u>
At 30 June 2006	<u>2,943</u>	<u>34,587</u>	<u>37,530</u>
Net book amount at 30 June 2006	<u>19,369</u>	<u>272,851</u>	<u>292,220</u>
Net book amount at 30 June 2005	<u>3,478</u>	<u>288,223</u>	<u>291,701</u>
Net book amount at 30 June 2004	<u>4,550</u>	<u>303,595</u>	<u>308,145</u>

## 10. TANGIBLE FIXED ASSETS

	<i>Fixtures and fittings</i> £	<i>Computer equipment</i> £	<i>Total</i> £
<b>Cost</b>			
At 1 July 2003	2,393	18,050	20,443
Additions	—	6,816	6,816
Acquired	—	2,560	2,560
At 30 June 2004	2,393	27,426	29,819
Additions	—	1,529	1,529
At 30 June 2005	2,393	28,955	31,348
Additions	15,184	254	15,438
Disposals	(2,390)	—	(2,390)
At 30 June 2006	15,187	29,209	44,396
<b>Depreciation</b>			
At 1 July 2003	1,567	18,049	19,616
Charge for the year	378	1,298	1,676
Acquired	—	324	324
At 30 June 2004	1,945	19,671	21,616
Charge for the year	277	3,324	3,601
At 30 June 2005	2,222	22,995	25,217
Charge for the year	2,043	3,472	5,515
Disposals	(2,390)	—	(2,390)
At 30 June 2006	1,875	26,467	28,342
Net book amount at 30 June 2006	13,312	2,742	16,054
Net book amount at 30 June 2005	171	5,960	6,131
Net book amount at 30 June 2004	448	7,755	8,203

## 11. INVESTMENTS HELD AS FIXED ASSETS

### Joint Venture

	<i>2006</i> £	<i>2005</i> £	<i>2004</i> £
Brought forward	17,227	—	—
Additions in year	900	26,584	—
Provision against carrying value	(18,097)	(8,519)	—
Share of profits/(losses)	(30)	(838)	—
Carried forward	—	17,227	—

The above investment is unlisted.

The following details relate to the company's subsidiary undertakings.

<i>Name</i>	<i>Proportion of shares and voting rights held</i>	<i>Holding</i>	<i>Nature of business</i>
Coolabi Licensing Limited	100%	Ordinary shares	Brand licensing
Alibi Productions Limited	100%	Ordinary shares	TV and Film production
Alibi Pictures Limited	100%	Ordinary shares	Film production
Alibi Films International Limited	100%	Ordinary shares	Feature film sales
Alibi Productions (Dead) Limited	75%	Ordinary shares	Film production
Alibi Productions (Safe House) Ltd	100%	Ordinary shares	Film production
Alibi Productions (Sir Gadabout) Ltd	100%	Ordinary shares	Film production
Alibi Productions (Sir Gads 2) Ltd	100%	Ordinary shares	Film production
Alibi Records Limited	100%	Ordinary shares	Dormant
Alibi Music Publishing Limited	100%	Ordinary shares	Dormant
Alibi Communications Limited	100%	Ordinary shares	Dormant
Coolabi Productions Limited	100%	Ordinary shares	Dormant
Coolebah Limited	100%	Ordinary shares	Dormant

The following details related to the company's joint ventures

Pepper's Patrol Limited	50%	Ordinary shares
-------------------------	-----	-----------------

All fourteen companies are incorporated in the United Kingdom and are consolidated into these accounts.

## 12. WORK IN PROGRESS

	<i>2006</i>	<i>2005</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Unamortised film rights and production costs	—	97,472	100,390
Less: provided in the year	—	(97,472)	—
	<u>—</u>	<u>—</u>	<u>100,390</u>
Development costs and recoverable distribution expenses			
Brought forward	1,250	—	31,125
Net additions in year	6,438	2,500	14,033
Provided in year	(3,751)	(1,250)	(45,158)
Carried forward	<u>3,937</u>	<u>1,250</u>	<u>—</u>
	<u><u>3,937</u></u>	<u><u>1,250</u></u>	<u><u>100,390</u></u>

## 13. DEBTORS

	<i>2006</i>	<i>2005</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Trade debtors	41,038	17,039	7,869
Other debtors	15,625	14,917	5,328
Prepayments and accrued income	29,540	18,560	15,231
	<u>86,203</u>	<u>50,516</u>	<u>28,428</u>

#### 14. CASH AT BANK AND IN HAND

	2006	2005	2004
	£	£	£
Production trust accounts	—	—	9
Available cash at bank and in hand	664,616	595,106	87,923
	<u>664,616</u>	<u>595,106</u>	<u>87,932</u>

#### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005	2004
	£	£	£
Bank overdraft	—	11,514	733
Non recourse bank loan	—	—	100,390
Preference shares	20,000	—	—
Trade creditors	59,473	19,968	41,730
Other taxes and social security costs	10,669	8,313	7,738
Other creditors	583	583	15,588
Accruals and deferred income	93,528	22,100	23,118
	<u>184,253</u>	<u>62,478</u>	<u>189,297</u>

The non-recourse loan at 30 June 2004 in the above note relates to unamortized film rights and production costs and was only repayable from the future exploitation of those projects. Loans at 30 June 2006 (£94,719) and 30 June 2005 (£97,472) are not shown as they have been fully provided against in accordance with our accounting policy on work in progress.

#### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006	2005	2004
	£	£	£
Preference shares	<u>230,000</u>	<u>250,000</u>	<u>250,000</u>

The cumulative, redeemable, non convertible preference shares of £1 each mature in December 2008 and attract an interest rate of 5.5%. The preference shares may be redeemed earlier than this under certain limited circumstances.

#### Sale and leaseback

Certain film and television assets with a cost of £5,099,752 (2005 and 2004: £5,099,752) have been partly financed via sale and leaseback arrangements as follows:

	2006	2005	2004
	£	£	£
Deposits held in escrow	3,161,349	3,418,328	3,661,378
Less loans outstanding	<u>(3,161,349)</u>	<u>(3,418,328)</u>	<u>(3,661,378)</u>
Balance	<u>—</u>	<u>—</u>	<u>—</u>
The maturity of the above amounts is as follows:			
Less than one year	270,907	256,979	243,050
Two to five years inclusive	1,222,912	1,167,199	1,111,486
Over five years	<u>1,667,530</u>	<u>1,994,150</u>	<u>2,306,842</u>
	<u>3,161,349</u>	<u>3,418,328</u>	<u>3,661,378</u>

The company has entered into certain sale and leaseback transactions relating to film productions. Accordingly the company has a legal commitment to pay lease rentals, which are financed from the majority of the sale proceeds, which in turn are held on blocked deposit accounts. The company has no access to or control over these deposits and all lease rental payments are made under irrevocable instructions and guaranteed by defeasance banks.

The banks, with whom these sums are deposited, have given guarantees to the lessors in respect of the future lease rentals and a contingent liability would only crystallise upon the failure of the bank holding the deposit, which in the opinion of the directors is considered remote.

## 17. SHARE CAPITAL

	2006 £	2005 £	2004 £
<b>Authorised</b>			
150,000,000 (2005: 150,000,000, 2004: 30,000,000) Ordinary shares of 1p each	<u>1,500,000</u>	<u>1,500,000</u>	<u>300,000</u>
<b>Allotted, called up and fully paid</b>			
113,854,198 (2005: 50,854,198, 2004: 21,662,532) Ordinary shares of 1p each	<u>1,138,541</u>	<u>508,541</u>	<u>216,625</u>

During the year to 30 June 2004 the company issued 14,698,798 ordinary shares at 3 pence and 833,334 ordinary shares at 12.25 pence.

During the year to 30 June 2005 the company issued 28,000,000 ordinary shares at 4 pence and 1,191,666 ordinary shares at 3 pence.

During the year to 30 June 2006 the company issued 63,000,000 ordinary shares at 1 pence.

All shares issued had a par value of 1 pence.

The shares to be issued amounting to £204,167 relate to deferred consideration arising from the sale of Coolebah Limited to the Company in February 2004. The issue of these shares was subject to certain performance conditions that expired in February 2007. On expiry the deferred consideration reduced the goodwill recognised on acquisition of Coolebah Limited.

Options to subscribe for ordinary shares of 1p each have been granted to present directors and employees of the Group. Outstanding options at 30 June 2006 are as follows:

<i>Shares under Option</i>	<i>Date of Grant</i>	<i>Exercise Price</i>	<i>Date from which exercisable</i>	<i>Expiry date</i>
360,000	21 February 2001	1p	15 November 2001	13 May 2008
2,166,667	30 January 2004	3p	30 January 2004	30 January 2009
2,500,000	20 February 2004	12.25p	20 February 2005	20 February 2009

## 18. RESERVES

	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 July 2003	1,219,382	(1,530,423)	(311,041)
Loss for the financial year	—	(403,676)	(403,676)
Premium on issue of shares	<u>387,726</u>	—	<u>387,726</u>
At 30 June 2004	1,607,108	(1,934,099)	(326,991)
Loss for the financial year	—	(576,297)	(576,297)
Premium on issue of shares	863,833	—	863,833
Issue costs	<u>(40,324)</u>	—	<u>(40,324)</u>
At 30 June 2005	2,430,617	(2,510,396)	(79,779)
Loss for the financial year	—	(641,077)	(641,077)
Premium on issue of shares	—	—	—
Issue costs	<u>(22,950)</u>	—	<u>(22,950)</u>
At 30 June 2006	<u>2,407,667</u>	<u>(3,151,473)</u>	<u>(743,806)</u>

## 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	2005	2004
	£	£	£
Issue of ordinary share capital in the year	630,000	291,916	155,321
Premium arising on issue of ordinary shares	—	863,833	387,726
Shares to be issued	—	—	204,167
Issue costs	(22,950)	(40,324)	—
Retained loss for year	(641,077)	(576,297)	(403,676)
Opening shareholders' funds	632,929	93,801	(249,737)
Closing shareholders' funds	<u>598,902</u>	<u>632,929</u>	<u>93,801</u>

## 20. CAPITAL COMMITMENTS

The Group had no capital commitments at 30 June 2006 (30 June 2005: £7,500, 30 June 2004: £7,500).

## 21. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2006, 30 June 2005 or 30 June 2004.

## 22. LEASING COMMITMENTS

At 30 June 2004, 30 June 2005 and 30 June 2006 the Group was committed to making the following payments under non-cancellable operating leases.

	<i>Land and buildings</i>		
	2006	2005	2004
	£	£	£
Operating leases which expire:			
In one year or less	—	20,000	20,000
Between two and five years	24,000	—	—
	<u>24,000</u>	<u>20,000</u>	<u>20,000</u>

## 23. RELATED PARTY TRANSACTIONS

William Harris, the Chairman of the company, and Tim Hilton, the former Finance Director, are/were also directors of Avonglen Limited. During the year to 30 June 2006 directors' fees of £44,854 (2005: £44,042, 2004: £1,408) were paid to Avonglen Limited on an arm's length basis.

## 24. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The group's circumstances and operations do not require the use of complex financial instruments. Nevertheless, the directors recognise that the group faces certain risks and these are discussed below.

The group's financial instruments comprise cash, trade debtors and trade creditors that arise directly from its operations. The main risks arising from the group financial instruments are interest rate risk and currency risk. The Board has reviewed and agreed policies for managing each of these risks. The fair values of the group's financial instruments are considered equal to book value.

### Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

### Interest rate risk

The group finances its operations through retained profits and bank borrowings. The group exposure to interest rate fluctuations on its borrowings, when it utilises them, is managed by the use of floating facilities. The group also mixes the duration of its deposits and borrowings to reduce the impact of interest rate fluctuations.

## Currency risk

The group operates in overseas markets and is subject to currency exposures on transactions undertaken during the year. The group does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are taken to the profit and loss account of the group companies and the group.

