

**VTR plc**

STATUTORY ACCOUNTS

YEAR ENDED 31 AUGUST 2006

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## Chairman's Statement

**In the year to 31 August 2006 group turnover was £17,692,273 compared to £21,505,511 for the previous year. The overall loss for the year was £2,050,317 (2005: £662,809). This included an exceptional charge of £297,735 for the cost of a fundamental group restructuring (2005: credit of £37,358).**

### Overview

This is my first statement as Chairman of VTR plc (VTR) and it comes at the end of a year in which we have taken decisive steps to put the Company in a position to exploit industry changes and new opportunities in the market.

Prime Focus (India) bought a controlling stake in VTR because we had faith in the business and believed it could flourish. It has been tough making the changes necessary to stabilise the business and prepare it for the future. However, we are confident that the new structure we have begun to put in place and the injection of fresh leadership and investment will deliver the success our shareholders deserve.

You will be well aware of the challenges that have faced us and other businesses in the media sector as a whole. The downturn in advertising continued to have a negative effect in the last financial year. More specifically, the film industry faced a continuing period of financial uncertainty over the issue of tax relief on productions.

Set against a backdrop of increasing global competition, with competitive tendering resulting in falling rates for post-production, it was clear that radical steps would be required to place the business on a firm footing.

It was also clear to this management that there had been a fundamental change in the post-production market. It has become a global market, both in terms of creative talent and in relation to costs, with outsourcing now delivering significant business advantages.

If VTR was to compete successfully it required a revised structure with the right investment and creative talent in place. The ongoing restructuring, which began in 2004, has been painful in personal and financial terms. But it has been critical to the long term future of the business.

It is clear that the changes we are making are putting the business in a position to compete globally for work that has hitherto been beyond our reach. This includes longer term film projects, enabling us to build a forward order book which in turn gives us a more stable cash flow.

As part of our strategy to invest in the business VTR acquired Clear (Post Production) Limited (Clear), the award-winning digital visual effects and CG animation studio, in July 2006. This acquisition is now helping us to compete better in the higher margin commercials sector of our market.

We look forward to updating you on the impact of our restructuring in due course.

### Management Changes

In June 2006 VTR announced that Peter Samengo-Turner, Finance Director, would be leaving the Company to pursue another opportunity within the financial services sector.

In August 2006, following a successful management handover, Paul Tracey, Group Managing Director, announced his resignation from the board. Neil Lane, formerly Operations Director, was appointed Managing Director.

### Dividend

No dividend has been declared this year or in the prior year. Your board will continue to keep the matter under review.

### Cashflow and Gearing

There was a significant improvement in gearing for the financial year. It fell to 48% from 111% in the previous year. Indebtedness continued to fall, with net borrowings decreasing to £3.8m from £5.8m in 2005.

The detail of our business performance is set out below by our Managing Director, Neil Lane.

## **Outlook**

The benefits of the restructuring are beginning to be felt and the Group's performance since the start of the current financial year has been encouraging. The Board is confident of a much improved performance in the period to 31 March 2007.

**Namit Malhotra**

**April 12, 2007**

## **Managing Director's Review**

This has been a challenging year for the businesses within VTR. The impact of difficult market conditions has been felt throughout the group. With the investment of Prime Focus Limited, we have been able to push ahead with the restructuring of VTR that is addressing every element of the business – sales, costs, property, marketing and branding. On the property front we are looking at re-organising all the existing businesses, in a manner that at least 6,000 square feet of space can be surrendered back or sub-leased, hence reducing the overall cost of rent and incidental property costs. On the sales front, a dedicated sales team has been put into place, for each individual business. In addition we have been reviewing our cost base to ensure we have the right people and the right equipment to cement our position as a leading post production facility.

In terms of our individual businesses, VTR, which specialises in the post-production of high end commercials, pop promos and feature films, felt the impact of the downturn in advertising and poor market rates for post-production.

Hive, which offers high-end CGI animation, graphic design and visual effects to the broadcast and commercial markets, post year end has post year end merged with Clear following VTR's acquisition of Clear in July. Clear is an award-winning digital visual effects studio which brings fresh creative talent to VTR in a high margin area.

Blue is VTR's broadcast on-air promo and long-form programming specialist. It made steady progress during the year, consolidating its strong position in the market, with a particular emphasis on drama projects.

TMR (The Machine Room) provides specialist physical and digital restoration, DVD authoring and telecine to the film, television, corporate and entertainment markets. Its activities were scaled down during the year with a view to re-deploying various elements of its work throughout the Group.

K<Post is VTR's facility based in the Knightsbridge offices of J Walter Thomson, one of the UK's top advertising agencies. It specialises in TV commercials, vox pops and pitches for new business and has become an integral part of the agency's workflow. This venture continued to perform in line with expectations.

The changes taking place across our business are designed to make us leaner, more flexible and better-equipped to compete for global contracts. Inevitably this process has resulted in some job losses (net job losses of 31). It is always difficult to say goodbye to longstanding colleagues but I am confident we now have the best team of creative talent in the business. Fresh investment in the Group by Prime Focus (India) has made this possible and its involvement is delivering significant advantages in terms of costs and quality.

In summary, 2006 has been extremely tough but developments during the year have sown the seeds of what we confidently predict will be a strong business performance in 2007. We have a strong new management in place and an injection of investment in VTR which is being used to ensure we have the best creative talent, facilities and equipment in the industry.

The relationship with Prime Focus Limited, has been extremely beneficial, as it has enabled us to take advantage of the stronger negotiating positions enjoyed by Prime Focus Limited vis-à-vis industry suppliers. Prime Focus Limited has also provided VTR with access to a low cost base for service offered by VTR enabling VTR to be able to be more cost competitive in the Industry and still be able to make a better margin than made previously by executing the entire job in London.

These are the right ingredients for success and we look forward to updating you on our performance later in the year.

**Neil Lane**

**April 12, 2007**

## **Directors and Advisers**

### **Directors**

NF Lane (Managing Director)

Anshul Doshi (Finance Director) – Appointed on June 13<sup>th</sup>, 2006

CHB Mills (Non-executive director)

Namit Malhotra (Chairman) - Appointed on April 28<sup>th</sup>, 2006

Naresh Malhotra (Non-executive director) - Appointed on April 28<sup>th</sup>, 2006

Riv Karan Singh Chadha (Non-executive director) - Appointed on April 28<sup>th</sup>, 2006

### **Secretary**

Derringtons Limited

### **Registered Office**

64 Dean Street

London W1D 4QQ

### **Company Number**

1694613

### **Nominated Adviser and Broker**

Charles Stanley Securities

25 Luke Street

London EC2A 4AR

### **Auditors**

Baker Tilly UK Audit LLP

Registered Auditor

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

### **Bankers**

National Westminster Bank plc

19 Shaftesbury Avenue

London W1A 4QQ

### **Registrars and Transfer Office**

Capita IRG plc

Bourne House

34 Beckenham Road

Beckenham

Kent BR3 4TU

## Directors' Report

The directors present their report and the audited accounts of the Company and the Group for the year ended 31 August 2006

### Activities

The principal operation of the Group during the year was the provision of services to the media industry.

### Review of the business

During the year the Group made a loss after taxation of £2,050,317 (2005: £662,809).

A full operational review of the business is dealt with in the Chairman's Statement and Managing Director's Review.

### Key Performance indicators

#### (a) Sales

Sales for the full year fell by 18%. Several factors were responsible for the same, key being, VTR Limited, losing 2-3 senior creative personnel, who carried business with them, The Machine Room, seeing a fall in the DVD business resultant from the entire DVD industry seeing a downturn, and change in top management of the Group and key individual Companies. Post acquisition Prime Focus Limited has set forth an aggressive sales strategy for each individual segment, and a dedicated sales team with Group focus has been put into place. The acquisition of Clear has added key top creative talent thereby enhancing the overall creative perception of the Company.

#### (b) Gross Margin

The gross margin fell to 90% as compared to 93% for the previous year. The main reason for this is the change in accounting of the profit share payable by K<Post to J Walter Thompson and by United Sound & Vision to United London.

#### (c) Operating Loss

The increase in operating loss for the year was a direct result of the fall in sales. Although the overall fall in sales of £3.8m, the operating loss increased by only £1.3m. This was due to the various cost reduction strategies put into place during the year. Post acquisition by Prime Focus Limited, several other cost reduction strategies have been implemented which has resulted in substantial savings in people and general costs. The cost rationalisation strategies implemented by Prime Focus Limited are still ongoing.

