

coolabi plc

9 October 2008

Coolabi plc (“Coolabi” or “the Company”)

Final Results for the twelve months ended 30 June 2008

Highlights

- Turnover increased 64% to £1,589,585 (2007: £971,834)
- Loss before interest, tax, depreciation, amortisation, share based payment costs and exceptional items (EBITDA) improved 60% to (£249,927) (2007: (£617,647)) reflecting the impact of full year earnings from the acquisition of Purple Enterprises.
- Integration of businesses acquired in the prior year achieved ahead of initial expectations and delivery of organic growth on track.
- Strong year-on-year growth in the core Purple Ronnie categories of publishing and greeting cards with publishing revenue up 66% (Pan Macmillan H1: 2008).
- First 26 episodes of animated pre-school series The Large Family delivered and launched in the year; now sold to over 22 territories, 4 TV tie-in books also published in the year.
- Second series of The Large Family now fully funded and in production for the BBC and TF1 in France.
- Significant developments for Scarlett & Crimson in apparel and cosmetics ahead of its launch in the next calendar year.
- New financing facility secured with Coutts for £2million in the post balance sheet period.

Commenting on the results, William Harris, Chairman of Coolabi, said:

“This has been a year of achievement for Coolabi as we have integrated the acquisitions made in the prior year and developed them to our best advantage. We are delivering a significantly improved EBITDA, with our business now well positioned to move this into profitability. We remain focused on delivering shareholder value for the long term, both through the development and exploitation of our current portfolio and also through further important acquisitions.”

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Chairman's Statement

Overview

The past year has been one of achievement for the Group. We have integrated the 3 acquisitions made last year, continued the development of our portfolio of Intellectual Property ("IP") assets and crucially delivered a significantly improved EBITDA. We have also recently concluded a new banking relationship. With a strong management team in place, the Group is well positioned for further growth.

Objectives & Strategy

Our objective with Coolabi is to create shareholder value through building the group into a significant market leading business centred around the ownership and exploitation of a diversified portfolio of cash-generative IP assets that have international potential across a broad range of media platforms.

We will concentrate our plans for organic growth on those assets which we believe will deliver the best return on investment. We further intend to supplement that organic growth with an ongoing programme of focused acquisitions. We continue to look at both transforming and enhancing acquisition opportunities but always at an appropriate and fair price enabling attractive shareholder returns.

In building this portfolio we are very conscious of managing risk and generating steady long-term growth from the underlying assets. We are particularly interested in content creation that may not require significant investment, for example in new television production, in order to deliver attractive returns.

Results

As further set out in the Finance Director's Review, EBITDA for the year was (£249,927) an improvement of £367,720 from the previous year's figure of (£617,647).

Board Changes

As I mentioned in the Interim statement, in March this year, we welcomed Stuart Lindsay on to the Board as a non-executive director. Stuart was a Corporate Finance Partner with Deloitte until 2003. He has since established his own consultancy business and acts as non-executive director or strategic advisor to a number of companies. Stuart now chairs the Board's Remuneration and Audit Committees.

At the same time, Lord Brabourne and Lawrence Chrisfield stood down as non-executive directors, having served on the Board since the foundation of the Company in 1999. I'd like to thank Norton and Larry for the exceptional contributions they have made to Coolabi over many years. They have been outstanding supporters of the Company, investing their time, energy and money generously to help position Coolabi ready for acquisitions and growth.

Staff

We are 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 significant contribution to our progress over the past year.

Outlook

Coolabi has over the last two years been transformed by the current management team. It is now well positioned for the future with a strong portfolio, an experienced and successful management team and a clear strategy to deliver both organic and acquisitive growth. I am confident that the business is in a strong position to build significant shareholder value in the medium term and beyond.

Chief Executive's Review

I am pleased to report that Coolabi has continued to make very good progress in the year to 30 June 2008, having achieved the twin goals of enhancing the underlying value of the assets we own whilst at the same time delivering improved revenues from them. In so doing, the Company is now well positioned for a prosperous and exciting future.

Business Review

Last year the focus was on the turnaround of the Company through the sourcing and completion of attractive tactical acquisitions. This first stage strategy was executed in order to provide Coolabi with a solid platform from which we could then accelerate growth. The acquisition of the children's division of Zenith Entertainment, Purple Enterprises and Indie Kids in the 12 months to September 2007 allowed us to stabilise the Company, raise new funds and work on a strong portfolio of owned assets that would provide cash generation and P&L growth in the short-term and beyond.