## 25. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £	2004 £
Operating loss	(618,124)	(587,793)	(387,312)
Depreciation charges	5,515	3,601	1,676
Amortisation charges	16,442	16,444	4,229
(Increase)/decrease in work in progress	(6,437)	99,140	123,212
Increase in provisions	21,847	8,519	—
Increase in debtors	(35,687)	(22,088)	2,987
Increase/(decrease) in creditors	146,640	(20,686)	(35,621)
Net cash outflow from operating activities	<u>(469,804)</u>	<u>(502,863)</u>	<u>(290,829)</u>

## 26. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 July 2003 £	Cash flows £	Other non cash changes £	At 30 June 2004 £
Cash at bank and in hand	57,127	30,805	—	87,932
Bank overdraft	(302,270)	301,537	—	(733)
Non-recourse bank loan	(37,005)	37,005	—	—
	<u>(282,148)</u>	<u>369,347</u>	<u>—</u>	<u>87,199</u>

	At 1 July 2004 £	Cash flows £	Other non cash changes £	At 30 June 2005 £
Cash at bank and in hand	87,932	507,174	—	595,106
Bank overdraft	(733)	(10,781)	—	(11,514)
Non-recourse bank loan	—	100,390	(100,390)	—
	<u>87,199</u>	<u>596,783</u>	<u>(100,390)</u>	<u>583,592</u>

	At 1 July 2005 £	Cash flows £	Other non cash changes £	At 30 June 2006 £
Cash at bank and in hand	595,106	69,510	—	664,616
Bank overdraft	(11,514)	11,514	—	—
	<u>583,592</u>	<u>81,024</u>	<u>—</u>	<u>664,616</u>

## PART IV

### Unaudited interim results of Coolabi plc for the six months ended 31 December 2006

The following information is from the unaudited interim results announcement of Coolabi plc for the six months ended 31 December 2006 announced on 30 March 2007.

#### Chairman's Statement

##### Highlights:

- Turnover increased twenty fold to £717,530 for the 6 months to 31 December 2006 compared with the same period last year (31 December 2005: £33,530)
- Operating loss of £253,441\* for the 6 months to 31 December 2006, a reduction of 21% compared with the same period last year (31 December 2005: £322,495)
- Acquisition of the children's division of Zenith Entertainment Limited
- Series II of *King Arthur's Disasters* delivered to ITV on time and within budget
- *King Arthur's Disasters* DVD from the BAFTA nominated first series released in the UK to coincide with launch of Series II on ITV
- New management team in place with a track record of delivering value for shareholders in this space
- Clear acquisition strategy developed and now actively being pursued
- Coolabi plc now primed for growth, principally by way of acquisition

\* before one-off re-organisation costs, £333,441 after

I present the company's interim results for the half year to 31 December 2006. The arrival of Jeremy Banks as Chief Executive in September has brought renewed focus and vigour to the company. As a consequence, the period has been one of great change and will, I believe, be seen to have been the catalyst for the future success of the group.

#### Activity Update

Coolabi plc specialises in the ownership and creative management of high quality children's and family intellectual property assets and their global exploitation.

The group owns or controls the rights to a number of intellectual properties which are currently managed through one or both of Coolabi's two principal divisions, Production and Licensing.

##### *Production*

In September 2006, we announced the acquisition of the children's division of Zenith Entertainment Limited for up to £100,000. By 31 December 2006 the acquisition was already cash positive to Coolabi and we expect it to continue to make a positive contribution to the business for the foreseeable future.

As stated at the time, the acquisition included all rights to Zenith Entertainment's successful animated series of *King Arthur's Disasters*, co-produced with Neptuno Films in Spain. Featuring the voice talent of Matt Lucas, Rik Mayall, Morwenna Banks and Phil Cornwell, Series I of *King Arthur's Disasters* was first screened on ITV 1 in the UK in April 2005 where it was the highest rated new CiTV show that spring. Following the success of Series I, ITV commissioned a second series of 13 episodes each of half an hour duration.

At the time of the acquisition, a little over half of Series II had been delivered to the broadcaster. I'm pleased to report that Coolabi delivered the remaining episodes to our broadcast partners on time and within budget.

This exciting acquisition is, I hope, the first of a number that will, in short order, transform the company and its prospects.

We have also delivered a pilot episode for a new live action children's drama to Nickelodeon Junior on time and within budget during the period. All the costs of the pilot were met by Nickelodeon and have been expensed in full through the Profit & Loss Account. We will know whether we will receive a commission for a series later this year.

We own rights in and exploit and derive income from our library of completed feature films and television dramas. This library has been further enhanced by the acquisition of the children's division of Zenith Entertainment Limited.

### *Licensing*

During the period under review, we started to make solid progress with a number of our properties. For example, amongst the properties we own or co-own, a material publishing deal is being concluded in the US that would see *Scarlett & Crimson* launched in that territory in 2008 and we in negotiations for a similar deal for that property in the UK.

Amongst the properties we represent, a *Hammer* interactive DVD Board Game entitled 'Forbidden Territory' was launched in November by our licensee, Britannia Games, which sold out in a number of stores over the Christmas period.

We also negotiated licensing agreements with The Cookie Jar Company, a Canadian based producer of children's programmes, to represent two of their properties in the UK – *Doodlebops* and *Caillou*.

### **Financial Review of the Period**

Turnover of £717,530 was principally derived from commission and royalty revenues from our Licensing & Merchandising division and from production and distribution revenues from our Production division. This represented a twenty fold increase compared with the same period last year (31 December 2005: £33,530)

Importantly, all costs associated with the production and delivery of *King Arthur's Disasters* Series II and the production and delivery of the live action children's drama pilot to Nickelodeon Junior have been expensed in full through the Profit & Loss Account in the period.

These factors resulted in an adjusted Operating Loss of £253,441 for the 6 months to 31 December 2006, a reduction of 21% compared with the same period last year (31 December 2005: £322,495). The adjusted Operating Loss is stated before the cost of the reorganisation of the management team undertaken in September last year.

In January 2007, Jeremy Banks subscribed £100,000 for 10 million new ordinary shares of 1 penny each at par.

### **Prospects**

It is clear that whilst we own and/or represent some attractive properties and have a strong development slate, transformational growth in the short-term can only come from acquisitions.

Since September, we have devoted a great deal of time to developing the acquisition strategy of the group. Following the purchase of the children's business of Zenith Entertainment Ltd in September 2006, we have begun to progress a number of other potential opportunities.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED  
31 DECEMBER 2006**

		<i>6 months ended 31 December 2006 (Unaudited) £</i>	<i>6 months ended 31 December 2005 (Unaudited) £</i>	<i>Year to 30 June 2006 (Audited) £</i>
	<i>Note</i>			
<b>Turnover</b>	3	717,530	33,530	108,006
Cost of sales		<u>(529,452)</u>	<u>(9,371)</u>	<u>(32,370)</u>
Gross profit		188,078	24,159	75,636
Administrative expenses		<u>(521,519)</u>	<u>(346,654)</u>	<u>(693,760)</u>
<b>Operating loss</b>		(333,441)	(322,495)	(618,124)
Joint venture – share of operating loss		(25)	(14)	(30)
Interest receivable and similar income		4,854	7,974	9,161
Interest payable and similar charges		<u>(6,326)</u>	<u>(28,646)</u>	<u>(32,084)</u>
<b>Loss on ordinary activities before and after taxation and transferred to reserves</b>		<u>£(334,938)</u>	<u>£(343,181)</u>	<u>£(641,077)</u>
<b>Basic loss per share</b>	4	(0.3p)	(0.7p)	(1.3p)
<b>Fully diluted loss per share</b>	4	<u>(0.3p)</u>	<u>(0.6p)</u>	<u>(1.1p)</u>

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	<i>Interim</i> 31 December 2006 <i>(Unaudited)</i> £	<i>Interim</i> 31 December 2005 <i>(Unaudited)</i> £	<i>As at</i> 30 June 2006 <i>(Audited)</i> £
<b>Fixed assets</b>			
Intangible assets	106,879	283,479	292,220
Tangible assets	17,329	13,306	16,054
Joint venture – share of gross assets	200,241	216,843	199,536
– share of gross liabilities	<u>(200,241)</u>	<u>(198,728)</u>	<u>(199,536)</u>
	<u>124,208</u>	<u>314,900</u>	<u>308,274</u>
<b>Current assets</b>			
Work in progress	10,500	7,250	3,937
Debtors	211,672	47,473	86,203
Cash at bank and in hand	<u>321,026</u>	<u>287,355</u>	<u>664,616</u>
	543,198	342,078	754,756
<b>Creditors: Amounts falling due within one year</b>	<u>(336,584)</u>	<u>(92,453)</u>	<u>(184,253)</u>
<b>Net current assets</b>	<u>206,614</u>	<u>249,625</u>	<u>570,503</u>
<b>Creditors: Amounts falling due after one year</b>	<u>(230,000)</u>	<u>(250,000)</u>	<u>(230,000)</u>
<b>Deferred Income</b>	<u>(41,025)</u>	<u>(24,777)</u>	<u>(49,875)</u>
<b>Net assets</b>	<u>£59,797</u>	<u>£289,748</u>	<u>£598,902</u>
<b>Capital and reserves</b>			
Called up share capital	1,138,541	508,541	1,138,541
Share premium account	2,407,667	2,430,617	2,407,667
Shares to be issued	—	204,167	204,167
Profit and loss account	<u>(3,486,411)</u>	<u>(2,853,577)</u>	<u>(3,151,473)</u>
<b>Equity shareholders' funds</b>	<u>£59,797</u>	<u>£289,748</u>	<u>£598,902</u>

**CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED  
31 DECEMBER 2006**

	<i>6 months ended 31 December 2006 (Unaudited) £</i>	<i>6 months ended 31 December 2005 (Unaudited) £</i>	<i>Year to 30 June 2006 (Audited) £</i>
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss	(333,441)	(322,495)	(618,124)
Depreciation charges	3,791	2,250	5,515
Amortisation charges	10,371	8,222	16,442
Increase in work in progress	(6,563)	(6,000)	(6,437)
(Decrease)/Increase in provisions	(25)	—	21,847
(Increase)/Decrease in debtors	(125,469)	3,043	(35,687)
Increase in creditors	143,481	20,786	146,640
<b>Net cash outflow from operating activities</b>	<u>£(307,855)</u>	<u>£(294,194)</u>	<u>£(469,804)</u>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash outflow from operating activities</b>	(307,855)	(294,194)	(469,804)
<b>Returns on investments and servicing of finance</b>	a (1,472)	7,974	(22,923)
<b>Capital expenditure</b>	b (34,263)	(9,425)	(32,399)
<b>Acquisitions</b>	c —	(900)	(900)
<b>Cash outflow before use of liquid resources and financing</b>	(343,590)	(296,545)	(526,026)
<b>Management of liquid resources</b>	—	—	—
<b>Financing</b>	d —	—	607,050
<b>(Decrease)/increase in cash</b>	<u>£(343,590)</u>	<u>£(296,545)</u>	<u>£81,024</u>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Movement in net funds in the period	(343,590)	(296,545)	81,024
Net funds at 1st July, 2006	664,616	583,592	583,592
Net funds at 31st December, 2006	e <u>£321,026</u>	<u>£287,047</u>	<u>£664,616</u>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS  
ENDED 31 DECEMBER 2006**

	<i>6 months ended 31 December 2006 (Unaudited) £</i>	<i>6 months ended 31 December 2005 (Unaudited) £</i>	<i>Year to 30 June 2006 (Audited) £</i>
<b>(a) Returns on investments and servicing of finance</b>			
Interest received	4,854	7,974	9,161
Interest paid and similar charges	(6,326)	—	(32,084)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<u>£(1,472)</u>	<u>£7,974</u>	<u>£(22,923)</u>
<b>(b) Capital expenditure</b>			
Purchase of intangible fixed assets	(29,197)	—	(16,961)
Purchase of tangible fixed assets	(5,066)	(9,425)	(15,438)
	<u>£(34,263)</u>	<u>£(9,425)</u>	<u>£(32,399)</u>
<b>(c) Acquisitions</b>			
Investment in joint venture	—	(900)	(900)
	<u>—</u>	<u>£(900)</u>	<u>£(900)</u>
<b>(d) Financing</b>			
Issue of ordinary share capital	—	—	607,050
	<u>—</u>	<u>—</u>	<u>£607,050</u>
<b>(e) Analysis of changes in net funds</b>			
	<i>At 1 July 2006 £</i>	<i>Cash Flows £</i>	<i>At 31 December 2006 £</i>
Cash at bank and in hand	<u>664,616</u>	<u>(343,590)</u>	<u>321,026</u>

## **COOLABI PLC NOTES TO THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006**

### **1. BASIS OF PREPARATION**

The financial information set out in this interim report does not comprise the company's statutory financial statements. Statutory financial statements for the previous financial year ended 30th June 2006 have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

### **2. ACCOUNTING POLICIES**

The interim results have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Group have remained unchanged from the previous year.