### Principal Risks

Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company. The directors consider the following to be the principal risks faced by the Group:

#### (a) Key Creative Staff

The Groups performance depends largely on the retention of key creative staff. With the acquisition of Clear, the key creative members of staff have been issued with shares, with a lock in of 3 years.

#### (b) Competition

The Group operates in highly competitive markets with several companies, small and large, competing for the same market share. Investment in the latest technology and a reputation of consistently delivering high quality services are a prime asset in the market. Post the acquisition by Prime Focus Limited, the Group has set up a programme for investment in the latest technology to bring the Group to speed and ahead of competition in terms of technology. The acquisition of Clear has given the Group a pool of creative talent necessary for ensuring consistent delivery of high quality services.

### Future Developments

The directors consider that the programme of cost reduction and capital expansion undertaken post the acquisition by Prime Focus Limited of 53% of the Company's paid up equity share capital, together with the acquisition of Clear (Post Production) Limited, will result in an increase in the Group's profits in the financial period ending 31 March 2007. Management policies will continue to be reviewed in the light of changing trading conditions.

## Directors' Report CONTINUED

### Directors

The following have been directors of the Company since September 1, 2005:  
 PA Lovegrove (Chairman and non-executive director) – Resigned on April 28, 2006  
 PCN Tracey (Managing director) – Resigned on August 31, 2006  
 NF Lane (Managing director)  
 PA Samengo-Turner (Finance director) – Resigned on July 3, 2006  
 Anshul Doshi (Finance director) – Appointed on June 13, 2006  
 JP Dukes (Non-executive director) – Resigned on March 30, 2006  
 CHB Mills (Non-executive director)  
 Namit Malhotra (Chairman) - Appointed on April 28, 2006  
 Naresh Malhotra (Non-executive director) - Appointed on April 28, 2006  
 Riv Karan Singh Chadha (Non-executive director) - Appointed on April 28, 2006

The interests in the shares of the Company of the directors who served during the year were:

	As at 31 August 2006		As at 31 August 2005 (or date of appointment if later)	
	Ordinary Shares	Options	Ordinary Shares	Options
PA Lovegrove	121,526	-	121,526	-
PCN Tracey	222,508	75,000	222,508	100,000
NF Lane	-	-	-	-
PA Samengo-Turner	36,000	75,000	36,000	100,000
JP Dukes	40,000	-	40,000	-
CHB Mills	-	-	-	-
Namit Malhotra	-	-	-	-
Naresh Malhotra	-	-	-	-
Anshul Doshi	-	-	-	-
Riv Karan Singh Chadha	-	-	-	-

Director's interests in shares of the parent undertaking, Prime Focus Limited, are disclosed in the accounts of that Company.

### Substantial shareholdings

As at 28th March 2007, the Company has had disclosed to it in accordance with Sections 198 to 208 of the Companies Act 1985 the following substantial share interests exceeding 3% in the issued ordinary share capital:

Prime Focus Limited	14,715,061	53.0%
Dixon M H Esq.	2,340,000	8.43%
JO Hambro Capital Management	1,785,000	6.43%
Peter Cundhill & Associates	1,100,000	3.96%
ACC Industries Limited	850,700	3.06%

### Payment of creditors

The Group's policy for the year to 31 August 2006 is to agree terms of payment when entering into major business transactions, to ensure that the supplier is aware of these terms, and to abide by the agreed terms of payment.

Trade creditor days, based on creditors at 31 August 2006, was 76 days (2005: 60 days).

### Exceptional Items

The exceptional item in 2006 represents the net cost of redundancies and other expenses relating to a fundamental restructuring of the Group during the year. Exceptional items also include the write off of a £25,000 investment in Busy Buses, a Company which was involved in production and exploitation of media based intellectual property rights. The intellectual property rights no longer have any realisable value.

## Directors' Report CONTINUED

### Close Company status

The Company is not a close Company within the meaning of Schedule 19 of the Income and Corporation Taxes Act 1988.

### Employee involvement

The Group's policy is to encourage employee involvement at all levels as it believes this is essential for the success of the business. The directors have adopted an open management style and encourage communication to give employees the opportunity to contribute on business issues.

The Group does not discriminate against anyone on any grounds. Criteria for selection and promotion are based on the suitability of an applicant for the job. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes of the applicants concerned.

### Results

The results for the year are set out in detail on page 17. The directors do not propose the payment of a dividend (2005: Nil)

### International Financial Reporting Standards

During the year, the Company has delisted from the London Stock Exchange and moved its listing to Alternative Investment Market (AIM).

As a result there is no requirement for the Group to adopt IFRS until the financial year ending 31 August 2008.

The audit committee was briefed regularly on the development of IFRS and the associated International Accounting Standards (IAS) in order that they can manage the transition when it happens.

As well as the different presentation formats the most notable changes for the Group's results are likely to be the increased disclosure generally and in relation to IAS 14 on segmental reporting and IAS 24 on related party transactions.

### Political and Charitable contributions

During the year the Group made donations totalling £10,000 (2005: £nil) for a variety of charitable purposes including poverty relief, education and medical relief. There were no political contributions (2005: £nil)

### Financial Risk Management

The Board regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complicated financial instruments and where financial instruments are used it is for reduced interest or exchange rate risk. The Group does not trade in financial instruments. Group operations are primarily financed from equity funds raised, retained earnings and bank borrowings (including overdraft facilities). In addition to the primary financial instruments, the Group also has other financial instruments such as debtors, prepayments, trade creditors and accruals that arise directly from the Group's operations. Further information is provided in note 16 to the financial statements.

### Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

## Directors' Report CONTINUED

### **Auditors**

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP have agreed to resign and accordingly a resolution for the appointment of Sterling Chartered Accountants as new auditors will be proposed at the Annual General Meeting.

### **By Order of the Board**

**Anshul Doshi**  
Director

**April 12, 2007**

## Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which 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 and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are responsible for ensuring that the annual report includes information required by the AIM Rules of the Financial Services Authority (or Listing Rules).

## Report of the Remuneration Committee

### Remuneration policy

The Company's remuneration policy is to attract, motivate and retain quality management through offering competitive salary and benefit packages.

### Remuneration committee

The remuneration of the executive directors is determined by the remuneration committee all of whom are non-executive directors: CHB Mills (Chairman), Riv Karan Singh Chadha and Naresh Malhotra.

The committee meets at least once a year.

### Directors' service agreements

Only Mr. Neil Lane, executive director has a permanent rolling service agreement with the Company, the details of which are :-

	<b>Current contract dated</b>	<b>Notice period</b>
N F Lane	7 September 1999	Six months

The non-executive directors do not have a service agreement and their remuneration continues to be determined by the Board with the non-executive directors abstaining. In accordance with Regulation 85 of the Company's Articles of Association one third of the non-executive directors retire each year and are eligible for re-election at the Company's Annual General Meeting.

The other executive directors who are part of the parent company Prime Focus Limited, have still not entered into permanent service agreements with the Company and a plan is currently being formulated in this respect, which will be presented to the remuneration committee at the board meeting following the Annual General Meeting.

### Directors' emoluments

	2006					2005						
	Salary and Fees	Compensation for loss of office	Benefits in kind	Total Emoluments	Pension Costs	Total	Salary and Fees	Compensation for loss of office	Benefits in kind	Total Emoluments	Pension Costs	Total
	£		£	£	£	£	£		£	£	£	£
PA Lovegrove	6,663	-	-	6,663	-	6,663	10,000	-	-	10,000	-	10,000
JLC Banks PCN Tracey	-	-	-	-	-	-	192,415	-	10,315	202,730	35,640	238,370
NF Lane PA Samengo-Turner	110,000	-	1,484	111,484	16,500	127,984	18,333	-	223	18,556	2,750	21,306
JP Dukes	112,958	-	995	113,953	18,356	132,309	130,375	-	995	131,370	19,875	151,245
CHB Mills PEF Newbald	4,667	-	-	4,667	-	4,667	30,313	-	-	30,313	-	30,313
	8,000	-	-	8,000	-	8,000	8,000	-	-	8,000	-	8,000
	-	-	-	-	-	-	8,000	-	-	8,000	-	8,000
	<b>368,288</b>	<b>54,000</b>	<b>15,606</b>	<b>437,894</b>	<b>57,467</b>	<b>495,361</b>	<b>530,186</b>	<b>-</b>	<b>27,488</b>	<b>557,674</b>	<b>80,614</b>	<b>638,288</b>

Mr. Namit Malhotra, Mr. Anshul Doshi, Mr. Naresh Malhotra and Mr. Riv Karan Singh Chadha have not received any emoluments during the year:

## Report of the Remuneration Committee (Continued)

The main components of the executive directors' remuneration are:

**Salary** – the basic salary of each director is determined by taking into account the director's experience, responsibility, value to the organisation and market value. There is no bonus scheme.

