

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and what action you should take, you are recommended immediately to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all of your Existing Ordinary Shares please send this document, together with the accompanying Form of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Application will be made for the Enlarged Issued Share Capital to be admitted to trading on the AIM market of the London Stock Exchange plc ("AIM") and it is expected that dealings in the Enlarged Issued Share Capital will commence on 7 October 2004.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List and it is emphasised that no application is being made for admission of the Existing Ordinary Shares or New Ordinary Shares to the Official List. Furthermore, neither the London Stock Exchange plc nor the UK Listing Authority has examined or approved the contents of this document.**

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 as amended (the "POS Regulations") and the AIM Rules, has been issued in connection with the application for admission to trading of the Enlarged Issued Share Capital on AIM and has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

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# **Air Music & Media Group plc**

*(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 04198290)*

## **Acquisition of Redworth Limited**

### **Placing of 64,075,000 new Ordinary Shares at 8p per share**

### **Amendment to the Articles of Association**

### **Notice of Annual General Meeting**

### **Admission to trading on AIM**

*Nominated Adviser and Broker*

**Seymour Pierce Limited**

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#### **SHARE CAPITAL ON ADMISSION**

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
800,000,000	£20,000,000	ordinary shares of 2.5p each	369,905,747	£9,247,643.675

The Directors and Proposed Directors, whose names appear on page 3 of this document, accept responsibility, both individually and collectively, for the information contained in this document including responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

Seymour Pierce Limited, which is regulated by the Financial Services Authority, is acting as Nominated Adviser and Broker exclusively for the Company in connection with the arrangements described in this document and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Seymour Pierce Limited, or for advising any other person in connection with the arrangements described in this document. The responsibilities of Seymour Pierce Limited, as Nominated Adviser, are owed solely to the London Stock Exchange plc.

**A notice convening an Annual General Meeting of the Company is set out at the end of this document. A Form of Proxy for use at the meeting is enclosed with this document and should be returned as soon as possible and, in any event, so as to be received by Neville Registrars, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, no later than 10 a.m. on 4 October 2004, being 48 hours before the time appointed for the holding of the meeting.**

The New Ordinary Shares will, on Admission, rank *pari passu* with the Existing Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the share capital of the Company.

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## **DIRECTORS, SECRETARY, PROPOSED DIRECTORS AND ADVISERS**

<b>Directors</b>	Frederick John French, <i>Non-executive Chairman</i> Mark David Frey, <i>Chief Executive</i> Michael Antony Infante JP, <i>Commercial and Marketing Director</i> Ruth Elizabeth Salsbury, FCCA, <i>Finance Director</i> Ivan Taylor, <i>Executive Director</i> Roger George Putnam, <i>Non-executive Director</i> all of: Chiltern House, 184 High Street, Berkhamsted, Hertfordshire HP4 3AP
<b>Secretary</b>	Ruth Elizabeth Salsbury, FCCA
<b>Proposed Directors</b>	Trevor Steven Allan, <i>Proposed Managing Director</i> Janice Denise Beer, <i>Proposed Executive Director</i> Alexander Frank Sorrell, <i>Proposed Executive Director</i> all of: Unit 9, Enterprise Court, Lancashire Enterprise Business Park, Centurion Way, Leyland, Lancashire PR26 6TZ
<b>Registered Office</b>	Devonshire House 60 Goswell Road London EC1M 7AD
<b>Nominated Adviser and Broker</b>	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
<b>Solicitors to the Company</b>	Nicholson Graham & Jones 110 Cannon Street London EC4N 6AR
<b>Solicitors to the Placing</b>	Finers Stephens Innocent 179 Great Portland Street London W1W 5LS
<b>Auditors to the Company and Reporting Accountants</b>	Kingston Smith Devonshire House 60 Goswell Road London EC1M 7AD
<b>Bankers</b>	Barclays Bank PLC 27 Soho Square London W1D 3QR
<b>Registrars</b>	Neville Registrars 18 Laurel Lane Halesowen West Midlands B63 3DA

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the entire issued share capital of Redworth pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 13 September 2004 between (1) the Vendors and (2) the Company, further details of which are set out in paragraph 12 of Part VII of this document
“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the Enlarged Issued Share Capital to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the market operated by the London Stock Exchange and known as AIM
“AIM Rules”	the rules for AIM published by the London Stock Exchange
“AM&M”	Air Music & Media Limited, a wholly owned subsidiary of the Company
“Annual General Meeting” or “AGM”	the annual general meeting of the Company to be held at 10 a.m. on 6 October 2004 and any adjournment thereof, notice of which is set out at the end of this document, and at which the Resolutions will be proposed
“Board” or “Directors”	the directors of the Company, whose names are set out on page 3 of this document
“Code”	The City Code on Takeovers and Mergers
“Company” or “Air Music”	Air Music & Media Group plc
“Completion”	completion of the Acquisition pursuant to the Acquisition Agreement
“Concert Party”	the Vendors, all of whose details are set out in paragraph 9 of Part VII of this document
“Consideration Shares”	100,000,000 Ordinary Shares to be issued to the Vendors pursuant to the Acquisition Agreement (which exclude, for the avoidance of doubt, the Deferred Consideration Shares)
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
“Deferred Consideration Shares”	up to £10,000,000 of new Ordinary Shares which may be issued to the Vendors in addition to the Consideration Shares pursuant to the Acquisition Agreement, subject to the Vendors not holding more than 49.99 per cent. of the issued share capital of the Company and the earn out provisions contained therein, further details of which are set out in paragraph 12 of Part VII of this document
“Enlarged Group”	the Group as enlarged by the Acquisition
“Enlarged Issued Share Capital”	the Existing Ordinary Shares, the Placing Shares and the Consideration Shares

“Entertainment Solutions Direct”	Entertainment Solutions Direct Limited, a wholly owned subsidiary of Redworth
“Existing Articles”	the existing articles of association of the Company, as adopted by ordinary resolution on 11 June 2002
“Existing Ordinary Shares”	the 205,830,747 Ordinary Shares in issue at the date hereof
“Form of Proxy”	the form of proxy enclosed with this document for use by Shareholders in connection with the AGM
“GFSL”	Going For A Song Limited, a wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries listed in paragraph 1 of Part VII of this document
“IFPI”	the International Federation of the Phonographic Industry
“Loan Facility”	the £10,000,000 secured loan facility granted by Barclays Bank PLC to the Company dated 13 September 2004 for the purposes of funding part of the cash element of the consideration payable in respect of the Acquisition, details of which are set out in paragraph 12 of Part VII of this document
“Loan Notes”	the £1,615,297 guaranteed loan notes of the Company to be issued by the Company pursuant to the Acquisition Agreement
“London Stock Exchange”	London Stock Exchange plc
“MBL”	Music Box Leisure Limited, a wholly owned subsidiary of Redworth
“New Articles”	the articles of association of the Company proposed to be adopted by the Company pursuant to Resolution 11, further details of which are set out in paragraph 11 of Part VII of this document
“New Ordinary Shares”	the Consideration Shares and the Placing Shares
“Notice”	the notice of the AGM set out at the end of this document
“Official List”	the official list of the UKLA
“Ordinary Shares”	ordinary shares of 2.5p each in the capital of Company
“Panel”	The Panel on Takeovers and Mergers
“Placing”	the conditional placing by Seymour Pierce of the Placing Shares at the Placing Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 13 September 2004 between (1) the Company (2) the Directors (3) the Proposed Directors and (4) Seymour Pierce relating to the Placing, details of which are set out in paragraph 12 of Part VII of this document
“Placing Price”	8p per Placing Share
“Placing Shares”	64,075,000 new Ordinary Shares to be issued in connection with the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended)

“Potential Enlarged Issued Share Capital”	the Enlarged Issued Share Capital and the Deferred Consideration Shares
“Proposals”	together the Acquisition, the Placing, the Waiver and the adoption of the New Articles
“Proposed Directors”	Trevor Allan, Janice Beer and Alexander Sorrell
“Redworth”	Redworth Limited
“Redworth Group”	Redworth and its subsidiaries listed in paragraph 1.12 of Part VII of this document
“Resolutions”	the resolutions set out in the Notice
“Seymour Pierce”	Seymour Pierce Limited, the Company’s Nominated Adviser and Broker
“Shareholders”	holders of Existing Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	the United Kingdom Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the shares or securities of the company concerned as being held in uncertificated form in CREST and title to which by virtue of the CREST Regulations, may be transferred by means of CREST
“Vendors”	Trevor Allan, Tonya Allan, James Allan, Janice Beer, Alexander Sorrell and Alexander Sorrell and Halliwell Landau Trustees Limited as trustees of the Alexander Sorrell Settlement (a trust of which Alexander Sorrell and his family are beneficiaries), all of whose details are set out in paragraph 9 of Part VII of this document
“Waiver”	the waiver by the Panel of the obligation on the Vendors that would otherwise arise under Rule 9.1 of the Code to make an offer for the entire issued ordinary share capital of the Company not already owned by them

## PLACING AND ACQUISITION STATISTICS

Number of Existing Ordinary Shares	205,830,747
Number of Consideration Shares to be issued on Admission	100,000,000
Percentage of Enlarged Issued Share Capital being issued to the Vendors on Admission	27.03%
Number of Deferred Consideration Shares that may be issued to the Vendors (based on the Potential Enlarged Issued Share Capital and assuming no other issues of Ordinary Shares)	169,851,769
Maximum percentage of Potential Enlarged Issued Share Capital that may be issued to the Vendors (assuming the maximum issue of Deferred Consideration Shares)	49.99%
Placing Price	8p
Number of Placing Shares to be issued	64,075,000
Percentage of Enlarged Issued Share Capital being placed pursuant to the Placing	17.32%
Gross proceeds of the Placing	£5,126,000
Estimated net proceeds of the Placing to be received by the Company	£4,581,000
Ordinary Shares in issue following completion of the Proposals and Admission (excluding the Deferred Consideration Shares)	369,905,747
Market capitalisation of the Enlarged Group on Admission at the Placing Price (excluding the issue of any Deferred Consideration Shares)	£29,592,459

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## EXPECTED TIMETABLE

Publication date of this document	13 September 2004
Latest time and date for receipt of the Form of Proxy	10 a.m. on 4 October 2004
Annual General Meeting	10 a.m. on 6 October 2004
Dealings anticipated to commence on AIM in the Existing Ordinary Shares and the New Ordinary Shares and CREST member accounts credited (where applicable)	8.00 a.m. on 7 October 2004
Expected despatch of definitive share certificates for the New Ordinary Shares (where applicable)	by 14 October 2004

## PART I

# LETTER FROM THE CHAIRMAN OF AIR MUSIC & MEDIA GROUP PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 04198290)

*Directors:*

John French, *Non-executive Chairman*  
Mark Frey, *Chief Executive*  
Michael Infante JP, *Commercial and Marketing Director*  
Ruth Salisbury, FCCA, *Finance Director*  
Ivan Taylor, *Executive Director*  
Roger Putnam, *Non-executive Director*

*Business address:*

Chiltern House  
184 High Street  
Berkhamsted  
Hertfordshire  
HP4 3AP

13 September 2004

Dear Shareholder

**Acquisition of Redworth Limited**  
**Placing of 64,075,000 new Ordinary Shares at 8p per share**  
**Amendment to the Articles of Association**  
**Notice of Annual General Meeting**  
**Admission to trading on AIM**

### **Introduction and background**

Your Board announced today that the Company has conditionally agreed to acquire the entire issued share capital of Redworth for an initial consideration of £27.6 million. The initial consideration for the Acquisition is to be satisfied by the issue of 100,000,000 Consideration Shares, the issue of £1,615,297 of Loan Notes and a cash payment of £15,984,703. In addition, up to £10,000,000 of deferred consideration may be payable to the Vendors, in Deferred Consideration Shares and/or cash, subject to the achievement of agreed future financial performance of Redworth. Further details regarding the terms of the Acquisition are set out below.

