media | zest

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

(Company No. 5151799)

WWW.MEDIAZEST.COM

MediaZest Plc

MediaZest plc

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS
Lance O'Neill (Non-Executive Chairman)
Geoff Robertson (Finance Director and Chief Executive Officer)
Andrew Hawkins (Group Sales Director)

SECRETARY
Nigel Duxbury

REGISTERED OFFICE
3rd Floor
16 Dover Street
London W1S 4LR

NOMINATED ADVISERS AND BROKERS
City Financial Associates Limited
Pountney Hill House
6 Laurence Pountney Hill
London EC4R 0BL

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

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

PRINCIPAL BANKERS
Lloyds TSB Bank plc
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REGISTRARS
Share Registrars
Craven House
West Street
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Surrey GU9 7EN

MediaZest plc

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MediaZest plc

CHAIRMAN'S STATEMENT

Introduction
I am able to update shareholders on the activities and changes that took place during the year and thereafter that saw the integration of Touch Vision Limited and the development and launch of the MediaZest Ventures offering to the retail sector.

The results for MediaZest plc (the "Group") for the year to 31 December 2006 incorporate the results of its subsidiaries, all of which are wholly owned.

Results for the Period
Turnover for the year was £3,171,000 (2005: £877,000), cost of sales was £2,053,000 (2005: £486,000) and the Group made a loss for the period, after taxation, of £1,139,000 (2005: £847,000) after paying interest of £8,000 (2005: £4,000) and having paid administrative expenses of £2,249,000 (2005: £1,234,000). Administrative expenses and cost of sales included £313,000 non-recurring costs.

The basic loss and fully diluted loss per share was 5 pence (2005: 6 pence). The Group had net cash balances of £569,000 (2005: £1,251,000) at the year end.

Review of Activities
2006 has been a year of both transition and change for the Group as we have moved from the initial start up phase, through the integration of a key acquisition, to our first full year of trading.

The loss for the year reflects the structural changes that needed to be made to our operations. This has included some personnel changes and associated costs. In addition, the first half of 2006 saw considerable investment in establishing MediaZest Ventures within our target market, culminating in our encouraging participation in the 2006 In-Store Show in June which showcased our offerings to a large number of potential new customers, resulting in a number of new clients.

Difficult retail market conditions and slower than expected adoption of digital media within the in-store environment undoubtedly are putting pressure on suppliers within our market. We believe that this inevitably will lead to consolidation within the industry. Some of our competitors have invested heavily in screen networks to broadcast digital media messaging to consumers in retail environments, the success of which depends on advertising sales. In contrast, MediaZest continues to generate its income by providing innovative point of sale installations. We deliver content provision and management services, system design and high quality engineering, supported by an experienced service and maintenance team. As such, our income streams do not depend on the sale of advertising, nor does our business model have to bear the high fixed costs required by these projects.

MediaZest Ventures Limited
The digital "out of home" market continues to suffer from tough retail conditions and slower than anticipated adoption of new technology. This has lead to weaker than expected growth in the MediaZest Ventures business, typified by clients opting to run campaigns or test our technology at a small number of sites, rather than the retail estate-wide rollouts that we originally envisaged. As the sector matures and return on investment metrics become more widely available, we believe this transition will transpire within our business. We are already starting to see this shift in our business and are in discussion with several customers interested in wider rollouts of our technology.

CHAIRMAN'S STATEMENT (continued)

To this end, we have revised our marketing strategy for 2007, directing our offering to brand managers and fellow agencies through trade advertising, taking a more active role in industry bodies, such as POPAI (Point of Purchase Advertising International), and expanding our partnership network. Our upgraded website, www.mediazest.com, also reflects the expansion of our offerings and the broader range of customers we now attract.

There were some notable new business wins during 2006 and the Group worked on a wide range of predominantly blue chip customer projects. As well as our continuing work with Motorola and Chivas, highlights included innovative displays and installations for stores and promotional activity for Candy & Candy, Boots, Nokia, Edeus, Sony Ericsson, Procter & Gamble, O2, Adidas, Shell and Nintendo.

Touch Vision Limited

During 2006 Touch Vision was fully integrated into the Group such that MediaZest is now experiencing the benefits and synergies of this acquisition. The year began with an in-depth strategic review of the business and subsequent restructuring. Touch Vision's focus remains on its core strengths in high quality engineering, system design and content management. In addition, technological advances have enabled us to increase the sophistication of our service and maintenance offering. One of the key synergies resulting from the acquisition of Touch Vision is the ability to provide MediaZest Ventures customers with installation and maintenance services as an integral part of our one-stop shop offering.