### **3. TURNOVER**

The Group's turnover, net of value added tax, represents the amounts invoiced and accrued during the year in respect of commissions, production/licence fees and the exploitation of film and television rights to the extent that projects are completed or delivered during the year. All amounts are in respect of continuing operations.

### **4. EARNINGS PER SHARE**

The calculation of basic loss per ordinary share is based on the consolidated loss for the period after tax of £334,938 and 113,854,198 ordinary shares, being the weighted average number of shares in issue during the six month period ended 31st December 2006. The fully diluted loss per share has been calculated on the consolidated loss for the period after tax of £334,938 and 113,854,198 ordinary shares, being the weighted average number of ordinary shares in issue during the six month period ended 31st December 2006.

## PART V

### A – Accountant’s Report on Purple Enterprises Limited

**Grant Thornton** 

**Grant Thornton UK LLP**  
Enterprise House  
115 Edmund Street  
Birmingham  
West Midlands  
B3 2HJ

The Directors  
Coolabi plc  
48 Broadley Terrace  
LONDON  
NW1 6LG

4 April 2007

Dear Sirs

#### **PURPLE ENTERPRISES LIMITED**

We report on the financial information on Purple Enterprises Limited for the three years and nine months ended 31 December 2006 set out in Part V(B) of the AIM Admission Document of Coolabi plc. This financial information has been prepared for inclusion in the AIM Admission Document dated 4 April 2007 of Coolabi plc on the basis of the accounting policies set out in Note 4.1 to the financial information. This report is required by Paragraph (a) of Schedule Two of the AIM rules and is given for the purpose of complying with those provisions and for no other purpose.

#### **Responsibilities**

This report is required by Paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that regulation and for no other purpose.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any responsibility to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report consenting to its inclusion in AIM Admission Document.

The Directors of Coolabi plc are responsible for preparing the financial information on the basis of preparation set out in Note 4.1 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 4 April 2007, a true and fair view of the state of affairs of Purple Enterprises Limited at the dates stated and of its results and cash flows for the periods then ended in accordance with the basis of preparation set out in Note 4.1 of Part V(B) of the Document and in accordance with the applicable reporting framework as described in Note 4.1 and has been prepared in a form that is consistent with the accounting policies adopted in Coolabi plc's latest statutory accounts.

**Declaration**

For the purpose of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

## B – Financial information on Purple Enterprises Limited

The Directors have prepared the following financial information on Purple Enterprises Limited for the three years ended 31 March 2004, 31 March 2005, 31 March 2006 and the nine months ended 31 December 2006, from the unaudited financial statements of Purple Enterprises Limited.

The financial information on Purple Enterprises Limited, which has been prepared solely for the purposes of the Admission Document of Coolabi plc, does not constitute audited statutory accounts with the meaning of Section 240 of the Companies Act 1985.

### 1. PROFIT AND LOSS ACCOUNT FOR THE THREE YEARS ENDED 31 MARCH 2004, 31 MARCH 2005, 31 MARCH 2006 AND THE NINE MONTHS ENDED 31 DECEMBER 2006

		2004	2005	2006	<i>9 months to 31 December 2006</i>
	<i>Note</i>	£	£	£	£
<b>Turnover</b>	4.2	487,703	1,084,038	1,034,071	630,695
Administrative expenses		<u>(275,869)</u>	<u>(731,711)</u>	<u>(755,869)</u>	<u>(357,259)</u>
<b>Operating profit</b>	4.3	211,834	352,327	278,202	273,436
Other interest receivable and similar income	4.4	<u>21,145</u>	<u>19,932</u>	<u>15,417</u>	<u>17,355</u>
<b>Profit on ordinary activities before taxation</b>		232,979	372,259	293,619	290,791
Taxation	4.5	<u>(44,887)</u>	<u>(82,309)</u>	<u>(56,739)</u>	<u>(65,174)</u>
<b>Profit for the financial period</b>		188,092	289,950	236,880	225,617
Dividends		<u>(110,000)</u>	<u>(552,000)</u>	<u>(110,000)</u>	<u>(110,000)</u>
<b>Retained profit/(loss) for the financial period</b>	4.11	<u><u>78,092</u></u>	<u><u>(262,050)</u></u>	<u><u>126,880</u></u>	<u><u>115,617</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

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

The notes in section 4 form an integral part of this financial information.

**2. BALANCE SHEET AS AT 31 MARCH 2004, 31 MARCH 2005, 31 MARCH 2006 AND 31 DECEMBER 2006**

		<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
<b>Fixed assets</b>					
Tangible assets	4.6	37,458	30,531	25,320	21,042
<b>Current assets</b>					
Debtors	4.7	114,648	376,422	279,972	231,576
Cash at bank and in hand		838,088	389,517	551,298	799,206
		<u>952,736</u>	<u>765,939</u>	<u>831,270</u>	<u>1,030,782</u>
<b>Creditors: amounts falling due within one year</b>	4.8	(183,909)	(252,235)	(185,475)	(265,092)
<b>Net current assets</b>		<u>768,827</u>	<u>513,704</u>	<u>645,795</u>	<u>765,690</u>
<b>Net assets</b>		<u>806,285</u>	<u>544,235</u>	<u>671,115</u>	<u>786,732</u>
<b>Capital and reserves</b>					
Called up share capital	4.9	100	100	100	100
Profit and loss account	4.10	806,185	544,135	671,015	786,632
<b>Shareholders' funds</b>	4.11	<u>806,285</u>	<u>544,235</u>	<u>671,115</u>	<u>786,732</u>

The notes in section 4 below form an integral part of this financial information.

**3. CASHFLOW STATEMENT FOR THE THREE YEARS ENDED 31 MARCH 2004, 31 MARCH 2005, 31 MARCH 2006 AND THE NINE MONTHS ENDED 31 DECEMBER 2006**

		2004	2005	2006	9 months to 31 December 2006
	Note	£	£	£	£
<b>Net cash inflow from operating activities</b>	4.16	334,261	128,295	339,918	397,291
<b>Returns on investments and servicing of finance</b>					
Interest received		21,145	19,932	15,417	17,355
<b>Net cash inflow from returns on investments and servicing of finance</b>		21,145	19,932	15,417	17,355
<b>Taxation</b>		(43,690)	(44,798)	(82,398)	(56,738)
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets		(2,464)	—	(1,156)	—
<b>Net cash outflow from capital expenditure and financial investment</b>		(2,464)	—	(1,156)	—
<b>Equity dividends paid</b>		(110,000)	(552,000)	(110,000)	(110,000)
<b>Increase/(decrease) in cash</b>	4.17/4.18	199,252	(448,571)	161,781	247,908

The notes in section 4 form an integral part of this financial information.

## 4. NOTES TO THE FINANCIAL INFORMATION

### 4.1 Accounting policies

#### Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice).

The principal accounting policies of the company are set out below. These were unchanged during the period.

#### Turnover

Turnover represents royalties receivable in respect of copyrights and licences owned by Company, including non-refundable advances, during the financial period, net of VAT.

#### Tangible fixed assets and depreciation

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

Leasehold land and buildings	over the period of the lease
Fixtures, fittings and equipment	15 – 20% reducing balance

#### Pensions

The company operates a money purchase (defined contribution) pension scheme. Contributions payable to this scheme are charged to the profit and loss account in the period to which they relate. These contributions are invested separately from the company's assets.

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Financial instruments

##### *Classification as equity or financial liability*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the group/company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

#### 4.2 Turnover

The total turnover of the company for all periods has been derived from its principal activity, being that of designers and authors. 96% of turnover originated in the United Kingdom in the period to 31 December 2006 (years to 31 March 2006: 97%, 2005: 99% and 2004: 100%) with the balance in Australia.

#### 4.3 Operating profit

The operating profit is stated after charging:

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
Depreciation of tangible fixed assets	7,847	6,927	6,367	4,278
Directors emoluments (note 4.12)	24,812	24,557	24,868	17,997
	<u>24,812</u>	<u>24,557</u>	<u>24,868</u>	<u>17,997</u>

#### 4.4 Other interest receivable and similar income

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
Bank interest	21,145	19,932	15,417	17,355
	<u>21,145</u>	<u>19,932</u>	<u>15,417</u>	<u>17,355</u>

#### 4.5 Taxation

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
UK corporation tax	44,887	82,309	56,739	65,174
<b>Current tax charge</b>	<u>44,887</u>	<u>82,309</u>	<u>56,739</u>	<u>65,174</u>
<b>Deferred tax</b>				
Origination and reversal of timing differences	—	—	—	—
	<u>44,887</u>	<u>82,309</u>	<u>56,739</u>	<u>65,174</u>

The tax assessed for the periods differs from the standard rate of corporation tax in the UK as follows:

	2004 £	2005 £	2006 £	9 months to 31 December 2006 £
Profit on ordinary activities before tax	<u>232,979</u>	<u>372,259</u>	<u>293,619</u>	<u>290,791</u>
Profit on ordinary activities multiplied by UK corporation tax rate for small companies of 19%	44,266	70,729	55,787	55,250
Effect of:				
Depreciation	354	748	696	—
Adjustment to reflect profits taxed at standard tax rate	—	10,575	—	9,924
Permanently disallowable expenditure	<u>267</u>	<u>257</u>	<u>256</u>	<u>—</u>
<b>Current tax charge</b>	<u><u>44,887</u></u>	<u><u>82,309</u></u>	<u><u>56,739</u></u>	<u><u>65,174</u></u>

#### 4.6 Tangible fixed assets

	Land and buildings £	Plant and machinery etc £	Total £
Cost			
At 1 April 2003	24,321	76,524	100,845
Additions in year to 31 March 2004	—	2,464	2,464
At 31 March 2004 and 31 March 2005	<u>24,321</u>	<u>78,988</u>	<u>103,309</u>
Additions in year to 31 March 2006	—	1,156	1,156
At 31 March 2006 and 31 December 2006	<u>24,321</u>	<u>80,144</u>	<u>104,465</u>
Depreciation			
At 1 April 2003	11,539	46,465	58,004
Provided in the year	2,432	5,415	7,847
At 31 March 2004	<u>13,971</u>	<u>51,880</u>	<u>65,851</u>
Provided in the year	2,432	4,495	6,927
At 31 March 2005	<u>16,403</u>	<u>56,375</u>	<u>72,778</u>
Provided in the year	2,432	3,935	6,367
At 31 March 2006	<u>18,835</u>	<u>60,310</u>	<u>79,145</u>
Provided in the period	1,824	2,454	4,278
At 31 December 2006	<u>20,659</u>	<u>62,764</u>	<u>83,423</u>
Net book amount at 31 December 2006	<u>3,662</u>	<u>17,380</u>	<u>21,042</u>
Net book amount at 31 March 2006	<u>5,486</u>	<u>19,834</u>	<u>25,320</u>
Net book amount at 31 March 2005	<u>7,918</u>	<u>22,613</u>	<u>30,531</u>
Net book amount at 31 March 2004	<u>10,350</u>	<u>27,208</u>	<u>37,458</u>

#### 4.7 Debtors

	<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
Trade debtors	107,572	369,198	272,372	167,928
Other debtors	7,076	7,224	7,600	63,648
	<u>114,648</u>	<u>376,422</u>	<u>279,972</u>	<u>231,576</u>

Included within other debtors at 31 December 2006 is a balance of £56,424 due from the director G Andrae. This was the maximum balance outstanding during the period (the balances included in debtors at 31 March 2004, 2005 and 2006 were £nil, £nil, and £376 respectively). The loan is interest free.