**Benefits in kind** – benefits include medical and life assurance, company car and travel allowance where applicable.

**Compensation for loss of office** – total compensation for loss of office in the current year amounted to £54,000 (2005: £ nil)

**Pension costs** - pension contributions for the directors are based on a percentage of their total remuneration. These are 15% for the executive directors.

None of the current directors at the date of this report have any interests in the shares of the Company.

At 31 August 2006 the directors share options were as follows:

- options granted at 26 August 2003 under the equity management incentive arrangement (EMI) over 75,000 shares each to PCN Tracey and PA Samengo-Turner, exercisable at 61.5p per share between 26 August 2006 and 26 August 2013.

The mid market price of the Group's shares at the end of the financial period was 32.5p. During the year, the share price ranged from 20.0p to 35.5p.

**Mr. CHB Mills**  
**Chairman**  
**Remuneration Committee**  
**April 12, 2007**

# Statement of Corporate Governance

## Principles of corporate governance

The Company's board of directors appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple "box ticking" approach to establish whether a Company has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Guidelines for AIM companies published by the Quoted Companies' Alliance in July 2005) in a sensible and pragmatic fashion having regard to the individual circumstances of the Group's business. The key objective is to enhance and protect shareholder value.

## Directors

The directors believe it essential that the Group should be led and controlled by an effective Board. To this end, regular board meetings were held during the year and the Board received a steady flow of information to enable it to discharge its duties. There is a formal schedule of matters reserved for the Board's decision and all directors have access to independent advice paid for by the Company.

The Board currently comprises three executive directors and three non-executive directors.

To facilitate the smooth running of its operations, the Board has established the following committees which enable it to review the effectiveness of the Group's system of internal controls.

*The Audit Committee* meets not less than twice a year and assists the Board in reviewing financial internal control systems. The committee, comprises the non-executive directors and is responsible for ensuring that the financial performance, position and prospects of the Group are properly maintained and reported. The committee also meets with the auditors and reviews their reports relating to the accounts and internal controls of the Group.

*The Remuneration Committee*, which comprises the non-executive directors, meets as required and determines the Group's policy on executive directors remuneration, including annual salary, pension entitlement, grant of share options and bonus awards. The committee consults with the managing director and has access to professional advice if required. A full report of the remuneration committee is on page 11.

## Key controls, procedures and risk management

The Board maintained full control and direction over appropriate strategic, financial, organisational, compliance and risk issues during the year, and has put in place an organisational structure with defined lines of responsibility and delegation of authority.

The annual budgets are reviewed by the Board prior to approval being given. This includes the identification and assessment of the business risks inherent in the Group and the media sector as a whole, along with associated financial risks.

The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. The key procedures include:

- Budgeting programme with an annual budget approved by the Board;
- Regular review by the Board of actual results compared with budgets and forecasts;
- Regular review by the Board of debtors and cash flows; and
- Appointing experienced and suitably qualified staff to take responsibility for key business functions to ensure maintenance of high standards of performance.

The Group does not have a separate internal audit function.

## Auditor independence

The Audit committee undertakes a formal assessment of the auditor's independence each year and obtains written confirmation from the auditors that, in their professional judgement, they are independent.

## Statement of Corporate Governance (Continued)

### **Relations with shareholders**

The Managing Director and the Finance Director are the Company's principal spokespeople with investors, fund managers, the press and other interested parties. At the Annual General meeting, investors are given the opportunity to question the entire board.

### **Going Concern**

Having made appropriate enquiries and having examined the major areas which could affect the Group's financial position, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF VTR PLC**

We have audited the financial statements on pages 17 to 39.

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

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with 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 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 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 Managing Director's Review, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned 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. The group has undergone significant changes in the period following the acquisition of the majority of its shares by Prime Focus Limited. As a result it has not been possible for us to obtain a sufficient degree of reliability with respect to the group's forecast trading and cash flows in order to confirm the supportability of the Company's carrying value of investments in subsidiaries (£6,202,767) and the recoverability of inter-company balances (£18,050,257). It has also not been possible to confirm the supportability of the Group's goodwill (£1,437,861). As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view as to the carrying value of the Company's investments in subsidiaries, the recoverability of the Company's inter-company balances, the carrying value of the Group's goodwill and we are also unable to form a view on the applicability of the going concern basis.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion: disclaimer on view given by the financial statements**

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the Company's affairs as at 31 August 2006 and of the group's loss for the year then ended.

In respect solely of the limitation of our work referred to above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Notwithstanding our disclaimer on the view given by the financial statements, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985 and the information given in the Directors' Report is consistent with the financial statements.

**BAKER TILLY UK AUDIT LLP**

Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

April 12, 2007

## Consolidated Profit and Loss Account FOR THE YEAR ENDED 31 AUGUST 2006

	Note	2006	2005
		£	£
<b>Turnover</b>	1(b) & 2(a)	<b>17,692,273</b>	21,505,511
Cost of sales		<b>(1,805,211)</b>	(1,523,023)
<b>Gross profit</b>		<b>15,887,062</b>	19,982,488
Administrative expenses		<b>(17,419,373)</b>	(20,261,844)
<b>Operating loss</b>		<b>(1,532,311)</b>	( 279,356)
Exceptional item – fundamental Group restructuring	3(c)	<b>(297,735)</b>	37,358
Interest receivable		<b>32,799</b>	166
Interest payable and similar charges	3(b)	<b>(444,559)</b>	(538,107)
<b>Loss on ordinary activities before taxation</b>	2(b) & 3(a)	<b>(2,241,806)</b>	(779,939)
Tax credit on loss on ordinary activities	5	<b>191,489</b>	117,130
<b>Loss for the year</b>	19(c)	<b>(2,050,317)</b>	(662,809)
<b>Basic and diluted loss per share</b>	8	<b>(12.8p)</b>	(6.0p)

Turnover and operating results are derived from the Group's continuing operations, including the turnover and operating results for one month for the acquisition in the year (see note 9(c)).

## Consolidated Balance Sheet AT 31 AUGUST 2006

	Notes	2006	2005
		£	£
<b>Fixed assets</b>			
Intangible assets	9(b)	1,437,861	-
Tangible assets	9(a)	9,154,690	10,319,974
Investments	10	58,980	83,283
		<b>10,651,531</b>	<b>10,403,257</b>
<b>Current assets</b>			
Stock	11	31,436	23,970
Debtors	12	5,641,700	4,394,220
Cash at bank and in hand		588,488	11,611
		<b>6,261,624</b>	<b>4,429,801</b>
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts	13	2,777,037	1,785,033
Hire purchase creditors	15(b)	1,194,445	1,566,622
Trade and other creditors	14	3,353,443	3,518,664
Corporation tax		47,489	120,867
		<b>7,372,414</b>	<b>6,991,186</b>
<b>Net current liabilities</b>		<b>(1,110,790)</b>	<b>(2,561,385)</b>
<b>Total assets less current liabilities</b>		<b>9,540,741</b>	<b>7,841,872</b>
<b>Creditors: amounts falling due after more than one year</b>	15(a)	<b>(450,657)</b>	<b>(2,433,171)</b>
<b>Provisions for liabilities</b>	17	<b>(637,545)</b>	<b>(227,114)</b>
		<b>8,452,539</b>	<b>5,181,587</b>
<b>Capital and reserves</b>			
Share capital	18	1,387,814	551,928
Share premium account	19(a)	8,556,624	4,071,241
Capital redemption reserve	19(b)	270,000	270,000
Profit and loss account	19(c)	(1,761,899)	288,418
<b>Funds attributable to equity shareholders</b>		<b>8,452,539</b>	<b>5,181,587</b>

NF Lane )  
Anshul Doshi ) Directors

The accounts were approved by the Board of Directors and authorised for issue on 12th April 2007. The notes on pages 23 to 39 form part of these accounts.