Touch Vision continues to build on its growing presence in the education sector in particular, winning the tender for a 3-year framework agreement with two London universities for the provision of sales, installation, and maintenance of audio-visual equipment.

In the corporate and retail sectors, Touch Vision maintained its 14 year commercial relationship with HMV, whilst building on its associations with both Electronic Arts and the Co-Operative Group. New business wins included projects for blue chip companies such as Dunnhumby and NYK Logistics.

Licences and agreements

In 2006 MediaZest continued to increase the number of licences and agreements it has to utilise third party technologies. The Group is pleased to note its strengthening relationship with 3M in the United Kingdom, which has grown through several projects that we have now implemented using cutting-edge 3M products.

During the year, the Group terminated its only fee paying licence, although we continue to be an approved reseller for that technology. As a result, MediaZest will have no licences for which it pays a fee in 2007, generating a six figure year on year cost saving benefit.

Board changes

As reported in the 2005 accounts, John Lovering, Anthony Moore and Nigel Duxbury resigned from the Board last year due to the demands on their time from other business commitments. In January 2007, Sean Reel, formerly CEO and Chairman, stepped down. In May Christopher Theis, Commercial Director, also left to pursue other business interests. The Board thanks them all for their contributions to MediaZest. The current Board now comprises Lance O'Neill (Non-Executive Chairman), Geoffrey Robertson (Chief Executive Officer) and Andrew Hawkins (Group Sales Director).

CHAIRMAN'S STATEMENT (continued)

Outlook

The rationalisation of our cost base, including staffing costs, overheads and licences fees, gives us a more robust platform from which to build in 2007. We have already seen year-on-year sales growth during the first half of 2007 which gives us encouragement as we head into our busiest time of the year.

In the first half of 2007, we completed exciting new audio-visual installations for a shopping centre in the North West of England, which included the deployment of Panasonic's 103" Plasma Screen for the first time in a UK retail environment, and the audio visual fit-out of Dunnhumby's UK headquarters. These substantial projects combined the best of both MediaZest Ventures' and Touch Vision's offerings. Our work with Electronic Arts continued, and we provided innovative technology solutions for the likes of Mizuno, Perkins Engines, Famous Grouse, Sony and 20th Century Fox.

We believe MediaZest is now better positioned to capitalise on the growth of the in-store marketplace. The work performed both last year and in the early part of this year in reshaping the business has provided a good foundation for MediaZest's growth in the future and the objective of providing meaningful returns for shareholders.

Lance O'Neill 26 June 2007
Chairman

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 2006 and the comparative year ended 31 December 2005. 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 £1,139,000 (2005: £847,000).

The directors do not recommend the payment of a dividend (2005: £nil).

FINANCIAL RISK MANAGEMENT

Note 23 of the financial statements addresses financial risk management.

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 50 days (2005: 38 days). This represents the ratio expressed in days between the amounts invoiced to the Group in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

POST BALANCE SHEET EVENTS

On 22 January 2007, Sean Reel resigned as Chairman and Chief Executive of the Company. Lance O'Neill was appointed Chairman and Geoff Robertson as Chief Executive on the same day. Christopher Theis resigned as Executive Director on 4 May 2007.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each director of the company has confirmed that in fulfilling his duty as a director:

- he has taken all the necessary steps in order to make himself aware of any information relevant to the audit and to establish that the auditors are aware of that information

- so far as he is aware, there is no relevant audit information of which the auditors have not been made aware.

DIRECTORS' REPORT (continued)

AUDITORS
Nexia Smith & Williamson have expressed their willingness to continue in office as auditors and a resolution to appoint them will be proposed at the next Annual General Meeting.

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

Lance O'Neill
Chairman

26 June 2007

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 three full time executive directors and one non-executive director. One of the 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.

One of the executive directors is engaged under a service contract, and one of the executive directors and the non-executive director 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 Lance O'Neill, 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 9. The present members of the Committee are:

Lance O'Neill (Chairman)
Geoff Robertson

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)
Andrew Hawkins

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.

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. In arriving at this conclusion, the directors have considered the reduction in the Group's cost base post year end, encouraging post year end results and the Group's un-utilised overdraft facility of £200,000. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

REPORT ON DIRECTORS' REMUNERATION

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

SERVICE CONTRACTS

At the year end, two of the three executive directors were engaged under service contracts, and the remaining executive director and the non-executive director under letters of appointment. The two service contracts and the letter of appointment for the non-executive director 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 17 October 2005 and is for an initial term of 12 months and thereafter terminable by either party on three months notice.