The Acquisition constitutes a reverse takeover under the AIM Rules and, as such, requires the consent of the Shareholders at the Annual General Meeting to be held on 6 October 2004.

In addition, due to the proposed holdings and potential holdings of Ordinary Shares by the Vendors, the Company is also proposing to seek a waiver of certain obligations that would otherwise be placed on the Vendors by Rule 9 of the Code. Accordingly, Shareholders will also be asked at the AGM to consent to the holdings and maximum potential holdings of Ordinary Shares by the Vendors following completion of the Acquisition.

Your Board also announced today that the Company proposes to raise £5,126,000 before expenses from the placing of 64,075,000 Placing Shares at 8p per share. The Placing has been fully underwritten by Seymour Pierce conditional, *inter alia*, on Admission.

The Company has also entered into the Loan Facility with Barclays Bank PLC whereby it will borrow £10,000,000. The proceeds of the Placing and the Loan Facility will be used to fund the cash element of the consideration payable in respect of the Acquisition. The Loan Facility is conditional upon completion of the Acquisition and Admission.

The Company is also proposing to amend the Existing Articles to reflect developments in legislation and business practices.

The purpose of this document is to set out the reasons for and details of the Proposals and to explain why your Board considers that they are in the best interests of the Company and its Shareholders as a whole and to recommend that you vote in favour of Resolutions numbered 6 to 11 to be proposed at the Annual General Meeting which are necessary to approve and implement the Proposals. A notice for this purpose is set out at the end of this document.



### **Information on Air Music**

The Group's business was founded in 1996, when Air Music commenced trading with North American and European customers. The Group set up two record labels through its subsidiary, GFSL, between 1997 and 2000 and has access to approximately 80,000 music tracks. The Company established a trading facility for its ordinary shares on OFEX in September 2001, which was then cancelled in July 2002 when its Ordinary Shares were admitted to trading on AIM.

The Group's core activities are the development and acquisition of music copyrights, the licensing in of third party music copyrights, the exploitation of those rights through the production and sale of budget priced audio CDs and the manufacture and distribution of DVDs. At present, the Group's sales are entirely business to business, predominantly to audio-visual wholesalers and distributors. In addition, copyrights owned by the Group are licensed to third party producers of music products.

The content of the Group's music products is diverse and covers a broad spectrum of music genres. Collectively, the products can be referred to as "middle of the road" or "easy listening". The majority of the Group's music products are of music by well known artists or compilations such as '50s', '60s', '70s' and '80s' music and rock 'n' roll, country, jazz, blues, ambient, new age and world music.

The Group has access currently to over 1000 movie titles and a growing catalogue of music DVD titles. It is the intention to allow MBL to have access to this catalogue where appropriate and to market those products. MBL has been a customer of many of these products. The Group deals with over 30 licensors of DVD products, each of them offering exclusive licenses on all genres of movies, special interest, music and TV programming. Following the Acquisition, the Group intends to approach its DVD licensors and appraise their top market ranges with a view to licensing in additional products not yet marketed by the Group. This would allow MBL to procure a greater range of DVD products beyond that currently offered by the Group. Also the Enlarged Group's bulk buying power is expected to be reflected in product cost savings.

The Group has expanded its operations and sales through a combination of organic growth, the acquisition of music copyrights and the acquisition of businesses with music and DVD copyrights and/or product distribution.

### ***The Market***

The Directors believe that the Group's total product sales reflect the market demand for CDs and DVDs at retail level. Since the acquisition of Hollywood DVD in December 2002, sales of DVDs by the Group have shown year on year increases. Sales of DVD movies now represent some 50 per cent. of the Group's sales.

World sales of recorded music fell by 7.6 per cent. in value in 2003. This was the fourth consecutive year of falling music sales and is attributed to the combined effects of digital and physical piracy and competition from other entertainment products. There has been a global rise in music DVD sales. DVD music video now accounts for 5.7 per cent. of global music retail revenue compared to 3.1 per cent. in 2002.

The Directors believe that the products offered for sale by the Group are primarily of a nostalgia genre and are not subject to the same pressures of downloading and pirating due to the low price nature of the products.

### **Information on Redworth**

A partnership trading under the name "Music Box" was established by Trevor Allan and members of his family in 1996. In 1998 MBL was incorporated and in 2002 a holding company, Redworth, was established.

MBL distributes audio, visual and multi-media products to retailers via a "one stop shop" approach to the supply of CDs, cassettes, videos, DVDs and computer software. MBL seeks to offer a product mix and range of titles to retailer customers for whom audio, visual and multi-media products are not their main sales offering, including supermarkets, discount retailers, ferries and motorway retailers. These customers require a supplier who can maximise profit on return from the space provided and increase the 'average basket spend' within their stores. Recently, Redworth incorporated Entertainment Solutions Direct, a wholesaler of CDs and DVDs.

MBL aims to maximise product turn by creating a varied title range for each chosen retailer. It sources products from all major audio and visual companies including Sony, Warners, Disney and Universal. MBL's store sales representatives visit customers on a frequent basis. MBL's largest customer is a large supermarket chain and the maintenance of this relationship is therefore very important. Depending on the level of service agreed with the customer, in addition to supplying the customer's title range, some of the field sales team also keep the sales area tidy, place orders for restocking and ensure there is no significant duplication of titles. Typically, MBL creates a multi-buy range with a diverse selection of products without following exclusively either the chart or budget route. Redworth has grown to its current size through organic growth to reach its current turnover of over £37 million per annum.

The table below shows a summary of the profit and loss account for Redworth for the 7 month period ended 31 March 2003 and the year ended 31 March 2004:

	<i>7 months ended</i> <i>31 March 2003</i> <i>£'000</i>	<i>Year ended</i> <i>31 March 2004</i> <i>£'000</i>
Turnover	21,324	37,081
Operating profit	1,756	3,684
Profit after tax	1,178	2,377

Further financial information on Redworth can be found in Part IV of this document. Prospective investors should read the whole of this document and should not rely on the summary of information set out above.

### **Background to and reasons for the Acquisition**

The Directors and Proposed Directors believe that by combining the business of Air Music and MBL by way of the Acquisition, the Enlarged Group will derive the following benefits:

- the product ranges of Air Music and MBL are complementary and they supply different customers, so there is good opportunity to cross sell products;
- MBL's control of shelf space at store level will afford a direct route to market for the Group's products. The Enlarged Group intends to develop proprietary ranges of products from copyright owned or licensed by the Group, thus retaining third party profit costs in-house;
- the combined sales team provides an opportunity to increase sales turnover;
- a new sales opportunity exists for the Group's international sales team to offer MBL products overseas. The Group supplies 55 countries worldwide primarily through wholesalers. These wholesalers source products similar to those stocked by MBL from MBL's competitors. The Directors and Proposed Directors believe that the Enlarged Group would be able to offer MBL third party goods to this market thus generating incremental sales to existing customers; and
- MBL's warehousing and distribution resources will enable the Group to reduce its reliance on out-sourced warehousing and distribution services over the medium-term, thus generating increased efficiency and cost savings.

Please also see the risk factors set out in Part II of this document.

### **Terms of the Acquisition**

Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire the entire issued share capital of Redworth from the Vendors for an initial consideration of £27.6 million. The consideration for the Acquisition is to be satisfied on Completion by the issue of 100,000,000 Consideration Shares, by the issue of £1,615,297 of Loan Notes (to be constituted conditional on Admission) and a cash payment of £15,984,703 (of which £2,600,000 shall be payable within 48 hours of Completion or the next business day immediately after such period). The terms of the Loan Notes are set out in paragraph 12 of Part VII of this document.

In addition, there may be further consideration determined by the future financial performance of Redworth. Any additional consideration due to the Vendors will be satisfied by the allotment and issue to them of Deferred Consideration Shares provided that the maximum number of Deferred Consideration Shares that can be issued does not increase the aggregate shareholding of the Vendors over 49.99 per cent. of the then enlarged issued share capital. In the event that the amount of further consideration payable is such that it exceeds the value of the maximum number of Deferred Consideration Shares that may be issued, the balance of the consideration will be payable in cash.

The Acquisition Agreement is conditional, *inter alia*, on the passing of the Resolutions numbered 6 to 11 by the Shareholders, the grant of the Waiver and Admission.

Further details of the Acquisition Agreement are set out in paragraph 12 of Part VII of this document.

### **Lock-ins and orderly market arrangements**

Following Admission, the Vendors will have interests in an aggregate of 100,000,000 Ordinary Shares, representing approximately 27.03 per cent. of the Enlarged Issued Share Capital, and could be issued Deferred Consideration Shares. The Vendors have undertaken to the Company and Seymour Pierce not to dispose of such interests (except in certain limited circumstances) for a period of 12 months following Admission and to comply with certain orderly market arrangements for the next 12 months thereafter.

### **Reasons for the Placing and use of funds**

The Placing is being undertaken by the Company to help fund the cash element of the consideration due to be paid to the Vendors under the Acquisition Agreement and the costs associated with making the Acquisition and the Placing.

### **Details of the Placing**

On behalf of the Company, Seymour Pierce has conditionally placed a total of 64,075,000 Placing Shares, at the Placing Price, to raise £5,126,000 before expenses. It is estimated that the net cash proceeds of the Placing will be £4,581,000. The Placing has been fully underwritten by Seymour Pierce, conditional, *inter alia*, on completion of the Acquisition and Admission.

The Placing Shares will represent approximately 17.32 per cent. of the Enlarged Issued Share Capital and will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares.

The Placing is conditional, *inter alia*, upon the passing of the Resolutions numbered 6 to 11, completion of the Acquisition, the grant of the Waiver by the Panel, completion of the Acquisition Agreement and Admission. It is expected that Admission will become effective and that dealings in the Enlarged Issued Share Capital will commence on 7 October 2004 (or such later date, being not later than 20 October 2004, as Seymour Pierce and the Company may agree). If Admission has not so occurred, application monies will be returned to applicants without interest as soon thereafter as is practicable.