Consequently, an emphasis in this financial period has been on the integration of these acquisitions and developing their assets to ensure the ongoing delivery of organic growth driven by them, thereby providing us with the solid platform from which to pursue further transformational acquisition opportunities. I am very pleased to say that we have already seen the fruits of this with some early examples including:

- the core Purple Ronnie categories of publishing and greetings cards showing strong year-on-year growth (in the case of publishing up 66% in the first half of calendar 2008 according to the publishers Pan Macmillan), and
- the commission by BBC and TF1 of a second series of The Large Family (now fully financed and in production).

We are also building an exciting development slate.

I am also pleased to announce that we have recently concluded a £2 million financing package with Coutts. This provides funding for the deferred consideration arising from last year's acquisition of Purple Enterprises Limited, investment in the digital development of our core properties and further potential smaller acquisitions.

With the ambitions we have for Coolabi, acquisitions remain a key part of our strategy and we feel confident that the coming months will offer exciting opportunities at attractive valuations. The opportunity remains to leverage the management team and its existing portfolio with the acquisition of strong, low risk, cash generative properties. However, we are not prepared to accelerate our scale growth at the expense of financial prudence.

We remain focused on our dual strategy of concluding larger, transformational opportunities, as well as smaller complementary acquisitions that we can slot in to our existing infrastructure.

Activity Update

The Company currently manages the development and growth of its intellectual properties on a brand by brand basis, with the commercial exploitation currently through its two principal operating divisions: Licensing and Productions.

a) Licensing

The Company's strategy is to focus on the exploitation of assets in which Coolabi has a significant ownership stake, whether acquired or developed internally. The division will also continue to represent selected high quality third party properties, where they do not compete with the owned assets and where it makes commercial sense to do so.

Progress for our key properties during the period was as follows:-

Purple Ronnie

As planned, this has been a year of reinvigoration for the Purple Ronnie brand. After extensive consumer research, a creative revamp of the brand was undertaken including production of the first ever Purple Ronnie Style Guide to ensure a consistent look and feel to the property across all categories. We have applied strong sector expertise and brand management best practice across the property, with activities including pan-licensee meetings to coordinate sales and marketing activities, replacing under-performing licensees with market leaders and direct retailer interaction.

Greetings cards remain, by some distance, the largest licence for Purple Ronnie. We are delighted that Hallmark is our partner in this important category for Purple Ronnie - Hallmark currently sells over 8 million greetings cards each year in the UK alone. We placed an early priority on developing a strong working relationship with Hallmark's creative and licensing teams and are pleased to report that sales have increased across the year, with

a significant rise reported in the quarter to June 2008. A new humour range is in development for 2009 that looks to reference the roots of Ronnie in 'student humour'.

Book publishing is another key category for the brand and one we had immediately identified as having strong short-term growth potential. Having opened the licence up for tender, we were delighted that the incumbent licensee, Pan Macmillan, put together such a compelling proposal for the brand. The early progress here has been very satisfying, with revenues in the first half of the calendar year, as reported by Pan Macmillan, up 66% year on year.

Number one best sellers were achieved for Valentine's Day (nine Purple Ronnie titles were in the top 100) and Father's Day (Purple Ronnie occupied number one and number two slots in the three weeks leading up to Father's Day) as reported by The Sunday Times. Purple Ronnie was also the number three best seller for Mother's Day. We are delighted to report that Macmillan will be releasing 5 titles in the next 12 months, including an annual.

We have also developed a number of multi-layered initiatives to support the growth, status and development of the brand. These include;

- an association with the Prostate Cancer Charity with Fathers Day 2009 a target for coordinated retail activities across several key categories,
- a sponsored poetry tour, and
- a range of digital initiatives that will see Purple Ronnie create its rightful online presence.

In the US, licensing partners have been identified and short-listed in a move designed to provide an 'on the ground' presence in order to fully exploit the property in that territory. I look forward to providing more information in this regard during the year.

Scarlett & Crimson

Scarlett & Crimson, our property for 10-14 year old girls, is being developed for launch in Summer 2009 in the US and the UK, with books published by Simon and Schuster – the first in a series of 16 titles over three years. With the launch date still some way off, it is particularly pleasing that we have managed to secure some exciting early licensing success.