SHARE OPTIONS

The Company believes that share ownership by executive directors, senior executives and employees strengthens the links between their personal interest and those of investors and the Board therefore adopted a share option scheme during the course of 2006.

DIRECTORS' REMUNERATION

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

By order of the Board

Lance O'Neill
Chairman

26 June 2007

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, in accordance with UK Generally Accepted Accounting Practice (UK GAAP) 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.

Nexia Smith & Williamson

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 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 26. The financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

BASIS OF AUDIT OPINION

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

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and company's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' report is consistent with the financial statements.

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors

25 Moorgate
London
EC2R 6AY

Date: 26 June 2007

MediaZest plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Turnover	**2**	3,171	877
Cost of sales		(2,053)	(486)
Gross profit		1,118	391
Administrative expenses		(2,249)	(1,234)
Operating loss	**3**	(1,131)	(843)
Interest payable and similar charges	**5**	(8)	(4)
Loss on ordinary activities before taxation		(1,139)	(847)
Tax on loss on ordinary activities	**6**	–	–
Loss on ordinary activities after taxation	**16**	(1,139)	(847)
Loss per ordinary 10p share			
Basic	**8**	£0.05	£0.06
Diluted	**8**	£0.05	£0.06

There are no recognised gains or losses for the current or preceding year, other than those shown above. All results derive from continuing operations.

MediaZest plc

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Intangible Assets	**9**	2,622	2,772
Tangible Assets	**10**	105	128
Current assets			
Stock	**12**	142	169
Debtors	**13**	535	745
Cash at bank and in hand		569	1,377
		1,246	2,291
Creditors: amounts falling due within one year	**14**	(503)	(587)
Net current assets		743	1,704
Net assets		3,470	4,604
Capital and reserves			
Called up share capital	**15**	2,283	2,283
Share premium account	**16**	3,211	3,211
Share option reserve	**16**	5	–
Profit and loss account	**16**	(2,029)	(890)
Equity shareholders' funds	**16**	3,470	4,604

These financial statements were approved by the Board of Directors on 26 June 2007.

Signed on behalf of the Board of Directors

Geoff Robertson
Director

MediaZest plc

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Investments	**11**	4,283	2,963
Current assets			
Debtors	**13**	282	929
Cash at bank and in hand		368	1,355
		650	2,284
Creditors: amounts falling due within one year	**14**	(207)	(139)
Net current assets		443	2,145
Net assets		4,726	5,108
Capital and reserves			
Called up share capital	**15**	2,283	2,283
Share premium account	**16**	3,211	3,211
Share option reserve	**16**	5	–
Profit and loss account	**16**	(773)	(386)
Equity shareholders' funds	**16**	4,726	5,108

These financial statements were approved by the Board of Directors on 26 June 2007.

Signed on behalf of the Board of Directors

Geoff Robertson
Director

MediaZest plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £'000	2005 £'000
Net cash outflow from operating activities	**17**	(613)	(1,367)
Returns on investments and servicing of finance			
Interest paid		(8)	(4)
Net cash outflow from returns on investments and servicing of finance		(8)	(4)
Taxation			
Corporation tax paid		–	–
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(61)	(35)
Net cash outflow from capital expenditure and financial investments		(61)	(35)
Acquisitions			
Net cash acquired with subsidiary undertaking		–	146
Acquisition of subsidiary undertaking		–	(971)
Net cash outflow for acquisition		–	(825)
Financing			
Issue of ordinary share capital net of costs		–	2,952
		–	2,952
(Decrease)/increase in cash in the year	**19**	(682)	722

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 and on a going concern basis. Further discussion of the directors consideration of the going concern assumption appears on page 7. 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 2006, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Leasing
Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease. All rents receivable are in respect of operating leases and the annual rentals are recognised in the profit and loss account on a straight line basis over the lease term. Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease so as to spread the benefit received over the lease term.

