



coolabi™

Annual Report 2007

Page	
1	Company Information
2	Chairman's Statement
3 - 5	Chief Executive's Review
6 - 8	Directors Report
9	Auditors' Report
10	Consolidated Profit and Loss Account
11	Consolidated Balance Sheet
12	Company Balance Sheet
13	Consolidated Cash Flow Statement
14 - 27	Notes to the Financial Statements

Directors and Advisers

Directors	W. Harris (Chairman) J. Banks The Lord Brabourne L. Chrisfield L. James T. Ricketts	Nominated Adviser and Broker	Evolution Securities Ltd 100 Wood Street London EC2V 7AN
Secretary and Registered Office	D. Glennon 48 Broadley Terrace London NW1 6LG	Auditors	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
		Company Number	3735898

Overview

Following the appointment of Jeremy Banks as Chief Executive in September 2006, the past year has been a transformational one for the group. In particular, I am pleased to report that we have made good progress in achieving the goals that we set ourselves when Jeremy joined, having previously completed two acquisitions and undertaken a major fundraising.

Results

The net loss before tax for the year amounted to £794,845 (2006 - £641,077). However, adjusted EBITDA, (excluding share related payment costs and the one-off cost associated with the severance of the previous Chief Executive) was £544,496 (2006 - £601,682).

Whilst turnover grew some 800%, the financial statements for the year ended 30 June 2007 do not provide an accurate barometer of the likely future financial performance of the group as only two months of revenues following the acquisition of Purple Enterprises Limited is included.

Acquisitions

During the year, we acquired the children's assets of Zenith Entertainment Limited and Purple Enterprises Limited, the owner of all rights in the Purple Ronnie brand. Both acquisitions fit neatly with our stated acquisition strategy and have already had a positive impact upon both the financial and commercial direction of the group.

I am also pleased to announce today the acquisition of Indie Kids for an initial consideration of £171,000. Indie Kids is an established children's TV production and development business responsible for a number of successful and popular hit programmes of recent years, in particular *The Worst Witch* for ITV and *Fungus The Bogeyman* for BBC. They now have in place a programme commission from the BBC in the UK and TF1 in France for *The Large Family*, a pre-school animated series based on the popular series of books by Jill Murphy, to be delivered later this year, and also an attractive development slate. We expect the acquisition to be earnings enhancing in the current financial year.

Growth Strategy

Our strategy is to build a diversified portfolio of cash-generative intellectual property assets that have international potential across a broad range of media platforms.

Our focus in achieving this is two fold. Firstly, we are concentrating our plans for organic growth solely on those assets we believe will deliver the best return on investment and are therefore only targeting specific brands, for example *Scarlett & Crimson*, for investment in 2008 and beyond. Secondly, a substantial proportion of our growth will come from an ongoing strategy of focused acquisitions.

Share Placing

In April 2007 we announced a share placing to raise £5.5m, (approximately £5.2m net of expenses) to fund our acquisitions strategy.

Share Consolidation

I am pleased to announce today that we will shortly be seeking to undertake a share consolidation of 20:1. The Directors believe the share consolidation will assist in decreasing the bid/offer spread and improve the attractiveness of the shares to new investors. The Directors expect to make a further announcement and post a circular to shareholders on this matter in due course.

Staff

We are most fortunate to have such a dedicated and hard-working team at Coolabi and, on behalf of the board, I would like to thank them for their invaluable contribution to our progress over the past year.

Outlook

We now have a clearly defined strategy and an experienced and successful management team to deliver it. We will continue to develop the brands that we already own but also look to make further selective acquisitions over the course of the year. There is still much to do, but I am confident that the steps we have taken this year have put us in a strong position to build significant shareholder value in the medium term and beyond.

William Harris
Chairman

27 September 2007

I am pleased to report that Coolabi has made good progress in the year to 30 June 2007. We have made two acquisitions, which have transformed the group and its prospects; we have undertaken a substantial fundraising both in support of these acquisitions and in order to invest in future growth and we have put in place a clear strategy to deliver long term value to shareholders. However, we are still at an early stage in our strategic development. Whilst in Purple Ronnie, we now own a significant intellectual property asset which will deliver stable cashflow in the short-term and, we believe, attractive upside in the medium-term and beyond, the organic growth of one asset, however significant it may be, is of itself not enough to create a successful international intellectual property business. Only with a diversified portfolio of established and developing intellectual property assets can attractive shareholder returns be consistently delivered.

Strategy

Our strategy is to build a diversified portfolio of cash-generative intellectual property assets that have international potential across a broad range of media platforms.

In particular, whilst television will continue to be a key platform for many of our properties, and we will continue to pursue organic and acquisitive growth in this area, a significant proportion of our properties will not require exposure on television in order to be successful. As television audiences have fragmented, the value of exposure on any particular channel has decreased. In addition, less reliance on television reduces Coolabi's initial investment (and therefore risk), thereby generating a quicker return on our investment.

Our plan is to continue to grow our portfolio of properties through quality acquisitions and investment in the development of our own assets.

Acquisitions Update

(i) Zenith Entertainment Limited

In September 2006 we acquired the children's division of Zenith Entertainment Limited for £100,000. This represented an important early first step in the strategic development of Coolabi and provided the group with ownership of a popular animated series in the relatively early stages of its international exploitation, an attractive development slate and a catalogue of quality children's drama programming.

The acquisition included all rights to Zenith Entertainment's successful animated series King Arthur's Disasters (an animated series, featuring British comedians Matt Lucas and Rik Mayall) co-produced with Neptuno Films in Spain. Series I of King Arthur's Disasters was first screened in the UK in April 2005 on ITV 1, where it was the highest rated new CITV show that spring. Following the success of Series I, ITV had commissioned a second series of 13 half hour episodes, just over half of which had already been delivered to ITV at the date of acquisition. The remainder of the episodes were delivered by Coolabi, on time and on budget.