## Company Balance Sheet AT 31 AUGUST 2006

	Notes	2006	2005
		£	£
<b>Fixed assets</b>			
Tangible assets	9(a)	2,917,866	3,122,068
Investments	10	6,202,767	4,771,476
		<b>9,120,633</b>	<b>7,893,544</b>
<b>Current assets</b>			
Debtors	12	19,790,299	5,282,791
Cash at Bank		661,603	-
		<b>20,451,902</b>	<b>5,282,791</b>
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts	13 & 15(b)	1,156,186	6,917
Hire purchase creditors	15(b)	1,063,433	1,566,622
Trade and other creditors	14	12,491,570	1,364,810
Corporation tax		-	12,712
		<b>14,711,189</b>	<b>2,951,061</b>
<b>Net current assets</b>		<b>5,740,713</b>	<b>2,331,730</b>
<b>Total assets less current liabilities</b>		<b>14,861,346</b>	<b>10,225,274</b>
<b>Creditors: amounts falling due after more than one year</b>	15(a)	<b>(450,657)</b>	<b>(2,433,171)</b>
<b>Provisions for liabilities</b>	17	<b>(756,567)</b>	<b>(198,503)</b>
		<b>13,654,122</b>	<b>7,593,600</b>
<b>Capital and reserves</b>			
Share capital	18	1,387,814	551,928
Share premium account	19(a)	8,556,624	4,071,241
Capital redemption reserve	19(b)	270,000	270,000
Merger reserve		729,160	729,160
Profit and loss account	19(c)	2,710,524	1,971,271
<b>Funds attributable to equity shareholders</b>		<b>13,654,122</b>	<b>7,593,600</b>

NF Lane )  
Anshul Doshi ) Directors

The accounts were approved by the Board of Directors and authorised for issue on 12th April 2007. The notes on pages 23 to 39 form part of these accounts.

## Consolidated Cash Flow Statement FOR THE YEAR ENDED 31 AUGUST 2006

	Notes	2006	2005
		£	£
Net cash flow from operating activities	A	(433,874)	3,195,340
Returns on investments and servicing of finance	B	(411,760)	(537,941)
Taxation		(25,807)	(51,326)
Capital expenditure and financial investment	B	(327,592)	(118,995)
Acquisitions (note 9(c))	B	<u>(403,604)</u>	<u>-</u>
<b>Cash (outflow) / inflow before financing</b>		<u><b>(1,602,637)</b></u>	<u><b>2,487,078</b></u>
Financing	B	2,510,557	(2,340,215)
Increase in cash in the year		<u><b>907,920</b></u>	<u><b>146,863</b></u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the year		907,920	146,863
Cash flow from decrease in debt and lease financing	B	<u>1,820,372</u>	<u>2,340,215</u>
<b>Change in net debt resulting from cash flows</b>		<u><b>2,728,292</b></u>	<u><b>2,487,078</b></u>
Loans and finance leases acquired with subsidiary	C	(321,618)	-
New hire purchase agreements	C	<u>(467,110)</u>	<u>(2,020,794)</u>
<b>Movement in net debt in the year</b>		<u><b>1,939,564</b></u>	<u><b>466,284</b></u>
Net debt at 1 September 2005		<u><b>(5,773,215)</b></u>	<u><b>(6,239,499)</b></u>
<b>Net debt at 31 August 2006</b>	C	<u><b>(3,833,651)</b></u>	<u><b>(5,773,215)</b></u>

## Notes to the Consolidated Cash Flow Statement FOR THE YEAR ENDED 31 AUGUST 2006

<b>A Reconciliation of operating loss to net cash (outflow)/inflow from operating activities</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Operating loss	(1,532,311)	(279,356)
Depreciation	2,813,241	3,276,024
Profit on disposal of tangible fixed assets	(122,348)	(53,252)
(Increase) / Decrease in debtors	(860,804)	1,642,595
Decrease in creditors	(459,398)	(705,397)
Exceptional items	(297,735)	(715,071)
(Increase) / Decrease in stock	(5,535)	3,297
Investment impairment	25,000	26,500
Amortisation of goodwill	6,016	-
	<u>(433,874)</u>	<u>3,195,340</u>
 <b>B Analysis of cash flows for headings netted in the cash flow</b>		
<b>Returns on investments and servicing of finance</b>		
Interest received	32,799	166
Interest paid	(325,202)	(266,528)
Interest element of hire purchase payments	(119,357)	(271,579)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<u>(411,760)</u>	<u>(537,941)</u>
 <b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(470,269)	(172,247)
Sale of tangible fixed assets	142,677	53,252
<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(327,592)</u>	<u>(118,995)</u>
 <b>Financing</b>		
Net proceeds from the issue of shares	4,330,929	-
Capital element of hire purchase payments	(1,820,372)	(2,340,215)
<b>Net cash outflow from financing</b>	<u>2,510,557</u>	<u>(2,340,215)</u>
 <b>Acquisitions</b>		
Purchase of subsidiary undertaking	(300,686)	-
Expenses to acquire subsidiary undertaking	(110,000)	-
Cash acquired with subsidiary	7,082	-
	<u>(403,604)</u>	<u>-</u>

<b>C Analysis of net debt</b>	At 1 September 2005	Cash flow	Acquisitions (exc. Cash and o'drafts)	Other non Cash Changes	At 31 August 2006
	£	£	£	£	£
Cash in hand, at bank	11,611	576,877	-	-	588,488
Bank loans	(1,785,033)	331,043	(173,047)	(1,150,000)	(2,777,037)
	(1,773,422)	907,920	(173,047)	(1,150,000)	(2,188,549)
Debt due after 1 year	(1,150,000)	-	-	1,150,000	-
Hire purchase obligations	(2,849,793)	1,820,372	(148,571)	(467,110)	(1,645,102)
<b>Total</b>	<u>(5,773,215)</u>	<u>2,728,292</u>	<u>(321,618)</u>	<u>(467,110)</u>	<u>(3,833,651)</u>

## Notes to the Consolidated Cash Flow Statement (cont'd) FOR THE YEAR ENDED 31 AUGUST 2006

### D Major non-cash transactions

During the year the Group entered into hire purchase arrangements in respect of assets with a total capital value at the inception of the agreements of £467,110 (2005: £2,020,794).

Part of the consideration for the acquisition of Clear (Post Production) Limited, comprised 2,001,675 shares worth £490,351 as on the date of acquisition.

Part of the purchase of tangible fixed assets during the year were acquired for 1,428,571 shares worth £500,000.

As a part of the acquisition of Clear (Post Production) Limited, Prime Focus Limited, the parent company gave a guarantee to the vendors that VTR's ordinary shares will have a mean closing bid price of not less than 60 pence per share over the three month period ending on 25 July 2008, being two years from completion of the acquisition. In consideration of the guarantee, VTR has agreed subject to the approval of the shareholders at the Annual General Meeting, to issue 1,225,000 new equity shares to Prime Focus Limited. Therefore as on the date of this Balance Sheet, the discounted value of the guarantee is £530,950 (see note 9(c)).

## Consolidated Statement of Total Recognised Gains and Losses

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

## Reconciliation of Movements in Shareholders' Funds

	2006	2005
	£	£
Loss for the financial year	<b>(2,050,317)</b>	(662,809)
New share capital subscribed	<b>5,321,269</b>	-
Net movement in shareholders' funds	<b>3,270,952</b>	(662,809)
Shareholders' funds at 1 September 2005	<b>5,181,587</b>	5,844,396
Shareholders' funds at 31 August 2006	<b>8,452,539</b>	5,181,587

# Notes to the Accounts

## 31 AUGUST 2006

### 1. Accounting policies

(a) *Basis of accounting and consolidation*

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

The consolidated financial statements incorporate those of VTR plc and all its subsidiary undertakings. Subsidiaries acquired during the year are consolidated using the acquisition method and results of subsidiaries are included from the date control passes. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable net assets acquired is capitalised and written off on a straight line basis over its estimated economic life. Provision is made for impairment where appropriate. All financial statements are made up to August 31, 2006.

(b) *Turnover*

Turnover represents the value of services provided (based on the percentage of completion) and the invoiced value of goods sold to third party customers. Turnover excludes value added tax.

(c) *Depreciation*

Tangible fixed assets are stated at cost and written off on a straight line basis over the period of their expected useful lives from the point at which they are brought into use, over the following periods:

Leasehold property	over the unexpired period of the lease
Equipment	3-5 years
Fixtures and fittings	10 years
Motor vehicles	5 years

(d) *Intangible Assets*

Goodwill representing the excess of the purchase price compared with the fair value of net assets acquired is capitalised and written off evenly over 20 years as in the opinion of the directors this represents the period over which the goodwill is effective.

(e) *Hire purchase and leased assets*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are operating leases which have annual rentals charged to the profit and loss on a straight line basis over the lease term.

(f) *Investments*

Long term investments are classified as fixed assets.

All investments are stated at cost. Provision is made for any impairment in the value of fixed asset investments.

(g) *Stock*

Stock is included at the lower of cost and net realisable value.

(h) *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred.