Pension Scheme
The Group makes payments to certain employee's 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:

	2006 £'000	2005 £'000
UK and Channel Islands	3,122	814
Rest of Europe	32	27
North America	2	36
Rest of World	15	–
	3,171	**877**

All of the net assets are located in the UK.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING LOSS

	2006 £'000	2005 £'000
This is stated after charging/(crediting):		
Auditors' remuneration		
– Audit services	12	10
– Audit of Company's subsidiaries	14	12
– Other services: taxation	9	8
Depreciation of owned assets	84	32
Operating lease rentals paid		
– land and buildings	128	109
– other	32	32
Foreign exchange losses	–	1
Rentals receivable under operating leases	(19)	(19)

4. DIRECTORS AND EMPLOYEES

	2006 £'000	2005 £'000
Information regarding employees		
Wages and salaries	1,177	576
Social security costs	126	66
Other pension costs	10	8
	1,312	650

	2006 Number	2005 Number
The average number of employees employed by the Group during the year:		
Management	8	3
Other	22	8

4. DIRECTORS AND EMPLOYEES (continued)

	2006 £'000 Salaries	2005 £'000 Salaries
Executive Directors		
Anthony Moore	10	10
Sean Reel	158	94
Nigel Duxbury	10	53
Christopher Theis	110	94
Geoff Robertson	48	–
Non Executive Directors		
John Lovering	5	25
Lance O'Neill	22	21
Total	363	297

Fees of £14,000 (2005: £23,917) were paid to Stock Holdings Ltd as part of the consideration paid for Antony Moore's services as a director of the Board.

The remuneration of the highest paid director, including compensation for loss of office, during the year was £158,000 (2005: £94,000). No directors are accruing benefits under money purchase pension schemes.

On 22 January 2007, Sean Reel officially resigned as Chairman and Chief Executive Officer of the Company and details of post year-end payment made in relation to compensation for loss of office is disclosed in Note 26.

5. NET INTEREST PAYABLE

	2006 £'000	2005 £'000
Bank interest and charges	8	4

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
(a) Tax charge for the year		
UK corporation tax at 30% (2005: 30%)	–	–
(b) Factors affecting tax charge for the year		
Loss on ordinary activities before tax	(1,139)	(847)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2005: 30%)	(342)	(254)
Effects of:		
Expenses not deductible for tax purposes	78	92
Capital allowances in excess of depreciation	(17)	(10)
Unrelieved tax losses	281	172
Current tax charge for year	–	–

A deferred tax asset of £2,975,000 (2005: £2,596,000) is not recognised on the following timing differences as there is uncertainty over the future realisation of the asset:

	2006 £'000	2005 £'000
Losses carried forward	2,865	2,469
Accelerated capital allowances	110	127
	2,975	2,596

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 £387,000 (2005: £353,000).

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 £1,139,000 (2005: £847,000) by the weighted average number of shares during the year of 22,825,327 (2005: 14,721,499). The diluted loss per share is identical to that used for basic loss per share as the exercise of warrants and options 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

Group	**Goodwill £'000**
Cost	
At 1 January 2006	2,814
Additions	–
At 31 December 2006	2,814
Amortisation	
At 1 January 2006	42
Provided during the year	150
At 31 December 2006	192
Net Book Value	
At 1 January 2006	2,772
At 31 December 2006	2,622

NOTES TO THE FINANCIAL STATEMENTS

10. TANGIBLE FIXED ASSETS

	Leasehold land and buildings £'000	Plant, vehicles and equipment £'000	Total £'000
Cost			
At 1 January 2006	49	635	684
Additions	30	31	61
At 31 December 2006	79	666	745
Depreciation			
At 1 January 2006	49	507	556
Provided during the year	2	82	84
At 31 December 2006	51	589	640
Net Book Value			
At 31 December 2005	–	128	128
At 31 December 2006	28	77	105

11. FIXED ASSET INVESTMENTS

Investments	Loans to group under-takings £'000	Shares in group under-takings £'000	Total £'000
Cost			
At 1 January 2006	–	2,963	2,963
Additions	1,320	–	1,320
At 31 December 2006	1,320	2,963	4,283

At 31 December 2006 the Company held the following interests in unlisted subsidiary undertakings.

Name of company	Country of incorporation	Proportion held	Business
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.

NOTES TO THE FINANCIAL STATEMENTS

12. STOCK

	2006 £'000	2005 £'000
Finished goods	142	169

13. DEBTORS

	The Group 2006 £'000	The Group 2005 £'000	The Company 2006 £'000	The Company 2005 £'000
Trade debtors	392	542	12	–
Amounts owed by group undertakings	–	–	249	804
Other taxes and social security	3	35	2	–
Other debtors	81	67	7	105
Prepayments and accrued income	59	101	12	20
	535	745	282	929

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2006 £'000	The Group 2005 £'000	The Company 2006 £'000	The Company 2005 £'000
Bank overdraft	–	126	–	–
Trade creditors	130	180	50	35
Taxation and social security	73	49	10	18
Other creditors	–	–	10	–
Accruals and deferred income	300	232	137	86
	503	587	207	139

NOTES TO THE FINANCIAL STATEMENTS

15. CALLED UP SHARE CAPITAL

	2006 Number of shares	2006 £'000	2005 Number of shares	2005 £'000
Authorised				
Ordinary shares of 10 pence	100,000,000	10,000	100,000,000	10,000
Allotted, called up and fully paid				
Ordinary shares of 10 pence	22,825,327	2,283	22,825,327	2,283

At 31 December 2006, and 31 December 2005, the Company had in issue 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 were exercisable at any time up to 22 February 2007. Subsequently, all of these warrants expired on 22 February 2007.

16. RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENT ON RESERVES

Group	Share capital £'000	Share premium £'000	Share option reserve £'000	Profit and loss £'000	Total £'000
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
Balance at 1 January 2006	2,283	3,211	–	(890)	4,604
Share option charge	–	–	5	–	5
Loss for the year	–	–	–	(1,139)	(1,139)
Balance at 31 December 2006	2,283	3,211	5	(2,029)	3,470

NOTES TO THE FINANCIAL STATEMENTS

16. RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENT ON RESERVES (continued)

Company	Share capital £'000	Share premium £'000	Share option reserve £'000	Profit and loss £'000	Total £'000
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
Balance at 1 January 2006	2,283	3,211	–	(386)	5,108
Share option charge	–	–	5	–	5
Loss for the year	–	–	–	(387)	(387)
Balance at 31 December 2006	2,283	3,211	5	(773)	4,726

17. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Operating loss	(1,131)	(843)
Share option charge	5	–
Depreciation of tangible assets	84	32
Amortisation of goodwill	150	42
Decrease/(increase) in stock	27	(63)
Increase/(decrease) in creditors	42	(310)
Decrease/(increase) in debtors	210	(225)
Net cash outflow from operating activities	(613)	(1,367)

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £'000
Net funds at 1 January 2006	1,251
Decrease in cash for the year	(808)
Decrease in overdraft for the year	126
Net funds at 31 December 2006	569

NOTES TO THE FINANCIAL STATEMENTS

19. ANALYSIS OF NET CASH FUNDS

	At 1 January 2006 £'000	Cash flow £'000	At 31 December 2006 £'000
Cash in hand, at bank	1,377	(808)	569
Overdrafts	(126)	126	–
	1,251	(682)	569

20. LEASING COMMITMENTS

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

	2006 Land and buildings £'000	2006 Other £'000	2005 Land and buildings £'000	2005 Other £'000
Leases which expire				
– within one year	–	4	–	–
– within two to five years	118	3	33	29
– after five years	12	–	22	–
	130	7	55	29

21. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2006 (2005: £nil).

22. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2006 (2005: £nil).

23. 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 it 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, and money on call at 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 1% (2005: 1%) 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.

24. 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.

Nigel Duxbury and Lance O'Neill are both directors of EP&F Capital plc. During the year, EP&F Capital plc, provided accounting and consultancy services to the Company amounting to £3,000 (2005: £12,000). The Company owed £3,000 to EP&F Capital plc at the year-end date (2005: £4,000).

25. SHARE BASED PAYMENTS

During the year, the company issued share options to employees. The options were granted at various dates between August and October. The options are granted on terms that they will vest on the third anniversary of the grant date, and will be settled by the issue of ordinary shares of 10 pence. The options may not be exercised later than the day before the tenth anniversary of the grant date. Option holders must remain employees in order to meet the vesting conditions.

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

	2006 Number of share options	Weighted average exercise price
Outstanding at the beginning of the period	–	
Granted during the period	1,139,944	15p
Forfeited during the period	(59,594)	15p
Exercised during the period	–	
Expired during the period	–	
Outstanding at the end of the period	1,080,350	15p
Exercisable at the end of the period	–	15p

The value of the options is measured by the use of a binomial pricing model. The inputs into the binomial model were as follows:

	2006
Share price at grant date	7.50p-11p
Exercise price	15p
Volatility	30%-45%
Expected life	5
Risk free rate	4.65%-4.91%
Expected dividend yield	nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over the year prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £5,000 related to equity-settled share-based payment transactions in 2006.

26. POST BALANCE SHEET EVENTS

On 22 January 2007, Sean Reel officially resigned as Chairman and Chief Executive Officer of the Company and was paid £65,000 in relation to compensation for loss of office. This amount was included within accruals and deferred income in the Consolidated and Company balance sheets for the year ended 31 December 2006 and was charged to the Consolidated profit and loss account within Administrative expenses.