King Arthur's Disasters was already being sold internationally to channels such as Cartoon Network (France), Cartoon Network (Latin America), Nickelodeon (Germany), ABC (Australia), Disney Channel (Spain) and Disney Channel (Italy). The Series is also broadcast on Nickelodeon and NickToons in the UK. Since the acquisition, our distribution partner has informed us that the series has also been sold into Cartoon Network (India), BBC Kids (Canada) and Nickelodeon (Australia).

The acquisition of Zenith was cash positive to Coolabi within six months.

The development slate was a particularly attractive element of the deal. To date this has resulted in a pilot of a live action children's drama being produced for Nickelodeon in the UK, at their cost, and a pre-school animated series based on an extremely successful series of children's books being developed. These productions are currently being pitched to broadcasters in the UK and will be featured by Coolabi at MIPCOM in Cannes next month.

(ii) Purple Enterprises Limited

In April we announced the acquisition of Purple Enterprises Limited, owner of all rights in the Purple Ronnie brand, for an initial cash consideration of £3.3m, and a possible earn-out of up to £1.5m depending on performance over the next two years. The acquisition was financed by a share placing. The deal also included the rights held in Purple Enterprises Limited to certain very successful children's book titles including Rumble in the Jungle, Commotion in the Ocean, and Giraffes Can't Dance.

Purple Ronnie was created by Giles Andreae in 1987 and has since appeared on over 44 million themed greeting cards and in two million books, reaching the Sunday Times top 10 bestsellers list every year since 2002. Giles Andreae entered into a two-year service agreement with Coolabi and will also work with Coolabi in the pursuit of specific opportunities in the US.

As announced at the time of the acquisition, Purple Ronnie greetings cards are currently being initially tested in the United States of America, the results of which are expected by the end of 2007.

Chief Executive's Review

Purple Ronnie revenues are derived from three main channels of exploitation; greetings cards, publishing and licensing, and merchandising. The principal licensees for each of these categories are currently Hallmark, Macmillan and H&A, respectively. The property had been managed by its creator since inception twenty years ago as a result of which, whilst each channel had performed impressively at various times over the last few years, there simply hadn't been the capacity to ensure that all the channels were actively managed at the same time. Coolabi has the management team and infrastructure to facilitate the further exploitation of Purple Ronnie.

In the period since completion of the acquisition in May, we have, after further extensive research, put in place a medium term strategic plan for the property to drive brand activity across existing and potential markets and platforms, the benefit of which should begin to feed through in 2008. Encouragingly, where licenses have come up for renewal in the period since acquisition licensees have, without exception, all sought to renew or extend their agreements. Indeed, in certain instances we have been able to negotiate significantly improved terms with more substantial partners.

However, it is vital that we are sympathetic in our revitalisation of Purple Ronnie. We are looking to take the property to a new level and lock that performance in for another twenty years. Short term upside will not be pursued if it damages the long-term value of the brand.

Having only completed in May, the acquisition of Purple Enterprises Limited has only had a minimal impact on the 2007 financial statements.

Fundraising

In April 2007 we announced a share placing to raise £5.5m, (approximately £5.2m net of share issue costs), primarily to fund the acquisition of Purple Enterprises. We were particularly pleased by the level of interest in the share placing and by the number and quality of institutional investors who supported the placing. Importantly, the placing was priced at the closing mid-market price prior to the announcement of the acquisition.

Activity Update

The company currently operates through its two principal operating divisions, Licensing and Productions.

a) Licensing

The Licensing division has been rationalised and re-focused over the course of the financial year. The division had previously operated almost entirely in an agency capacity, representing third party rights. The company's strategy now is to focus on the exploitation of either wholly owned assets or those assets in which Coolabi has a significant ownership stake, whether acquired or developed internally. The division will also continue to represent high quality third party properties, where they do not compete with the owned assets and where it makes commercial sense to do so.

During the period, progress was made with a number of our properties:

Scarlett & Crimson

This property is still in development and has not yet been fully launched. However, a major publishing licence has been negotiated with Simon & Schuster for North America and the UK, with books entering both markets by the end of 2008 and/or early 2009. A website is planned to coincide with the book launch. Furthermore, a greetings card range has undergone a soft launch in the UK with the strongest cards from the range of 20 to go in-store in WHSmith. Work is ongoing with Danilo, our greetings card licensee, to expand the range and broaden the appeal.

A careful approach is being taken with this property specifically to ensure categories are not brought to market too early only to have them fail through lack of awareness. All the indications are that this property has the potential to be successful

Hammer Films

An iconic UK brand based on the classic gothic horror feature films made in the 1960s, Hammer is the only classic non-children's property in the portfolio. There are currently 13 licensees with a number pending. Highlights during the year, include the successful retail debut of the Hammer DVD Board Game and the award of a licence to Camelot to produce 11 million Hammer lottery scratch cards, which are already in store in the build up to Halloween.

During the year, Hammer Films came under new ownership, resulting in administration arrangements being taken back in house. However, we are pleased to report that the representation agreement, which had been terminated as part of the acquisition process has now been extended on the same commercial terms.

iloveegg

23 x 2 minute animated episodes of these transforming egg characters now exist on-line and Coolabi represents this property in all territories outside Asia. We are currently exploring the opportunities for iloveegg with a number of UK broadcasters, and during the year two new licenses were negotiated with Player X for mobile content and mobile broadcast.

Chief Executive's Review

Somebunny To Love

Having secured shelf space in two leading High Street retailers (WHSmith and Clintons) disappointing sales have meant that there is little more that can be done with Somebunny To Love as we don't own the underlying rights. As such, having given the property every chance, we will not seek to renew our licensing agreement when it expires at the end of 2007.

b) Productions

This is a new division set up following the acquisition of the children's division of Zenith Entertainment Limited.