Further details of the Placing Agreement are set out in paragraph 12 of Part VII of this document.

### **Details of the Loan Facility**

The Company has entered into a conditional loan facility with Barclays Bank PLC pursuant to which it can borrow up to £10,000,000 for the purposes of funding, in part, the security arrangements in respect of the Loan Notes and the cash element of the consideration payable to the Vendors under the Acquisition Agreement and to provide working capital. The Loan Facility is conditional, *inter alia*, on the passing of the Resolutions numbered 6 to 11 by the Shareholders, the grant of the Waiver by the Panel and Admission. The Company's obligations under the Loan Facility will be secured by fixed and floating charges over the assets of the Group.

Further details of the Loan Facility are set out in paragraph 12 of Part VII of this document.

## Current Trading

The results of the Group for the three years ended 31 March 2004 are set out in the accountants' report in Part III of this document. The table below sets out a summary of the consolidated results of the Group for the three years ended 31 March 2004.

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
<b>Turnover</b>			
Continuing operations	3,447	5,116	14,162
Acquisitions	927	2,916	1,598
Total turnover	<u>4,374</u>	<u>8,032</u>	<u>15,760</u>
<b>Operating profit</b>			
Continuing operations – recurring	576	557	1,469
Acquisitions	247	447	246
Total operating profit	<u>823</u>	<u>1,004</u>	<u>1,715</u>
<b>Profit after tax</b>	<u>523</u>	<u>593</u>	<u>1,047</u>

The Directors are encouraged by sound trading in the first four months of the current financial year (being the period for which financial information is available) with performance in line with their expectations.

## Directors and Employees

Summaries of the Directors' service contracts are set out at paragraph 7 of Part VII of this document, which also sets out the terms of the proposed service contracts for the Proposed Directors.

### *Directors*

#### **John French, aged 65, Non-executive Chairman**

John French has had extensive experience in media and marketing having established his own company, F. John French Agency Limited, which he sold to Osprey Communications plc ("Osprey"). As chairman and chief executive of Osprey, he oversaw its development into a broad based marketing services group through both core growth and acquisition. During this period the company represented such major names as British Gas and Jaguar Cars. He resigned from the board of Osprey upon its acquisition of the SMS Group. John was also actively involved in the redevelopment of Cosalt plc, a fully listed company with interests in caravan manufacture, rope and twine and ships' chandlery.

John is currently the chairman of Cromia Group plc, an AIM listed company which originates and markets surveillance equipment and systems with civil and military applications. He is also the chairman of the Claims People Group plc, an AIM listed company which provides loss adjustment services. John is also a non-executive director of Avanti Screenmedia Group plc, an AIM listed company which provides in-store television services.

#### **Mark Frey, aged 46, Chief Executive**

Mark Frey has been the Chief Executive of the Group since its formation in 1995. He is responsible for the overall management of the Company and identifying new acquisition opportunities. Mark has over 19 years' experience in the production, trading and exploitation of music copyrights. Between 1993 and 1994 Mark was joint chief executive of Tring International Group plc, which listed on the Official List of the London Stock Exchange in 1994 with a market capitalisation of £50 million.

#### **Michael Infante JP, aged 47, Commercial and Marketing Director**

Michael Infante JP co-founded the Group with Mark Frey in 1995. He is responsible for the acquisition and licensing of music catalogues and the Group's marketing activities. Michael has over ten years' experience

of the production, trading and exploitation of music copyrights. Michael was head of marketing and recording projects of Tring International Group plc for three years and was the managing director of The Long Island Music Company Limited, one of Tring International Group plc's subsidiaries, between July 1995 and December 1995. Prior to this he was sales and marketing director of a subsidiary of Hazlewood Foods plc.

**Ruth Salsbury, aged 36, Finance Director**

Ruth Salsbury joined the Group as Finance Director in 1999. Ruth was initially responsible for strengthening the Group's financial and commercial functions and has since been responsible for the financial integration of the companies acquired by the Group. Ruth qualified as a chartered certified accountant in 1992 with Casson Beckman. From 1995 to 1999, Ruth was chief accountant of NVC Arts Limited, a subsidiary of Warner Music International Services Limited.

**Ivan Taylor, aged 53, Executive Director**

Ivan Taylor joined the Group as Sales Director in 1996. As well as his responsibility for Group product sales, Ivan is the managing director of GFSL. Between 1993 and 1996 Ivan was the UK sales manager for Tring International Group plc. Ivan has more than 22 years' experience of sales management, having previously worked in the food industry and for a distribution business.

Ivan Taylor will step down from the Board after the AGM to concentrate on his operational responsibilities as a director of Air Music & Media Limited.

**Roger Putnam, aged 59, Non-executive Director**

Roger Putnam is the chairman of Ford in Britain and began his career at Lotus Cars in 1966 before moving to JCL Marine Limited as a director of sales and marketing. He returned to Lotus as a director of sales and marketing in 1976. Later that year, he joined Jaguar Cars as a director of marketing and UK sales operations, before being appointed to its board in 1986 as director of sales and marketing. As well as being chairman of the Jaguar Daimler Heritage Trust and a trustee of both the British Motor Industry Heritage Trust and the National Motor Museum at Beaulieu, Roger is also a member of the CBI Presidents Committee, a director of the Society of Motor Manufacturers and Traders and an assistant to the Court of the Worshipful Company of Coachmakers and Coach Harness Makers. He is also non-executive chairman of Halcyon Days Limited.

**Proposed Directors**

**Trevor Allan, aged 39, Managing Director**

Trevor Allan founded the business currently undertaken by Redworth in 1996 and is currently the managing director of Redworth. Trevor started his career as a sales representative in 1984 and became a national accounts manager at Lifetime Entertainment (now Handleman U.K. Limited), a UK supplier and merchandiser of home entertainment products, where he was employed from 1988 until 1996. Trevor has more than 20 years of experience in the business of selling music and DVD products.

**Janice Beer, aged 42, Executive Director**

Jan Beer is currently the sales director of Redworth and started her career in merchandising in 1986. Jan was employed by a number of companies in sales and distribution roles before joining Lifetime Entertainment (now Handleman U.K. Limited), a UK supplier and merchandiser of home entertainment products, as a national account manager in 1992. Jan became the new business development manager at Lifetime Entertainment before joining as sales director of MBL in 1997.

**Alexander Sorrell, aged 37, Executive Director**

Alex Sorrell graduated from Edinburgh University in 1989, as a Bachelor of Commerce (Hons) in Business Studies and Accountancy. He trained with Price Waterhouse from 1989 to 1992 and qualified as a chartered accountant with the Institute of Chartered Accountants in Scotland. He was an audit manager, specialising in retail, with Price Waterhouse in Los Angeles from 1992 to 1995 and an audit and advisory senior manager,

specialising in entertainment and media, with PricewaterhouseCoopers in Manchester from 1995 to 2002. Alex became the finance director of Redworth and its subsidiaries in 2002.

### ***Employees***

The Board has given assurances to the Vendors that the existing employment contracts, including the pension rights, of all employees of the Redworth Group will be fully safeguarded and will be eligible to participate in the Company's share option schemes.

The Directors and the Proposed Directors have confirmed that the existing employment contracts, including the pension rights, of all employees of Air Music will be fully safeguarded.

### **Corporate Governance**

The Board recognises the importance of sound corporate governance and the Directors and the Proposed Directors intend to ensure that, following Admission, the Company continues to apply policies and procedures which reflect the principles of Good Governance and the Code of Best Practice as published by the Committee on Corporate Governance (commonly known as "the Combined Code") as are appropriate to the Company's size.

The Company has an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. The Audit Committee consists of John French and Roger Putnam. The Remuneration Committee also consists of John French and Roger Putnam. The Audit Committee will determine the terms of engagement of the Enlarged Group's auditors and will determine, in consultation with the auditors, the scope of the audit. The Audit Committee will receive and review reports from management and the Enlarged Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Enlarged Group. The Audit Committee will have unrestricted access to the Enlarged Group's auditors.

The Remuneration Committee will continue to review the scale and structure of the executive directors' and senior employees' remuneration and the terms of their service or employment contracts, including any share option scheme adopted by the Company and other bonus arrangements. It is proposed that the remuneration of executive directors be reviewed after the Completion of the Acquisition, but no later than 31 January 2005.

The Directors and the Proposed Directors intend to comply with Rule 19 of the AIM Rules relating to directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Enlarged Group's applicable employees.

### **Dividend Policy**

It is the intention of the Directors and the Proposed Directors to focus on achieving capital growth. It is therefore inappropriate to make a forecast of the likely level or timescale for the payment of any future dividends. The Directors and the Proposed Directors intend to keep the dividend policy under review.

### **Taxation**

Information regarding taxation is set out in paragraph 15 of Part VII of this document. If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.

### **CREST**

The Ordinary Shares are eligible for CREST settlement. Accordingly, settlement of transactions in the Existing Ordinary Shares and the New Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

## **The City Code on Takeovers & Mergers**

**The issue of the Consideration Shares and the Deferred Consideration Shares to the Vendors pursuant to the Acquisition Agreement gives rise to certain considerations under the Code. Brief details of the Panel, the Code and the protections they afford to Shareholders are described below.**

**The Code has not, and does not seek to have, the force of law. It has, however, been acknowledged by both government and other regulatory authorities that those who seek to take advantage of the facilities of the securities markets in the UK should conduct themselves in matters relating to takeovers in accordance with high business standards and so according to the Code.**

**The Code is issued on behalf of the Panel. The Code applies to all takeovers and merger transactions, however effected, where the offeree company is, *inter alia*, a listed or unlisted public company resident in the UK, the Channel Islands or the Isle of Man and to certain categories of private limited companies. Air Music is such a company and its Shareholders are entitled to the protections afforded by the Code.**

**Under Rule 9 of the Code (“Rule 9”), where any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company that is subject to the Code, that person is normally required by the Panel to make a general offer to the shareholders of that company to acquire the balance of the equity share capital of the company.**

**Similarly, where any person or persons acting in concert already hold more than 30 per cent. but not more than 50 per cent. of the voting rights of such a company, a general offer will normally be required if any further shares are acquired.**

**An offer under Rule 9 must be in cash and at the highest price paid within the preceding twelve months for any shares in the Company by the person required to make the offer or any person acting in concert with him.**

**Under the Code, a concert party arises where persons acting together pursuant to an agreement or understanding (whether formal or informal) actively co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate control of that company. Control means holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether the holding or holdings give *de facto* control.**

**The Concert Party consists of the Vendors, who, for the purposes of the Code, are all deemed to be acting in concert by virtue of the fact that they are all shareholders in a private company.**