#### 4.8 Creditors: amounts falling due within one year

	<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
Trade creditors	105,750	26,250	63,872	—
Taxation and social security	54,307	92,354	57,958	123,466
Other creditors	23,852	133,631	63,645	141,626
	<u>183,909</u>	<u>252,235</u>	<u>185,475</u>	<u>265,092</u>

#### 4.9 Share capital

	<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
<b>Authorised</b>				
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>Allotted, issued and fully paid</b>				
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

#### 4.10 Statement of movements on profit and loss account reserves

	<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
Reserves brought forward	728,093	806,185	544,135	671,015
Profit/(loss) for the financial period	188,092	289,950	236,880	225,617
Dividends paid	(110,000)	(552,000)	(110,000)	(110,000)
Reserves carried forward	<u>806,185</u>	<u>544,135</u>	<u>671,015</u>	<u>786,632</u>

#### 4.11 Reconciliation of movements in shareholders' funds

	<i>At</i> 31 March 2004 £	<i>At</i> 31 March 2005 £	<i>At</i> 31 March 2006 £	<i>At</i> 31 December 2006 £
Profit for the financial period	188,092	289,950	236,880	225,617
Equity dividends paid	<u>(110,000)</u>	<u>(552,000)</u>	<u>(110,000)</u>	<u>(110,000)</u>
Increase/(decrease) in shareholders' funds	78,092	(262,050)	126,880	115,617
Opening shareholders' funds	728,193	806,285	544,235	671,115
Closing shareholders' funds	<u><u>806,285</u></u>	<u><u>544,235</u></u>	<u><u>671,115</u></u>	<u><u>786,732</u></u>

#### 4.12 Directors emoluments

	<i>2004</i> £	<i>2005</i> £	<i>2006</i> £	<i>9 months to</i> 31 December 2006 £
Emoluments for qualifying services	4,600	4,745	4,850	3,638
Company pension contributions to money purchase schemes	20,212	19,812	20,018	14,359
	<u><u>24,812</u></u>	<u><u>24,557</u></u>	<u><u>24,868</u></u>	<u><u>17,997</u></u>

#### 4.13 Employees

##### Number of employees

The average monthly number of employees (including directors) during the periods were:

	<i>2004</i> Number	<i>2005</i> Number	<i>2006</i> Number	<i>9 months to</i> 31 December 2006 Number
	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>2</u></u>

##### Employment costs

	<i>2004</i> £	<i>2005</i> £	<i>2006</i> £	<i>9 months to</i> 31 December 2006 £
Wages and salaries	4,600	4,745	4,850	10,718
Social security	—	—	—	696
Other pension costs	20,212	19,812	20,018	14,359
	<u><u>24,812</u></u>	<u><u>24,557</u></u>	<u><u>24,868</u></u>	<u><u>25,773</u></u>

#### 4.14 Related party transactions

During each period, the company incurred the following expenses from Thought Kitchen, a business in which Giles Andreae is a partner.

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
Design fees	<u>90,000</u>	<u>325,211</u>	<u>420,000</u>	<u>200,000</u>

#### 4.15 Capital and lease commitments

The company had no capital or lease commitments at 31 March 2004, 2005 or 2006 or at 31 December 2006.

#### 4.16 Reconciliation of operating profit to net cash inflow from operating activities

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
Operating profit	211,834	352,327	278,202	273,436
Depreciation of tangible assets	7,847	6,927	6,367	4,277
Decrease/(increase) in debtors	13,022	(261,774)	96,450	48,396
Increase/(decrease) in creditors	101,558	30,815	(41,101)	71,182
Net cash inflow from operating activities	<u>334,261</u>	<u>128,295</u>	<u>339,918</u>	<u>397,291</u>

#### 4.17 Analysis of changes in net funds

	1 April 2003	Cash flow	31 March 2004
	£	£	£
Cash at bank and in hand	<u>638,836</u>	<u>199,252</u>	<u>838,088</u>
	1 April 2004	Cash flow	31 March 2005
	£	£	£
Cash at bank and in hand	<u>838,088</u>	<u>(448,571)</u>	<u>389,517</u>
	1 April 2005	Cash flow	31 March 2006
	£	£	£
Cash at bank and in hand	<u>389,517</u>	<u>161,781</u>	<u>551,298</u>
	1 April 2006	Cash flow	31 December 2005
	£	£	£
Cash at bank and in hand	<u>551,298</u>	<u>247,908</u>	<u>799,206</u>

#### 4.18 Reconciliation of net cash flow to movement in net funds

	2004	2005	2006	9 months to 31 December 2006
	£	£	£	£
Increase/(decrease) in cash for the period	199,252	(448,571)	161,781	247,908
Movement in net funds in the period	199,252	(448,571)	161,781	247,908
Net funds brought forward	638,836	838,088	389,517	551,298
Net funds carried forward	<u>838,088</u>	<u>389,517</u>	<u>551,298</u>	<u>799,206</u>

## PART VI

### PART A: PRO FORMA STATEMENT OF NET ASSETS OF COOLABI PLC AND ITS SUBSIDIARIES (THE GROUP) AND PURPLE ENTERPRISES LIMITED (TOGETHER THE ENLARGED GROUP)

Set out below is the unaudited pro forma statement of net assets of the Enlarged Group, prepared on the basis of the notes set out below, to illustrate how the acquisition of Purple Enterprises Limited, the Placing and re-admission might have affected the net assets of the Group. This statement has been prepared for illustrative purposes only, and because of its nature, may not give a true and fair picture of the financial position of the Enlarged Group.

	<i>Coolabi plc at 31 December 2006 Note (1) £000</i>	<i>Purple Enterprises at 31 December 2006 Note (2) £000</i>	<i>Acquisition of Purple Note (3) £000</i>	<i>Placing Proceeds Note (4) £000</i>	<i>Enlarged Group Note (5) £000</i>
<b>Fixed assets</b>					
Intangible assets	107	—	3,300	—	3,407
Tangible assets	17	21	(21)	—	17
	<u>124</u>	<u>21</u>	<u>3,279</u>	<u>—</u>	<u>3,424</u>
<b>Current assets</b>					
Work in progress	11	—	—	—	11
Debtors	212	232	—	—	444
Cash at bank and in hand	321	799	(3,834)	4,570	1,856
	<u>544</u>	<u>1,031</u>	<u>(3,834)</u>	<u>4,570</u>	<u>2,311</u>
<b>Creditors: amounts falling due within one year</b>	<u>(337)</u>	<u>(265)</u>	<u>(232)</u>	<u>—</u>	<u>(834)</u>
<b>Net current assets</b>	207	766	(4,066)	4,570	1,477
<b>Creditors: amounts falling due after year</b>	(230)	—	—	230	—
<b>Deferred income</b>	<u>(41)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(41)</u>
<b>Net assets/(liabilities)</b>	<u><u>60</u></u>	<u><u>787</u></u>	<u><u>(787)</u></u>	<u><u>4,800</u></u>	<u><u>4,860</u></u>

**Notes:**

- (1) The consolidated net assets of Coolabi plc has been extracted, without material adjustment, from the unaudited interim statement of the Company as at 31 December 2006, which is included in Part IV of this document.
- (2) The net assets of Purple Enterprises Limited has been extracted, without material adjustment, from the financial information on Purple Enterprises Limited as at 31 December 2006, which is included in Part V B of this document.
- (3) This adjustment reflects the initial consideration for the acquisition of Purple Enterprises Limited as set out in Paragraph 13.3 of Part VII of this document.
- (4) This adjustment reflects the gross proceeds of the Placing of £5.50 million, less estimated expenses of £0.70 million and the redemption of the preference shares of £0.23 million.
- (5) The pro-forma financial information does not constitute statutory accounts within the meaning of section 240 of the Act. Other than the matters set out in notes (3) and (4), no adjustment has been made to take account of current trading, changes in capital or indebtedness, or other movements in relation to Coolabi plc and Purple Enterprises Limited subsequent to 31 December 2006.

## PART B: REPORTING ACCOUNTANT'S REPORT ON PRO FORMA FINANCIAL INFORMATION

Grant Thornton 

Grant Thornton UK LLP  
Enterprise House  
115 Edmund Street  
Birmingham  
West Midlands  
B3 2HJ

The Directors  
48 Coolabi plc  
Broadley Terrace  
LONDON  
NW1 6LG

4 April 2007

Dear Sirs

We report on the pro forma statement of net assets (the "Pro forma financial information") set out in Part VI (A) of the admission document dated 4 April 2007, (the Admission Document) which has been prepared on the basis described in the notes to Part VI (A) of the Admission Document, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Coolabi plc in preparing the latest financial statements for the year ended 30 June 2006 and the unaudited interim results for the period ended 31 December 2006.

### Responsibilities

This report is required as agreed in our terms of engagement with yourselves and is given for the purpose of complying with that requirement and for no other purpose.

Save for any responsibility that we have expressly agreed in writing to assume, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with the terms of our engagement, and consenting to its inclusion in the Admission Document.

It is the responsibility of the Directors of Coolabi plc to prepare the Pro forma financial information as though it had been prepared in accordance with paragraph 20.2 of Annex I of the Prospectus Regulation attached to the AIM Rules for Companies.

It is our responsibility to form an opinion as though it had been required by paragraph 7 of Annex II of the PD Regulation attached to the AIM Rules for Companies as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Coolabi plc.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Coolabi plc.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Coolabi plc.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Paragraph (a) of Schedule Two of the AIM Rules for Companies.

Yours faithfully

GRANT THORNTON UK LLP

## PART VII

### Additional Information

#### 1. The Company

- 1.1 The Company is incorporated and trades under the name Coolabi plc.
- 1.2 The Company is domiciled in the United Kingdom and was incorporated and registered in England and Wales on 16 March 1999 as a public limited company with the name Alibi Communications Plc and registered number 03735898. The Company subsequently changed its name by special resolution on 6 January 2005 to Coolabi. The liability of its members is limited.
- 1.3 The Company is governed by and its securities were created under the Act.
- 1.4 The Company's registered office and principal place of business is located at 48 Broadley Terrace, Marylebone, London NW1 6LG. The telephone number of the Company's registered address and principal place of business is 020 7258 7080.
- 1.5 The Company has no administrative, management or supervisory bodies other than the Board of Directors, the Remuneration Committee and the Audit Committee; all of whose members are Directors.
- 1.6 The Company's auditors during the period covered by the summarised financial information set out in Part III of this document were Shipleys, who are members of the Institute of Chartered Accountants in England and Wales.

#### 2. Securities being offered/admitted

- 2.1 The Ordinary Shares are ordinary shares of 1 pence each in the capital of the Company with ISIN number GB0006877822 and were issued in British Pounds Sterling.
- 2.2 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred, otherwise than by a written instrument in accordance with the CREST Regulations. The Company's registrars, Capita Registrars are responsible for keeping the Company's register of members.
- 2.3 The dividend and voting rights attaching to the Ordinary Shares are set out in paragraph 7.10 of this Part VII.
- 2.4 Section 89 of the Act gives the Shareholders pre-emption rights on any issue of shares by the Company to the extent not disapplied by a special resolution passed pursuant to section 95 of the Act. Details of the current section 95 CA disapplication are set out in paragraph 2.8 below.
- 2.5 The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital, further details of which are set out in paragraph 7.10 below.
- 2.6 Each Ordinary Share is entitled on a pari passu basis with all other issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- 2.7 The Ordinary Shares have no redemption or conversion provisions.
- 2.8 If passed the Resolutions will authorise the Directors to allot and issue the Placing Shares pursuant to:
  - (a) an ordinary resolution to increase the authorised share capital of the Company from £3,300,000 to £7,000,000 by the creation of 370,000,000 Ordinary Shares of 1p each;
  - (b) an ordinary resolution authorising the Directors pursuant to section 80 of the Act to allot ordinary shares with an aggregate nominal value of up to £3,666,667;

- (c) a special resolution authorising the Directors pursuant to section 95 of the Act to allot the Placing Shares for cash pursuant to the authority referred to in 2.8(a) above as if section 89(1) of the Act did not apply to such allotment;

such authorities to expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry but otherwise in accordance with the foregoing provisions of this power in which case the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

- 2.9 It is anticipated the Placing Shares will be issued on 1 May 2007, the date of Admission.
- 2.10 The Ordinary Shares are freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint transferees and is in respect of only one class of shares.
- 2.11 The Placing Shares will be subject to the Code. Under Rule 9 of the Code ("Rule 9"), any person, or group of persons acting in concert, who acquires, whether by a series of transactions over a period of time or not, an interest in shares which taken together with shares in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Code, or any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30% of the voting rights of a company but does not hold shares carrying more than 50% of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, is normally required by the Panel to make a general offer in cash to acquire the remaining shares in the company to all its shareholders at not less than the highest price paid by him or any persons acting in concert with him within the preceding twelve months. Rule 9 is subject to a number of dispensations.