The immediate focus following the acquisition was the successful delivery of Series II of King Arthur's Disasters on time and on budget. This was achieved. The first series continues to be successfully screened on the CITY weekend block as well as on Nickelodeon and NickToons in the UK. The second DVD of series I was released in the UK in May. Series I was also nominated for a children's BAFTA in November. Since the start of the calendar year, the focus has transferred to the identification and development of new opportunities as well as progressing or terminating the development slate that already existed within Coolabi and that which was inherited as part of the Zenith acquisition.

Coolabi currently has four exciting projects in development, ranging from an animated pre-school series, through to a live action children's drama. Discussions are currently underway with UK broadcasters and these projects will all be featured at the MIPCOM international trade show in Cannes in October.

We have reviewed the opportunity for Pepper's Patrol with our joint venture partner, Galleon plc, and have decided not to invest any more time or funds in this pre-school project. For animated properties of this sort, we have decided to focus solely on opportunities where there is a strong merchandising angle and where we own and/or control the production asset that is produced.

Catalogue

We continue to own rights in, and exploit and derive income from our library of completed feature films and television dramas.

Post Balance Sheet Event

On 27 September 2007 Coolabi purchased Indie Kids International Limited and Indie Kids Limited, the children's television production companies, in accordance with our stated acquisition strategy.

Key Objectives for Year Ending 30 June 2008

We have set ourselves a number of key objectives for the year ending 30 June 2008 which we believe, if achieved, will both deliver improved financial results for that year and establish a sound basis for future growth

Purple Ronnie	Production
Consolidate the existing licensing categories for Purple Ronnie and increase the brand's retail presence	Put one property into production in 2008 with a UK broadcast partner secured
Increase the number and value of Purple Ronnie licenses in the UK	Put one property into development in 2008 with a major international broadcaster
Launch two new Purple Ronnie publishing titles in the UK	Identify and deliver at least two opportunities for development in 2008 and delivery in 2009
Launch Purple Ronnie as a publishing property in the US	

Conclusion

The year ended 30 June 2007 has been a good one for Coolabi in which we have transformed the group and its prospects through strategic acquisitions and an associated fundraising. Consequently, we are strategically, operationally and financially in a very different and much better place than we were at the end of the last financial year. We are still at an early stage in our strategic development; however, we are now on the front foot and have put ourselves in a position to grow the business substantially in the future.

Jeremy Banks
Chief Executive

27 September 2007

COOLABI PLC

Directors Report

The directors have pleasure in presenting their report together with the financial statements for the year ended 30th June 2007.

ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group is the development of a portfolio of intellectual properties and their exploitation in licensing and television production throughout the world. A review of the Group's business and future developments is contained in the Chairman's statement.

RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounted to £794,845 (2006: £641,077). The directors do not recommend the payment of a dividend.

SUBSTANTIAL SHARE INTERESTS

The directors have been notified of the following shareholdings, other than directors' shareholdings, in the ordinary shares of the Company in excess of 3% of the voting share capital.

	Number of 1p Ordinary Shares	Percentage of Issued Share Capital at 30 June 2007
Herald Investment Trust Plc	43,800,000	8.93%
Leonard Licht	35,000,000	7.14%
BlackRock, Inc.	33,333,334	6.80%
GAM International Management Ltd	33,333,334	6.80%
Royal Bank of Scotland as Trustees of the 33 King William		
Street Growth and Recovery Fund	33,333,334	6.80%
Schroders plc	33,333,334	6.80%
ProVen Growth and Income VCT plc	20,000,000	4.08%
Roger Llewellyn	15,207,000	3.10%
David Roger Llewellyn Trust	14,901,333	3.04%

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the result for that period. The directors consider that in preparing the financial statements the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors are responsible for ensuring that the Group keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and for ensuring that the financial statements comply with the Companies Act 1985. The directors also have responsibility for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware there is no relevant audit information of which the company's auditors are unaware and we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

CORPORATE GOVERNANCE

The directors acknowledge the importance of the guidelines set out in the Combined Code on Corporate Governance ("The Code") as issued by the Financial Reporting Council in July 2003.

As an AIM listed company, Coolabi Plc is not required to comply with the provisions of the Combined Code on Corporate Governance published by the Financial Reporting Council that applies to companies with a full London Stock Exchange listing. However, the directors acknowledge the importance and value of good corporate governance procedures and accordingly have selected those elements of the Combined Code that they consider relevant and appropriate to the Group, given its size and structure. Following is a brief description of the role of the Board and its committees.

Directors Report - continued

The company supports the concept of an effective board leading and controlling the group. As at 30 June 2007, the board comprised a non-executive Chairman, Chief Executive, one other executive director and two other non-executive directors and is responsible to shareholders for the proper management of the Company and Group. The non-executive directors bring an independent viewpoint to the Group's activities and provide a strong balance to the executive directors.

The Board of Directors met formally 12 times in the year.

As far as is possible matters are discussed and decided by the Board as a whole. The Board has, however, delegated authority to committees in two specific areas which are discussed below.

AUDIT COMMITTEE

The Audit Committee meets at least twice per year reviewing a wide range of financial matters (including the annual and half-year results, statements and accompanying reports) before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the financial information reported to the shareholders. The Audit Committee also advises the Board on the appointment of external auditors both for audit and non-audit services.

The Audit Committee is chaired by L Chrisfield and additionally comprises, The Lord Brabourne and W Harris.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee with formally delegated duties and responsibilities. The Remuneration Committee has responsibility for determining executive directors' terms and conditions of service, including remuneration and grant of options under the Share Option Schemes. The remuneration policy of the Group is to seek to ensure that Executive Directors are fairly rewarded for their contribution to the Group. This policy is achieved through a remuneration package which includes a salary, benefits in kind, share options and bonuses for certain directors.