Timing differences are differences between the Group's taxable results and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

## Notes to the Accounts

31 AUGUST 2006  
CONTINUED

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(i) *Pensions*

The Group operates a defined contribution pension scheme for executive directors. The assets are held separately from the Group in an independently administered fund.

The costs of providing pensions for the executive directors charged in the profit and loss account are the amounts payable in respect of the accounting period.

(j) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

(k) *Financial instruments*

In line with Financial Reporting Standard 13, note 16 of these financial statements includes additional disclosure on financial instruments. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. There have been no changes in the policies adopted by the Group since the previous year end and after the balance sheet date. This position is reviewed by management on an on-going basis.

(l) *Going concern*

Although the Group has net current liabilities, the directors, having reviewed the Group's budget for 2006/2007, are confident that the Group has adequate financial resources to continue in operational existence for the foreseeable future. The directors have, therefore, continued to adopt the going concern basis in preparing the accounts.

(m) *International Financial Reporting Standards*

The Group has moved its listing to Alternative Investment Market (AIM) during the financial year. As a result there will be no requirement for the Group to adopt IFRS until the financial year ending 31 August 2008.

The audit committee has been briefed regularly on the development of IFRS and the associated International Accounting Standards (IAS) in order that they can manage the transition when it happens.

## 2. Segmental Reporting

### (a) Turnover by geographical markets

	<b>2006</b>	2005
	£	£
United Kingdom	<b>16,954,689</b>	20,694,909
Rest of Europe	<b>470,495</b>	160,517
Other	<b>267,089</b>	650,085
Total	<b>17,692,273</b>	21,505,511

### (b) Loss before taxation by geographical markets

United Kingdom	<b>(2,148,346)</b>	(750,541)
Rest of Europe	<b>(59,617)</b>	(5,821)
Other	<b>(33,843)</b>	(23,577)
Total	<b>(2,241,806)</b>	(779,939)

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

Turnover to third parties by geographical destination is not materially different from geographical split by origin shown above.

<b>(c) Net asset by geographical markets</b>	<b>2006</b>	2005
	£	£
United Kingdom	<b>8,334,539</b>	5,181,587
Other	<b>118,000</b>	-
Total	<b>8,452,539</b>	5,181,587

**3. Loss on ordinary activities before taxation**

**(a) Loss on ordinary activities before taxation is stated after charging/(crediting):**

	<b>2006</b>	2005
	£	£
Depreciation charge for the year:		
Owned assets	<b>1,887,290</b>	2,079,380
Leased assets	<b>925,951</b>	1,196,644
Total depreciation	<b>2,813,241</b>	3,276,024
Profit on disposal of fixed assets	<b>(122,348)</b>	(53,252)
Goodwill amortisation	<b>6,016</b>	-
Operating lease rentals:		
Plant and Machinery	<b>242,833</b>	474,263
Others	<b>1,373,362</b>	1,407,179
Amounts payable to Baker Tilly UK Audit LLP and their associates for both audit and non audit fees		
Statutory audit	<b>40,000</b>	55,000
Further assurance services - tax compliance	<b>30,000</b>	33,000

**(b) Interest payable and similar charges:**

Bank loans and overdrafts	<b>325,202</b>	266,528
Hire purchase agreements	<b>119,357</b>	271,579
	<b>444,559</b>	538,107

**(c) Exceptional item**

The exceptional item in 2006 represents the net cost of redundancies and other expenses relating to a fundamental restructuring of the Group during the year. Exceptional items also include the write off of a £25,000 investment in Busy Buses, a Company which was involved in production and exploitation of media based intellectual property rights. The intellectual property rights have no realisable value any more.

The exceptional item in 2005 represents the net cost of redundancies and other expenses relating to a fundamental restructuring of the Group in 2004 and 2005.

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

4. **Employees**

The average monthly number of employees (including directors) during the year was as follows:

	<b>2006</b>	Group 2005	<b>2006</b>	Company 2005
	<b>Number</b>	Number	<b>Number</b>	Number
Production	<b>227</b>	252	-	-
Administration	<b>46</b>	52	<b>4</b>	4
	<b>273</b>	304	<b>4</b>	4

Staff costs for the above persons amounted to:

	<b>2006</b>	<b>2005</b>
	£	£
Wages and salaries	<b>8,898,468</b>	10,332,962
Social security costs	<b>946,346</b>	1,012,570
Pension costs	<b>64,148</b>	80,614
	<b>9,908,962</b>	11,426,146

Directors' remuneration consisted of:

Aggregate emoluments	<b>383,894</b>	557,674
Compensation for loss of office	<b>54,000</b>	-
Pension contributions	<b>57,467</b>	80,614
	<b>495,361</b>	638,288

Number of directors to whom retirement benefits are accruing under the defined contribution pension schemes

<b>Number</b>	<b>Number</b>
<b>1</b>	3

Highest paid director:

Aggregate emoluments	<b>139,127</b>	202,730
Compensation for loss of office	<b>54,000</b>	-
Pension contributions	<b>22,611</b>	35,640
	<b>215,738</b>	238,370

## Notes to the Accounts

31 AUGUST 2006

CONTINUED

### 5. Taxation

	2006 £	2005 £
UK Corporation tax:		
Current tax on loss for the period	(9,502)	(109,609)
Adjustments in respect of prior periods	(97,951)	(2,301)
<b>Total current tax</b>	<b>(107,453)</b>	<b>(111,910)</b>
Deferred tax:		
Origination and reversal of timing differences	(84,036)	(5,220)
<b>Total deferred tax</b>	<b>(84,036)</b>	<b>(5,220)</b>
<b>Tax on loss on ordinary activities</b>	<b>(191,489)</b>	<b>(117,130)</b>
Factors affecting tax charge for the period		
The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
Loss on ordinary activities before tax	(2,241,806)	(779,939)
Loss on ordinary activities (excluding exception items) multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%).	(672,542)	(233,981)
Effects of:		
Expenses not deductible for tax purposes		
- Ordinary Activities	107,679	81,205
- Exceptional Items and Other timing differences	(14,376)	(104,018)
Depreciation in excess of capital allowances	121,889	163,490
Losses not utilised	442,348	-
Difference in corporation tax rate	5,500	(16,305)
Adjustment to tax charge in respect of previous periods	(97,951)	(2,301)
Current tax credit for the period	(107,453)	(111,910)

### 6. Profit for the year

As permitted by S.230(3) Companies Act 1985, VTR plc has not presented its own profit and loss account. Profit of £739,253 after tax (2005: profit £436,263) has been dealt with in the accounts of the parent Company.

### 7. Dividends

No dividend has been declared for the year (2005: £nil)

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

8. Loss per share

Basic and diluted loss per share is based on a loss of £2,050,317 (2005: loss £ 662,809) and 15,985,984 (2005: 11,038,550) weighted average number of ordinary 5p shares in issue during the year.

The outstanding share options, do not give rise to any dilution and therefore the basic and diluted loss per share are the same.

9. (a) Tangible fixed assets

	Short leasehold premises	Motor Vehicles	Equipment, fixtures and fittings	Total
GROUP	£	£	£	£
<b>COST</b>				
At 1 September 2005	4,409,639	64,668	25,931,604	30,405,911
Additions	-	40,000	1,628,285	1,668,285
Disposals	-	(35,828)	(676,500)	(712,328)
<b>At 31 August 2006</b>	<b>4,409,639</b>	<b>68,840</b>	<b>26,883,389</b>	<b>31,361,868</b>
<b>DEPRECIATION</b>				
At 1 September 2005	1,904,059	42,004	18,139,874	20,085,937
Charge for the year	203,245	12,933	2,597,063	2,813,241
Disposals	-	(35,231)	(656,769)	(692,000)
<b>At 31 August 2006</b>	<b>2,107,304</b>	<b>19,706</b>	<b>20,080,168</b>	<b>22,207,178</b>
<b>Net Book Value at 31 August 2006</b>	<b>2,302,335</b>	<b>49,134</b>	<b>6,803,221</b>	<b>9,154,690</b>
Net Book Value at 31 August 2005	2,505,580	22,664	7,791,730	10,319,974

The net book value of equipment, furniture and fittings includes an amount of £2,160,970 (2005 £3,548,814) in respect of assets held under hire purchase agreements. The charge for depreciation for the year on these assets was £925,951 (2005 £1,196,644).