Two of the key categories for this demographic are apparel/fashion and cosmetics/toiletries. An agreement has been signed with Millie Kendall and Ruby Hammer co-founders of the iconic cosmetics brand 'Ruby and Millie', now owned by Boots plc, to develop a Scarlett and Crimson range for Autumn/Winter 2009 to go in store directly after the first book titles are launched. The association opens a sizeable PR opportunity for both trade and consumer sectors and we hope it will support interest in other categories.

Additionally, leading British fashion designer Robert Cary-Williams, famous for dressing Kate Moss and Lily Cole amongst others, has been inspired by Scarlett & Crimson to develop four limited edition items of clothing for 2009 utilising the strong brand images for release into high-end fashion retail.

b) Production

The Company's production strategy is to develop high-quality, low-risk television series utilising its existing development portfolio and rights library. Initially 'kick-started' through the acquisitions of the children's division of Zenith Entertainment and Indie Kids in 2006 and 2007 respectively this strategy is now supplemented by ongoing in-house development. We have a particular focus on projects that are capable of being significantly financed before production commences and that have potential for exploitation into other areas, especially licensing.

We are currently in production on the second series of The Large Family for the BBC in the UK and TF1 in France and have been commissioned by Nickelodeon in the UK to produce an animated series of Poppy Cat. Having secured the 'cornerstone' commission from a tier 1 UK broadcaster, we are currently completing the remainder of the financing for Poppy Cat that will allow us to put the series into production. Our catalogue of programming assets includes Bagpuss, The Clangers, The Worst Witch, Fungus The Bogeyman, King Arthur's Disasters and The Famous 5.

The Large Family

The first 26 episode series of The Large Family, which we delivered during the year following our acquisition of Indie Kids in September 2007, continues to air on CBeebies in the UK. It is one of the channel's top five shows, consistently averaging over 20% share of children aged 4-6 (source BBC Worldwide). The seventh run of the series finished on 29 August and the eighth run is due to commence on 24 November 2008. It has already been sold into 22 territories by our distribution partner, BBC Worldwide, and four TV tie-in titles have been published by Walker Books.

Following this significant success, I am very pleased to report that the further series commissioned by TF1 and BBC, as announced in March 2008, is already fully financed and currently in production for delivery in Autumn 2009.

Catalogue

The Worst Witch live action series remains one of the most popular children's series distributed by Granada International and continues to be shown on CiTV. Bagpuss and The Clangers are currently airing on Nick Jr and King Arthur's Disasters continues to be screened in 19 territories.

Achievement of Key Objectives

At the previous year end the new management team set out its strategy and identified a number of key objectives that, if achieved, would both deliver improved financial results for the year and establish a sound basis for future growth.

I am pleased to report that we achieved and/or made good progress with all of our seven key objectives in the year.

Purple Ronnie	Progress in 2008
Consolidate the existing licensing categories for Purple Ronnie and increase the brand's retail presence	Substantially Achieved Asda now stocking Purple Ronnie greetings card for the first time and Clintons have ordered Macmillan books for Valentine's Day and Mother's Day, also for the first time. Direct relationships have been established with Woolworths, Clintons and WHSmith, amongst others.
Increase the number and value of Purple Ronnie licences in the UK	Partly Achieved The immediate focus has been on value - to replace some of the weaker licensees with category leaders. For example, Greencore have established Purple Ronnie as the third best-selling licensed celebration cake in the UK.
Launch two new Purple Ronnie publishing titles in the UK	Achieved 'Purple Ronnie's Little Book for a Lovely Grandma' and 'Purple Ronnie's Little Book for a Smashing Grandad' launched in March and June respectively and both entered the Sunday Times best sellers list, with 'Smashing Grandad' reaching number one.
Launch Purple Ronnie as a publishing property in the US	Achieved Two titles were licensed to Andrews McMeel in the US, with 'Purple Ronnie's Little Book for a Lovely Mom' and 'Purple Ronnie's Little Book for a Smashing Dad' going into retail for Mother's and Father's Day respectively.
Production	
Put one property into production in 2008 with a UK broadcast partner secured	Achieved The second series of The Large Family for the BBC has been fully financed and, consequently, has gone into production for delivery in the fourth quarter of calendar 2009.
Put one property into development in 2008 with a major international broadcaster	Achieved We announced a development deal in November 2007 with Disney Channel Worldwide's Global Original Programming for The Shaila Show.
Identify and deliver at least two opportunities for development in 2008 and delivery in 2009	Achieved We have a number of properties in development and announced during the year that Poppy Cat had been commissioned by Nickelodeon in the UK. We have also received an offer from Nickelodeon in Australia. We continue to work on financing the series and are speaking with a number of potential broadcast and co-production partners in several different territories.

