

**MediaZest plc**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

**(Company No. 5151799)**

# MediaZest plc

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# MediaZest plc

## OFFICERS AND PROFESSIONAL ADVISERS

### **DIRECTORS**

Sean Reel (Chairman and Chief Executive Officer)  
Anthony Moore (Executive Vice Chairman)  
Nigel Duxbury (Finance Director)  
Christopher Theis (Executive Director)  
Lance O'Neill (Non-Executive Director)

### **SECRETARY**

Nigel Duxbury

### **REGISTERED OFFICE**

1<sup>st</sup> Floor  
46 Maddox Street  
London W1S 1QA

### **NOMINATED ADVISERS AND BROKERS**

City Financial Associates Limited  
Pountney Hill House  
6 Laurence Pountney Hill  
London EC4R 0BL

### **AUDITORS**

Nexia Smith & Williamson Audit Limited  
Chartered Accountants  
25 Moorgate  
London EC2R 6AY

### **SOLICITORS**

Nabarro Nathanson  
Lacon House  
Theobald's Road  
London WC1X 8RW

### **PRINCIPAL BANKERS**

Lloyds TSB Bank plc  
222 Strand  
London WC2R 1BB

### **REGISTRARS**

Share Registrars  
Craven House  
West Street  
Farnham  
Surrey GU9 7EN

# MediaZest plc

## CHAIRMAN'S STATEMENT

### Introduction

The results for MediaZest plc (the "Company" and collectively with the subsidiary companies, the "Group") reflect the year to 31 December 2005. They incorporate the results of its subsidiaries, all of which are wholly owned.

### Results for the Period

Turnover for the year was £877,000 (2004 - £nil), cost of sales was £486,000 (2004 - £nil) and the Group made a loss for the period, after taxation, of £847,000 (2004 - £43,000) after paying interest of £4,000 (2004 - receipt of £1,000) and having paid administrative expenses of £1,234,000 (2004 - £44,000). The basic loss and fully diluted loss per share was 6 pence (2004 - 9 pence). The Group had net cash balances of £1,251,000 (2004 - £529,000) at the year end.

### Review of Activities

2005 has been a year of transformation for the Company. I am pleased to be able to update shareholders on the progress made during a year that saw a successful flotation on the AIM market, followed by our acquisition of Touch Vision Limited.

Whilst it is always disappointing to report a loss, the loss for the year of £847,000 is in line with the Board's expectations and we have worked hard to put the required infrastructure within the Group in place to meet the growth in the marketplace that we expect for 2006 and beyond.

### Key clients

During the year the Group worked on a wide variety of predominantly blue chip customer projects. The Group provided a range of innovative installations for Motorola in the United States and was proud to be invited to provide products at Motorola's flagship stand at the Consumer Electronics Show in Las Vegas. The Group also worked on London Fashion Week, and helped Chivas promote its brand and messaging in nightclubs using the latest digital signage display technology and specially created content.

Towards the end of 2005 we were involved in a multimedia campaign to launch a new range of lingerie at C&A's flagship Berlin store and the Group was responsible for providing a real time life-size holographic display of a woman modelling the stores products.

### Board changes

In March of this year John Lovering resigned as Chairman owing to his other considerable business commitments. The Board is grateful for his guidance and the support he gave the Company. I have assumed the position of Chairman until such time as a suitable new Chairman is appointed.

I would also like to announce further changes to the Board. Tony Moore will be stepping down from his position as Executive Vice-Chairman of the Company and Nigel Duxbury will be stepping down as Finance Director. The Board thanks them both for their substantial contribution.

# MediaZest plc

## CHAIRMAN'S STATEMENT (continued)

I am pleased to welcome to the Board Geoff Robertson, who has moved from Group Financial Controller to Group Finance Director. Geoff joined us last year and has a wealth of experience, most recently with Lewis Communications Limited and Sony Music.

### Touch Vision Limited

The addition of Touch Vision to the Group was particularly important. We now have the benefit of more than 30 years of design, service and installation experience to match the innovative technology products and methodologies the Company employs.

I am happy to report that Touch Vision is now fully integrated into the Group, and that the Group is experiencing the benefits and synergies of the acquisition.