The remuneration committee is chaired by L Chrisfield and additionally comprises L James and W Harris.

DIRECTORS

The interest of the directors including beneficial interest, who served during the year, in the shares of the Company are as follows:-

	Date of Appointment	Date of Resignation	Ordinary 1p Shares 30th June, 2007	Options at 30th June, 2007	Ordinary 1p Shares at 30th June, 2006	Options at 30th June, 2006
J. Banks	08.09.06	-	12,000,000	4,000,000	-	-
The Lord Brabourne**	23.03.99	-	7,000,000	-	5,500,000	-
L. Chrisfield	30.03.99	-	6,416,655	150,000	5,749,988	150,000
W. Harris***	20.02.04	-	16,250,001	650,000	13,583,334	650,000
L. James*	23.03.99	-	1,817,849	370,000	1,151,182	370,000
T. Ricketts***	22.01.07	-	2,166,667	-	-	-
T. Hilton***	17.11.04	05.02.07	2,166,667	-	1,500,000	-
R. Holmes	16.03.99	08.09.06	3,171,078	-	1,837,745	3,336,667

* 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 W Harris's, T Ricketts's and T Hilton's holdings are 2,166,667 shares held in the name of Avonglen Limited, a company in which they each hold a 25 per cent shareholding and are all directors.

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

CREDITOR PAYMENT POLICY

The Group's payment policy is to obtain the best possible terms for all business and hence there is no standard policy as to the terms used. The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided goods and services in accordance with the contractual arrangements. Total creditor days of the Company as at 30 June 2007 were 78 days (2006: 37 days).

AUDITORS

Grant Thornton were appointed auditors on 9 August 2007 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985. Special notice pursuant to section 388(3) having been given, a resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

By Order of the Board

D Glennon

Company Secretary
27 September 2007

Report of the Independent Auditor to the members of Coolabi PLC

We have audited the Group and parent company financial statements (the "financial statements") of Coolabi plc for the year ended 30 June 2007 which comprise the principal accounting policies, the Group profit and loss account, the Group and company balance sheets, the Group cash flow statement, and Notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- and the information given in the Directors' Report is consistent with the financial statements for the year ended 30 June 2007.

COOLABI PLC

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 30TH JUNE 2007

	Notes	2007 £	2006 £
TURNOVER	2	971,834	108,006
COST OF SALES		<u>(589,168)</u>	<u>(32,370)</u>
GROSS PROFIT		382,666	75,636
Administrative expenses		(1,007,162)	(677,318)
Amortisation of intangible assets		(94,651)	(16,442)
Share based payment costs		(26,720)	-
OPERATING LOSS	3	<u>(745,867)</u>	<u>(618,124)</u>
EXCEPTIONAL ITEM	4	(53,310)	-
JOINT VENTURE – SHARE OF OPERATING LOSS		(-)	(30)
INTEREST RECEIVABLE AND SIMILAR INCOME	5	16,983	9,161
INTEREST PAYABLE AND SIMILAR CHARGES	6	<u>(12,651)</u>	<u>(32,084)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	8	(794,845)	(641,077)
TAXATION	10	<u>-</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(794,845)</u>	<u>(641,077)</u>
BASIC LOSS PER SHARE	9	(0.4p)	(1.3p)
FULLY DILUTED LOSS PER SHARE	9	(0.4p)	(1.1p)

All amounts relate to continuing activities.

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

The notes on pages 14 to 27 form part of these financial statements.

COOLABI PLC

Consolidated Balance Sheet

AS AT 30TH JUNE 2007

	Notes	£	2007	£	£	2006	£
FIXED ASSETS							
Intangible assets	11	5,291,318			292,220		
Tangible assets	12	14,271			16,054		
Joint venture – share of gross assets	13	200,241			199,536		
– share of gross liabilities	13	<u>(200,241)</u>			<u>(199,536)</u>		
			5,305,589			308,274	
CURRENT ASSETS							
Work in progress	14	37,159			3,937		
Debtors	15	215,717			86,203		
Cash at bank and in hand	16	<u>1,370,166</u>			<u>664,616</u>		
		1,623,042			754,756		
CREDITORS : Amounts falling due within one year	17	<u>(463,614)</u>			<u>(234,128)</u>		
NET CURRENT ASSETS			1,159,428			520,628	
CREDITORS : Amounts falling due after one year	17		(1,500,000)			(230,000)	
NET ASSETS			<u>£4,965,017</u>			<u>£598,902</u>	
CAPITAL AND RESERVES							
Called up share capital	18		4,905,208			1,138,541	
Share premium account	19		3,979,411			2,407,667	
Shares to be issued	11		-			204,167	
Profit and loss account	19		<u>(3,919,602)</u>			<u>(3,151,473)</u>	
EQUITY SHAREHOLDERS' FUNDS	20		<u>£4,965,017</u>			<u>£598,902</u>	

Approved by the Board on 27 September 2007 and signed on its behalf by:

J Banks - Director

T Ricketts - Director

The notes on pages 14 to 27 form part of these financial statements.