In addition, in the event an offeror acquires at least nine-tenths in value of the issued share capital of the Company to which the offer relates the offeror may in accordance with the procedure set out in sections 428-430 of the Act require the holders of any shares he has not acquired to sell them subject to the terms of the offer, and such Shareholders may in turn require the offeror to purchase such shares on the same terms.

- 2.12 No person has made a public takeover bid for the Company's issued share capital in the financial period to 30 June 2006 or in the current financial period.
- 2.13 A shareholder is required pursuant to Disclosure and Transparency Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, to notify the Company when he acquires or disposes of a major proportion of the voting rights of the Company equal to or in excess of 3% of the nominal value of that share capital.

### 3. Share Capital of the Company

- 3.1 The authorised and issued share capital of the Company as at 30 June 2006 was as follows:

<i>Authorised share capital</i>			<i>Issued and fully paid up share capital</i>	
£	Number		£	Number
1,500,000	1,250,000	Ordinary Shares of 1p each	1,138,541	113,854,198
	250,000	Cumulative redeemable Preference Shares of £1 each	230,000	230,000

- 3.2 The authorised and issued share capital of the Company following the Placing and Admission will be as follows:-

<i>Authorised share capital</i>			<i>Issued and fully paid up share capital</i>	
£	Number		£	Number
7,000,000	700,000,000	Ordinary Shares	4,905,208.71	490,520,871

- 3.3 During the period 1 July 2005 to 30 June 2006, the Company allotted and issued 63,000,000 Ordinary Shares. During the period from 1 July 2006 to date the Company has allotted a further 10,000,000 Ordinary Shares.
- 3.4 The Placing will result in the allotment and issue of 366,666,673 Ordinary Shares, diluting existing holders of Ordinary Shares by 396%.
- 3.5 The par value of each Ordinary Share is 1p.
- 3.6 The Company has no issued Ordinary Shares that are not fully paid up.
- 3.7 On 30 January 2004, the Company passed an ordinary resolution to increase the authorised share capital from £300,000 to £1,000,000, by the creation of 70,000,000 Ordinary Shares of 1p each ranking *pari passu* with the existing ordinary shares in the share capital of the Company.
- 3.8 By special resolution of the Company on the same date, 25,000,000 Ordinary Shares were consolidated and converted into 250,000 cumulative redeemable Preference Shares, 100 per cent of the Preference Shares are held by Barclays Bank Plc. The Company in agreement with Barclays Bank Plc pursuant to a letter from Barclays Bank to the directors of Coolabi, dated 8 June 2006, redeemed 20,000 Preference Shares of £1 each on 19 July 2006.
- 3.9 On 6 January 2005 the Company passed an ordinary resolution to increase the authorised share capital from £1,000,000 to £1,500,000, by the creation of 50,000,000 Ordinary Shares of 1p each ranking *pari passu* with the existing Ordinary Shares of the Company.
- 3.10 At the latest Annual General Meeting of the Company held on 8 January 2007 the Company aside from passing the usual resolutions to re-elect and reappoint directors and auditors and adopt reports and accounts, passed the following resolutions:
- an ordinary resolution to increase the authorised share capital from £1,500,000 to £3,300,000 by the creation of 180,000,000 Ordinary Shares ranking *pari passu* in all respects with the existing Ordinary Shares of the Company;
  - an ordinary resolution to authorise the directors to generally and unconditionally pursuant to section 80 of the Companies Act 1985, allot relevant securities up to an aggregate nominal amount of £1,800,000; and
  - an special resolution to disapply the pre-emption rights set out in section 89 (1) Companies Act 1985, for the allotment of equity securities up to an aggregate nominal value of £800,000.

The authorised share capital of the Company is £3,300,000 divided into 305,000,000 Ordinary Shares and 250,000 Preference Shares.

- 3.11 During the period covered by the summarised financial information set out in Part III of this document the Company made the following allotments of Ordinary Shares:
- On 30 January 2004, the Company allotted 13,666,662 Ordinary Shares at a price of 3p per Ordinary Share to the following allottees:

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
The Lord Brabourne	1,666,666
Lawrence Chrisfield	1,666,666
Jeffrey Curtis	1,666,666
Celtic Trust Company Limited	1,666,666
Herald Investment Trust Plc	1,666,666
William Harris	1,666,666
The Carysfort Pension Scheme	666,667
Madeline Goldbart	833,333
David Harrison	500,000
Palm Limited	1,666,666

- (b) Also on 30 January 2004, the Company allotted a further 1,032,132 Ordinary Shares at a price of 3p per Ordinary Share to the following allottees:

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
Grant Thornton	391,666
Memery Crystal	264,466
Seymour Pierce Limited	376,000

- (c) On 30 January 2004, the Company allotted a further 4 Ordinary Shares at a price of 3p per Ordinary Share to the following allottees:

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
The Lord Brabourne	1
Lawrence Chrisfield	1
Celtic Trust Company Limited	1
William Harris	1

- (d) On 20 February 2004, the Company allotted to each of Janet Woodward and William Harris 416,667 Ordinary Shares as consideration for the acquisition of the entire issued share capital of Coolebah Limited. Therefore the total number of Ordinary Shares issued pursuant this allotment was 833,334.

- (e) On 6 January 2005, the Company allotted 28,000,000 Ordinary Shares at a price of 4p per Ordinary Share, and a further 1,191,666 Ordinary Shares at a price of 3p per Ordinary Share to the following allottees:

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
Roger Holmes	500,000
The Lord Brabourne	1,675,767
Lawrence Chrisfield	1,979,166
William Harris	5,000,000
David Glennon	99,233
Linda James	150,000
Palm Limited	625,000
Pershing Keen Nominees Limited	2,650,000
Avonglen Limited	500,000
Celtic Trust Company Limited	625,000
Shore Capital Sockbroker Limited	250,000
Winterflood Securities Limited	700,000
Seymour Pierce Limited	1,000,000
Savoy Investment Management Limited	375,000
David Silver	250,000
SP Angel & Co. Limited	625,000
City Equities Limited	5,000,000
Bank of New York (OCS) Nominees Limited	2,500,000
Rock (Nominees) Limited 1215295 ACCT	1,875,000
Rock (Nominees) Limited 1215429 ACCT	2,500,000
Rock (Nominees) Limited 26811876 ACCT	187,500
A B Morgan	62,500
J V Morgan	62,500

- (f) On 12 June 2006 the Company allotted 11,100,000 Ordinary Shares at par value to the following allottees:

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
Roger Holmes	500,000
William Harris	5,000,000

<i>Allottee</i>	<i>No. of Ordinary Shares</i>
Avonglen Limited	1,000,000
Lawrence Chrisfield	2,000,000
The Lord Brabourne	2,000,000
Linda James	100,000
Arwel Morgan	500,000

- (g) On 15 June 2006 the Company allotted 51,900,000 Ordinary Shares at par value to Pershing Keen Nominees Limited.
- (h) On 8 January 2007 the Company allotted 10,000,000 Ordinary Shares at par value to Jeremy Banks.

3.12 Save as disclosed in this document:

- (a) no share or loan capital of the Company has been issued or is proposed to be issued;
- (b) there are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
- (c) there are no shares in the Company not representing capital;
- (d) there are no shares in the Company held by or on behalf of the Company itself or by subsidiaries of the Company;
- (e) there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital;
- (f) no person has any preferential or subscription rights for any share capital of the Company; and
- (g) no share or loan capital of the Company or any member of the Group is under option or agreed conditionally or unconditionally to be put under option.

#### 4. Share Options

4.1 The Board has established a scheme of granting options (“**Options**”) to senior executives, some of which are subject to the statutory EMI Code and some not, but otherwise which substantially similar terms. Shareholder approval of grants has been obtained where appropriate.

4.2 The following options remain outstanding:

<i>Name</i>	<i>Number of Shares</i>	<i>Date of Grant</i>	<i>EMI or unapproved</i>	<i>Option Price</i>	<i>Exercise Period</i>
Linda James	220,000	21/02/01	Unapproved	1p	Until 13/05/08
Lawrence Chrisfield	150,000	20/02/04	Unapproved	12.25p	Until 19/02/09
David Glennon	100,000	20/02/04	EMI	12.25p	Until 19/02/09
William Harris	650,000	20/02/04	Unapproved	12.25p	Until 19/02/09
Linda James	150,000	20/02/04	Unapproved	12.25p	Until 19/02/09
Janet Woodward	400,000	20/02/04	EMI	12.25p	Until 19/02/09
Jeremy Banks	4,000,000	15/01/07	EMI	3.25p	Subject to performance conditions until 14/01/12

4.3 The Board has determined at grant the exercise period or periods of the Options and any appropriate performance conditions.

4.4 For the options granted in 2004, other than the EMI option for David Glennon, between one third and one quarter of the shares under the Options are exercisable only if the share price of the Company remains at 24p or higher for 30 consecutive business days, a further

third or quarter are exercisable only if the share price of the company remains at 36p or higher for 30 consecutive business days and the final third or quarter were exercisable only if the share price of the company remained at 48p or higher for 30 consecutive business days. For Jeremy Banks' options, up to half of the shares are exercisable if the Company's share price exceeds 3.25p, one-sixth if the share price remains at 6.5p or higher for 30 consecutive business days, a further one-sixth if the share price remains at 9.75p or higher for 30 consecutive business days and the final one-sixth if the share price remains at 13p or higher for 30 consecutive business days,

- 4.5 All Options lapse at the end of the exercise periods shown in the above table or on the optionholder ceasing to be an employee or officer (although the Remuneration Committee may determine otherwise for the Options granted in 2001 within one month of cessation). Options also lapse on assignment or transfer save that for the Options granted in 2001 limited transfers to a spouse, children or family trusts are permitted.
- 4.6 On an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction or other alteration the number of shares subject to or the option price under any Option may be adjusted by the Board in such manner as the auditors or other valuers confirm to be fair and reasonable, subject to any HMRC approval required for qualifying EMI options.
- 4.7 On exercise Ordinary Shares issued are ranked pari passu but, until then, option holders have no voting or dividend rights. The rights under the Options are non-pensionable.
- 4.8 The Board and the relevant optionholders may alter the terms if both parties agree.

## 5. The Enlarged Group

- 5.1 To the best of the knowledge of the Company, there are no persons who directly or indirectly control the Company, where control means owning 30% or more of the voting rights attaching to the share capital of the Company.
- 5.2 The Company is not aware of any arrangements which may at a subsequent date result in a change in control of the Company.
- 5.3 Following completion of the Acquisition, the Company shall be the holding company of 13 wholly and directly owned subsidiaries and has 75% of the shares in one other subsidiary. Details of its significant subsidiaries are set out in the table below:

<i>Name</i>	<i>Country of incorporation (and residence, if different)</i>
Alibi Communications Limited	England and Wales
Alibi Films International Limited	England and Wales
Alibi Music Publishing Limited	England and Wales
Alibi Pictures Limited	England and Wales
Alibi Productions Limited	England and Wales
Alibi Productions (Dead) Limited	England and Wales
Alibi Productions (Safe House) Limited	England and Wales
Alibi Productions (Sir Gadabout) Limited	England and Wales
Alibi Productions (Sir Gads 2) Limited	England and Wales
Alibi Records Limited	England and Wales
Coolabi Licensing Limited	England and Wales
Coolabi Productions Limited	England and Wales
Coolebah Limited	England and Wales
Purple Enterprises Limited	England and Wales

- 5.4 In addition, the Company has entered into a joint venture, pursuant to which the Company holds 50% of the issued shares of Pepper's Patrol Limited.

## **6. Memorandum of Association**

The Memorandum of Association of the Company provides that its principal object and purpose is to carry on the business as a general commercial company. Its objects and purposes are set out in full in clause 4.2 of the Memorandum of Association.

## **7. Articles of Association**

The Articles include provisions to the following effect:

### *7.1 Votes of members*

Subject to any special terms as to voting upon which any shares may have been issued, or may for the time being be held, every member present in person shall upon a show of hands have one vote and every member present or by proxy shall upon a poll have one vote for every share of which he is holder. A member who is a patient within the meaning of the Mental Health Act 1983 may vote, whether on a show of hands or on a poll, by his receiver or curator bonis and such receiver or curator bonis may, on a poll, vote by proxy.