Touch Vision has maintained a strong presence across the sectors it works in. The education sector in particular had a strong year. In the corporate and retail sectors Touch Vision continued its 13 year history of working with HMV, the Group's relationships with Electronic Arts grew and we secured new work with clients such as Estee Lauder, the Co-Operative Group supermarkets, Adecco and Harveys furniture stores.

The combination of Touch Vision's history of providing high quality audio-visual installations and supply services and the new opportunities its association with MediaZest plc provides, means that 2006 is shaping up to be one of the most exciting years in Touch Vision's history.

### Licences and agreements

During 2005 the Group continued to increase the number of licences and agreements it has to utilise third party technologies. In particular the Group is pleased with the development of its relationship with 3M in the United Kingdom.

The Group's initial agreement with 3M has led to the Group's appointment as a Certified Value Added Reseller for all 3M digital display products. 3M's digital signage software is one of the most advanced and reliable systems on the market, and will be offered as the preferred software platform for all our in-store media projects.

Under the terms of our agreement, both 3M and the Group will work closely together to offer clients bespoke best in breed solutions.

### The market

Consolidation has started to occur in the in-store marketing sector. Difficult retail conditions are impacting businesses in the in-store marketplace that do not possess the diversification we enjoy.

We have seen a number of companies investing heavily in major network rollouts, with success predicated upon advertising based models.

By providing services to brand owners, retailers and network owners alike, the Group does not bear the burden of these high fixed costs.

# MediaZest plc

## CHAIRMAN'S STATEMENT (continued)

### Outlook

We believe the Group is well positioned to take advantage of the growth in the in-store marketplace. The Group operates across a range of sectors such as retail, education, corporate, hire and brand development and therefore is well protected from cyclical downturns in any particular industry. The result is a balanced business where corporate stability has been a factor in the large number of competitive tenders in which we have reached the final bidding stages, a number of which we have subsequently won.

We look forward as a Group to the challenges and exciting opportunities we believe 2006 presents. We believe our business model is robust and that the Group is well placed for the fast growth within the in-store marketing arena we anticipate.

Our attendance at the In-Store Show in June at London's Earls Court is a prime opportunity to demonstrate the full breadth and depth of our offering. I would like to take this opportunity to invite you to join us there, for demonstrations of how effective our technologies are.

Finally, my thanks go to everyone who has worked so hard and tirelessly on the company's behalf during 2005 to bring us to where we are today.

Sean Reel  
Chairman and CEO

8 May 2006

# MediaZest plc

## DIRECTORS' REPORT

The directors present their report and the audited financial statements of MediaZest plc (the "Company", and collectively with the subsidiary companies, the "Group") for the year ended 31 December 2005 and the comparative period ended 31 December 2004. The consolidated financial results of the Group include the results of its subsidiary companies, all of which are wholly owned.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company operates principally as a trading holding and investment company and specifically provides support to the subsidiary companies in pursuit of the Group's strategy to deliver a one-stop audio, visual, aromatic, satellite delivery, content management and consumer interaction platform to retailers and brand owners wishing to communicate dynamically with their customers to increase sales and brand awareness.

A review of business developments is given in the Chairman's Statement.

### RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £847,000 (2004: £43,000 loss).

The directors do not recommend the payment of a dividend (2004: £nil).

### FINANCIAL RISK MANAGEMENT

Note 24 addresses financial risk management.

### DIRECTORS AND THEIR INTERESTS

The membership of the Board at 31 December 2005 is set out below. All directors except John Lovering served throughout the year. John Lovering was appointed as a director on 7 March 2005, and resigned on 28 February 2006. The directors' beneficial interests in the Company at 31 December 2005 and 31 December 2004 (or on appointment) were:

Board Member	Ordinary shares of 10 pence each		Warrants of 20 pence each		Warrants of 50 pence each	
	2005	2004	2005	2004	2005	2004
	No.	No.	No.	No.	No.	No.
John Lovering	444,444	-	-	-	-	-
Anthony Moore	1,210,000	238,000	250,000	250,000	10,000	-
Sean Reel	1,945,050	385,010	250,000	250,000	260,000	-
Nigel Duxbury	1,025,000	205,000	250,000	250,000	10,000	-
Christopher Theis	1,141,345	296,669	250,000	250,000	285,000	-
Lance O'Neill	1,092,500	252,500	250,000	250,000	20,000	-

# MediaZest plc

## DIRECTORS REPORT (continued)

### SUBSTANTIAL INTERESTS

The following interests in three per cent or more of the issued ordinary share capital have been notified to the Company at 30 April 2006.