COOLABI PLC

Company Balance Sheet

AS AT 30TH JUNE 2007

	Notes	£	2007 £	£	2006 £	£
FIXED ASSETS						
Intangible assets	11	37,692			16,961	
Tangible assets	12	14,271			16,054	
Investments	13	6,032,148			315,058	
Joint venture	13	-			-	
				6,084,111		348,073
CURRENT ASSETS						
Work in progress	14	37,159			3,937	
Debtors	15	66,316			45,166	
Cash at bank and in hand	16	1,330,150			641,138	
						1,433,624
CREDITORS : Amounts falling due within one year	17	(1,223,215)			(252,805)	
NET CURRENT ASSETS				210,409		437,436
CREDITORS : Amounts falling due after one year	17			(1,500,000)		(230,000)
NET ASSETS				<u>£4,794,520</u>		<u>£555,509</u>
CAPITAL AND RESERVES						
Called up share capital	18		4,905,208		1,138,541	
Share premium account	19		3,979,411		2,407,667	
Shares to be issued			-		204,167	
Profit and loss account	19		(4,090,099)		(3,194,866)	
EQUITY SHAREHOLDERS' FUNDS	20		<u>£4,794,520</u>		<u>£555,509</u>	

Approved by the Board on 27 September 2007 and signed on its behalf by:

J Banks - Director

T Ricketts - Director

The notes on pages 14 to 27 form part of these financial statements.

COOLABI PLC

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30TH JUNE 2007

		2007 £	2006 £
Net cash outflow from operating activities	24 a	(577,617)	(469,804)
Returns on investments and servicing of finance	24 c	4,332	(22,923)
Taxation paid		-	-
Capital expenditure	24 d	(32,424)	(32,399)
Acquisitions	24 e	(3,823,869)	(900)
Cash outflow before use of liquid resources and financing		<u>(4,429,578)</u>	<u>(526,026)</u>
Management of liquid resources		-	-
Financing	24 f	<u>5,135,128</u>	<u>607,050</u>
INCREASE IN CASH		<u><u>£705,550</u></u>	<u><u>£81,024</u></u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2007

1. ACCOUNTING POLICIES

1.1 Accounting Basis and Standards

These financial statements have been prepared in accordance with the historical cost convention and are prepared in accordance with applicable accounting standards and UK GAAP.

1.2 Basis of Consolidation

The Group financial statements incorporate a consolidation of the financial statements of the Company and its subsidiary undertakings (note 13) to 30th June, 2007. No company profit and loss account is presented for Coolabi plc as permitted by section 230 of the Companies Act 1985.

1.3 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.

1.4 Intangible Fixed Assets

Goodwill on consolidation, representing the excess of the consideration 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.

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.

Intangible assets acquired in a business combination are deemed to have a cost to the group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are reliably measurable.

Estimated useful lives are then determined on an asset by asset basis depending on their profile and nature. In particular intangible assets associated with contracts are fair valued and then amortised on a straight line basis over the remaining contract life from the date of acquisition.

FOR THE YEAR ENDED 30TH JUNE 2007

1. ACCOUNTING POLICIES - Continued

1.5 Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at purchase cost.

Depreciation is provided at rates calculated to write off the cost of the assets less estimated residual value over their estimated useful lives as follows:-

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

1.6 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 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.

1.7 Sale 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 transaction as a refinancing of the original production cost as substantially all of the risks and rewards of ownership have been retained by the company.

1.8 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.

1.9 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.

FOR THE YEAR ENDED 30TH JUNE 2007

1. ACCOUNTING POLICIES - Continued

1.10 Operating Leases

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

1.11 Share-based payments

The Group has applied the requirements of FRS 20 Share-based Payment. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 July 2006.

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercised restrictions and behavioural considerations

Upon exercise of share options, the proceeds received net of attributable transactions costs are credited to share capital and, where appropriate, share premium.

The assumptions in respect of all options granted are based on:

Volatility - determined by calculating the historical volatility of the Company's share price over the previous year.

Expected life - based on the average contractual life adjusted for managements best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Risk-free rate of return- yield of a UK government gilt over the expected life at the date of grant

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover attributable to geographical markets outside the United Kingdom amounted to 15% (2006: 22%). The Group operates solely within a single market and therefore no further segmental analysis is provided.

3. OPERATING LOSS	2007 £	2006 £
This is stated after charging:		
Depreciation – owned assets	6,849	5,515
Amortisation of intangible assets		
- contracts	38,665	-
- acquired rights	44,613	1,070
- goodwill	15,373	15,372
	<u>94,651</u>	<u>16,442</u>
Auditors' remuneration – audit fee	15,000	5,000
Auditors' remuneration – non-audit fees	14,000	3,500
	<u>14,000</u>	<u>3,500</u>

In addition the auditors received fees for non audit related work of £75,000 in the year that are capitalised as acquisition costs.

FOR THE YEAR ENDED 30TH JUNE 2007

4. EXCEPTIONAL ITEM

The remaining unamortised goodwill arising from the acquisition of Coolebah Ltd in 2004 of £53,310 has been fully written off in the year.

5. INTEREST RECEIVABLE AND SIMILAR INCOME	2007 £	2006 £
Bank interest	£16,983	£9,161
	<u> </u>	<u> </u>
6. INTEREST PAYABLE AND SIMILAR CHARGES	£	£
Interest payable on preference shares	£12,651	£32,084
	<u> </u>	<u> </u>

7. EMPLOYEE INFORMATION AND DIRECTORS' EMOLUMENTS

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

	2007 Number	2006 Number
Development, sales and administration	12	10
	<u> </u>	<u> </u>
Total remuneration, including directors, was:-	£	£
Wages and salaries	593,865	253,778
Social security costs	45,684	36,460
	<u> </u>	<u> </u>
	£639,549	£290,238
	<u> </u>	<u> </u>

The total remuneration includes an amount of £80,000 relating to severance of the former Chief Executive.

Remuneration in respect of directors was as follows:

	Salary/Fees £	Benefits £	2007 Total £	2006 Total £
W Harris	25,917	-	25,917	25,000
J Banks	155,000	1,208	156,208	-
The Lord Brabourne	3,500	-	3,500	3,500
L Chrisfield	15,000	-	15,000	15,000
R Holmes	98,761	-	98,761	102,075
L James	11,250	-	11,250	15,000
T Hilton	12,169	-	12,169	20,000
T Ricketts	22,344	-	22,344	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	£343,941	1,208	£345,149	£180,575
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

FOR THE YEAR ENDED 30TH JUNE 2007

8. LOSS FOR THE FINANCIAL YEAR

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated loss after taxation for the financial year dealt with in the accounts of the Company is £921,949 (2006: £645,399).