### *7.2 General Meetings of Shareholders*

All general meetings which are not annual general meetings are extraordinary general meetings. General meetings may be called by directors, whenever they think fit or within 28 days of receipt of a requisition of members served in accordance with the Act. If there are insufficient directors in the UK to form a quorum, any director or any two members may convene an extraordinary general meeting, in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

An annual general meeting and an extraordinary general meeting for the passing of a special resolution or a resolution appointing a person a director shall be called by not less than by twenty-one clear days' notice and all other extraordinary general meetings shall be called by not less than fourteen days' notice.

### *7.3 Class Rights*

The special rights attached to any class of shares may, subject to any applicable law, be altered or cancelled, either with the consent in writing of the holders of three fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class.

The provisions of the Articles applicable to general meetings apply mutatis mutandis to class meetings but the necessary quorum is two persons holding or representing by proxy not less than one third of the issued shares of that class except where there is only one holder of the relevant class of shares in which case the quorum shall be that holder.

### *7.4 Changes to Share Capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.

### *7.5 Reduction of Share Capital*

The Company may by special resolution (and, with court approval where required) reduce its share capital or any capital redemption reserve and any share premium account in any way subject to any authority required by law.

### *7.6 Purchasing own Shares*

Subject to applicable law, the Company may purchase its own shares.

### *7.7 Preference Shares*

Each Preference Share confers on its holder the right to receive, in priority to the transfer of any sum to reserves or any rights of the holders of any other class of Shares in the Company and payable without any resolution of the Directors of the Company, a

cumulative dividend (“Preferred Dividend”) at the rate of 5.5 per cent per annum of the amount paid up on the Preference Shares (inclusive of any premium). The cumulative dividend shall accrue annually on a cumulative basis and be payable on the redemption date, being the earlier of either; (a) the fifth anniversary of their issue, or (b) the Company completing one or more fundraisings raising in aggregate an amount exceeding £1,000,000 (net of a maximum of £200,000 of commission and expenses) and then out of such expenses.

On a winding up or other return of capital (but not in the event of redemption or purchase by the Company of its own shares) the assets of the Company available for distribution amongst its members shall be applied, in priority to any payment to the holders of any other class of shares of the Company, in paying to the holders as if they were one class of Share.

The Preference Shares do not confer any further right of participation in the profits or assets of the Company, and the holders of the Preference Shares shall not be entitled to receive notice of, attend or speak, nor vote at general meetings of the Company. The Preference Shares are transferable in multiples of £1 in accordance with the Articles of the Company.

#### 7.8 *Directors*

- (a) A director is not required to hold any qualification shares.
- (b) The amount of any fees payable to Directors shall be determined by the Directors provided that they shall not in any year exceed an aggregate amount of £50,000 or such other sum as may from time to time be approved by the Company in general meeting. Any such fees shall be divisible among the Directors as they may agree, or failing agreement, equally. The Directors are also entitled to be repaid all expenses properly incurred by them respectively in the performance of their duties. Any director holding an executive office or otherwise performing services which in the opinion of the Directors are outside the scope of his ordinary duties as a director may be paid such remuneration as the Directors may determine.
- (c) The Directors may establish and maintain or procure the establishment and maintenance of any non-contributory or contributory pension or superannuation funds for the benefit of, and giving donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company or any other company which is a subsidiary of the Company or is allied to or associated with the Company or any such subsidiary of any such other company (“associated companies”) and the families and dependants of any such persons and the Directors shall have power to purchase and maintain insurance against liability for any persons who are or were at any time directors, officers, employees or auditors of the Company, its associated companies and for trustees of any pension fund in which employees of the Company or its associated companies are interested.
- (d) The Directors may from time to time appoint one or more of their body to be the holder of any executive office except that of Auditor in conjunction with the office of Director (including the office of chairman, deputy chairman, managing director or chief executive) on such terms and for such period as they may determine.
- (e) Subject to the provisions of applicable law and provided that he has disclosed to the Directors the nature and extent of any material interest of his, a director notwithstanding his office:
  - (i) may be a party to, or otherwise be interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;
  - (ii) may be a director or other officer of, or employed by, or a party to, any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;

- (iii) may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act in a professional capacity to the Company on such terms as to remuneration and otherwise as the Directors may arrange; and
  - (iv) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.
- (f) Save as specifically provided in the Articles, a director may not vote in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A director will not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (g) Subject to applicable law, a director is (in the absence of some material interest other than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- (i) the giving of any guarantee, security or indemnity to a third party in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (iii) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting thereof;
  - (iv) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement transaction or proposal in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise, provided that he does not hold a major proportion of voting rights (as defined in Disclosure and Transparency Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority) in one per cent. or more of the issued shares of any such body corporate;
  - (vi) any proposal concerning the contract, arrangement, transaction, adoption, modification or operation of a pension fund or retirement benefits scheme which relates both to the directors and employees of the Company or any of its subsidiaries;
  - (vii) any arrangement, contract, transaction or proposal for enabling employees to acquire shares for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees; and
  - (viii) any proposal concerning the grant, purchase or maintenance of any insurance policy or indemnity under which a director may benefit.
- (h) Subject to any applicable law, the Company may by ordinary resolution suspend or relax the provisions summarised under sub-paragraphs (vi) and (vii) above either generally or in relation to any particular matter, or ratify any transactions not duly authorised by reason of a contravention of such provision.

- (i) At every general meeting, one third of all directors shall retire by rotation and stand for re-election.
- (j) A Director shall not be required to retire upon reaching the age of 70, but shall be required to offer himself for re-election at each subsequent annual general meeting.

#### 7.9 *Transfer of shares*

All transfers of shares may be effected by transfer in any usual form or in any other form acceptable to the Directors and shall be executed by or on behalf of the transferor and, if the share is partly paid, the transferee.

#### 7.10 *Dividends*

There are no fixed dates on which a dividend entitlement arises. The Company may by ordinary resolution from time to time declare dividends to be paid to Shareholders, although the amount of the dividend cannot exceed the amount recommended by the Directors. In addition the Directors may pay interim dividends if justified by the profits of the Company available for distribution.

The dividend payment to each Shareholder shall be calculated proportionately to the amounts paid up on each issued Ordinary Share. All dividend payments shall be non-cumulative.

All unclaimed dividends for one year after having been declared may be used for the benefit of the Company until claimed and shall not attract interest. Any dividend which remains unclaimed twelve years after the date the dividend becomes due for payment shall, at the option of the Directors, be forfeited and shall revert to the Company.

There are no dividend restrictions attaching to the Ordinary Shares, provided they are fully paid up. Payments of dividends may be made by any method the Directors consider appropriate and on a cash dividend there are no special arrangements for non-resident Shareholders. The Directors may make such arrangements as they consider expedient in connection with a dividend payment in shares to deal with any legal or other difficulties that may arise in any territory in which non-resident shareholders are present.

#### 7.11 *Rights of Shares*

The Ordinary Shares rank *pari passu* as a class in terms of preference, restriction and all other rights.

### **8. Directors' and other Interests**

- 8.1 As at the date of this document and as expected to be immediately following the Placing and Admission, the interests of the Directors, and any other members of the administrative, management, or supervisory bodies of the Company, and their immediate families in the share capital of the Company (i) which would have been notified to the Company pursuant to sections 324 and 328 of the Act; or (ii) which would have been required to be disclosed in the Register of Directors Interests pursuant to section 325 of the Act; or (iii) which are interests of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person was a Director, be required to be disclosed under (i) or (ii) above and the existence of which is known to or could with reasonable diligence be ascertained by the Directors are as follows:

<i>Name</i>	<i>Number of Ordinary Shares prior to the Placing</i>	<i>% of the Issued Ordinary Share capital prior to the Placing</i>	<i>Number of Ordinary Shares immediately following the Placing</i>	<i>% of issued Share Capital immediately following the Placing</i>	<i>Options</i>
J Banks	10,000,000	8.1%	12,000,000	2.45%	4,000,000
The Lord Brabourne**	5,500,000	4.4%	7,000,000	1.43%	—
L Chrisfield	5,749,988	4.6%	6,416,655	1.31%	150,000
W Harris***	13,583,334	11.0%	16,250,001	3.31%	650,000
L James*	1,151,182	0.9%	1,817,849	0.37%	370,000
T Ricketts***	1,500,000	1.2%	2,166,667	0.44%	0

\* L James' holding includes shares held beneficially by her spouse.

\*\* In addition to the shareholdings noted above, The Lord Brabourne owns 133,333 shares jointly through Harrison Son Hill & Co. Ltd, a company in which he has an interest.

\*\*\* Included in the total for both W Harris' and T Ricketts' holdings are 1,500,000 shares prior to the Placing and 2,166,662 following the Placing held in the name of Avonglen Limited, a company in which both W Harris and T Ricketts hold a 25 per cent shareholding and of which both are directors.

8.2 Save as disclosed in sub-paragraph 8.1 above and this sub-paragraph 8.2 the Company is not aware of any interest (within the meaning of Part VI of the Act) in the Company's ordinary share capital which amounts or would, immediately following the Placing and Admission, amount to 3 per cent. or more of the Company's issued ordinary share capital other than the following:

<i>Name</i>	<i>Number of Ordinary Shares prior to the Placing</i>	<i>% of the Issued Ordinary Share capital prior to the Placing</i>	<i>Number of Ordinary Shares following the Placing</i>	<i>% of issued Share Capital following the Placing</i>
Herald Investment Trust Plc	10,466,666	8.5%	43,800,000	8.93%

The voting rights of the Shareholders set out in paragraphs 8.1 and 8.2 do not differ from the voting rights held by other Shareholders.

8.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Company.

8.4 Save as disclosed in this paragraph 8, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

8.5 Save as otherwise disclosed in this document, of the Directors, nor any member of their respective immediate families nor any person connected with the Directors (within the meaning of section 346 of the Act) has any interest, whether beneficial or otherwise, in the share capital of the Company.

8.6 None of the Directors nor any member of a Director's family is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the ordinary shares, including a contract for differences or a fixed odds bet.

## 9. Directors' Service Agreements/Letters of Appointment

9.1 By a letter of appointment dated 20 February 2004 the Company agreed with Avonglen Limited to provide the services of William Harris to act as a non-executive director of the Company and Chairman of the Board of Directors of the Company from 23 February

2004. Under the terms of the letter of appointment, Avonglen Limited is entitled to a fee of £25,000 per annum in respect of the services which it provides to the Company. Avonglen Limited is engaged to provide the services of William Harris for no more than 2 days per month. The appointment shall continue on a rolling 12 month basis terminable by either party giving to the other not less than 6 months' written notice. The letter of appointment contains a standard confidentiality clause and provides that upon termination, no benefits (other than those accruing during the notice period) are due to Avonglen Limited and/or the Director.

9.2 On 8 September 2006, Jeremy Banks entered into a service agreement with the Company under the terms of which he agreed to act as Chief Executive of the Company for a salary of £150,000 per annum. In addition, Mr Banks may also be entitled to participate, at the absolute discretion of the Remuneration Committee, in any Company bonus scheme which may be established by the Company, subject always to the rules of any such scheme. Furthermore, the Company shall reimburse Mr Banks in respect of the cost of his membership of the Institute of Chartered Accountants in England and Wales, bear the cost of membership of Mr Banks and his dependents of a private medical insurance scheme and provide life assurance cover to Mr Banks at 4 times his basic salary. Mr. Banks' employment may be terminated by either party giving to the other not less than three months' written notice where such notice is given to expire within the first year of Mr. Banks' employment or twelve months' written notice where such notice is given in the second year of Mr. Banks' employment, or any time thereafter. The service agreement contains provisions relating to confidentiality, intellectual property and post termination restrictions in relation to competing, non solicitation and non interference. On termination, no benefits (other than those accrued during the notice period) are due to Mr Banks.

9.3 By a letter of engagement dated 22 January 2007 Avonglen Limited agreed to provide the Company with finance director services ("**Services**"). Pursuant to the terms of the engagement letter Tim Ricketts will provide the Services, to commence on 22 January 2007 and continue thereafter unless and until terminated in accordance with Avonglen Limited's terms and conditions, which provide that the engagement letter may be terminated by either party giving to the other not less than 90 days notice.