	Ordinary shares of 10 pence each	% of issued Share Capital	Warrants of 50 pence each
Touch Group Plc	4,411,764	19.3%	-
Ennismore Fund Management	1,352,942	5.9%	-
Universities Superannuation Fund Limited	941,176	4.1%	-
Gary Wyatt	715,955	3.1%	444,444

### SUPPLIER PAYMENT POLICY

It is the Group's policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days for the Group have been calculated at 38 days (2004: 45 days). This represents the ratio expressed in days between the amounts invoiced to the Group by its suppliers in the last three months of the year and amounts due at year-end from trade creditors.

### POST BALANCE SHEET EVENTS

No circumstances have arisen since the balance sheet date in respect of matters which would require adjustment or disclosure in the accounts.

### AUDITORS

Nexia Smith & Williamson Audit Limited have expressed their willingness to continue in office as auditors and a resolution to appoint them will be proposed at an Extraordinary General Meeting.

**Approved by the Board of Directors  
and signed on behalf of the Board**

**Nigel Duxbury  
Secretary**

**8 May 2006**

# MediaZest plc

## CORPORATE GOVERNANCE

The Company's ordinary shares are traded on AIM and the Group is therefore not formally required to comply with the provisions of the Combined Code. However, the Board is committed to high standards of corporate governance and sets out below details of how it has applied those provisions of the Code appropriate to the Group's circumstances.

### BOARD STRUCTURE

At the end of the year the Board comprised two full time executive directors, two part-time executive directors and two non-executive directors. One of the non-executive directors acted as the Chairman of the Group, but since the year end has resigned from the Board.

To enable the Board to function effectively, full and timely access is given to all information.

The Board is structured so that all directors have input to provide a balance to decision making.

The two executive directors and two part-time executive directors are engaged under service contracts, and the two non-executive directors under letters of appointment. In accordance with the Company's memorandum and articles of association each director shall retire from office at the third general meeting after that at which he was elected and may offer himself for reappointment.

The Board aims to meet once a month and has a schedule of matters reserved for it, including, but not limited to, operational and financial performance.

Any training that individual directors feel is necessary in fulfilling their duties is available and all directors have access to independent advice if necessary.

### REMUNERATION COMMITTEE

Under the Chairmanship of Sean Reel, the Remuneration Committee determines the remuneration and contractual arrangements of individual executive and non-executive directors. The Board's report on directors' remuneration appears on page 10. The present members of the Committee are:

Sean Reel (Chairman)  
Lance O'Neill

### AUDIT COMMITTEE

Under the Chairmanship of Lance O'Neill, the duties of the Audit Committee currently cover a review of the Group's financial reporting. The Committee's role is to review, on behalf of the Board, the annual report and financial statements and the interim report. The Committee focuses on reviewing any changes in accounting policy, major areas of judgement and estimates and compliance with accounting principles and regulatory requirements. The present members of the Committee are:

Lance O'Neill (Chairman)  
Anthony Moore

# MediaZest plc

## CORPORATE GOVERNANCE (continued)

### RELATIONS WITH SHAREHOLDERS

The Group places importance on communication with its shareholders. Additional copies of the annual report are available to all shareholders on request and to other parties who have an interest in the Group's performance. All shareholders have the opportunity to raise questions at the Company's Annual General Meeting.

### INTERNAL FINANCIAL CONTROL

The Board is responsible for establishing and maintaining the Group's system of internal financial control and places importance on maintaining a strong control environment. The directors have established the following key procedures with a view to providing effective financial control:

- The Group's organisational structure has clear lines of responsibility.
- Monthly results are reviewed and the finance department and directors closely review significant items.
- The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks.
- The executive directors are closely involved in the day-to-day supervision of the business.

The directors recognise, however, that any such system of internal financial control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

### STATEMENT BY DIRECTORS IN COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Board considers that it has complied, as far as practicable and appropriate for a relatively small public company, with the recommendations on corporate governance of the City Group for Smaller Companies.