9. EARNINGS PER SHARE

In accordance with Financial Reporting Standard 22 Earnings Per Share, loss per share has been calculated on the loss for the year ended 30th June 2007 of £794,845 and 178,292,555 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 30th June 2007 of £794,845 and 182,671,779 ordinary shares, being the weighted average number of shares in issue or under option during the year.

10(a). TAX ON LOSSES ON ORDINARY ACTIVITIES	2007 £	2006 £
UK corporation tax on losses of the period	-	-
Adjustment in respect of previous periods	<u>-</u>	<u>-</u>
Total current tax	<u>£-</u>	<u>£-</u>
(b). Factors affecting the tax charge for the period		
Loss on ordinary activities before tax	£(794,845)	£(641,077)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 : 30%)	<u>(238,454)</u>	<u>(192,323)</u>
Expenses not deductible for tax purposes	12,489	15,378
Capital allowances for the year in excess of depreciation	1,294	463
Losses carried forward to set off against future profits	<u>224,671</u>	<u>176,482</u>
Current tax charge for the period (note 9(a))	<u>£-</u>	<u>£-</u>

At 30th June, 2007, cumulative trading losses of £1,187,982 (2006: £1,008,000), computed at the future rate of corporation tax of 30% (2006: 30%), were available for offset against future profits.

COOLABI PLC

Notes to the Financial Statements - continued

FOR THE YEAR ENDED 30TH JUNE 2007

11. INTANGIBLE FIXED ASSETS

Group	Intellectual Property Rights £	Goodwill £	Contracts £	Total £
Cost				
At 1st July, 2006	22,312	307,438	-	329,750
Additions	27,358	-	-	27,358
Acquired	<u>4,395,899</u>	<u>-</u>	<u>927,970</u>	<u>5,323,869</u>
At 30th June, 2007	<u>4,445,569</u>	<u>307,438</u>	<u>927,970</u>	<u>5,680,977</u>
Amortisation				
At 1st July, 2006	2,943	34,587	-	37,530
Charge for the year	40,613	15,373	38,665	94,651
Acquired	-	-	-	-
Amounts written off in the year (a)	<u>-</u>	<u>257,478</u>	<u>-</u>	<u>257,478</u>
At 30th June, 2007	<u>43,556</u>	<u>307,438</u>	<u>38,665</u>	<u>389,659</u>
Net Book Value				
At 30th June, 2007	<u>£4,402,013</u>	<u>£-</u>	<u>£889,305</u>	<u>£5,291,318</u>
At 30th June, 2006	<u>£19,369</u>	<u>£272,851</u>	<u>£-</u>	<u>£292,220</u>

(a) represents the write-off of provision for £204,167 deferred consideration relating to the acquisition of Coolebah Ltd in 2004 which expired in February 2007, together with the remaining unamortised goodwill of £53,310.

Company	Intellectual Property Rights £	Goodwill £	Contracts £	Total £
Cost				
At 1st July, 2006	16,961	-	-	16,961
Additions	27,358	-	-	27,358
Acquired	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30th June, 2007	<u>44,319</u>	<u>-</u>	<u>-</u>	<u>44,319</u>
Amortisation				
At 1st July, 2006	-	-	-	-
Charge for the year	6,627	-	-	6,627
Acquired	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30th June, 2007	<u>6,627</u>	<u>-</u>	<u>-</u>	<u>6,627</u>
Net Book Value				
At 30th June, 2007	<u>£37,692</u>	<u>£-</u>	<u>£-</u>	<u>£37,692</u>
At 30th June, 2006	<u>£16,961</u>	<u>£-</u>	<u>£-</u>	<u>£16,961</u>

FOR THE YEAR ENDED 30TH JUNE 2007

12. TANGIBLE FIXED ASSETS	Fixtures & Fittings £	Computer Equipment £	Total £
Group and Company Cost			
At 1st July, 2006	15,187	29,209	44,396
Additions	-	5,066	5,066
Disposals	-	-	-
At 30th June, 2007	<u>15,187</u>	<u>34,275</u>	<u>49,462</u>
Depreciation			
At 1st July, 2006	1,875	26,467	28,342
Charge for the year	3,035	3,814	6,849
Disposals	-	-	-
At 30th June, 2007	<u>4,910</u>	<u>30,281</u>	<u>35,191</u>
Net Book Value			
At 30th June, 2007	<u>£10,277</u>	<u>£3,994</u>	<u>£14,271</u>
At 30th June, 2006	<u>£13,312</u>	<u>£2,742</u>	<u>£16,054</u>

13. INVESTMENTS HELD AS FIXED ASSETS	Group		Company	
	2007	2006	2007	2006
Subsidiary Undertakings				
At 1st July, 2006	-	-	315,058	315,058
Written off in year	-	-	(315,134)	-
Additions in year	-	-	6,032,224	-
At 30th June, 2007	<u>£-</u>	<u>£-</u>	<u>£6,032,148</u>	<u>£315,058</u>
Joint Venture				
At 1st July, 2006	-	17,227	-	18,065
Additions in year	-	900	-	900
Provision against carrying value	-	(18,097)	-	(18,965)
Share of profit/(losses)	-	(30)	-	-
At 30th June, 2007	<u>£-</u>	<u>£-</u>	<u>£-</u>	<u>£-</u>

All of the above investments are unlisted.