Key Objectives for Year Ending 30 June 2009

As we did last year, we have set ourselves a number of key objectives for the year ending 30 June 2009 which we believe, if achieved, will both deliver improved financial results for that year and establish a sound basis for future growth.

Negotiate and conclude a facility agreement appropriate for the Group's current needs
Achieve a positive EBITDA in the year ending 30 June 2009
Extend the licensing programme for Purple Ronnie in the UK
Launch Purple Ronnie as an online property
Make tangible progress with Purple Ronnie in the USA
Launch Scarlett & Crimson in the US and the UK
Put at least one series into production with a UK broadcast partner
Continue to identify and pursue cash generative, earnings enhancing acquisitions

We are pleased to have already achieved the first of our key objectives.

Conclusion

2008 has been a good year, with Coolabi delivering significantly improved EBITDA performance and with the Group now well positioned for organic and acquisitive growth. Purple Ronnie has been successfully integrated, developed and reinvigorated and the Indie Kids acquisition has seen the delivery of the first series of The Large Family, a ratings hit on BBC, culminating in the commission of a second series of 26 episodes of 11 minute animation. The existing portfolio has strong momentum and is well positioned for future growth, demonstrating the value that this management team bring to owning, developing and exploiting quality intellectual property assets. The significant opportunity remains to leverage the skills and experience of this team through further high quality acquisitions.

Finance Director's Review

Highlights

Financial Key Performance Indicators

- EBITDA (Loss before interest, tax, depreciation, amortisation, share-based payment costs and exceptional items) improved 60% to a loss of £250k in 2008 from a loss of £618k in 2007.
- Gross profit increased by 142% to £926k in 2008 from £383k in 2007.
- Normalised operating cash absorbed by the business (net cash absorbed by operating activities adjusting for the cashflow effect of exceptional items) improved by £158k to an absorption of £406k in 2008 from an absorption of £564k in 2007.
- These improvements have largely been achieved because of a full years contribution from Purple Enterprises Limited. Purple Enterprises Limited was purchased in May 2007 hence it only contributed 2 months' trading to the prior year. Normalised operating cash absorbed was greater than the EBITDA for the year due to expected working capital movements.

On 3 October 2008 the Company entered into new banking facilities with Coutts & Co. for an aggregate value of up to £2m. Such funds will be used to finance the remaining deferred consideration payments arising from the acquisition of Purple Enterprises Limited, its working capital requirements, and to further the Company's strategy; the provision for these payments as at 30 June 2008 is £1.1m before discounting, of which £700k is included in current liabilities and £400k is included in non-current liabilities.

The group has adopted IFRS from 1 July 2006. The first set of statements issued under IFRS was our interim accounts for the six-month period ending 31 December 2007.

Consolidated Income Statement

Revenue in the year increased 64% to £1.59m (2007: £972k). Licensing & merchandising contributes 85% of that increase, due to the first full year of Purple Ronnie. Film & television, which this year included the delivery of The Large Family Series One, is up 14%.

Gross margin improved from 39% to 58%, due to the first full year of Purple Ronnie with the higher margin on Licensing & Merchandising for owned properties. Administrative costs were £1.175m (2007: £1m), the increase being contributed to by increased professional fees and full years' trading for the recent acquisitions - the ratio of administrative costs to gross profit has halved (from 2.6 times in 2007 to 1.3 times in the current year). EBITDA has improved by 60% to a loss of £(250)k (2007:£(618)k).

Operating loss has increased to £(912)k from £(799)k in 2007 due to an increase in amortisation charged on intangible assets. Amortisation has increased by £437k as a result of the recent acquisitions of Purple Enterprises Ltd and Indie Kids Limited and Indie Kids International Limited ("Indie Kids"), with the intangible assets recognised from these transactions being amortised in accordance with our accounting policies. Operating loss before amortisation of intangible assets and share based payment costs has improved by £344k to £334k (2007: £678k), an improvement of 51%.

IFRS accounting requires a provision for deferred tax to be created upon the recognition of intangible assets, which is then released to the income statement in line with the amortisation charge on these assets. As the group is in a net loss position, no tax is payable and once profitable will have significant brought forward tax losses to utilise in the future.