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

9. (a) Tangible fixed assets (cont'd)

	Short leasehold premises	Motor Vehicles	Equipment, fixtures and fittings	Total
COMPANY	£	£	£	£
<b>COST</b>				
At 1 September 2005	4,409,639	64,668	1,287,731	5,762,038
Additions	-	40,000	131,990	171,990
Disposals	-	(35,828)	-	(35,828)
<b>At 31 August 2006</b>	<b>4,409,639</b>	<b>68,840</b>	<b>1,419,721</b>	<b>5,898,200</b>
<b>DEPRECIATION</b>				
At 1 September 2005	1,904,059	42,004	693,905	2,639,968
Charge for the year	203,245	12,933	159,419	375,597
Disposals	-	(35,231)	-	(35,231)
<b>At 31 August 2006</b>	<b>2,107,304</b>	<b>19,706</b>	<b>853,324</b>	<b>2,980,334</b>
<b>Net Book Value at 31 August 2006</b>	<b>2,302,335</b>	<b>49,134</b>	<b>566,397</b>	<b>2,917,866</b>
Net Book Value at 31 August 2005	2,505,580	22,664	593,824	3,122,068

The net book value of equipment, furniture and fittings includes an amount of £148,408 (2005 £188,562) in respect of assets held under hire purchase agreements.

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

9. (b) Intangible fixed assets

	Group	Group
	Goodwill	Total
	£	£
<b>Cost</b>		
At 1 September 2005	-	-
Additions (note 9(c))	1,443,877	1,443,877
At 31 August 2006	1,443,877	1,443,877
<b>Amortisation</b>		
At 1 September 2005	-	-
Charge for the year	6,016	6,016
At 31 August 2006	6,016	6,016
<b>Net Book Value at 31 August 2006</b>	<b>1,437,861</b>	<b>1,437,861</b>
Net Book Value at 31 August 2005	-	-

## Notes to the Accounts

### 31 AUGUST 2006

### CONTINUED

#### 9. (c) Acquisition Note

On July 25<sup>th</sup> 2006, the Company acquired a 100% stake in Clear (Post Production) Limited for a total consideration of £1,431,291, satisfied as payment in cash of £299,990 and the issue of 2,001,675 new VTR ordinary shares to the vendors of Clear (Post Production) Limited, and the proposed issue of a further 1,225,000 new VTR ordinary shares to Prime Focus Limited, in consideration for the guarantee given on behalf of VTR to the vendors that VTR's ordinary shares will have a mean closing bid price of not less than 60 pence per share over the three month period ending on 25 July 2008, being two years from completion of the acquisition. The share issue to Prime Focus is subject to approval at the Annual General Meeting.

The assets and liabilities of Clear (Post Production) Limited have included using the acquisition method of accounting and have been consolidated at their fair values to the group as set out below.

	Book value at acquisition	Fair value adjustment	Fair value at acquisition
	£	£	£
Tangible fixed assets	230,907	-	230,907
Stock	1,931	-	1,931
Trade and other debtors	382,466	-	382,466
Prepayments and accrued income	4,210	-	4,210
Bank loans	(173,046)	-	(173,046)
Trade and other creditors	(174,043)	-	(174,043)
Accruals and provisions	(120,122)	-	(120,122)
Taxation	(23,399)	-	(23,399)
Cash at bank and in hand	7,082	-	7,082
Finance leases	(148,572)	-	(148,572)
Net liabilities acquired	(12,586)	-	(12,586)
Goodwill capitalised			1,443,877
Consideration			1,431,291
<b>Satisfied by:</b>			
Cash to vendor			299,990
Related costs of acquisition			110,000
Discounted contingent consideration (gross £660,500)			530,950
Shares allotted			490,351
			1,431,291

#### Pre acquisition profits

Period covered	July 1, 2005 to 25 July 2006 £
Turnover	3,011,393
Operating profit	33,916
Interest expense	(23,653)
Profit before taxation	10,263
Taxation	(23,399)
Loss after taxation	(13,136)

Clear (Post Production) Limited was incorporated in June 30<sup>th</sup>, 2005 and therefore there are no comparative figures. There were no significant cash flows in respect of the purchase of Clear (Post Production) Limited in the one month post acquisition.

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31 AUGUST 2006  
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10. Fixed asset investments

<b>Group</b>	Participating interest
<b>Cost</b>	£
At 1 September 2005	108,283
Additions	697
At 31 August 2006	<u>108,980</u>
<b>Amounts written off:</b>	£
At 1 September 2005	25,000
Charged in the year	25,000
At 31 August 2006	<u>50,000</u>
Net book value:	
<b>At 31 August 2006</b>	<u><u>58,980</u></u>
At 31 August 2005	<u><u>83,283</u></u>

<b>Company</b>	Investments in subsidiary undertakings	Loans to subsidiary undertakings	Total
<b>Cost</b>	£	£	£
At 1 September 2005	771,476	4,000,000	4,771,476
Additions (see note 9(c))	1,431,291	-	1,431,291
At 31 August 2006	<u>2,202,767</u>	<u>4,000,000</u>	<u>6,202,767</u>

Principal subsidiary undertakings are as follows:

<b>Subsidiary undertaking</b>	Country of registration and operation	Class of holding	Proportion held	Nature of business
Clear (Post Production) Limited	England	Ordinary	100%	Post production of television commercials
Video Tape Recording Limited	England	Ordinary	100%	Post production of television commercials
blue post production limited	England	Ordinary	100%	Broadcast post production
The Machine Room Limited	England	Ordinary	100%	Film transfers, video mastering & DVD
VTR Media Investments Limited	England	Ordinary	100%	Media investments
The Hive Animation Limited	England	Ordinary	100%	Post production services
Clipstream Limited	England	Ordinary	100%	Digital content management
K<POST Limited	England	Ordinary	100%	Post production of television commercials
<b>Participating Interest</b>	Country of registration and operation	Class of holding	Proportion held	Nature of business
VTR North Limited	England	Ordinary	19%	Post production of television commercials

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

11. Stock

	2006	Group 2005	2006	Company 2005
	£	£	£	£
Tapes and cassettes	<u>31,436</u>	<u>23,970</u>	<u>-</u>	<u>-</u>

12. Debtors

	2006	Group 2005	2006	Company 2005
	£	£	£	£
Trade debtors	2,988,144	3,464,394	-	-
Amounts due from related party undertaking	344,433	-	18,050,257	4,879,608
Prepayments and accrued income	<u>2,309,123</u>	<u>929,826</u>	<u>1,740,042</u>	<u>403,183</u>
	<u>5,641,700</u>	<u>4,394,220</u>	<u>19,790,299</u>	<u>5,282,791</u>

13. Bank loans and overdrafts

	2006	Group 2005	2006	Company 2005
	£	£	£	£
Bank loans and overdrafts	<u>2,777,037</u>	<u>1,785,033</u>	<u>1,156,186</u>	<u>6,917</u>

The bank loans are secured by a fixed and floating charge over the assets of the Group. The maximum facility available is up to a limit of £4.5m (2005: £4.5m). Interest is charged at 1.6% (2005: 1.4%) above the HSBC base rate.

14. Trade and other creditors

	2006	Group 2005	2006	Company 2005
	£	£	£	£
Trade creditors	1,269,955	825,389	-	-
Amounts due to subsidiary undertakings	-	-	11,930,387	791,276
Other taxation and social security	1,152,082	1,417,395	305,687	149,319
Accruals and deferred income	<u>931,406</u>	<u>1,275,880</u>	<u>255,496</u>	<u>424,215</u>
	<u>3,353,443</u>	<u>3,518,664</u>	<u>12,491,570</u>	<u>1,364,810</u>

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

15. (a) Creditors: amounts falling due after more than one year

	2006	Group 2005	2006	Company 2005
	£	£	£	£
Bank loan	-	1,150,000	-	1,150,000
Hire purchase obligations	<u>450,657</u>	<u>1,283,171</u>	<u>450,657</u>	<u>1,283,171</u>
	<u>450,657</u>	<u>2,433,171</u>	<u>450,657</u>	<u>2,433,171</u>

(b) Borrowings

Analysis of debt maturity

Repayable within one year:

Bank loans and overdrafts	<u>2,777,037</u>	1,785,033	<u>1,156,186</u>	6,917
Hire purchase obligations	<u>1,194,445</u>	<u>1,566,622</u>	<u>1,063,433</u>	<u>1,566,622</u>
	<u>3,971,482</u>	<u>3,351,655</u>	<u>2,219,619</u>	<u>1,573,539</u>

Repayable between one to two years:

Bank Loan	-	-	-	-
Hire purchase obligations	<u>428,367</u>	992,415	<u>428,367</u>	992,415

Repayable between two to five years:

Bank loan	-	1,150,000	-	1,150,000
Hire purchase obligations	<u>22,290</u>	<u>290,756</u>	<u>22,290</u>	<u>290,756</u>
	<u>450,657</u>	<u>2,433,171</u>	<u>450,657</u>	<u>2,433,171</u>

16. Financial instruments

The Group's financial instruments principally comprise borrowings, cash at bank and various items such as trade debtors and creditors that arise directly from operations. The main purpose of these financial instruments is to raise money for the Group's operations.