FOR THE YEAR ENDED 30TH JUNE 2007

13. INVESTMENTS HELD AS FIXED ASSETS - continued

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

Name	Proportion of Shares & Voting Rights Held	Holding	Nature of Business
Purple Enterprises Limited	100%	Ordinary Shares	Publishing
Coolabi Licensing Limited	100%	Ordinary Shares	Brand Licensing
Alibi Productions Limited	100%	Ordinary Shares	T.V. 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

On 30 April 2007, Coolabi plc acquired the entire issued share capital of Purple Enterprises Limited for a cash consideration of £3.3m. In addition, the company agreed a payment of deferred consideration subject to a maximum of £1.5m

This acquisition has been accounted for by the acquisition method of accounting. The details of the acquisition are as follows

	Book value	Fair value adjustments	Provisional fair value Total
	£	£	£
Intangible fixed assets	5,323,869	-	5,323,869
Bank and cash	708,355	-	708,355
Net assets acquired	<u>6,032,224</u>	<u>-</u>	<u>6,032,224</u>
Consideration given			
Satisfied by:			
Cash			4,532,224
Deferred contingent consideration			<u>1,500,000</u>

There were no fair value adjustments made to book value.
Cash consideration includes £523,772 relating to acquisition costs.

The acquisition is subject to two payments of deferred consideration. The amount payable is a maximum of £1,500,000. The consideration is contingent on the net royalties received in respect of Purple Enterprises Ltd, payable in two part payments on the 30 April 2008 and 30 April 2009.

FOR THE YEAR ENDED 30TH JUNE 2007

17. CREDITORS : Amounts falling due within one year	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Bank overdraft	-	-	-	-
Preference share interest	44,733	20,000	44,733	20,000
Trade creditors	91,588	59,473	67,326	59,473
Amounts due to group undertakings	-	-	907,145	56,480
Social security and other taxes	93,426	10,669	11,760	10,669
Other creditors	583	583	-	-
Accruals and deferred income	233,284	143,403	192,251	106,183
	<u>£463,614</u>	<u>£234,128</u>	<u>£1,223,215</u>	<u>£252,805</u>

Non-recourse loans not shown in the above note relate to unamortised film rights and production costs and are only repayable from the future exploitation of those projects. The balance as at 30 June 2007 of £93,099 has been fully provided against in accordance with our accounting policy on work in progress.

CREDITORS : Amounts falling due after one year	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Preference shares	-	230,000	-	230,000
Deferred Consideration	1,500,000	-	1,500,000	-
	<u>1,500,000</u>	<u>230,000</u>	<u>1,500,000</u>	<u>230,000</u>

The cumulative, redeemable, non convertible preference shares of £1 each mature which attracted an interest rate of 5.5% were redeemed at par on 29 June 2007.

Sale and Leaseback

Certain film and television assets with a cost of £5,099,752 (2006: £5,099,752) have been partly financed via sale and leaseback arrangements as follows:-

Group	2007 £	2006 £
Deposits held in escrow	2,890,442	3,161,349
Less loans outstanding	<u>(2,890,442)</u>	<u>(3,161,349)</u>
Balance	-	-
The maturity of the above amounts is as follows:-	£	£
Less than one year	284,836	270,907
Two to five years inclusive	1,278,625	1,222,912
Over five years	<u>1,326,981</u>	<u>1,667,530</u>
	<u>2,890,442</u>	<u>3,161,349</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 sales 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.

FOR THE YEAR ENDED 30TH JUNE 2007

18. SHARE CAPITAL

	2007 £	2006 £
Authorised		
700,000,000 (2006: 150,000,000) Ordinary shares of 1p each	£7,000,000	£1,500,000
Allotted, called up and fully paid		
490,520,871 (2006: 113,854,198) Ordinary shares of 1p each	£4,905,208	£1,138,541

During the year, the company issued 10,000,000 shares at the par value of 1 pence and 366,666,673 ordinary shares at the value of 1.5 pence.

Options to subscribe for ordinary shares of 1p each have been granted to present directors and employees of the group. Outstanding options at 30th June 2007 are as follows:

Shares under Option	Date of Grant	Exercise Price which exercisable	Date from Date	Expiry
220,000	21 February 2001	1p	15 November 2001	13 May 2008
1,450,000	20 February 2004	12.25p	20 February 2005	20 February 2009
4,000,000	15 January 2007	3.25p	15 January 2007	14 January 2012

The movement in the total number of share options over the periods were as follows:

	2007 Number	2006 Number
Outstanding at beginning of period	5,026,667	5,026,667
Granted	4,000,000	-
Forfeited	(3,336,667)	-
Outstanding at end of period	5,690,000	5,026,667
Exercisable at end of the period	3,390,000	4,726,667

The individual share option plans are disclosed below.

2001 share options granted:

During the year ended 30 June 2001, the Company granted 360,000 share options to officers and employees. As at 1 July 2005 all these options had vested and remained unexercised. During the year ended 30 June 2007, 120,000 share options were forfeited. The options outstanding at 30 June 2007 and 30 June 2006 had an average exercise price of 1p and an average contractual life of 7 years.

2004 share options granted

During the year ended 30 June 2004, the Company granted 2,166,667 share options to officers and employees. As at 1 July 2005 all these options had vested and remained unexercised. The options were forfeited during the year ended 30 June 2007.

FOR THE YEAR ENDED 30TH JUNE 2007

18. SHARE CAPITAL - continued

During the year ended 30 June 2004, the Company granted 2,500,000 share options to officers and employees. As at 1 July 2005 all but 300,000 of these options had vested and all remained unexercised. During the year ended 30 June 2007, 1,050,000 of the vested share options were forfeited. The options outstanding at 30 June 2007 and 30 June 2006 had an average exercise price of 12.25p and an average contractual life of 5 years.