**On Admission, the Concert Party will hold 100,000,000 Ordinary Shares in aggregate, representing approximately 27.03 per cent. of the Enlarged Issued Share Capital. In addition, under the Acquisition Agreement, deferred consideration of a value of up to £10,000,000 may also be payable, subject to the achievement by Redworth of certain profit targets, such deferred consideration to be satisfied by the allotment and issue of up to 169,851,769 Deferred Consideration Shares to the Concert Party (based on the Potential Enlarged Issued Share Capital and assuming no other issues of Ordinary Shares before that time). If this maximum number of Deferred Consideration Shares are issued, the earliest opportunity being 15 May 2005, the Concert Party will hold Ordinary Shares in aggregate, representing approximately 49.99 per cent. of the then enlarged issued share capital fully diluted by the maximum number of Deferred Consideration Shares.**

**Details of each member of the Concert Party are set out in paragraph 9 of Part VII of this document. The shareholdings of each member of the Concert Party following Admission and following the issue of the Deferred Consideration Shares are set out in paragraph 4.1 of Part VII of this document. No member of the Concert Party currently holds Ordinary Shares.**

**The Panel has agreed, subject to Resolution 7 being passed on a poll by independent shareholders at the AGM, to waive the obligation on the Concert Party, under Rule 9, to make a general offer for the entire issued share capital of the Company which would otherwise arise on completion of the Proposals and the issue of the Deferred Consideration Shares. Accordingly, independent shareholders’ approval for the waiver of the obligations under Rule 9 is sought in Resolution 7.**

**Immediately following Admission, the Concert Party will hold less than 30 per cent. of the Company's Enlarged Issued Share Capital. However, if the maximum number of Deferred Consideration Shares are issued (assuming no other issues of Ordinary Shares before that time), the Concert Party will hold Ordinary Shares, representing approximately 49.99 per cent. of the issued ordinary share capital of the Company as enlarged by the issue of the maximum number of Deferred Consideration Shares (assuming no other issues of Ordinary Shares). So long as the Concert Party controls 30 per cent. or more but less than 50 per cent. of the voting rights of the Company, the Concert Party would not be able to increase its holding in the Company without incurring an obligation under Rule 9 to make a general offer to other shareholders, even if no Deferred Consideration Shares are issued.**

### **Articles of Association**

Since the adoption of the Existing Articles, there have been certain developments in the legislation relating to the use of electronic communications, treasury shares and CREST. In addition, certain investor bodies require that the articles of association of listed companies are reviewed regularly to ensure they remain in keeping with modern business practices. It is proposed that the New Articles, which reflect such legal developments and corporate governance practices, be adopted and the adoption of the New Articles is proposed in Resolution number 11.

Your attention is drawn to the summary of the principal amendments to the Existing Articles as incorporated in the New Articles, which appears in paragraph 11 of Part VII of this document.

### **AGM**

The approval of the Shareholders in relation to the Proposals would normally be sought at an extraordinary general meeting of the Company. As the timing for such approval coincides with the proposed holding of the AGM of the Company, the approval of the Shareholders will be sought by the tabling of Resolutions 6 to 11 as special business at the AGM.

You will find set out at the end of this document a notice convening the AGM of the Company to be held at 10 a.m. on 6 October 2004 at Nicholson Graham & Jones, 110 Cannon Street, London EC4N 6AR, for the purpose of considering and if thought fit, passing the Resolutions.

At the AGM, ordinary resolutions will be proposed to receive and adopt the directors' report and audited accounts for the financial year ended 31 March 2004, to re-elect Directors retiring by rotation, to reappoint Kingston Smith as auditors of the Company and to authorise the Directors to fix the remuneration of the auditors.

Resolutions 6 to 11 will, if passed:

1. approve the Acquisition on the terms set out in the Acquisition Agreement;
2. approve the issue of the Consideration Shares and the Deferred Consideration Shares to the Concert Party for the purposes of the waiver of the obligations contained in Rule 9.1 of The City Code on Takeovers and Mergers which would result in the Concert Party having an aggregate shareholding representing up to 49.99 per cent. of the issued share capital of the Company;
3. increase the authorised share capital of the Company from £10,000,000 to £20,000,000 by the creation of 400,000,000 new Ordinary Shares. This represents an increase of 100 per cent. over the previous authorised share capital of the Company. The principal reason for such increase is to enable the Directors to issue the Consideration Shares, the Placing Shares and the Deferred Consideration Shares and to leave an appropriate margin of authorised but unissued share capital following the Placing and the Acquisition;
4. authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities pursuant to section 80 of the Act up to an aggregate nominal amount of:
  - (i) £6,746,294.23 in connection with the Acquisition;
  - (ii) £1,601,875 in connection with the Placing; and
  - (iii) £4,623,821 generally.



In aggregate, this authority represents approximately 252 per cent. of the issued share capital of the Company. If passed, this authority will expire on the earlier of 5 January 2006 and the conclusion of the next Annual General Meeting of the Company. Other than the issue of the Consideration Shares, the Deferred Consideration Shares and the Placing Shares, the Directors have no present intention of issuing any authorised but unissued share capital of the Company (except any shares issued pursuant to the Company's EMI option scheme);

5. disapply the provisions of section 89 of the Act and in so doing empower the Directors pursuant to section 95(1) of the Act to allot equity securities for cash pursuant to the authority referred to in paragraph 4 above up to an aggregate nominal amount of £2,989,021.55. If given, this power will expire at the same time as that authority; and
6. adopt the New Articles in substitution for the Existing Articles.

If the Resolutions are duly passed, the authorised share capital of the Company will be £40,000,000 divided into 800,000,000 Ordinary Shares. The Board will be authorised to allot the Consideration Shares and the Placing Shares, following which there will be 430,094,253 unissued Ordinary Shares, of which the Board will be authorised to allot up to 169,851,769 Deferred Consideration Shares pursuant to the Acquisition Agreement, and to allot a further 55,485,862 Ordinary Shares (representing approximately 15 per cent. of the Enlarged Issued Share Capital) on a non pre-emptive basis.

#### **Irrevocable Undertakings to approve the Proposals**

John French, Mark Frey, Michael Infante JP and Ivan Taylor, Directors of Air Music, have each irrevocably undertaken to vote in favour of the Resolutions numbered 6 to 11 at the AGM in respect of their beneficial holdings of 111,450,000 Ordinary Shares in aggregate, which represent approximately 54.2 per cent. of the current issued ordinary share capital of the Company.

#### **Further information**

**Your attention is drawn to Parts II to VII of this document which provide additional information.**

#### **Action to be taken**

Shareholders are asked to complete and return the Form of Proxy enclosed with this document to the Company's registrars, Neville Registrars, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, as soon as possible so as to arrive no later than 10 a.m. on 4 October 2004. The completion and return of the Form of Proxy will not preclude Shareholders from attending the AGM and voting in person should they wish to do so. Accordingly, whether or not shareholders intend to attend the AGM they are asked to complete and return the enclosed Form of Proxy as soon as possible.

#### **Recommendation**

**The Directors, having been so advised by Seymour Pierce, consider the terms of the Acquisition and the Waiver to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole. In providing advice to the Board, Seymour Pierce has taken into account the commercial assessments of the Directors.**

**Accordingly, the Directors unanimously recommend that all Shareholders vote in favour of the Resolutions numbered 6 to 11 as they have undertaken to do in respect of their own beneficial holdings of 111,450,000 Ordinary Shares, representing approximately 54.2 per cent. of the current issued ordinary share capital of the Company.**

Yours faithfully

John French  
*Chairman*

## PART II

### RISK FACTORS

In addition to the other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment opportunity offered in this document may not be suitable for all of its recipients. **If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.** In this Part II, “the Group” shall mean the Group or the Enlarged Group, as the context requires. There are various risk and other factors associated with an investment of the type described in this document. In particular:

1. A substantial percentage of the Group’s product range is derived from copyrights licensed from third party licensors. The duration of these licences varies. The future growth of the Group will depend in part on the ability of the Directors and the Proposed Directors to retain and renew its existing music copyright licences.
2. The Group has a limited number of direct customers and its sales and profitability are therefore reliant on relatively few sources. MBL is particularly reliant on its relationship with a large supermarket chain. In addition, in several cases there is no long-term agreement in place with the relevant customer and the Group simply invoices the relevant customer for relevant deliveries.
3. The future growth of the Group will depend in part on the ability of the Directors and the Proposed Directors to identify and license or acquire suitable music copyright and to identify and acquire attractive opportunities to acquire music product distribution businesses.
4. The record labels and DVD labels used by the Group in its business are not registered trade marks of the Group. This means that third parties may be able to use or register record label trade marks which are identical or similar to those which will be used by the Group. Depending upon the circumstances, such use or registration could therefore result in the Group ceasing to be able to use its existing labels.
5. The sales of the Group are seasonal, with the pre-Christmas period being the time of strongest sales. The success of the Group depends on effective stock management in meeting demand and maintaining cash flow.
6. In order to fund the Group’s expansion plans in the longer term, and in particular to fund future acquisitions, it may be necessary to raise further funds by way of equity or debt or a combination of both. The Group’s expansion plans may be constrained to the extent that it is unable to raise further equity finance or that banks are not willing to provide the additional debt and other facilities required.
7. The success of the Group, in common with other businesses of a similar size, has been, and will be, dependent on the expertise and experience of its directors and senior management. Measures are in place and are under review to reward and retain key individuals and to protect the Group from the impact of staff turnover. However, risks in this area cannot be totally eliminated.
8. While the budget price market in which the Group operates is not dominated by large international music organisations, the Group faces competition from market participants which may have greater financial resources than the Group.
9. Like other music industry participants, the advent of the purchase of music tracks and DVDs via the internet may pose a threat to the Group’s business. The Directors and the Proposed Directors consider that the nature and pricing of the Group’s products mean that the Group is less likely to be threatened by internet downloading than equivalent businesses dealing with chart or fashion music.
10. AIM is not the Official List. It is a market designed primarily for emerging or smaller companies. The market in the Company’s shares may therefore be relatively illiquid or subject to fluctuations. Consequently, it may be more difficult for investors to realise their investment in the Company.

11. The price which investors may realise for their holding of Ordinary Shares, when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others of which are extraneous. Investors may realise less than the original amount invested by them.

## PART III

### ACCOUNTANTS' REPORT ON AIR MUSIC & MEDIA GROUP PLC

The Directors  
Air Music & Media Group Plc  
Chiltern House  
184 High Street  
Berkhamsted  
Herts  
HP4 3AP

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London  
EC4N 8EL

13 September 2004

Gentlemen

#### AIR MUSIC & MEDIA GROUP PLC

We report on the financial information set out in Part III of the Prospectus of Air Music & Media Group PLC (“Air Music” or the “Company”) dated 13 September 2004 (“Prospectus”). This financial information has been prepared for inclusion in the Prospectus.

#### **Basis of Preparation**

The financial information set out in Part III of the Prospectus is based on the audited financial statements of Air Music for the period from 1 April 2001 to 31 March 2004. It has been prepared on the basis set out below, to which no adjustments were considered necessary.

#### **Responsibility**

Such financial statements are the responsibility of the directors of Air Music who approved their issue.