Where exchange risk is perceived the Group considers its exposure and uses financial instruments to reduce this risk. As at 31st August 2006 the Group did not have any financial instruments in place.

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures

a) Financial Assets

There is no material difference between book value and fair value of the Group's financial assets

	2006	2005
	£	£
Cash at bank in hand – variable rate of interest	<u>588,488</u>	<u>11,611</u>

Interest accrues on the bank's overnight rate.

Notes to the Accounts  
31 AUGUST 2006  
CONTINUED

**(b) Financial Liabilities**

	2006 £	2005 £
Bank loans and overdrafts	2,777,037	2,935,033
Hire purchase creditors	1,645,102	2,849,793
	<b>Fixed Rate</b>	<b>Floating Rate</b>
	<b>£</b>	<b>£</b>
	<b>Non-interest bearing</b>	<b>Total</b>
	<b>£</b>	<b>£</b>
Sterling	(1,645,102)	(2,777,037)
	-	(4,422,139)
<b>Total</b>	<b>(1,645,102)</b>	<b>(2,777,037)</b>

	Average interest rate (%) of fixed rate financial liabilities	Average months to maturity of fixed liabilities
Sterling	8.46%	17

**(c) Borrowing Facilities**

The Group has borrowing facilities available at 31 August 2006 of £4,500,000 (2005: £4,500,000). At 31 August 2006 £1,722,963 remained undrawn.

**(d) Currency exposures**

The Group's exposure to movements in foreign currency exchange rates is primarily related to sales. The majority of foreign invoices are raised and paid in Sterling. Only 4% (2005: 4%) of sales are to clients based outside the United Kingdom.

**(e) Interest and liquidity risk management**

At 31 August 2006 the Group's fixed rate financial liabilities are hire purchase obligations. The floating rate facilities are the bank loans, which incur floating rate interest based on 1.6% (2005: 1.4%) above the HSBC base rate. Full details of both fixed and floating rate liabilities are included in note 15 to these accounts.

**(f) Fair value**

There is no material difference between the fair value of borrowings and other financial instruments and their book value at the balance sheet date.

**17. Provision for liabilities**

	2006 £	Group 2005 £	2006 £	Company 2005 £
Discounted contingent consideration	530,950	-	530,950	-
Deferred taxation	106,595	227,114	225,617	198,503
<b>Total</b>	<b>637,545</b>	<b>227,114</b>	<b>756,567</b>	<b>198,503</b>

Notes to the Accounts  
31 AUGUST 2006  
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**Discounted contingent consideration:**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Difference in bid price and guarantee price of shares issued to vendors of Clear (Post Production) Limited	<b>600,500</b>	-
Discounting for two years at Company's cost of capital (base rate+1.6%)	<b>6.35%</b>	-
<b>Discounted contingent consideration (see note 9(c))</b>	<b>530,950</b>	-

The movement on the deferred taxation provision was:

	<b>Group</b>	<b>Company</b>
	<b>£</b>	<b>£</b>
Balance at 1 September 2005	<b>227,114</b>	198,503
Acquired on acquisition of Clear (Post Production) Limited (Credited) / charged to profit and loss account	<b>(36,483)</b>	-
	<b>(84,036)</b>	27,114
<b>At 31 August 2006</b>	<b>106,595</b>	<b>225,617</b>

The liability disclosed above relates primarily to accelerated capital allowances

A deferred tax asset of £442,349 (2005: £nil) relating to the Group has not been recognised in the financial statements in respect of accumulated losses of £1,474,495 (2005: £nil) as there is insufficient certainty over future profitability.

**18. Share capital**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Authorised:		
50,000,000 ordinary shares of 5p each (2005: 13,926,380)	<b>2,500,000</b>	696,319
	<b>£</b>	<b>Number</b>
Allotted and fully paid:		
Ordinary shares		
At 1 September 2005	<b>551,928</b>	11,038,550
<i>Issued during the year</i>		
Issue of shares to Prime Focus Limited (April 28 <sup>th</sup> 2006)	<b>603,150</b>	12,062,990
Issue of shares to Prime Focus Limited (April 28 <sup>th</sup> 2006)	<b>71,428</b>	1,428,571
Issue of shares to Vendors of Clear Post Production Limited (July 26 <sup>th</sup> 2006)	<b>100,084</b>	2,001,675
Issue of shares to Prime Focus Limited (July 26 <sup>th</sup> 2006)	<b>61,224</b>	1,224,490
At 31 August 2006	<b>1,387,814</b>	27,756,276

**All the share capital issued during the year except for the following were issued for cash consideration:**

Issue of 1,428,571 shares to Prime Focus Limited (April 28 <sup>th</sup> 2006)	£500,000 of Fixed Assets
Issue of 2,001,675 shares to Vendors of Clear Post Production Limited (July 26 <sup>th</sup> 2006)	Purchase of Clear (Post Production) Limited (see note 9(c))

## Notes to the Accounts

### 31 AUGUST 2006

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The remainder of the shares issued during the year generated a cash consideration in the sum of £4,522,047.

The Company has granted options which remain exercisable, to subscribe for ordinary shares of £0.05 each, as follows:

Name	Grant Date	Subscription price per share £	Period within which options are exercisable	Number of shares for which rights are exercisable	
				31.08.06	01.09.05
R King	January 2, 1996	130p	2 January 1996 and 2 January 2006	-	3,000
Neil Lane	January 2, 1996	130p	2 January 1996 and 2 January 2006	-	3,000
Paul Tracey	April 24, 1998	117p	1 June 2001 and 1 June 2006	-	25,000
Peter Samengo Turner	April 24, 1998	117.p	1 June 2001 and 1 June 2006	-	25,000
Paul Tracey	June 29, 2001	157.5p	29 June 2004 and 29 June 2008	50,000	50,000
JLC Banks	August 26, 2003	61.5p	26 August 2006 and 26 August 2013	125,000	350,000
R Parsons	August 26, 2003	61.5p	26 August 2006 and 26 August 2013	75,000	350,000
Paul Tracey	August 26, 2003	61.5p	26 August 2006 and 26 August 2013	75,000	350,000
Peter Samengo Turner	August 26, 2003	61.5p	26 August 2006 and 26 August 2013	75,000	350,000

#### 19. Reserves

	Group and Company	
	2006 £	2005 £
<b>a) Share premium account</b>		
At 1 September 2005	4,071,241	4,071,241
Premium on allotment during the year (net of issue costs of £191,128)	4,485,383	-
At 31 August 2006	<u>8,556,624</u>	<u>4,071,241</u>
<b>b) Capital redemption reserve</b>		
At 1 September 2005 and 31 August 2006	<u>270,000</u>	<u>270,000</u>
<b>c) Profit and loss account</b>		
	Group £	Company £
At 1 September 2005	288,418	1,971,271
(Loss) / Profit for the financial year after taxation	(2,050,317)	739,253
At 31 August 2006	<u>(1,761,899)</u>	<u>2,710,524</u>

#### 20. Financial commitments

##### (a) Capital commitments

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Capital Expenditure contracted but not provided for in the financial statements	<u>577,503</u>	-	<u>577,503</u>	-

Notes to the Accounts  
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**(b) Obligations under operating leases**

At 31 August 2006 the Group had annual commitments under non-cancellable operating leases as set out below:

	2006	2005
	£	£
Land and buildings expiring:		
Within one year	37,865	39,021
In the second to fifth years	248,027	239,572
In more than five years	1,121,810	1,124,485
	<u>1,407,702</u>	<u>1,403,078</u>
Vehicles and equipment expiring:		
Within one year	25,215	217,947
In the second to fifth years	5,399	10,337
	<u>30,614</u>	<u>228,284</u>

**21. Contingent liabilities**

The bank loans of the Group undertakings are secured by cross-guarantees between Group companies. At 31 August 2006 the liability of the bank loans was borne by the Company at a value of £2,010,370 (2005: £2,935,033).

In 2006 the Company guaranteed some leases for VTR North Limited, a company in which it has a 19% shareholding. At 31 August 2006 the outstanding payments due under the leases was £nil (2005: £222,263).

Mr John Banks, the former Managing Director of the Company has issued legal proceedings claiming £358,363 by way of damages for breach of his Contract of Employment. These proceedings are being defended by the Company.