### GOING CONCERN

After making enquiries, the directors formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

# **MediaZest plc**

## **REPORT ON DIRECTORS' REMUNERATION**

The Remuneration Committee fixes the remuneration of the executive and non-executive directors.

### **SERVICE CONTRACTS**

The two executive directors and two part-time executive directors are engaged under service contracts, and the two non-executive directors under letters of appointment. The service contracts and letter of appointment for one of the non-executive directors were effective from the date of admission of the ordinary shares to trading on AIM and are for an initial term of 12 months and thereafter terminable by either party on six months notice. The letter of appointment for the director appointed during the period was effective from the date of appointment and is for an initial term of 12 months and thereafter terminable by either party on three months notice. By mutual agreement, this appointment was terminated as of 28 February 2006.

### **SHARE OPTIONS**

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interest and those of investors and the Board intend to consider the adoption of a share option scheme in due course.

### **DIRECTORS' INTERESTS**

The directors' interests in the ordinary shares and warrants of the Company are set out in the directors' report on page 6.

### **DIRECTORS' REMUNERATION**

The directors' remuneration information is set out in note 4 to the financial statements.

**By order of the Board**

**Nigel Duxbury**  
**Secretary**

**8 May 2006**

# MediaZest plc

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss of the Group for the year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control and safeguarding the assets of the Company and the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**By order of the Board**

**Nigel Duxbury**  
Secretary

**8 May 2006**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MEDIAZEST PLC**

We have audited the group and parent company financial statements (“the financial statements”) of MediaZest plc for the year ended 31 December 2005, which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related 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 shareholders, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors’ responsibility for the preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors’ responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK 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 if, in our opinion, the directors’ report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and 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, the chairman’s statement, the corporate governance disclosures and the report on directors’ remuneration. 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 OPINION**

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

# Nexia Smith & Williamson

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MEDIAZEST PLC (continued)

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 affairs of the Company and the Group as at 31 December 2005 and of the loss of the group for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Nexia Smith & Williamson Audit Limited  
Chartered Accountants and Registered Auditors  
London

9 May 2006

# MediaZest plc

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £'000	2004 £'000
<b>Turnover</b>	<b>2</b>		
Acquisitions		684	-
Existing operations		193	-
Continuing operations		<u>877</u>	-
 Cost of sales			
Acquisitions		(411)	-
Existing operations		(75)	-
Continuing operations		<u>(486)</u>	-
 <b>Gross profit</b>		<u>391</u>	-
 Operating expenses			
Acquisitions		(263)	-
Existing operations		(971)	(44)
Continuing operations		<u>(1,234)</u>	(44)
 <b>Operating loss</b>	<b>3</b>		
Acquisitions		10	-
Existing operations		(853)	(44)
Continuing operations		<u>(843)</u>	(44)
 Net interest (payable)/receivable	<b>5</b>	(4)	1
 <b>Loss on ordinary activities before taxation</b>		<u>(847)</u>	(43)
 Tax on loss on ordinary activities	<b>6</b>	<u>-</u>	-
 <b>Retained loss on ordinary activities after taxation</b>	<b>17</b>	<u><u>(847)</u></u>	<u>(43)</u>
 <b>Loss per ordinary 10p share</b>			
<b>Basic and diluted</b>	<b>8</b>	£0.06	£0.09

There are no recognised gains or losses for the current or preceding period, other than those shown above

# MediaZest plc

## CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Intangible fixed assets	9	2,772	117
Tangible assets	11	128	-
<b>Current assets</b>			
Stock	13	169	-
Debtors	14	745	19
Cash at bank (before overdrafts)	20	1,377	529
		<u>2,291</u>	<u>548</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(587)</u>	<u>(41)</u>
<b>Net current assets</b>		<u>1,704</u>	<u>507</u>
<b>Net assets</b>		<u>4,604</u>	<u>624</u>
<b>Capital and reserves</b>			
Called up share capital	16	2,283	417
Share premium account	17	3,211	250
Profit and loss account	17	<u>(890)</u>	<u>(43)</u>
<b>Equity shareholders' funds</b>	17	<u>4,604</u>	<u>624</u>