Earnings per share

Basic and diluted losses per share for the year are 3.5p (2007 – 8.8p). During the year, the company sub-divided and re-designated each individual 1p share into one new ordinary share of 0.05p and one deferred share of 0.95p. Every 20 ordinary shares of 0.05p were then consolidated into one new ordinary share of 1p each, thus reducing the shares in issue by 1/20th compared to last year. The earnings per share for 2007 has been restated to reflect the impact of the share consolidation that took place during the current financial year.

Cash

Cash as at 30 June 2008 was £464k (2007: £1.37m). Cash absorbed by operations was £480k (2007: £564k) and includes aborted acquisition costs of £75k, with £416k being absorbed by investing activities, primarily due to the acquisition of Indie Kids Limited and Indie Kids International Limited ("Indie Kids") during the year.

Consolidated Balance Sheet

Goodwill and other intangible assets have a net book value of £6,392k as at 30 June 2008, a decrease of £221k from 30 June 2007. This decrease is mainly due to the amortisation provided in the year of £532k net of the effect of the acquisition of Indie Kids.

The deferred taxation provision of £1,450k arises as a result of the requirement under IFRS to provide for deferred taxation on intangible assets arising on acquisition. In accordance with its accounting policy the company has not recognised a deferred tax asset on its accumulated trading losses which are £4.1m.

Consolidated Income Statement

	year to 30 June 2008 £	year to 30 June 2007 £	
Revenue	1,589,585	971,834	
Cost of sales	(664,050)	(589,168)	
Gross profit	925,535	382,666	
Operating expenses	(1,175,459)	(1,000,313)	
Earnings before interest, tax, depreciation, amortisation, share-based payment costs and exceptional items	(249,924)	(617,647)	
Depreciation	(9,201)	(6,849)	
Share-based payment costs	(46,867)	(26,720)	
Exceptional items	(74,569)	(53,310)	
Amortisation of intangible assets	(531,549)	(94,651)	
Total administrative costs	(1,837,645)	(1,181,843)	
Operating loss	(912,110)	(799,177)	
Interest charged	(104,749)	(22,855)	
Interest received	22,439	16,983	
Loss before income tax	(994,420)	(805,049)	
Income tax expense	146,279	21,073	
Loss for the year attributable to equity shareholders	(848,141)	(783,976)	
Basic loss per share total and continuing	1	(3.5)	(8.8)
Diluted loss per share total and continuing	1	(3.5)	(8.6)

Consolidated Balance Sheet

	as at 30 June 2008 £	as at 30 June 2007 £
ASSETS		
Non-current assets		
Property, plant and equipment	61,621	14,271
Goodwill	1,174,493	1,321,519
Other intangible assets	5,217,091	5,291,318
	<u>6,453,205</u>	<u>6,627,108</u>
Current Assets		
Inventories	171,741	37,159
Trade and other receivables	418,802	215,717
Cash and cash equivalents	463,922	1,370,166
	<u>1,054,465</u>	<u>1,623,042</u>
Total assets	<u>7,507,670</u>	<u>8,250,150</u>
LIABILITIES		
Current liabilities		
Trade and other payables	(1,498,044)	(463,614)
Non-current liabilities		
Deferred consideration	(356,126)	(1,234,635)
Deferred tax liabilities	(1,450,031)	(1,576,015)
	<u>(1,806,157)</u>	<u>(2,810,650)</u>
Total Liabilities	<u>(3,304,201)</u>	<u>(3,274,264)</u>
Net Assets	<u>4,203,469</u>	<u>4,975,886</u>
EQUITY		
Attributable to the equity holders of the Company		
Share capital	4,905,208	4,905,208
Share premium account	3,969,411	3,979,411
Profit and loss account	(4,671,150)	(3,908,733)
	<u>4,203,469</u>	<u>4,975,886</u>

Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Shares to be issued	Profit & loss account	Total Equity
	£	£	£	£	£
Balance at 1 July 2006	1,138,541	2,407,667	204,167	(3,151,473)	598,902
Changes in equity for 2007					
Total recognised income and expense for the period	-	-	-	(783,976)	(783,976)
Issue of share capital	3,766,667	1,571,744	(204,167)	-	5,134,244
Share-based payment costs	-	-	-	26,716	26,716
Balance at 30 June 2007	4,905,208	3,979,411	-	(3,908,733)	4,975,886
Balance at 1 July 2007	4,905,208	3,979,411	-	(3,908,733)	4,975,886
Changes in equity for 2008					
Total recognised income and expense for the period	-	-	-	(848,141)	(848,141)
Cost of consolidation of share capital	-	(10,000)	-	-	(10,000)
Share-based payment costs	-	-	-	85,724	85,724
Balance at 30 June 2008	4,905,208	3,969,411	-	(4,671,150)	4,203,469