In return for the provision of the Services for two days per week, the Company will pay Avonglen Limited a monthly retainer of £2,083 plus VAT together with an additional fee of £2,083 plus VAT payable for providing advisory services with regard to acquisitions and transactions. If Tim Ricketts is required to provide finance director services in excess of two days per week, then such additional services will be charged at a rate of £750 plus VAT per day. Avonglen Limited is permitted to recover any out of pocket expenses incurred in the provision of the services. Upon termination, no benefits (other than those accruing during the notice period) are due to Avonglen Limited and/or the Director.

9.4 On 14 May 1999, The Lord Brabourne entered into an agreement with the Company to act as a non-executive director. The agreement may be terminated upon 6 months' written notice given by either party. The Lord Brabourne is paid a fee of £500 for each Board Meeting he attends. Upon termination, no benefits (other than those accruing during the notice period) are due to the director.

9.5 On 14 May 1999, Lawrence Chrisfield entered into an agreement with the Company to act as a non-executive director. The agreement may be terminated upon 6 months' written notice given by either party. He is entitled to a fee of £15,000 per annum in respect of the provision of his services. Upon termination, no benefits (other than those accruing during the notice period) are due to the director.

9.6 From 1 April 2003 Sly Fox Films agreed to provide the services of Linda James to act as a non-executive director of the Company for a fee of £15,000 per annum. There is no notice provision and as such the Company will be required to give reasonable notice to terminate this arrangement. Upon termination, no benefits are due to Sly Fox Films Limited and/or Linda James.

- 9.7 Save as disclosed in sub-paragraph 9.1 to 9.6 above, there are no service contracts or letters of appointment, existing or proposed, between any Director and the Company.
- 9.8 Details of the length of time in which Directors have been in office set out below:

<i>Name</i>	<i>Commencement of Period of office</i>
Jeremy Banks	8 September 2006
The Lord Brabourne	23 March 1999
Lawrence Chrisfield	30 March 1999
William Harris	20 February 2004
Linda James	23 March 1999
Timothy Ricketts	22 January 2007

## 10. Additional Information on the Board

- 10.1 In addition to directorships of the Company the Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Age</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
Jeremy Banks	35	Alibi Communications Limited Alibi Films International Limited Alibi Music Publishing Limited Alibi Pictures Limited Alibi Productions (Dead) Limited Alibi Productions (Safe House) Limited Alibi Productions (Sir Gadabout) Limited Alibi Productions (Sir Gads 2) Limited Alibi Productions Limited Alibi Records Limited Coolabi Licensing Limited Coolabi Productions Limited Coolebah Limited Peppers Patrol Limited	Chorion plc Chorion (IP) Limited Chorion (Asia) Limited Chorion Music Limited Chorion Trading Limited Chorion Trustee Limited Agatha Christie Limited Black Cab Productions Limited Enid Blyton Limited Enid Blyton (Asia) PTE Limited Enid Blyton (Australia) Ltd. Georges Simenon Limited Liontrack Limited Mister Films Limited Mister Men Limited Raymond Chandler Limited Rights Limited Robert Bolt (1973) Limited Silver Lining Productions Limited St Clares Productions Limited Taxi Productions Limited THOIP Limited
The Lord Brabourne	59	Argenta Holdings Plc Argenta Private Capital Limited Broadlands Enterprises Limited City Trust Limited Emberdrove Limited Friday Productions Limited Harewood House Trust Limited Harrison Bros. Underwriting Agencies Limited Harrison Son Hill & Company Limited Hatch Video Limited Romsey Underwriting Limited West Hill School Trust Limited	Camargue Property Developments Limited Camargue Properties Limited Gullane Entertainment Limited Knatchbull Communications Limited SOC Group Plc

<i>Director</i>	<i>Age</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
Lawrence Chrisfield	68	Franks Family Foundation Grace and Favour Productions Limited Hammer Entertainment Limited Inkheart Production Services Limited Media Advisory Group Limited Media Advisory Limited Pentacles US Rainmaker Films Limited Redbus Group Limited Take It Films Development Limited The Grierson Trust The Northern Progress Company Limited	Firstupfilm Limited Independent Production Training Fund Lions Gate UK Limited London Film and Video Development Agency Limited Magna Films Limited Westgrip Limited Hammer Films Limited Hammer Film Music Limited Hammer Film Productions Limited
William Harris	50	Avonglen Limited Birchfield Interactive Plc Blueprint Foods Limited Charlie's Food Factory Ltd Coolabi Licensing Limited EICOM Plc Meridian Technique Limited Primal Soup Limited	Bridgefilms Limited Captain Pugwash Limited Guinness World Records Limited Gullane Children's Books Limited Gullane (Development) Limited Gullane (Distribution) Limited Gullane Entertainment Limited Gullane (Licensing) Limited Gullane (Music Publishing) Limited Gullane (Productions) Limited Gullane (Thomas) Limited Moonbeam Limited Mumfie Limited Peppers Patrol Limited Prism Art & Design Limited Sooty Entertainment Limited Sooty Limited Television Support Services Limited The Britt Allcroft Company Ltd The Magic Railroad Company Limited The Media Merchants Television Company Limited
Linda James	48	Alibi Pictures Limited Alibi Productions (Dead) Limited Alibi Productions (Safe House) Limited Alibi Productions (Sir Gadabout) Limited Alibi Productions (Sir Gads 2) Limited	Independent Production Training Fund NFTS Foundation

<i>Director</i>	<i>Age</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
Linda James (continued)	48	Alibi Productions Limited CFF Enterprises Limited Children's Film and Television Foundation Limited Screen South Sly Fox Films Limited South East Media Network Limited	
Timothy Ricketts	42	Alibi Communications Limited Alibi Films International Limited Alibi Music Publishing Limited Alibi Pictures Limited Alibi Productions (Dead) Limited Alibi Productions (Safe House) Limited Alibi Productions (Sir Gadabout) Limited Alibi Productions (Sir Gads 2) Limited Alibi Productions Limited Alibi Records Limited Avonglen Limited Coolabi Licensing Limited Coolabi Productions Limited Coolebah Limited	Captain Pugwash Limited Guinness World Records Limited Gullane Children's Books Limited Gullane (Development) Limited Gullane (Distribution) Limited Gullane Entertainment Limited Gullane (Licensing) Limited Gullane (Music Publishing) Limited Gullane (Productions) Limited Gullane (Thomas) Limited Moonbeam Limited Prim Art & Design Limited Television Support Services Limited The Britt Allcroft Company Limited The Magic Railroad Company Limited The Media Merchants Television Company Limited Thoroughbred Professional Limited Turftrax Ground Management Systems Limited Turftrax Group Limited Turftrax Holdings Limited Turftrax Racing Data Limited Turftrax Speed Limited Turftrax Sporting Data Limited

10.2 Save as disclosed in this document none of the directors have:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;

- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
  - (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company.
- 10.3 Lawrence Chrisfield was a director of The Film Commission of the United Kingdom when it went into liquidation on 18 November 2001.

## 11. Employees

- 11.1 As at 30 June 2006, the Group had 10 employees. As at the date of this document, the Group has 6 full time employees. The Group also engages one consultant to provide bookkeeping services under the terms of a consultancy agreement.
- 11.2 As at the date of this document, the Group employed the following numbers of employees, in the following areas of expertise:

<i>Function</i>	<i>Total</i>
Licensing	2
Management	1
Technical	2
<b>Total</b>	<u><u>6</u></u>

- 11.3 As at the date of this document, the employees were all employed at the Company's principal place of business.
- 11.4 The Company also employed one part time employee during the most recent financial year.

## 12. Property, Plant and Equipment

The Company leases offices at 48 Broadley Terrace, Marylebone, London NW1 6LG, pursuant to a lease between the Company and Broadley Studios Limited dated 18 August 2005.

## 13. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or a member of the Group within the two years immediately preceding the date of this document and are, or may be, material:

- 13.1 The Placing Agreement dated 4 April 2007 between the Company (1), the Directors (2) and Evolution Securities Limited ("**Evolution**") (3) is conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 1 May 2007 (or such later date as the Company, the Directors and Evolution Securities Limited may agree being not later than 15 May 2007), the Acquisition Agreement having been entered into and having become unconditional in all respects (save only for Admission) and receipt of confirmation from HM Revenue & Customs that an investment in the Ordinary Shares of the Company will constitute a qualifying investment for a venture capital trust. Pursuant to the Placing Agreement, Evolution have agreed to use reasonable endeavours to procure subscribers for 366,666,673 new Ordinary Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains warranties from the Company and the Directors and indemnities from the Company in favour of Evolution together with provisions which enable Evolution to terminate the Placing Agreement in certain circumstances prior to

Admission including circumstances where any warranties are found to be untrue or inaccurate in any material respect. The liability of the Directors for breach of Warranty is limited. Under the Placing Agreement the Company has agreed to pay Evolution a fee of £125,000 and commission of 5% of the value of the Placing Shares at the Placing Price (save in relation to Placing Shares placed with certain specified placees, in respect of which a commission of 3% is payable).

- 13.2 A letter dated 4 April 2007 between the Company (1) and Evolution (2) pursuant to which Evolution confirms their appointment to act as nominated adviser, broker and financial adviser to the Company. The Company has agreed to pay Evolution a fee of £30,000 per annum for its services under this letter, together with all reasonable expenses. The letter contains certain undertakings and indemnities given by the Company and the Directors in respect of, *inter alia*, compliance with all applicable laws and regulations.
- 13.3 Pursuant to the terms of the Acquisition Agreement, the Company, by acquiring Purple Enterprises, acquired the Purple Ronnie character works and a portfolio of children's books together with each of the associated intellectual property rights.

The consideration under the Acquisition Agreement is an the initial sum of £3,300,000 plus cash of £600,000 which is defined as the "Excess Retained Profits", being an estimate of the Company's retained profits in excess of its required working capital. Deferred consideration, being the issue of up to £1,500,000 Vendor Loan Notes is dependant on the cash received by the Company in the two years following completion of the Acquisition Agreement (excluding VAT, and before deductions of any commissions reported on royalty statements or licensor reports received) less (*inter alia*):

- (a) payments by the Company to Janet Cromin and TLC in accordance with arrangements in place at the date of the Acquisition Agreement; and
- (b) bona fide third party costs reasonably and directly incurred by the Company in the relevant period in the exploitation of all intellectual property rights in *inter alia*, the stick character originally created by the Vendor known as "Purple Ronnie" and its associated characters and the product portfolios relating thereto and the children's book titles and children's book content acquired under the SPA on standard industry terms ("the **Net Royalties**").

The deferred consideration comprises of:

- (c) the Net Royalties in respect of the period of 12 months from 1 April 2007 to 31 March 2008 less the Vendor's salary and the associated employer's National Insurance cost payable for such period; and
- (d) the Net Royalties in respect of the period of 12 months from 1 April 2008 to 31 March 2009 less the Vendor's salary and the associated employer's National Insurance cost payable for such period.

The Company's obligation to pay the deferred consideration shall be satisfied by the issue of the bank guaranteed Vendor Loan Notes. The Vendor Loan Notes are created pursuant to the Vendor Loan Note Instrument. The Vendor Loan Note Instrument is to be entered into at the time when the Vendor Loan Notes are due with respect to the first year following completion ("Instrument Creation Date"). The Vendor Loan Note Instrument is a deliverable under the Acquisition Agreement and is in a form which is substantially similar to the form that will be signed by the Company on the Instrument Creation Date and is also to be signed by a leading bank. According to the Vendor Loan Note Instrument the principal amount of the Vendor Loan Notes will be limited to £1,500,000 and shall be issued in integral multiples of £1 in nominal amount. The Vendor Loan Note Instrument contains usual bank guarantees and interest is attributable on the Vendor Loan Notes until such time that they are repaid in full and the rate of interest will be agreed at the time the Vendor Loan Note Instrument is entered into with the leading bank.

The initial cash consideration of £3,300,000 shall be adjusted in accordance with standard completion accounts provisions as are usually found in an agreement of this nature. The Company shall have the ability to set-off the amount of any shortfall in net assets at completion against any amounts owed to the Vendor in respect of the deferred consideration. In the event it is considered by leading counsel that the Company has a valid claim under the warranties, an escrow account will be set up in favour of the Purchaser and the Vendor at such time and such amount equivalent to the warranty claim shall be deposited into the escrow account and the amount due under Vendor Loan Notes will be reduced accordingly until adjudication or settlement of such claim.