The directors of Air Music are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of Opinion**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audits of the financial statements for the three years ended 31 March 2004. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion the financial information gives, for the purpose of the Prospectus, a true and fair view of the state of affairs of Air Music at the dates stated and of its results for the periods then ended.

**Consent**

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

**Kingston Smith**

*Chartered Accountants and Registered Auditors*

60 Goswell Road

London

EC1M 7AD

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	<i>Year to 31 March 2002 £</i>	<i>Year to 31 March 2003 £</i>	<i>Year to 31 March 2004 £</i>
<b>Turnover</b>	2			
Continuing operations		3,447,324	5,116,180	14,161,711
Acquisitions		927,049	2,915,855	1,598,363
		<u>4,374,373</u>	<u>8,032,035</u>	<u>15,760,074</u>
<b>Cost of Sales</b>				
Continuing operations		(1,864,039)	(3,240,482)	(9,913,577)
Acquisitions		(443,912)	(2,111,653)	(1,114,549)
		<u>(2,307,951)</u>	<u>(5,352,135)</u>	<u>(11,028,126)</u>
<b>Gross Profit</b>				
Continuing operations		1,583,285	1,875,698	4,248,134
Acquisitions		483,137	804,202	483,814
		<u>2,066,422</u>	<u>2,679,900</u>	<u>4,731,948</u>
<b>Administrative Expenses</b>				
Continuing operations		(1,137,913)	(1,319,126)	(2,779,591)
Acquisitions		(236,007)	(356,725)	(237,389)
		<u>(1,373,920)</u>	<u>(1,675,851)</u>	<u>(3,016,980)</u>
Other operating income		130,000	–	–
<b>Group operating profit</b>	3	<u>822,502</u>	<u>1,004,049</u>	<u>1,714,968</u>
Interest receivable and similar income	4	2,162	1,738	8,812
Interest payable and similar charges	5	(20,893)	(97,126)	(107,103)
<b>Profit on ordinary activities before taxation</b>		<u>803,771</u>	<u>908,661</u>	<u>1,616,677</u>
Taxation	7	(280,912)	(315,869)	(569,601)
<b>Profit on ordinary activities after taxation</b>		<u>522,859</u>	<u>592,792</u>	<u>1,047,076</u>
Dividends on equity shares		–	–	–
<b>Retained profit for the financial year for the Group</b>	19	<u>522,859</u>	<u>592,792</u>	<u>1,047,076</u>
<b>Basic earnings per share</b>	8	<u>0.43p</u>	<u>0.42p</u>	<u>0.58p</u>
<b>Diluted earnings per share</b>	8		<u>0.41p</u>	<u>0.56p</u>

There are no recognised gains or losses in the year other than the profit for the year.

## CONSOLIDATED BALANCE SHEET

		<i>As at</i> <i>31 March</i> <i>2002</i> £	<i>As at</i> <i>31 March</i> <i>2003</i> £	<i>As at</i> <i>31 March</i> <i>2004</i> £
<b>Fixed Assets</b>				
Intangible assets	10	3,071,330	8,809,484	7,994,407
Tangible assets	11	46,865	77,907	156,579
		<u>3,118,195</u>	<u>8,887,391</u>	<u>8,150,986</u>
<b>Current Assets</b>				
Stock	13	670,084	1,811,002	1,550,234
Debtors	14	1,407,987	3,300,487	6,061,041
Cash at bank and in hand		268,788	1,223,425	2,223,399
		<u>2,346,859</u>	<u>6,334,914</u>	<u>9,834,674</u>
<b>Creditors: Amounts falling due within one year</b>	15	<u>(1,953,224)</u>	<u>(5,202,582)</u>	<u>(7,582,226)</u>
<b>Net Current Assets</b>		<u>393,635</u>	<u>1,132,332</u>	<u>2,252,448</u>
<b>Total Assets Less Current Liabilities</b>		<u>3,511,830</u>	<u>10,019,723</u>	<u>10,403,434</u>
<b>Creditors: Amounts falling due after more than one year</b>	16	(1,720,000)	(5,791,782)	(2,769,445)
<b>Provisions for liabilities and charges</b>				
Deferred tax	20	(142,727)	(2,228)	–
<b>Net assets</b>		<u>1,649,103</u>	<u>4,225,713</u>	<u>7,633,989</u>
<b>Capital and reserves</b>				
Called up share capital	19	3,043,383	4,124,543	4,931,658
Share premium	19	365,075	1,267,733	2,824,689
Profit and loss account	19	1,040,441	1,633,233	2,677,438
Merger reserve	19	(2,799,796)	(2,799,796)	(2,799,796)
<b>Shareholders' Funds</b>		<u>1,649,103</u>	<u>4,225,713</u>	<u>7,633,989</u>

## CONSOLIDATED CASHFLOW STATEMENT

		<i>Year ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
<b>Net cash inflow from operating activities</b>	24	652,763	823,200	1,384,703
<b>Returns on Investments and Servicing of Finance</b>				
Interest received		2,162	1,738	8,812
Interest paid		(20,893)	(97,126)	(95,711)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(18,731)	(95,388)	(86,899)
<b>Taxation</b>				
Corporation tax paid		(156,302)	(206,581)	(556,731)
<b>Capital Expenditure and Financial Investment</b>				
Payments to acquire tangible fixed assets		(26,650)	(33,054)	(75,058)
Receipts from sale of tangible fixed assets		–	5,267	13,406
Payments to acquire intangible fixed assets		(2,176,264)	(396,362)	(693,973)
Receipts from sale of intangible fixed assets		–	–	73,979
<b>Net cash outflow from capital expenditure and financial investment</b>		(2,202,914)	(424,149)	(681,646)
<b>Acquisitions and disposals</b>				
Purchase of subsidiary undertaking	27	(434,853)	(860,342)	(419,627)
Net cash acquired with subsidiary	27	94,057	1,478	–
Deferred consideration paid for subsidiary		–	–	(81,250)
		(340,796)	(858,864)	(500,877)
<b>Financing</b>				
Receipts from bank loan		1,880,000	–	–
Issuing of ordinary share capital		–	1,650,000	1,975,000
Expenses paid in connection with share issue		–	(416,182)	(67,175)
Repayments of short term debt		–	–	(651,145)
Repayments of long term debt		–	(2,103,855)	(295,577)
Hire purchase repayments		–	–	(17,465)
New secured loan repayable 2009		–	1,812,359	–
New short term borrowings		–	650,000	–
<b>(Decrease)/Increase in cash in the year</b>	26	(185,980)	830,540	502,188



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1 Principal Accounting Policies**

*Accounting basis and standards*

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

*Basis of Consolidation*

The Group accounts consolidate the accounts of Air Music and all its subsidiary undertakings up to the balance sheet date. The acquisition of Air Music & Media Limited and its subsidiary undertakings has been accounted for under ‘Merger accounting principles’ as set out in FRS6. Accordingly, the results in the year of acquisition are for a full 12 month period and the comparatives are those of Air Music & Media Limited for 12 months.

The purchase of Legacy Entertainment, Ontario Limited, Hollywood DVD Limited and the Original Record Company Limited have been accounted for in accordance with acquisition accounting and hence these results are shown from the date of acquisition.

*Turnover*

Turnover represents the invoiced value of goods sold and services provided net of value added tax.

*Depreciation*

Depreciation on fixed assets is provided at rates estimated to write off the cost, less estimated residual value of each asset, over its expected useful life, as follows:

Plant and machinery	33.3% straight line
Fixtures, fittings and equipment	10%/25%/33.3%/50% straight line
Motor vehicles	33.3%

*Amortisation*

Amortisation on intangible fixed assets is provided at rates estimated to write off the cost of each asset over its useful economic life, as follows.

Catalogue rights, licences, masters and artwork	5% – 33.3% straight line
Goodwill	5% straight line

*Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition.

*Deferred taxation*

Full provision has been made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation, calculated at a rate at which it is estimated that tax will be payable.

*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 the rental obligations is charged to the Profit and Loss Account over the period of the lease on a straight line basis.

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

### *Royalties*

Royalties due to the Mechanical Copyright Protection Society are calculated and accounted for on the basis of pressings made, except in New Sound Limited where they are payable and accounted for on the basis of sales made. Other royalties are accounted for, where relevant, when the sale is made.

### *Foreign Currencies*

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

### *Intangible fixed assets*

Catalogue rights and licences are capitalised at cost.

### *Pension scheme arrangements*

The Group makes contributions to a money purchase contribution scheme, the assets of the scheme being held separately from the assets of the company. The pension cost charge represents contributions payable to the scheme.

## **2 Turnover**

	2002 £	2003 £	2004 £
<b>Principal Activities:</b>			
Distribution and manufacture of media products – continuing activities	4,374,373	8,032,035	15,760,074

The geographical analysis of turnover is as follows:

	2002 £	2003 £	2004 £
United Kingdom	1,366,485	4,034,043	9,692,131
Europe	1,450,894	1,498,998	1,408,280
North America	1,142,128	2,009,309	3,579,654
Africa	6,122	27,650	228,719
Asia	4,026	26,870	–
Rest of the World	404,718	435,165	851,290
	<u>4,374,373</u>	<u>8,032,035</u>	<u>15,760,074</u>

## **3 Operating Profit**

	2002 £	2003 £	2004 £
The operating profit is stated after charging:			
Auditors' remuneration	19,778	24,000	26,000
Auditors' remuneration – non audit services	–	102,325	96,464
Depreciation – owned tangible fixed assets	21,954	40,475	57,504
Depreciation – assets held under hire purchase	–	–	7,250
Amortisation – Goodwill	25,466	123,424	189,003
Amortisation – Intangible assets	195,352	241,459	341,146
Loss on foreign exchange	9,293	64,532	70,032
Other operating lease rentals	73,500	114,347	150,904
Aborted flotation and acquisition costs	55,822	–	–

#### 4 Interest Receivable and similar income

	2002	2003	2004
	£	£	£
Bank interest received	2,162	1,738	8,749
Interest received on tax refund	–	–	63
	<u>2,162</u>	<u>1,738</u>	<u>8,812</u>

#### 5 Interest Payable and similar charges

	2002	2003	2004
	£	£	£
Bank overdraft and loan interest	19,764	94,708	89,731
Interest on overdue taxation	1,129	1,738	14,337
Other interest	–	680	3,035
	<u>20,893</u>	<u>97,126</u>	<u>107,103</u>

#### 6 Directors and Employees

	2002	2003	2004
	£	£	£
Total directors' remuneration	<u>370,256</u>	<u>460,784</u>	<u>448,641</u>

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

	2002	2003	2004
Selling and distribution	12	19	17
Administration	11	19	19
	<u>23</u>	<u>38</u>	<u>36</u>

Their total remuneration was:

	2002	2003	2004
	£	£	£
Wages and salaries	615,313	855,400	1,156,405
Social Security costs	54,841	80,207	105,201
Other pension costs	3,000	–	–
Compensation for loss of office	15,000	–	–
	<u>688,154</u>	<u>935,607</u>	<u>1,261,606</u>

The number of directors receiving contributions into a money purchase scheme is 1.