**22. Pension costs**

The Group operates a defined contribution pension scheme for executive directors whose assets are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group and amounted to £64,148 (2005: £80,614). No amounts were prepaid or owing at 31 August 2006 or 31 August 2005.

The Group has established a Stakeholder pension scheme which all staff are invited to join. There are no costs associated with this scheme.

**23. Related party balances**

The Company has taken advantage of the exemption conferred by FRS8 not to disclose related party transactions with subsidiary undertakings 90% or more of whose voting rights are controlled within the Group.

The Company has inter – alia paid £300,000 cash for the acquisition of Clear (Post Production) Limited, the funding for which was through the issue of 1,224,900 shares at 24.5p per share to Prime Focus Limited. Shares have been issued and a liability created as of August 31, 2006.

## Notes to the Accounts

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Apart from the above, during the year, the company has sold certain other obsolete goods to Prime Focus Limited, the parent company, at their net book value of £24,624. Furthermore, the company has also paid certain expenses amounting to £18,809 relating to the parent company's personnel. Prime Focus Limited has agreed to reimburse these expenses. At the Balance Sheet date, the net balance due from Prime Focus Limited was £344,433 (2005: £nil).

The Company also acquired as a part of the transaction with Prime Focus Limited, tangible fixed assets worth £500,000 from Prime Focus Limited, for which the Company, as per the terms of the transaction, issued shares to Prime Focus Limited (see note 18).

On July 25<sup>th</sup> 2006, the Company acquired, 100% stake in Clear (Post Production) Limited. The Company proposes to issue of a further 1,225,000 new VTR ordinary shares to Prime Focus Limited, in consideration for the guarantee on behalf of VTR to the vendors that VTR's ordinary shares will have a mean closing bid price of not less than 60 pence per share over the three month period ending on 25 July 2008, being two years from completion of the acquisition. The share issue to Prime Focus is subject to approval at the Annual General Meeting.

### **24. Ultimate controlling party**

The directors believe Prime Focus Limited to be the ultimate controlling party.

## Five Year Summary

### YEARS ENDED 31 AUGUST 2006

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
<b>Turnover</b>					
Continuing operations	<b>17,692</b>	21,506	25,345	23,991	22,343
<b>(Loss) / Profit before interest and taxation</b>	<b>(1,532)</b>	(279)	1,381	1,089	3,334
Interest payable (net)	<b>(412)</b>	(538)	(479)	(564)	(580)
Exceptional item	<b>(298)</b>	37	(1,154)	-	(4,073)
<b>(Loss)/profit before taxation</b>	<b>(2,242)</b>	(780)	(252)	525	(1,319)
Taxation	<b>192</b>	117	(200)	(184)	(826)
Dividends	-	-	-	-	(629)
<b>Retained (loss)/profit</b>	<b>(2,050)</b>	(663)	(452)	341	(2,774)
<b>Employment of Group capital</b>					
Fixed assets	<b>10,652</b>	10,403	11,919	12,939	12,697
Net current liabilities	<b>(344)</b>	(2,561)	(3,184)	(3,309)	(3,810)
	<b>10,308</b>	7,842	8,735	9,630	8,887
<b>Group capital employed</b>					
Creditors falling due after more than one year	<b>1,217</b>	2,433	2,659	2,936	2,620
Provisions for liabilities	<b>638</b>	227	232	397	312
Capital and reserves	<b>8,453</b>	5,182	5,844	6,297	5,955
	<b>10,308</b>	7,842	8,735	9,630	8,887
<b>Net borrowings</b>					
Cash at bank and in hand	<b>588</b>	12	13	12	7
Loans and hire purchase due within one year	<b>(3,205)</b>	(3,352)	(3,924)	(4,178)	(4,532)
Loans and hire purchase due after one year	<b>(1,217)</b>	(2,433)	(2,328)	(2,936)	(2,620)
	<b>(3834)</b>	(5,773)	(6,239)	(7,102)	(7,145)
<b>Statistics</b>					
(Loss)/earnings, pence per ordinary share	<b>(12.8p)</b>	(6.0p)	(4.1p)	3.1p	(19.5p)
(Loss)/earnings, pence per ordinary share diluted	<b>(12.8p)</b>	(6.0p)	(4.1p)	3.1p	(19.5p)
Dividends, pence per ordinary share, declared	<b>0.0p</b>	0.0p	0.0p	0.0p	5.7p

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of VTR plc will be held at 37 Dean Street, London W1D 4PT on 23rd May 2007 at 12 noon for the transaction of the following business:

### Ordinary Business

1. To receive and adopt the Director's Report, the Report of the Remuneration Committee and the Audited Accounts for the year ended 31 August 2006, together with the auditors' report on the Audited Accounts and on the auditable part of the Report of the Remuneration Committee.
2. To re-elect Riv Karan Singh Chadha as a Director of the Company in accordance with Regulations 85 and 86 of the Company's Articles of Association.
3. To authorise the Directors to fix the remuneration of the auditors.

### Special Business

To consider and, if thought fit, to pass the following Resolutions:

#### Ordinary Resolutions

4. That the resignation of Baker Tilly UK Audit LLP as auditors be and is hereby noted and that Sterling CA be and they are hereby appointed as auditors.
5. That, in consideration for Prime Focus Limited ("PFL") providing a guarantee under a share purchase agreement dated 21 July 2006 in respect of the purchase by the Company of Clear (Post Production) Limited, 1,225,000 ordinary shares of £0.05 each be allotted to PFL.
6. That the Directors be and they are hereby generally and conditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of relevant securities (as defined in Section 80(2) or the said Act) of the Company provided that this authority shall:
  - (a) Be in substitution for any authority that may, in accordance with the said Section 80, have been given to the Directors before the date hereof;
  - (b) Be limited to the allotment of such relevant securities up to an aggregate nominal value of £138,781; and
  - (c) Unless previously revoked or varied, shall expire on the date of the next Annual General Meeting of the Company or the date being fifteen months after the passing of these Resolutions, whichever is the earlier, but so that the Company may any time before the authority shall expire make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

### Special Resolution

7. That, subject to and conditional upon the passing of the Resolution 6, and in substitution for all previous authorities granted hereunder, the Directors be empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by the said preceding Resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
- (a) The allotment of equity securities in connection with a rights issue or other pro-rate offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical difficulties under the laws of any territory of the requirements of a relevant regulatory body; and
  - (b) The allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £138,781

And shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.

**By Order of the Board**

64 Dean Street  
London W1D 4QQ  
12<sup>th</sup> April 2007

**J Cargin  
For Derringtons Limited  
Secretary**

## NOTES

1. Baker Tilly UK Audit LLP, subsequent to the move by the Company to the AIM market, believe that the Company would be best suited both compliance requirement wise and financially by a small - medium size firm of Auditors, and accordingly have given their resignation. The Company has accordingly suggested appointment of Sterling Chartered Accountants whose office is at 505 Pinner Road, Harrow, Middlesex, HA2 6EH as the Auditors of the Company subject to approval at the Annual General Meeting of the Company.
2. The above Ordinary Resolution numbered 6 will be proposed to renew the authority of the Directors in relation to the allotment of unissued and uncommitted shares in the capital of the Company. The authority is limited to 2,775,628 Ordinary Shares in the Company (being £138,781) representing the whole of the unissued or uncommitted share capital of the Company and being 10.00% of the total issued or otherwise committed share capital of the Company as at the date of this notice. The authority will expire upon the earlier of the date of the next Annual General Meeting of the Company or the date being fifteen months following the passing of the Resolution. The Directors have no present intention to exercise the authority proposed in the Resolution.
3. The Directors may only allot shares for cash to persons who are not already shareholders in the Company if authorised to do so by the shareholders in general meeting. The Special Resolution numbered 7 seeks authority for the Directors to allot shares for cash without first offering them to existing members up to an aggregate nominal amount of £138,781. This sum represents 2,775,628 Ordinary Shares of 5p each, being equivalent to approximately 10% of the current issued share capital. The Resolution enables the Directors to modify the strict requirement for a rights issue in circumstances where they consider it necessary or expedient. The authority will expire upon the earlier of the date of the next Annual General Meeting of the Company or the date being fifteen months following the passing of the Resolution.
4. A member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies and, on a poll, to vote in his stead. A proxy need not be a member of the Company. A proxy card is enclosed for use, if desired.
5. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 12 noon on 21st May 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.
6. Copies of Directors' service contracts and the register of Directors' interests (and their families) in the shares of the Company will be available for inspection by members at the registered office of the Company during normal business hours from the date of this notice until the date of the Annual General meeting and at the place of the Meeting from 11.45am on that date until its conclusion.