These financial statements were approved by the Board of Directors on 8 May 2006

Signed on behalf of the Board of Directors

**Christopher Theis**  
Director

# MediaZest plc

## COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Investments	12	2,962	117
<b>Current assets</b>			
Debtors	14	929	29
Cash at bank and in hand		1,356	529
		<u>2,285</u>	<u>558</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(139)</u>	<u>(41)</u>
<b>Net current assets</b>		<u>2,146</u>	<u>517</u>
<b>Net assets</b>		<u>5,108</u>	<u>634</u>
<b>Capital and reserves</b>			
Called up share capital	16	2,283	417
Share premium account	17	3,211	250
Profit and loss account	17	<u>(386)</u>	<u>(33)</u>
<b>Equity shareholders' funds</b>	17	<u>5,108</u>	<u>634</u>

These financial statements were approved by the Board of Directors on 8 May 2006.

**Signed on behalf of the Board of Directors**

**Christopher Theis**  
Director

# MediaZest plc

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £'000	2004 £'000
<b>Net cash outflow from operating activities</b>	<b>18</b>	(1,368 )	(22)
<b>Returns on investments and servicing of finance</b>			
Interest (paid)/received		(4)	1
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		<u>(4)</u>	<u>1</u>
<b>Taxation</b>			
Corporation tax paid		-	-
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(35)	-
<b>Net cash outflow from capital expenditure and financial investments</b>		<u>(35)</u>	<u>-</u>
<b>Acquisitions</b>			
Net cash acquired with subsidiary undertaking		147	-
Acquisition of subsidiary undertaking		(970)	(117)
<b>Net cash outflow for acquisition</b>		<u>(823)</u>	<u>(117)</u>
<b>Financing</b>			
Issue of ordinary share capital net of costs		2,952	667
		<u>2,952</u>	<u>667</u>
<b>Increase in cash in the period</b>	<b>19</b>	<u>722</u>	<u>529</u>

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### Accounting Convention

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. The principal accounting policies of the Company and the Group are set out below.

#### Basis of Consolidation

The consolidated financial statements consolidate those of the Company and of the subsidiary companies drawn up to 31 December 2005, using the acquisition method of accounting.

#### Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when the timing differences reverse based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Any assets and liabilities recognised have not been discounted.

#### Tangible Fixed Assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost less estimated residual value in equal annual instalments over the estimated useful economic lives of the assets. The estimated useful economic lives are as follows:

Leasehold land and buildings	-	lease term
Plant, vehicles and equipment	-	1 to 7 years

#### Intangible Assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and will be written off over its useful economic life, which is 20 years. Provision is made for any impairment.

#### Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

#### Foreign Currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

#### Stocks

Finished goods represent stocks held for resale stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### Operating Lease Rentals Receivable

Rentals payable or receivable under operating leases during the year are charged or credited to the profit and loss account on a straight-line basis over the term of the lease.

#### Pension Scheme

The Group makes payments to certain employees Personal Pension schemes. Costs incurred during the year are charged to the profit and loss account as they fall due.

### 2. TURNOVER

All turnover is generated by one class of business, that of audio visual supply and installation.

Revenue is recognised upon completion of each stage of a project installation or supply of goods to the customer. In most cases, such installations are completed within one month, and invoiced in total upon completion.

Turnover for the year can be analysed by destination as follows:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
UK and Channel Islands	814	-
Rest of Europe	27	-
North America	36	-
Rest of World	-	-
	<hr/>	<hr/>
	<b>877</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

All of the net assets are located in the UK.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 3. OPERATING LOSS

	2005	2004
	£'000	£'000
<b>This is stated after charging/(crediting):</b>		
Auditors' remuneration		
- audit services (including £7,500 relating to the audit of the Company)	22	1
- non-audit services	8	1
Depreciation of owned assets	32	-
Operating lease rentals paid		
- land and buildings	109	-
- other	32	-
Foreign exchange (gains)/losses	1	-
Rentals receivable under operating leases	(19)	-
	<u>          </u>	<u>          </u>

### 4. DIRECTORS AND EMPLOYEES

	2005	2004
	£'000	£'000
<b>Information regarding employees</b>		
Wages and salaries	576	-
Social security costs	66	-
Other pension costs	8	-
	<u>          </u>	<u>          </u>
	<u>650</u>	<u>-</u>

The average number of employees employed by the Group in the period, excluding executive directors, was as follows:

	Number	Number
Administration	11	-
	<u>          </u>	<u>          </u>

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 4. DIRECTORS AND EMPLOYEES (continued)

	2005 £'000 Salaries	2004 £'000 Salaries
<b>Executive Directors</b>		
Anthony Moore	10	-
Sean Reel	94	-
Nigel Duxbury	53	-
Christopher Theis	94	-
<b>Non Executive Directors</b>		
John Lovering	25	-
Lance O'Neill	21	-
	<hr/>	<hr/>
Total	297	-
	<hr/> <hr/>	<hr/> <hr/>

The following additional fees were paid to the directors as consideration for services provided relating to the flotation of the Company on AIM: Sean Reel (£40,000), Nigel Duxbury (£40,000), Christopher Theis (£40,000).

The following fees were paid as consideration for services provided relating to the flotation of the Company on AIM to companies, of which certain directors of the Company are also directors: Moore, Clayton & Co. Inc. (a company of which Antony Moore is a director: £100,000) and Orbier Investments Limited (a company of which Lance O'Neill is a director: £40,000).

Fees of £23,917 were paid to StockHoldings Ltd as part of the consideration paid for Antony Moore's services as a director of the Board.

Fees of £30,000 were paid to Moore, Clayton & Co. Inc during the year as consideration for provision of corporate finance services.

The remuneration of the highest paid director during the year was £93,782 (2004: nil). No directors are accruing benefits under money purchase pension schemes.

### 5. NET INTEREST (PAYABLE) / RECEIVABLE

	2005 £'000	2004 £'000
Bank interest (payable)/receivable	(4)	1
	<hr/>	<hr/>

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
(a) Tax charge for the year		
UK corporation tax at 30% (2004: 30%)	-	-
	<hr/> <hr/>	<hr/> <hr/>
(b) Factors affecting tax charge for the year		
Loss on ordinary activities before tax	(847)	(43)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2004: 30%)	(254)	(13)
Effects of:		
Expenses not deductible for tax purposes	92	8
Capital allowances in excess of depreciation	(10)	-
Unrelieved tax losses	172	5
	<hr/>	<hr/>
Current tax charge for period	-	-
	<hr/> <hr/>	<hr/> <hr/>

A deferred tax asset of £2,596,000 (2004: £9,000) is not provided on the following timing differences as there is uncertainty over the future reversal of the asset:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Losses carried forward	2,469	9
Accelerated capital allowances	127	-
	<hr/>	<hr/>
	2,596	9
	<hr/> <hr/>	<hr/> <hr/>

### 7. RESULTS ATTRIBUTED TO MEDIAZEST PLC

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £353,000.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 8. LOSS PER ORDINARY SHARE

Basic loss per share is calculated by dividing the loss attributed to ordinary shareholders of £847,000 (2004: £43,000) by the weighted average number of shares during the year of 14,721,499 (2004: 482,033). The diluted loss per share is identical to that used for basic loss per share as the exercise of warrants would have the effect of reducing the loss per share and therefore is not dilutive under Financial Reporting Standard 22 "Earnings per Share".

### 9. INTANGIBLE FIXED ASSETS - GOODWILL

<b>Group</b>	<b>Goodwill £'000</b>	<b>Total £'000</b>
<b>Cost</b>		
At 1 January 2005	117	117
Additions	2,697	2,697
	<hr/>	<hr/>
At 31 December 2005	2,814	2,814
	<hr/> <hr/>	<hr/> <hr/>
<b>Amortisation</b>		
At 1 January 2005	-	-
Provided in period	42	42
	<hr/>	<hr/>
At 31 December 2005	42	42
	<hr/> <hr/>	<hr/> <hr/>
<b>Net Book Value</b>		
At 1 January 2005	117	117
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2005	2,772	2,772
	<hr/> <hr/>	<hr/> <hr/>

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 10. ACQUISITION OF SUBSIDIARY UNDERTAKING

The goodwill additions arose on the acquisition of Touch Vision Limited on 23 September 2005.