For the highest paid director:

Aggregate emoluments	104,911	105,319	127,167
Aggregate pension contributions	3,000	–	–
	<u>107,911</u>	<u>105,319</u>	<u>127,167</u>

## 7 Taxation

	2002	2003	2004
	£	£	£
<i>(a) Analysis of charge in period</i>			
<b>Current tax:</b>			
UK Corporation tax on profits of the period (Note 7(b))	231,289	283,354	561,962
Foreign tax	43,042	30,736	–
Adjustment in respect of prior year	5,031	5,030	13,657
	<u>279,362</u>	<u>319,120</u>	<u>575,619</u>
<b>Deferred tax:</b>			
Origination and reversal of timing differences	1,550	(3,251)	(1,518)
Adjustment re prior years	–	–	(4,500)
	<u>–</u>	<u>–</u>	<u>(4,500)</u>
<b>Tax on profit on ordinary activities</b>	<u>280,912</u>	<u>315,869</u>	<u>569,601</u>
<i>(b) Factors affecting tax charge for the period</i>			
The tax assessed for the period is higher/lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:			
<b>Profit on ordinary activities before tax</b>	<u>803,771</u>	<u>908,661</u>	<u>1,616,677</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0%	241,131	272,598	485,003
<b>Effects of:</b>			
Expenses not deductible for tax purposes	53,479	26,388	70,005
Depreciation for period in excess of capital allowances	–	1,410	5,997
Effect of small company relief	–	–	(6,502)
Utilisation of tax losses	(4,997)	19,984	–
Adjustments to tax in respect of previous years	5,031	5,030	13,657
Other tax differences	(15,282)	(6,290)	7,459
	<u>(15,282)</u>	<u>(6,290)</u>	<u>7,459</u>
<b>Current tax charge for the period (Note 7(a))</b>	<u>279,362</u>	<u>319,120</u>	<u>575,619</u>

## 8 Earnings per Share

The basic earnings per share is based on the profit after tax of £1,047,076 (2003: £592,792; 2002: £522,859) and the weighted average number of ordinary shares in issue during the the year of 180,996,181 2.5p shares (2003: 141,745,262 2.5p shares; 2002: 30,433,830 10p shares subdivided into 121,735,320 2.5p shares).

The earnings per share has been fully diluted to take into account the deferred consideration on the purchase of Hollywood DVD Limited and The Original Record Company Limited. This increased the weighted average number of shares used in the basic EPS calculation from 180,996,181 to 188,514,533 used in the fully diluted EPS calculation.

The earnings per share for 2003 has been fully diluted in the financial statements for 2004, as it was considered necessary to give a meaningful comparative in light of the additional information that has come to light this year regarding contingently issuable shares. These contingently issuable shares increased the weighted average number of shares from 141,745,262 to the 144,778,416 shares used in the diluted earnings per share calculation.

No fully diluted earnings per share has been presented for 2002 as the deferred consideration at 31 March 2002 was not dilutive at that date.

## 9 Profit for the Financial Year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The Group profit for the financial period of £1,047,076 (2003: £592,792; 2002: £522,859) includes a loss of £243,748 (2003: loss £154,351; 2002: £nil), which is dealt with in the financial statements of the Company.

## 10 Intangible Assets

	<i>Goodwill</i>	<i>Catalogue rights, licences, masters and artwork</i>	<i>Total</i>
	£	£	£
<b>Cost</b>			
At 1 April 2001	–	577,698	577,698
Additions	857,963	2,224,824	3,082,787
At 1 April 2002	857,963	2,802,522	3,660,485
Exchange difference	–	(875)	(875)
Additions due to acquisition of Hollywood DVD Limited	5,707,217	–	5,707,217
Additions	–	396,362	396,362
At 1 April 2003	6,565,180	3,198,009	9,763,189
Exchange difference	–	958	958
Additions due to acquisition of The Original Record Company Limited (note 27)	2,030,725	82,595	2,113,320
Additions	–	652,825	652,825
Disposals	–	(93,691)	(93,691)
Adjustment to original estimate of Hollywood DVD Limited deferred consideration	(2,964,007)	–	(2,964,007)
At 31 March 2004	5,631,898	3,840,696	9,472,594
<b>Amortisation</b>			
At 1 April 2001	–	368,337	368,337
Charge for the period	25,466	195,352	220,818
At 1 April 2002	25,466	563,689	589,155
Exchange difference	–	(333)	(333)
Charge for the year	123,424	241,459	364,883
At 1 April 2003	148,890	804,815	953,705
Exchange difference	–	229	229
Charge for the year	230,827	354,962	585,789
Disposals	–	(19,712)	(19,712)
Adjustment to original estimate	(41,824)	–	(41,824)
At 31 March 2004	337,893	1,140,294	1,478,187
<b>Net Book Value</b>			
At 31 March 2004	5,294,005	2,700,402	7,994,407
At 31 March 2003	6,416,290	2,393,194	8,809,484
At 31 March 2002	832,497	2,238,833	3,071,330

## 11 Tangible Fixed Assets

	<i>Fixtures, fittings and other assets</i> £
<b>Cost</b>	
At 1 April 2001	86,277
Additions	26,650
At 1 April 2002	<u>112,927</u>
Additions due to acquisition of Hollywood DVD Limited	64,143
Exchange difference	(371)
Additions	33,054
Disposals	<u>(15,000)</u>
At 1 April 2003	194,753
Exchange Difference	365
Additions due to acquisition of The Original Record Company Limited	13,408
Additions	140,241
Disposals	<u>(33,340)</u>
At 31 March 2004	<u>315,427</u>
<b>Depreciation</b>	
At 1 April 2001	44,108
Charge for the period	<u>21,954</u>
At 1 April 2002	66,062
Additions due to acquisition of Hollywood DVD Limited	16,429
Exchange difference	(154)
Charge for the year	40,475
Disposals	<u>(5,966)</u>
At 1 April 2003	116,846
Exchange difference	151
Charge for the year	64,754
Disposals	<u>(22,903)</u>
At 31 March 2004	<u>158,848</u>
<b>Net Book Value</b>	
At 31 March 2004	<u>156,579</u>
At 31 March 2003	<u>77,907</u>
At 31 March 2002	<u>46,865</u>

## 12 Investments – Company

The Company holds more than 20 per cent. of the share capital of the following:

<i>Name</i>	<i>Country of Incorporation</i>	<i>Class of share</i>	<i>Proportion held</i>	<i>Nature of business</i>
<i>Principal subsidiary undertakings:</i>				
Air Music & Media Limited	England	Ordinary	100%	Music & media
Legacy Entertainment Inc.	Canada	Ordinary	100%	Music & media
Clifford Asset Management Limited	England	Ordinary	100%	Dormant
London Media Securities Limited	Jersey	Ordinary	100%	Dormant
1276353 Ontario Limited	Canada	Ordinary	100%	Holding company
Going for a Song Limited	England	Ordinary	99.98%	Music & media
Hollywood DVD Limited	England	Ordinary	100%	Film & media
The Original Record Company Limited	England	Ordinary	100%	Dormant
New Sound Limited	England	Ordinary	100%	Music & media

All shares in the Company's subsidiaries carry one voting right each. Voting rights are therefore identical to the proportion of shares held.

The shares in Going for a Song Limited and New Sound Limited are held by Air Music and Media Limited which is itself a 100 per cent. subsidiary of the company.

All the above companies have been consolidated in these accounts. As described in Note 1, Legacy Entertainment Inc., 1276353 Ontario Limited, Hollywood DVD Limited and the Original Record Company Limited have been consolidated in these accounts using acquisition accounting principles. The other group companies that were acquired in the year ended 31 March 2002 were consolidated using merger accounting principles.

A summary of the assets and liabilities of the acquired entities is given in Note 27. No fair value adjustments were considered necessary.

### *Legacy Entertainment*

On 3 October 2001, the Company acquired control of Legacy Entertainment Inc. This was achieved by purchasing the share capital of 1276353 Ontario Limited, which held 50 per cent. of Legacy Entertainment Inc, and acquiring the remaining 50 per cent. directly. Both these entities are Canadian companies and the consideration consisted of cash of Can\$900,000 and Can\$1,400,000 in Convertible Loan notes. The Convertible Loan notes were converted into 2,433,830 ordinary shares between 10 January 2002 and 7 February 2002. The conversion gave rise to a share premium of £365,065. Goodwill on this transaction amounted to £902,424.

The only accounting adjustment considered necessary was to capitalise masters and artwork in line with Air Music policy.

### *Air Music and Media Limited*

On 7 September 2001, the Company acquired control of Air Music and Media Limited and its subsidiary undertakings. This was achieved by issuing 28,000,000 10p Ordinary Shares to the acquired entities as consideration for the purchase. The purchase has been accounted for using merger accounting principles.

## 12 Investments – Company (continued)

The summarised profit and loss accounts for the substantial acquisitions from the beginning of the financial year ended 31 March 2002 to the date of acquisition, were as follows:

	<i>Legacy Entertainment Inc.</i>	<i>Ontario Limited</i>	<i>Total</i>
	£	£	£
Turnover	231,859	–	231,859
Cost of Sales	(70,494)	–	(70,494)
Gross Profit	161,365	–	161,365
Administrative Expenses	(154,226)	–	(154,226)
Net Profit before taxation	7,139	–	7,139
Taxation	(3,028)	–	(3,028)
	<u>4,111</u>	<u>–</u>	<u>4,111</u>

### *Hollywood DVD Limited*

On 18 December 2002, the company acquired 100 per cent. of the share capital of Hollywood DVD Limited. This was achieved by issuing 12,746,431 2.5p ordinary shares at a premium of 3.38p and a cash payment of £860,342, including expenses, as consideration for the purchase. In addition, deferred consideration not exceeding £4,500,000 is payable dependent on future performance. The purchase has been accounted for using acquisition accounting principles.

A summary of the assets and liabilities of Hollywood DVD Limited is shown in note 27. No fair value adjustments were considered necessary. Goodwill of £5,707,217 has arisen on this purchase taking account of a fair estimate of the deferred consideration.

### *The Original Record Company Limited (“TORC”)*

The company purchased 100 per cent. of the share capital of TORC on 7 October 2003. The trade and net assets acquired were immediately transferred to another group subsidiary, New Sound Limited. Immediately prior to its acquisition, TORC acquired certain assets from New Sound 2000 Limited. These were all transferred and therefore there are no previous results recorded in TORC.

The initial consideration for the acquisition was £794,627 including expenses, satisfied by £419,627 cash and £375,000 as an issue of 4,604,666 shares to vendors at a premium of £0.05644.

In addition deferred consideration of £1,236,198 is payable, dependent on future performance. A summary of the assets and liabilities of The Original Record Company Limited is shown in note 27. No fair value adjustments were considered necessary.