Consolidated Cash Flow Statement

	year to 30 June 2008 £	year to 30 June 2007 £
Cash flows from operating activities		
Loss before taxation	(994,420)	(805,049)
Adjustments for:		
Depreciation	9,201	6,849
Amortisation of intangible assets	531,549	94,651
Share-based payment costs	46,867	26,720
Interest expense (receipt)	82,310	5,872
Exceptional item	-	53,310
Decrease/(Increase) in inventories	254,218	(33,222)
Decrease/(Increase) in trade and other receivables	29,124	(129,517)
Increase/(Decrease) in trade payables	(438,948)	229,486
Cash absorbed by operations	(480,099)	(550,900)
Interest paid	(200)	(12,651)
Income taxes paid	-	-
Net cash absorbed by operating activities	(480,299)	(563,551)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(381,833)	(3,823,869)
Purchase of property, plant and equipment	(56,551)	(32,424)
Interest received	22,439	16,983
Net cash absorbed by investing activities	(415,945)	(3,839,310)
Cash flows from financing activities		
Proceeds from issue of share capital	-	5,600,000
Share issue costs	(10,000)	(261,589)
Preference shares redeemed	-	(230,000)
Net cash generated by/(used in) financing activities	(10,000)	5,108,411
Net increase/(decrease) in cash and cash equivalents	(906,244)	705,550
Cash and cash equivalents at beginning of period	1,370,166	664,616
Cash and cash equivalents at end of period	463,922	1,370,166

Principal Accounting Policies

General

The directors approved this preliminary announcement on 8th October 2008.

Copies of the annual report will shortly be posted to shareholders and copies will be available from the company's registered office at 48 Broadley Terrace, London NW1 6LG.

Nature of operations and general information

Coolabi plc is the Group's ultimate parent company. It is incorporated and domiciled in England. Coolabi plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

Coolabi plc's consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below and are in accordance with the Companies Act 1985 and applicable International Financial Reporting Standards.

Coolabi plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 30 June 2007. The date of transition to IFRS was 1 July 2006. The comparative figures in respect of 2007 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)

Principal Accounting Policies continued

Basis of preparation continued

- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group except for additional disclosures. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 June 2008. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 July 2006.

Accordingly, the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax and minority interest are adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

The transitional provisions used for past business combinations apply equally to past acquisitions of interests in associates and joint ventures.

Principal Accounting Policies continued

Accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that effect the application of policies and reported amounts. Estimates and judgements are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Intangible assets

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful lives of intangible assets and charge amortisation on these assets accordingly .

Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined according to its estimated value in use. The use of this method may require the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows .

Depreciation

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives. The selection of these estimated lives requires the exercise of management judgement.

Deferred Consideration

Where deferred consideration is payable in cash and discounting would have a material effect the liability is discounted to its present value. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made.

Revenue

Licensing and merchandising

Non-refundable advances are recognised upon contract signature. Royalties earned in excess of such advances are recognised in the period to which they relate.

Film and television

Licence fees are recognised when a licence agreement has been signed by both parties, and delivery to the broadcaster has occurred.

Principal Accounting Policies continued

Intangible Assets

Goodwill and intangible assets acquired through business combinations

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment in accordance with IAS 36. The fair value of intangible assets acquired as a result of business combinations are capitalised and amortised on a straight line basis through the income statement. The rates applied, which represent the directors' best estimate of the useful economic lives, are:

Contracts	Life of the contract
Brand and relationships	10 years

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of plant and equipment by equal annual instalments over their estimated useful economic lives. The rates generally applicable are:

Computer Equipment	33%
Furniture, Fittings & Equipment	20%
Brand Style Guides	20%

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the Group are treated as operating leases. Rentals under operating leases are charged against profits on a straight line basis over the period of the lease.

Inventories

These costs represent expenditure on projects in development, production and distribution and are valued at the lower of cost and net realisable value.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group's financial assets comprise trade and other receivables. Trade and other receivables are recorded at their fair value less any provision for impairment, based on the receivable ageing, the Company's previous experience with the debtor and known market intelligence. Any change in their value is recognised in the profit and loss account.