	<b>Book value and and fair value to Group £'000</b>
<b>Fixed assets</b>	
Tangible assets	125
<b>Current assets</b>	
Stock	106
Debtors	501
Cash at bank and in hand	147
<b>Creditors: amounts falling due within one year</b>	(731)
<b>Net assets</b>	<u>148</u>
Goodwill	2,697
<b>Consideration</b>	
Paid in cash	700
Satisfied by issue of shares	1,875
Associated costs of acquisition	<u>270</u>
	<u>2,845</u>

The purchase was satisfied by the cash payment of £700,000 and the issuing of shares to the value of £1,875,000, based on the market value of the MediaZest plc shares on the acquisition date

The financial result for Touch Vision Limited in the period from 1 January 2005 to 22 September 2005 was a loss of £189,184. This loss arose on turnover of £2,039,679 with associated cost of sales of £1,271,893. Administrative expenses were £955,993, resulting in an operating loss of £188,207. Interest payable of £977 led to a loss before and after tax figure of £189,184.

Under the terms of the acquisition agreement, a further deferred consideration payment of £250,000 is currently held in escrow which could become due based on the results of Touch Vision Limited for the year ended 31 December 2005. Following review of the results for the year, it is the opinion of the directors that the amount of deferred consideration payable is £nil and therefore the full £250,000 has been recognised as a cash item in the balance sheet of the Company and the Group.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 11. TANGIBLE FIXED ASSETS

	<b>Leasehold land and buildings £'000</b>	<b>Plant vehicles and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2005	-	-	-
Additions	-	35	35
Acquisitions	131	1,326	1,457
Disposals	(82)	(726)	(808)
At 31 December 2005	<u>49</u>	<u>635</u>	<u>684</u>
<b>Depreciation</b>			
At 1 January 2005	-	-	-
Provided during the year	4	28	32
Acquisitions	127	1,205	1,332
Disposals	(82)	(726)	(808)
At 31 December 2005	<u>49</u>	<u>507</u>	<u>556</u>
<b>Net Book Value</b>			
At 31 December 2005	<u>-</u>	<u>128</u>	<u>128</u>
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>

### 12. FIXED ASSET INVESTMENTS

<b>Investments</b>	<b>£'000</b>
Brought forward balance	117
Additions in the year	<u>2,845</u>
Carried forward balance	<u>2,962</u>

At 31 December 2005 the Company held the following interests in unlisted subsidiary undertakings.

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Proportion held</b>	<b>Business</b>
MediaZest Ventures Limited	UK	100%	Media
Touch Vision Limited	UK	100%	Audio Visual Supply & Installation
Electronic Media Promotions Limited *	UK	100%	Dormant

\* Held directly by Touch Vision Limited.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 13. STOCK

	2005 £'000	2004 £'000
Finished goods	169	-

### 14. DEBTORS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade debtors	542	-	-	-
Amounts owed by group undertakings	-	-	804	24
Other taxes and social security	35	7	-	5
Other debtors	67	-	105	-
Prepayments and accrued income	101	12	20	-
	<u>745</u>	<u>19</u>	<u>929</u>	<u>29</u>

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank overdraft	126	-	-	-
Trade creditors	180	36	35	36
Taxation and social security	49	1	18	1
Accruals and deferred income	232	4	86	4
	<u>587</u>	<u>41</u>	<u>139</u>	<u>41</u>

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 16. CALLED UP SHARE CAPITAL

	2005 Number of shares	2005 £'000	2004 Number of shares	2004 £'000
<b>Authorised</b>				
Ordinary shares of 10 pence	100,000,000	10,000	100,000,000	10,000
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 10 pence	22,825,327	2,283	4,166,670	417

On 22 February 2005 the Company issued an aggregate of 2,874,330 ordinary shares at a subscription price of 50p per share pursuant to a placing in connection with the application for initial admission.

On 22 February 2005 the Company capitalised the sum of £666,668 from the Company's share premium account to issue 6,666,680 ordinary shares of 10p each pursuant to a bonus issue.

On 23 September 2005, the Company issued an aggregate of 4,705,883 shares at a subscription price of 42.5p per share, pursuant to a placing in connection with the acquisition of Touch Vision Limited. At the same time the Company issued 4,411,764 shares at a valuation of 42.5p per share to Electronic Media Promotions Holdings Limited as initial consideration for the acquisition of Touch Vision Limited.