Goodwill of £2,030,225 has arisen on this purchase taking account of a fair estimate of the deferred consideration.

## 13 Stocks

	2002	2003	2004
	£	£	£
Raw materials	27,283	–	–
Work in progress	12,384	4,593	12,755
Finished goods	630,417	1,806,409	1,537,479
	<u>670,084</u>	<u>1,811,002</u>	<u>1,550,234</u>



## 14 Debtors

	2002	2003	2004
	£	£	£
Trade debtors	1,169,493	2,575,408	4,895,988
Other debtors	97,569	95,245	172,256
Prepayments and accrued income	140,925	629,834	992,797
	<u>1,407,987</u>	<u>3,300,487</u>	<u>6,061,041</u>

## 15 Creditors: Amounts falling due within one year

	2002	2003	2004
	£	£	£
Net obligations under hire purchase contracts	–	14,258	12,729
Bank loans and overdrafts	486,421	1,397,240	1,204,881
Trade creditors	805,565	2,106,485	3,119,409
Corporation tax	245,804	633,122	654,061
Social security and other taxes	11,724	345,953	421,369
Other creditors	13,530	30	7,221
Accruals and deferred income	390,180	705,494	2,162,556
	<u>1,953,224</u>	<u>5,202,582</u>	<u>7,582,226</u>

The bank holds a charge over the rights in sound recordings comprising the SBI catalogue in respect of the group overdraft and long term borrowings. Personal guarantees have also been given by M. Infante (£270,000) and M. D. Frey (£630,000).

The Group has also given an unlimited cross guarantee and is part of a collective net overdraft facility in conjunction with the other group companies, to secure the bank liabilities of each other.

The maximum potential liability for the company at the balance sheet date was £290,123 (2003: £96,225, 2002: £2,163,500).

The Group companies party to the charges and the guarantee are:

Air Music & Media Group plc  
Air Music & Media Limited  
Going for a Song Limited  
New Sound Limited

## 16 Creditors: Amounts falling due after more than one year

	2002	2003	2004
	£	£	£
Bank loans and overdrafts	1,720,000	1,291,782	1,035,205
Other creditors – deferred consideration	–	4,500,000	1,671,586
Obligations under hire purchase contracts	–	–	62,654
	<u>1,720,000</u>	<u>5,791,782</u>	<u>2,769,445</u>
Amounts repayable by instalments:			
In less than one year	160,000	946,722	1,207,411
In more than one year but not more than two years	160,000	256,577	1,937,620
In more than two years but not more than five years	480,000	730,732	770,931
In more than five years	1,080,000	304,473	60,894

## 17 Controlling Party

There is no controlling party.

## 18 Transactions with Related Parties – Company

During the year Air Music & Media Limited was invoiced £8,734 (2003 – £104,024), (2002 – £46,641) by Fladgate Fielder, a firm of solicitors in which N. Greenstone (a non-executive director of the company until 17 November 2003) was a partner, on normal commercial terms.

During 2004, the group made payments of £117,960 (2003: £nil) to Creative Film Entertainment, a trading name owned by W. Goldberg. W. Goldberg is the father of M. Goldberg, a director of a group subsidiary.

The Group also made consultancy payments direct to W. Goldberg amounting to £13,177 (2003: £Nil). S. Pearce, a director of a group subsidiary, and J. Curtiss, a former director of Hollywood DVD Limited, a group subsidiary, have given a guarantee limited to £100,000 (2003: £100,000, 2002: £Nil) to HSBC Invoice Finance (UK) Limited in respect of the indemnity under the factoring agreement for that subsidiary company.

## 19 Shareholders' Funds

	<i>Profit and Loss Account</i>	<i>Share Capital</i>	<i>Share Premium</i>	<i>Merger Reserves</i>	<i>Total</i>
	£	£	£	£	£
Shares issued on acquisition of Air Music & Media Limited	–	2,800,000	–	–	2,800,000
Shares issued on acquisition of Legacy Entertainment Inc.	–	243,383	365,075	–	608,458
Excess of par value of shares issued over par value of shares of merger company acquired	–	–	–	(2,799,796)	(2,799,796)
Reserves of merged company	517,582	–	–	–	517,582
<b>As restated</b>	517,582	3,043,383	365,075	(2,799,796)	1,126,244
<b>Profit retained for period</b>	522,859	–	–	–	522,859
At 1 April 2002	1,040,441	3,043,383	365,075	(2,799,796)	1,649,103
Shares issued on acquisition of Hollywood DVD	–	318,660	431,340	–	750,000
Shares issued during the year	–	762,500	471,318	–	1,233,818
Retained profit for the year	592,792	–	–	–	592,792
At 31 March 2003	1,633,233	4,124,543	1,267,733	(2,799,796)	4,225,713
Exchange difference	(2,871)	–	–	–	(2,871)
Shares issued on acquisition of The Original Record Company Limited	–	115,115	259,885	–	375,000
Shares issued during the year	–	692,000	1,297,071	–	1,989,071
Retained profit for the year	1,047,076	–	–	–	1,047,076
<b>At 31 March 2004</b>	<b>2,677,438</b>	<b>4,931,658</b>	<b>2,824,689</b>	<b>(2,799,796)</b>	<b>7,633,989</b>

## 19 Shareholders' Funds (continued)

The group operates an Enterprise Management Incentive Scheme for both directors and employees.

At 31 March 2004, options to acquire 3,220,000 2.5p ordinary shares were outstanding under this Scheme. These options are exercisable at 5p between 17 September 2004 and 15 May 2013.

<i>The share capital comprises:</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
<b>Authorised:</b>			
400,000,000 Ordinary shares of 2.5p each	5,000,000	10,000,000	10,000,000
	<hr/>	<hr/>	<hr/>
<b>Called up, allotted and fully paid:</b>			
197,266,385 (2003: 164,981,720) ordinary shares of 2.5p each (2002: 30,433,830 Ordinary shares of 10p each)	3,043,383	4,124,543	4,931,658
	<hr/>	<hr/>	<hr/>

During the year ended 31 March 2004, the Company issued 32,284,634 2.5p ordinary shares at the following prices:

<i>Shares Issued</i>	<i>Issue Price</i>	<i>Purpose of Issue</i>
1,125,813	7.217p	Hollywood DVD Limited deferred consideration
22,333,334	7.5p	Cash
4,604,616	8.144p	The Original Record Company Limited acquisition
4,000,000	7.5p	Cash

The two cash issues raised funds of £1,907,825 after expenses, and were used to provide additional working capital for the Group.

During the year ended 31 March 2002, the Company allotted 30,433,830 ordinary shares of 10p each. In September 2001, the Company allotted 28,000,000 ordinary shares of 10p each upon its acquisition of Air Music and Media Group Limited, where the shares were used as consideration.

In October 2001, the Company acquired Legacy Entertainment Inc for Can\$900,000 cash and Convertible Loan Notes of Can\$1,400,000. The conversion price of the loan notes was 25 pence per ordinary share. The loan notes were converted into ordinary shares of 10p each by the holders between 10 January and 7 February 2002. Upon conversion 2,433,830 new shares were issued, giving rise to a share premium of £365,075.

## 20 Provisions for Liabilities and Charges

### *Deferred taxation*

Provision for deferred taxation has been made in these financial statements in accordance with the accounting policy described in Note 1. The amounts provided and full potential liability are as follows:

	<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>	<i>2004</i>	<i>2004</i>
	<i>Amount</i>	<i>Potential</i>	<i>Amount</i>	<i>Potential</i>	<i>Amount</i>	<i>Potential</i>
	<i>provided</i>	<i>liability</i>	<i>provided</i>	<i>liability</i>	<i>provided</i>	<i>liability</i>
	£	£	£	£	£	£
<b>Group</b>						
Chargeable gain rolled over	137,248	137,248	–	–	–	–
Accelerated capital allowances	5,479	5,479	2,228	2,228	–	–
	<u>142,727</u>	<u>142,727</u>	<u>2,228</u>	<u>2,228</u>	<u>–</u>	<u>–</u>

At the year end, the Company did not have any provisions for liabilities.

The chargeable gain rolled over relates to the disposal of Airborne Security and Investigation Services Limited, a subsidiary of Air Music & Media Limited, in November 1999, which crystallised in 2002.

Included within other debtors is a deferred tax asset of £3,790 (2003: £Nil, 2002: £Nil) arising from Accelerated Capital Allowances claimed by the Group. The Group have recognised this and the Directors believe sufficient future profits will be made to recover this asset.

## 21 Capital Commitments

At 31 March 2004, the Group had committed to pay £90,623 for the purchase of new computer accounting software.

## 22 Future Financial Commitments

### *Operating leases*

At 31 March 2004 the group had annual commitments under operating leases as set out below:

	<i>Land and</i>		<i>Land and</i>		<i>Land and</i>	
	<i>Buildings</i>	<i>Other</i>	<i>Buildings</i>	<i>Other</i>	<i>Buildings</i>	<i>Other</i>
	<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>	<i>2004</i>	<i>2004</i>
	£	£	£	£	£	£
<b>Operating leases which expire:</b>						
Within 1 – 2 years	–	6,374	–	–	10,800	8,543
In the second to fifth year	–	33,549	39,000	34,049	–	27,317
After 5 years	<u>27,365</u>	<u>–</u>	<u>27,365</u>	<u>–</u>	<u>27,356</u>	<u>–</u>

## 23 Financial Instruments

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to provide the working capital for the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 1 April 2003.

### *Interest rate risk*

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currencies at both fixed 3 monthly and floating rates of interest. The Group's policy is to keep at least 60 per cent. of its borrowings at 3 monthly fixed rates of interest. At the year end 57.6 per cent. of the Group's borrowings were at 3 monthly fixed rates.

### *Liquidity risk*

As regards liquidity, the Group's policy has, throughout the year, been to ensure continuity of funding. At the year end 5 per cent. of the Group's borrowings were due to mature in more than five years.

Short term flexibility is achieved by overdraft facilities.

### *Foreign currency risk*

The Group has one significant overseas subsidiary, Legacy Entertainment Inc., which operates in Canada and North America and whose revenues and expenses are denominated exclusively in Canadian dollars.

About one third of the sales of the Group's UK business is to customers outside of the UK. Those sales are priced and invoiced in sterling to mitigate the foreign exchange risk.

### *Interest rate risk profile of financial assets and financial liabilities*

#### **Financial Assets**

The interest rate profile of the Group's financial assets (excluding short-term debtors) at 31 March 2004 was:

<i>Currency</i>	<i>Total</i>	<i>Fixed rate financial assets</i>	<i>Financial assets on which no interest is received</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Sterling	1,671,867	–	1,671,867
Euro	14,260	–	14,260
Canadian dollar	–	–	–
US dollar	537,272	–	537,272
Total	<u>2,223,399</u>	<u>–</u>	<u>2,223,399</u>

## 23 Financial Instruments (continued)

### *Financial liabilities*

The interest rate profile of the Group's financial liabilities at 31 March 2004 was:

<i>Currency</i>	<i>Total</i>	<i>Floating rate financial liabilities</i>	<i>3 Month fixed rate financial liabilities (LIBOR + 1.5/2.25%)</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Sterling	2,240,086	948,304	1,291,782

The floating rate financial liabilities comprise overdrafts and short-term borrowings that bear interest based on LIBOR + 2.25 per cent.