Financial liabilities

The Group's financial liabilities comprise trade and other payables. They are classified and accounted for according to the substance of the contractual arrangement entered into, and stated at their fair value. All interest-related charges and, if applicable, changes in the instrument's fair value are included in the income statement line items "interest charged" or "interest received".

Principal Accounting Policies continued

Exceptional items

Items of significant income or expenditure which are one-off transactions are classed as exceptional on the face of the income statement, to show more accurately the underlying performance of the Group.

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets' or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

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 costs, as the risks and rewards of ownership have been retained by the Company. Under IAS 39 "Financial Instruments: Recognition & Measurement", each sale and leaseback transaction entered into by the Group has, from inception, failed to meet the definition of an asset and liability and has therefore not been recognised in these financial statements. The Group has applied guidance from SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current

Principal Accounting Policies continued

Taxation continued

and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand.

Equity

Equity comprises the following:

- Share capital: the nominal value of equity shares.
- Share premium account: the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- Shares to be issued: shares that have not yet been issued.
- Profit and loss account: retained profits.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates 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.

Share-based payments

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, restrictions on exercise 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 management's 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

Preference share interest

Preference share interest is accrued in accordance with the underlying agreement.

Notes to the Consolidated Financial Statements

1. Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.. During the year the Company sub-divided and re-designated each individual 1p share into one new ordinary share of 0.05p and one deferred share of 0.95p. Every 20 ordinary shares of 0.05p were then consolidated into one new ordinary share of 1p each.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	30 June 2008 £	30 June 2007 £
Loss for the year	(848,141)	(783,976)
Weighted average number of ordinary shares in issue during the year	24,526,043	8,914,628
Basic EPS (pence)	(3.5)	(8.8)
Weighted average number of ordinary shares in issue or under option during the year	24,526,043	9,133,589
Fully diluted EPS (pence)	(3.5)	(8.6)

The prior year earnings per share has been restated to reflect the impact of the share consolidation that occurred in the financial year to 30 June 2008.

2. Explanation of transition to IFRS

As stated in the Basis of Preparation, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

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

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS from the transition date. These financial statements have been prepared on the basis of the exemption that business combinations prior to 1 July 2006 - the Group's date of transition to IFRS - have not been restated to comply with IFRS 3 "Business Combinations". Goodwill arising from these business combinations has not been restated.

Notes to the Consolidated Financial Statements continued

2. Explanation of transition to IFRS continued

Reconciliation of equity at 1 July 2006

	UK GAAP £	a	Note b	c	IFRS £
ASSETS					
Non-current assets					
Property, plant and equipment	16,054	-	-	-	16,054
Goodwill	-	-	-	-	-
Other intangible assets	292,220	-	-	-	292,220
	<u>308,274</u>	-	-	-	<u>308,274</u>
Current Assets					
Inventories	3,937	-	-	-	3,937
Trade and other receivables	86,203	-	-	-	86,203
Cash and cash equivalents	664,616	-	-	-	664,616
	<u>754,756</u>	-	-	-	<u>754,756</u>
Total assets	<u>1,063,030</u>	-	-	-	<u>1,063,030</u>
LIABILITIES					
Current liabilities					
Trade and other payables	(234,128)	-	-	-	(234,128)
Non-current liabilities					
Preference shares	(230,000)	-	-	-	(230,000)
Deferred consideration	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
	<u>(230,000)</u>	-	-	-	<u>(230,000)</u>
Total Liabilities	<u>(464,128)</u>	-	-	-	<u>(464,128)</u>
Net Assets	<u>598,902</u>	-	-	-	<u>598,902</u>
EQUITY					
Equity attributable to the equity holders of the Company					
Share capital	1,138,541	-	-	-	1,138,541
Share premium account	2,407,667	-	-	-	2,407,667
Shares to be issued	204,167	-	-	-	204,167
Profit and loss account	(3,151,473)	-	-	-	(3,151,473)
	<u>598,902</u>	-	-	-	<u>598,902</u>