Management estimated the fair value of the options, once vested, to be 7.27p per option at the date of grant. The value of these options was determined using the binomial option-pricing model with assumptions of the risk free rate of 4.75%, the average term of 2.5 years, share price at time of granting of 11p and volatility of 113.45%.

2007 share options granted

During the year ended 30 June 2007, the Company granted 4,000,000 share options of which 2,000,000 share options vested at the date of grant. The remaining share options vesting period is dependent on the performance of the share price of the company. Each of the options has an exercise price of 3.25p and a contractual life of 5 years.

Management estimated the fair value of these options, once vested, to be 0.71p per option at the date of grant. The value of these options was determined using the binomial option-pricing model with assumptions of the risk free rate of 5.10%, the average term of 3 years, share price at time of granting of 1.88p and volatility of 75.54%.

19. RESERVES

Group	Profit and Loss Account £	Share Premium Account £	Total £
At 1st July, 2006	(3,151,473)	2,407,667	(743,806)
Loss for the financial year	(794,845)	-	(794,845)
Share based payment costs	26,716	-	26,716
Premium on issue of new shares	-	1,833,333	1,833,333
Issue costs	-	(261,589)	(261,589)
	-	-	-
At 30th June, 2007	<u>£(3,919,602)</u>	<u>£3,979,411</u>	<u>£59,809</u>
Company			
At 1st July, 2006	(3,194,866)	2,407,667	(787,199)
Loss for the financial year	(921,949)	-	(921,949)
Share based payment costs	26,716	-	26,716
Premium on issue of shares	-	1,833,333	1,833,333
Issue costs	-	(261,589)	(261,589)
	-	-	-
At 30th June, 2007	<u>£(4,090,099)</u>	<u>£3,979,411</u>	<u>£(110,688)</u>

20. RECONCILIATION IN MOVEMENT OF SHAREHOLDERS' FUNDS

	Group £	Company £
Opening shareholders' funds at 1st, July 2006	598,902	555,509
Write-off of shares to be issued	(204,167)	(204,167)
Issue of ordinary share capital in the year	3,766,667	3,766,667
Premium arising on issue of ordinary shares	1,833,333	1,833,333
Issue costs	(261,589)	(261,589)
Share based payment costs	26,716	26,716
Retained loss for the year	(794,845)	(921,949)
	-	-
Closing shareholders' funds at 30th, June 2007	<u>£4,965,017</u>	<u>£4,794,520</u>

FOR THE YEAR ENDED 30TH JUNE 2007

21. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group and the Company had capital commitments at 30th June, 2007 of £nil (2006: £nil).

Operating Leases

The Group had annual commitments under non-cancellable operating leases as follows:-

	2007 £	2006 £
Operating leases which expire:		
Between two and five years	£25,920	£24,000

22. TRANSACTIONS WITH DIRECTORS AND RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption conferred by Financial Reporting Standard Number 8 not to disclose related party transactions with subsidiary undertakings whose voting rights are 90% or more controlled within the Group.

William Harris, who is Chairman of the Company, and Tim Ricketts who is Finance Director, are both directors of Avonglen Limited. During the year fees of £128,525 were paid to Avonglen Limited for their services as directors and consultants.

23. 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.

24. CASHFLOW STATEMENT

	2007 £	2006 £
a. Reconciliation of operating loss to net cash outflow		
Operating loss	(745,867)	(618,124)
Depreciation charges	6,849	5,515
Amortisation charges	94,651	16,442
Increase in work in progress	(33,222)	(6,437)
Increase in debtors	(129,514)	(35,687)
Increase in creditors	229,486	168,487
Net cash outflow from operating activities	<u>£(577,617)</u>	<u>£(469,804)</u>

FOR THE YEAR ENDED 30TH JUNE 2007

24. CASHFLOW STATEMENT - continued

	2007 £	2006 £		
b. Reconciliation of net cash flow to movement in net funds				
Movement in net funds in the year	705,550	81,024		
Net funds at 1st July, 2006	<u>664,616</u>	<u>583,592</u>		
Net funds at 30th June, 2007	<u>£1,370,166</u>	<u>£664,616</u>		
c. Returns on investments and servicing of finance				
Interest received	16,983	9,161		
Interest paid and similar charges	<u>(12,651)</u>	<u>(32,084)</u>		
Net cash (outflow)/inflow from returns on investments and servicing of finance	<u>£4,332</u>	<u>£(22,923)</u>		
d. Capital expenditure				
Purchase of intangible fixed assets	(27,358)	(16,961)		
Purchase of tangible fixed assets	<u>(5,065)</u>	<u>(15,438)</u>		
	<u>£(32,424)</u>	<u>£(32,399)</u>		
e. Acquisitions				
Investment in joint venture	-	(900)		
Acquisition of subsidiary companies	(4,532,224)	-		
Cash acquired on acquisition of subsidiaries	<u>708,355</u>	<u>-</u>		
	<u>£(3,823,869)</u>	<u>£(900)</u>		
f. Financing				
Issue of ordinary share capital	5,600,000	607,050		
Share issue costs	(261,589)	-		
Share based payments	26,717	-		
Preference shares redeemed	<u>(230,000)</u>	<u>-</u>		
	<u>£5,135,128</u>	<u>£607,050</u>		
g. Analysis of changes in net funds	At 1st July, 2006 £	Other Non Cash Changes £	Cash Flows £	At 30th June, 2007 £
Cash at bank and in hand (note 16)	<u>664,616</u>	<u>-</u>	<u>705,550</u>	<u>1,370,166</u>
Total	<u>£664,616</u>	<u>£-</u>	<u>£705,550</u>	<u>£1,370,166</u>

25. POST BALANCE SHEET EVENT

On 27 September 2007 Coolabi purchased Indie Kids International Limited and Indie Kids Limited, the children's television production companies.