At the period end, the Company had created 1,500,000 (2004: 1,500,000) warrants to subscribe for ordinary shares in the Company at 20 pence per share, such warrants to be exercisable at any time between the date falling seven days after the announcement of the Company's preliminary results for the year ending 31 December 2005 and 22 February 2015 and a further 2,831,165 warrants to subscribe for ordinary shares in the Company at 50 pence per share. 1,394,000 of these warrants are exercisable at any time between the date falling seven days after the announcement of the Company's preliminary results for the year ending 31 December 2005 and 22 February 2015, or on a takeover or winding up of the Company and the remaining 1,437,165 of these warrants are exercisable at any time up to 22 February 2007.

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 17. RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENT ON RESERVES

<b>Group</b>	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Profit and loss £'000</b>	<b>Total £'000</b>
At 1 January 2005	417	250	(43)	624
Loss for the year	-	-	(847)	(847)
Capitalisation of share premium	667	(667)	-	-
Shares issued net of costs	1,199	3,628	-	4,827

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At 31 December 2005	2,283	3,211	(890)	4,604
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<b>Company</b>	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Profit and loss £'000</b>	<b>Total £'000</b>
At 1 January 2005	417	250	(33)	634
Loss for the year	-	-	(353)	(353)
Capitalisation of share premium	667	(667)	-	-
Shares issued net of costs	1,199	3,628	-	4,827

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At 31 December 2005	2,283	3,211	(386)	5,108
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### 18. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<b>2005 £'000</b>	<b>2004 £'000</b>
<b>Operating loss</b>	(843)	(44)
Depreciation of tangible assets	32	-
Amortisation of goodwill	42	-
Increase in stock	(63)	-
(Decrease)/increase in creditors	(311)	41
Increase in debtors	(225)	(19)
<b>Net cash outflow from operating activities</b>	<b>(1,368)</b>	<b>(22)</b>

## MediaZest plc

### NOTES TO THE FINANCIAL STATEMENTS

#### 19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<b>2005</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
1 January 2005		529
Increase in cash in the year	848	
Increase in bank overdraft in the year	(126)	
	722	722
31 December 2005		1,251

#### 20. ANALYSIS OF NET CASH FUNDS

	<b>At 1 January 2005</b>	<b>Cash flow</b>	<b>Acquisitions</b>	<b>At 31 December 2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash in hand, at bank	529	702	146	1,377
Overdrafts	-	(126)	-	(126)
	529	576	146	1,251
	529	576	146	1,251

#### 21. LEASING COMMITMENTS

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

	<b>2005</b>		<b>2004</b>	
	<b>Land and buildings</b>	<b>Other</b>	<b>Land and buildings</b>	<b>Other</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Leases which expire				
- within one year	-	-	75	-
- within two to five years	33	29	-	-
- after five years	22	-	22	-
	55	29	97	-
	55	29	97	-

#### 22. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2005 (2004: £nil).

## **23. CONTINGENT LIABILITIES**

There were no contingent liabilities at 31 December 2005 (2004: £nil).

# MediaZest plc

## NOTES TO THE FINANCIAL STATEMENTS

### 24. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to provide finance for operations. The Group has not entered into derivative transactions nor does it trade financial instruments as a matter of policy. Short term debtors and creditors have been excluded from the disclosures below as permitted by FRS13.

#### Price risk

The Group is exposed to price risk due to normal inflationary increases in the purchase price of the goods and services in purchases in the UK. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.

#### Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

#### Interest rate risk profile of financial assets

The only financial assets (other than short term debtors) are cash at bank and in hand, which comprise inter bank deposits, money at call, and one month and two month rates, which averaged 4.16% in the period.

#### Interest rate risk profile of financial liabilities

The bank overdraft is charged at a fixed rate above the bank base rate.

No assets or liabilities are denominated in foreign currencies. There is considered to be no difference between the fair value and book value of the Group's financial instruments.

### 25. RELATED PARTY TRANSACTIONS

The Parent Company has taken advantage of the exemption in FRS 8 concerning related party transactions with its 100% owned subsidiary companies.

The following related party transactions involving directors occurred during the year:

<b>Related Party</b>	<b>Amount charged to profit and loss account during the year</b>	<b>Amount outstanding at year end</b>
	<b>£'000</b>	<b>£'000</b>
EP&F Capital plc	12	4

Nigel Duxbury and Lance O'Neill are both directors of EP&F Capital plc.