Notes to the Consolidated Financial Statements continued

2. Explanation of transition to IFRS continued

Reconciliation of equity at 30 June 2007

	UK GAAP £	a	Note b	c	IFRS £
ASSETS					
Non-current assets					
Property, plant and equipment	14,271	-	-	-	14,271
Goodwill	-	(275,569)	1,597,088	-	1,321,519
Other intangible assets	5,291,318	-	-	-	5,291,318
	<u>5,305,589</u>	<u>(275,569)</u>	<u>1,597,088</u>	<u>-</u>	<u>6,627,108</u>
Current Assets					
Inventories	37,159	-	-	-	37,159
Trade and other receivables	215,717	-	-	-	215,717
Cash and cash equivalents	1,370,166	-	-	-	1,370,166
	<u>1,623,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,623,042</u>
Total assets	<u>6,928,631</u>	<u>(275,569)</u>	<u>1,597,088</u>	<u>-</u>	<u>8,250,150</u>
LIABILITIES					
Current liabilities					
Trade and other payables	(463,614)	-	-	-	(463,614)
Non-current liabilities					
Deferred consideration	(1,500,000)	265,365	-	-	(1,234,635)
Deferred tax liabilities	-	-	(1,597,088)	21,073	(1,576,015)
	<u>(1,500,000)</u>	<u>265,365</u>	<u>(1,597,088)</u>	<u>21,073</u>	<u>(2,810,650)</u>
Total Liabilities	<u>(1,963,614)</u>	<u>265,365</u>	<u>(1,597,088)</u>	<u>21,073</u>	<u>(3,274,264)</u>
Net Assets	<u>4,965,017</u>	<u>(10,204)</u>	<u>-</u>	<u>21,073</u>	<u>4,975,886</u>
EQUITY					
Equity attributable to the equity holders of the Company					
Share capital	4,905,208	-	-	-	4,905,208
Share premium account	3,979,411	-	-	-	3,979,411
Profit and loss account	(3,919,602)	(10,204)	-	21,073	(3,908,733)
	<u>4,965,017</u>	<u>(10,204)</u>	<u>-</u>	<u>21,073</u>	<u>4,975,886</u>

Notes to the Consolidated Financial Statements continued

2. Explanation of transition to IFRS continued

Reconciliation of profit for the year to 30 June 2007

	UK GAAP £	a	Note b	c	IFRS £
Revenue	971,834	-	-	-	971,834
Cost of sales	(589,168)	-	-	-	(589,168)
Gross profit	382,666	-	-	-	382,666
Operating expenses	(1,000,313)	-	-	-	(1,000,313)
EBITDA	(617,647)	-	-	-	(617,647)
Depreciation	(6,849)	-	-	-	(6,849)
Share-based payment costs	(26,720)	-	-	-	(26,720)
Exceptional items	(53,310)	-	-	-	(53,310)
Amortisation of intangible assets	(94,651)	-	-	-	(94,651)
Total administrative costs	(1,181,843)	-	-	-	(1,181,843)
Operating loss	(799,177)	-	-	-	(799,177)
Interest charged	(12,651)	(10,204)	-	-	(22,855)
Interest received	16,983	-	-	-	16,983
Loss before income tax	(794,845)	(10,204)	-	-	(805,049)
Income tax expense	-	-	-	21,073	21,073
Loss for the year	(794,845)	(10,204)	-	21,073	(783,976)
Attributable to:					
Equity holders of the Company	(794,845)	(10,204)	-	21,073	(783,976)
Minority interest	-	-	-	-	-
	(794,845)	(10,204)	-	21,073	(783,976)

Notes to the reconciliations

Application of IFRS has resulted in the following reclassifications and adjustments:

- a. Deferred consideration of £1,500,000 for the acquisition of Purple Enterprises Limited has been discounted at 30 June 2007 by £265,365.
- b. Recognition of a deferred tax liability on the acquisition of intangible assets arising from the acquisition of Purple Enterprises Ltd in May 2007.
- c. Realisation of the deferred tax liability recognised in b. for the period, consistent with amortisation of the related intangible asset.

Application of IFRS has resulted in reclassification of certain items in the cash flow statement as follows:

- a. Under UK GAAP, payments to acquire property, plant and equipment were classified as part of 'Capital expenditure'. Under IFRS, payments to acquire property, plant and equipment have been classified as part of 'Investing activities'.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

3. Publication of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The summarised consolidated balance sheet at 30 June 2008 and the summarised consolidated income statement, summarised consolidated cash flow statement and associated notes for the year then ended have been extracted

from the Group's 2008 financial statements. Those financial statements have not yet been delivered to the registrar of companies, nor have the auditors reported on them.