The Vendor has granted to the Company and Purple Enterprises the right (so far as he is able) to use throughout the world and to authorise others to use his name in whole or in part in connection with the promotion and exploration of the original literary, artistic and other copyright works in respect of *inter alia* the Purple Ronnie character and the children's book titles and contents acquired under the Acquisition Agreement in any media now known or devised in the future and any to use the Vendor's approved photograph or either approved reproduction of the Vendor's physical likeness, and the autograph and any approved biography of the Vendor in whole or in part in that regard. Further, the Vendor has entered into restrictive covenants in respect of these rights for the duration of such rights, or if shorter, the maximum period permitted by law.

The Vendor provided standard warranties in respect of the usual aspects of Purple Enterprises' business, such as, the Vendor's capacity to sell, accounts, assets (including intellectual property and property), finance, liabilities, material contracts etc. The warranties were provided for a period of two years from the date of the Acquisition Agreement for general warranties and six years after the date of the Acquisition Agreement in case of tax warranties. The maximum liability aggregate liability of the Warrantors arising from all claims shall not exceed the consideration paid under the Acquisition Agreement.

- 13.4 A subscription and shareholders agreement between (1) the Vendor, (2) the Company and (3) PRNA Limited ("**PRNA**") dated 4 April 2007 ("the Shareholders Agreement") pursuant to which the Company subscribed for 51 ordinary shares and 33 preference shares both of 1 pence each in the capital of PRNA and the Vendor subscribed for 15 preference shares of 1 pence each in the capital of PRNA. Prior to such subscription, the Vendor held 49 ordinary shares and 51 preference shares both of 1 pence each in the capital of PRNA.

The shareholders of PRNA shall ensure that a board meeting of PRNA is held at which it is *inter alia* resolved that PRNA approves and authorises the execution of:

- (a) a rights agreement pursuant to which Purple Enterprises will grant to PRNA the exclusive right to develop, manufacture, label, package, market and promote, distribute, licence, sell and otherwise deal with goods and services of any type or nature incorporating the Purple Ronnie intellectual property in the United States of America and Canada or to grant licences to third parties to do the same ("**the North American Rights**"); and
- (b) a representation agreement pursuant to which the PRNA will appoint Coolabi Licensing Limited as its representative to exploit the North American Rights.

The Shareholders Agreement contains provisions relating to the right and structure of the board of directors of PRNA and their management of PRNA.

The Vendor grants to the Company the right to require the Vendor to sell to it all (and not some only) of all the shares registered in the name of the Vendor on the date of exercise of the option by the Company, for a price which is the higher of the price calculated in accordance with the formula set out in the Shareholders Agreement or £1,000,000 (the "**Coolabi Option**"). The Coolabi Option may be exercised by notice in writing given by the Company to the Vendor during the period of six months commencing the first business day falling five years after the earlier of:

- (a) the date on which PRNA completes a valid and binding agreement with a card publisher with a greetings card distribution and marketing network in United States of America and Canada or (if later) the date when such agreement becomes unconditional in accordance with its terms. This would not include the merchandising agreement between (1) Hallmark Cards plc and (2) Purple Enterprises Limited dated 6 September 2006; and
- (b) the first business day falling 12 months after completion of the Shareholders Agreement;

("the **Option Period**")

or if not exercised during the Option Period, during the period commencing on the first business day after the expiry of the Option Period and ending on the earlier of the date falling six months after the Extended Option Calculation Date (as defined in the Shareholders Agreement) and 31 December 2017.

If the Vendor receives a notice to exercise the option then an agreement for the sale of all the shares registered in the name of the Vendor on the date of exercise of the option immediately arises.

- 13.5 By a North American Rights Agreement between Purple Enterprises and PRNA dated 4 April 2007 Purple Enterprises has granted PRNA the royalty-free and exclusive right to develop, manufacture, label, package, market and promote, distribute, license, sell and otherwise deal in all types of goods and/or services using the Purple Ronnie IP in Canada and the United States of America. This agreement continues for as long as the Vendor or any of his permitted transferees (as defined in the articles of association of PRNA) is a shareholder in PRNA.
- 13.6 Agreement for the sale and purchase of part of the business and certain assets of Zenith Entertainment Limited (in administrative receivership) between Zenith Entertainment Limited, Karen Lesley Dukes, David John Blenkarn and Coolabi Productions Limited ("**CPL**") dated 13 September 2006 pursuant to which acquired certain assets and the business of Zenith Entertainment Limited from its administrators including all intellectual property rights and exploitation agreements in respect of "King Arthur's Disasters" and Zenith's children's back catalogue and development slate. The consideration paid for the acquisition of such assets was £100,000.
- 13.7 Conditional upon and with effect from completion of the Acquisition Agreement, the Vendor has agreed to enter into a service agreement with Purple Enterprises for an initial period of two years and thereafter the agreement shall be terminable by either party giving to the other not less than 12 weeks' written notice, provided such notice may not expire prior to the second anniversary of completion of the Acquisition Agreement. Pursuant to the terms of the agreement the Vendor will be required to perform his duties on a part-time basis and will be entitled to a salary of £40,000 per annum and reasonable out of pocket expenses. The agreement contains detailed confidentiality and intellectual property provisions.

#### **14. Dependence on Intellectual Property**

Save as disclosed in this document, the Enlarged Group is not dependent on any patents, licences, industrial, commercial or financial contracts or new manufacturing processes which have a material effect on the Enlarged Group's business or profitability.

#### **15. Related Party Transactions**

There have been no related party transactions during the period covered by the Historical Financial Information and up to the date of this document.

## **16. Litigation**

The Enlarged Group is not involved nor has it been involved in any governmental, legal or arbitration proceedings in the previous twelve months which may have or have had in the recent past a significant effect on the Enlarged Group's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Enlarged Group.

## **17. No Significant Change**

17.1 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 December 2006 being the end of the last financial period for which financial information has been published.

17.2 Save as disclosed in this document, there has been no significant change in the financial or trading position of Purple Enterprises since 31 December 2006 being the end of the last financial period for which financial information has been published.

## **18. Working Capital**

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission, the Enlarged Group will have sufficient working capital for at least 12 months from the date of Admission.

## **19. Taxation**

The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and HM Revenue & Customs practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position, or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

### **19.1 Taxation of Chargeable Gains**

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding. The amount paid for the Ordinary Shares subscribed for will be eligible for taper relief allowance for individuals (provided the necessary conditions are met) or Indexation for Companies.

Chargeable gains made by individuals and trustees should be eligible for taper relief.

If a shareholder disposes all or some of his Ordinary Shares, liability to tax on chargeable gains may, depending on his circumstances, arise.

### **19.2 Loss Relief**

If an investor is an individual or an investment company, relief for losses incurred by that investor on disposal of the Ordinary Shares may be available under Chapter 6 of Part 4 Income Tax Act 2007 or Sections 573 to 576 of the Income and Corporation Taxes Act 1988 respectively, against income of the same or prior year.

This relief should be available provided the Company and the investor satisfy the relevant statutory requirements.

### **19.3 Inheritance Tax**

#### **Business Property Relief**

Unquoted Ordinary Shares representing minority interests in trading companies such as the Company potentially qualify for 100 per cent business property relief which gives up to

100 per cent exemption from Inheritance Tax. Therefore, where an investor makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the shares for two years before the date of transfer or death.

#### **19.4 Stamp duty and Stamp Duty Reserve Tax**

No stamp duty or stamp duty reserve tax (“SDRT”) will generally be payable on the issue of the Ordinary Shares.

#### **19.5 Dividends and other Distributions**

Under current UK legislation, no tax is withheld from dividend payments by the Company and consequentially, the Company accepts no responsibility for withholding taxes at source.

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten per cent of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the Schedule F ordinary rate (10 per cent) or the Schedule F upper rate (32.5 per cent).

The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking onto account the tax credit) of 22.5 per cent of the aggregate of the individual and associated tax credit. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealing in shares.

Trustees are liable to account for income tax at the rate applicable to trusts, currently 40 per cent. On dividend income they are required to account for tax at the Schedule F trust rate, currently 32.5 per cent.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

### **20. General**

20.1 The gross proceeds of the Placing are expected to be £5.5 million. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £0.7 million (excluding Value Added Tax). The net proceeds of the Placing are expected to be £4.8 million.

20.2 The Ordinary Shares were first admitted to trading on AIM on 1 June 1999. Other than as referred to in this paragraph and other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.

- 20.3 Evolution Securities has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 20.4 Grant Thornton UK LLP has given and not withdrawn its written consent to the inclusion in this document of its reports in the form and context in which they appear in Part V and Part VI of this document.
- 20.5 Where information has been sourced from a third party this information has been accurately reproduced. So far as the Company and the Directors are aware and are able to ascertain from information provided by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 20.6 The accounting reference date of the Company is 30 June.
- 20.7 The Placing price represents a premium of 0.5p per Ordinary Share over nominal value of 1 pence per Ordinary Share.
- 20.8 It is expected that definitive share certificates will be dispatched by hand or first class post by 31 May 2007. In respect of uncertificated shares it is expected that Shareholders' CREST stock accounts will be credited on 1 May 2007.
- 20.9 Save as disclosed above no person directly or indirectly (other than the Company's professional advisors and trade suppliers or save as disclosed in this document) in the last twelve months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisors otherwise than as disclosed in this document and persons who are trade suppliers) any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or any other benefit to such value or entered into any contractual arrangements to receive the same from the Company at the date of Admission.

## **21. Availability of Admission Document**

Copies of this Admission Document are available free of charge from the Company's registered office and at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP, during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

Dated: 4 April 2007

# Coolabi plc

(Registered in England and Wales with Company number 3735898)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Coolabi plc (the "Company") will be held at 44 Southampton Buildings, London WC2A 1AP, London at 11.00 a.m. on 30 April 2007 to consider and, if thought fit, pass the following resolutions of which resolutions 1, 2 and 3 will be proposed as ordinary resolutions and resolution 4 will be proposed as a special resolution:

### ORDINARY RESOLUTIONS

1. THAT the acquisition by the Company of the entire issued share capital of Purple Enterprises Limited on the terms and subject to the conditions set out in the acquisition agreement dated 4 April 2007 between Giles Andreae and the Company as summarised in paragraph 13.3 of Part VII of the Circular of the Company dated 4 April (the "Circular") a copy of which acquisition agreement is produced to the meeting and initialled by the Chairman for the purposes of identification be and is hereby approved and the Directors or any duly authorised Committee of the Directors be and they are hereby authorised to take all steps necessary or desirable to complete the said acquisition.
2. THAT the authorised share capital of the Company be and is hereby increased from £3,300,000 to £7,000,000 by the creation of 370,000,000 new Ordinary Shares of 1p each ranking *pari passu* in all respects with the existing Ordinary Shares of 1p each in the capital of the Company.
3. THAT in substitution for all authorities in existence immediately prior to this resolution being passed, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985, as amended (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £5,301,736 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2008 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement notwithstanding such expiry.

### SPECIAL RESOLUTION

4. THAT in substitution for all existing powers pursuant to that section, the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 3 above 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 up to an aggregate nominal amount of £3,666,667 pursuant to the Placing (as such term is defined in the Circular);
  - (b) the allotment of equity securities in connection with an issue in favour of the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory; and
  - (c) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £490,521 and the power hereby granted shall expire at the conclusion of the Annual General Meeting of the Company

to be held in 2008 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry but otherwise in accordance with the foregoing provisions of this power in which case the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD

David Glennon  
*Secretary*

*Registered Office:*  
48 Broadley Terrace  
London  
NW1 6LG

Dated: 4 April 2007

**Notes:**

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the enclosed form of proxy for the meeting convened by the above notice and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the Company's registrars' office not less than 48 hours before the time for holding the meeting. Completion and return of the white form of proxy will not preclude ordinary shareholders from attending and voting in person at the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Extraordinary General Meeting is 11.00 a.m. on 30 April 2007 (being not more than 48 hours prior to the time fixed for the meeting) or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.
4. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