### *Maturity of financial liabilities*

The maturity profile of the Group's financial liabilities at 31 March 2004 was as follows:

	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>
In one year or less, or on demand	1,204,883	1,397,240
In more than one year but not more than two years	243,577	256,577
In more than two years but not more than five years	730,732	730,732
In more than five years	60,894	304,472
	<u>2,240,086</u>	<u>2,689,021</u>

### *Borrowing facilities*

The Group has no undrawn committed borrowing facilities.

### *Fair values of financial assets and financial liabilities*

Both book values and fair values of the Group's financial assets and liabilities are not considered to be materially different as at 31 March 2004.

### *Primary financial instruments held or issued to finance the Group's operations*

	<i>Book value and fair value</i>
	<i>£</i>
Short-term financial liabilities and current position of long-term borrowings	(1,204,883)
Long-term borrowings	(1,035,203)
Financial assets	<u>2,223,399</u>

## 24 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2002	2003	2004
	£	£	£
Operating profit	822,502	1,004,049	1,714,968
Depreciation charges	21,954	40,475	64,754
Amortisation	220,818	364,883	530,149
Loss/(Profit) on disposal of tangible assets	–	3,767	(2,969)
(Increase)/Decrease in stock	(34,800)	(142,507)	260,768
Decrease/(Increase) in debtors	206,452	(82,658)	(2,754,713)
(Decrease)/Increase in creditors	(584,163)	(359,443)	1,575,560
Net effect of foreign exchange differences	–	(5,366)	(3,814)
<b>Net Cash Inflow from Operating Activities</b>	<u>652,763</u>	<u>823,200</u>	<u>1,384,703</u>

## 25 Analysis of Net Debt

	<i>At</i>	<i>Cash</i>	<i>At</i>	<i>Cash</i>	<i>At</i>	<i>Cash</i>	<i>Other</i>	<i>At</i>
	<i>31.3.2001</i>	<i>Movement</i>	<i>31.3.2002</i>	<i>Movement</i>	<i>31.3.2003</i>	<i>Movements</i>	<i>Movements</i>	<i>31.3.2004</i>
	£	£	£	£	£	£	£	£
Cash in hand and at bank	276,102	(7,314)	268,788	954,637	1,223,425	999,974	–	2,223,399
Overdraft	(147,755)	(178,666)	(326,421)	(124,097)	(450,518)	(497,786)	–	(948,304)
	<u>128,347</u>	<u>(185,980)</u>	<u>(57,633)</u>	<u>830,540</u>	<u>772,907</u>	<u>502,188</u>	<u>–</u>	<u>1,275,095</u>
Debt due within one year	–	(160,000)	(160,000)	(786,722)	(946,722)	690,145	–	(256,577)
Debt due after one year	–	(1,720,000)	(1,720,000)	428,218	(1,291,782)	256,577	–	(1,035,205)
Obligation under hire purchase	–	–	–	–	–	17,465	(92,848)	(75,383)
	<u>–</u>	<u>(1,880,000)</u>	<u>(1,880,000)</u>	<u>(358,504)</u>	<u>(2,238,504)</u>	<u>964,187</u>	<u>(92,848)</u>	<u>(1,367,165)</u>
<b>Total</b>	<u>128,347</u>	<u>(2,065,980)</u>	<u>(1,937,633)</u>	<u>472,036</u>	<u>(1,465,597)</u>	<u>1,466,375</u>	<u>(92,848)</u>	<u>(92,070)</u>

## 26 Reconciliation of Cash Flow to Movement in Net Debt

	2002	2003	2004
	£	£	£
(Decrease)/Increase in cash in the period	(185,980)	830,540	502,188
Change in net debt resulting from cashflows	(1,880,000)	(358,504)	964,187
Change in net debt resulting from other changes	–	–	(92,848)
Net funds/(debt) at beginning of the year	128,347	(1,937,633)	(1,465,597)
<b>Net (debt)/funds at the end of the year</b>	<u>(1,937,633)</u>	<u>(1,465,597)</u>	<u>(92,070)</u>

## 27 Purchase of Subsidiary Undertakings

	2002	2003	2004
	£	£	£
Net assets acquired:			
Intangible assets	–	–	82,595
Tangible assets	4,098	47,714	13,408
Stock	110,757	998,411	120,277
Debtors	522,370	2,034,687	100
Cash at bank	94,057	1,478	–
Creditors: Amounts falling due within one year	(590,396)	(2,667,478)	(216,280)
Creditors: Amounts falling due after more than one year	–	(11,687)	–
	<u>140,886</u>	<u>403,125</u>	<u>100</u>
Goodwill	902,424	5,707,217	2,030,725
	<u>1,043,310</u>	<u>6,110,342</u>	<u>2,030,825</u>
Satisfied by:			
Shares Allotted	608,457	750,000	375,000
Cash	434,853	860,342	419,627
Deferred consideration	–	4,500,000	1,236,198
	<u>1,043,310</u>	<u>6,110,342</u>	<u>2,030,825</u>

The subsidiary undertaking acquired during the year ended 31 March 2004 contributed £128,579 to the group's net operating cash flows and utilised £234,403 for capital expenditure.



## **PART IV**

### **FINANCIAL INFORMATION ON REDWORTH LIMITED**

#### **FINANCIAL INFORMATION ON REDWORTH LIMITED (“REDWORTH”) FOR THE YEAR ENDED 31 MARCH 2004 AND THE SEVEN MONTHS ENDED 31 MARCH 2003**

##### **Basis of financial information**

The financial information contained in Part IV of this document does not constitute statutory accounts within the meaning of section 240 of the Act. The financial information for the year ended 31 March 2004 and the period ended 31 March 2003 has been extracted, without material adjustment, from the audited consolidated financial statements of Redworth Limited for those periods. Copies of the financial statements for these years have been delivered to the Registrar of Companies in England and Wales. The financial statements for these years have been prepared in accordance with applicable law and the Redworth Directors accept responsibility for them. Grant Thornton Chartered Accountants and Registered Auditors, of Heran House, Albert Square, Manchester, M60 8GT, have made a report under section 235 of the Act in respect of the statutory consolidated financial statements for the seven months ended 31 March 2003. Pannell Kerr Forster Chartered Accountants and Registered Auditors, of 52 Mount Pleasant, Liverpool, L3 5UN, have made a report under section 235 of the Act in respect of the statutory consolidated financial statements for the year ended 31 March 2004. These reports were unqualified and did not contain a statement under section 237(2) or (3) of the Act.

## PROFIT AND LOSS ACCOUNT

		<i>Redworth Limited Consolidated 7 Month period to 31 March 2003</i>	<i>Redworth Limited Consolidated Year to 31 March 2004</i>
		<i>Acquisitions</i>	<i>Continuing activities</i>
	<i>Note</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	2	21,323,519	37,081,182
Cost of sales		(17,238,632)	(29,733,231)
<b>Gross profit</b>		4,084,887	7,347,951
Distribution costs		(307,765)	(531,564)
Administrative expenses		(2,020,714)	(3,132,614)
<b>Operating profit</b>	3	1,756,408	3,683,773
Share of associate's operating loss		–	(66,240)
Amortisation of goodwill arising on acquisition of associate		–	(7,560)
		1,756,408	3,609,973
Interest receivable and other income	5	26,239	48,108
Share of associate's interest receivable		–	241
Interest payable and similar charges	6	(40,752)	(16,355)
Share of associate's interest payable		–	(1,337)
<b>Profit on ordinary activities before taxation</b>		1,741,895	3,640,630
Tax on profit on ordinary activities	7	(564,125)	(1,263,143)
<b>Profit for the financial period</b>	17	1,177,770	2,377,487

All amounts relate to continuing operations.

There were no recognised gains or losses for the year other than the profit for the financial period.

There was no material difference between the reported result and the result calculated on an unmodified historical cost basis.

## BALANCE SHEET

		<i>Redworth Limited Consolidated As at 31 March 2003 £</i>	<i>Redworth Limited Consolidated As at 31 March 2004 £</i>
<b>Fixed assets</b>			
Intangible	8	2,715,874	2,576,001
Tangible	9	445,644	391,429
Investments	10	181,588	76,782
		<u>3,343,106</u>	<u>3,044,212</u>
<b>Current assets</b>			
Stocks	11	4,214,482	4,776,967
Debtors	12	4,267,792	5,774,774
Cash at bank and in hand		676,619	2,657,420
		<u>9,158,893</u>	<u>13,209,161</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(6,646,704)</u>	<u>(8,027,900)</u>
<b>Net current assets</b>		<u>2,512,189</u>	<u>5,181,261</u>
<b>Total assets less current liabilities</b>		<u>5,855,295</u>	<u>8,225,473</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(7,858)</u>	<u>(549)</u>
		<u>5,847,437</u>	<u>8,224,924</u>
<b>Capital and reserves</b>			
Called up share capital	16	10,000	10,000
Merger reserve	17	4,659,667	4,659,667
Profit and loss account	17	1,177,770	3,555,257
<b>Equity shareholders' funds</b>	18	<u>5,847,437</u>	<u>8,224,924</u>

## CASHFLOW STATEMENT

		<i>Redworth Limited Consolidated 7 Month period ended 31 March 2003 £</i>	<i>Redworth Limited Consolidated Year ended 31 March 2004 £</i>
<b>Net cash inflow from operating activities</b>	<i>Notes</i> 19	2,015,705	4,187,200
<b>Returns on investments and servicing of finance</b>			
Interest paid		(39,342)	(15,246)
Finance lease interest paid		(1,410)	(1,109)
Interest received		26,239	48,108
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		(14,513)	31,753
<b>Taxation</b>		(1,230,460)	(911,444)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(53,162)	(133,299)
Sale of tangible fixed assets		35,616	101
Loans made to other entities		(181,588)	56,222
<b>Net cash outflow from capital expenditure and financial investment activities</b>		(199,134)	(76,976)
<b>Acquisitions and disposals</b>			
Payments to acquire associate undertaking		–	(300,000)
Purchase of subsidiary undertaking		(1,062,044)	–
Net cash from purchase of subsidiary undertaking		1,173,019	–
<b>Net cash inflow/(outflow) from acquisitions</b>		110,975	(300,000)
<b>Net cash inflow before financing</b>		682,573	2,930,533
<b>Financing</b>			
Issue of share capital		3,000	–
Payment of deferred consideration for subsidiary		–	(1,000,000)
Capital element of finance lease rentals		(8,954)	(11,590)
<b>Net cash outflow from financing</b>		(5,954)	(1,011,590)
<b>Increase in cash for the period</b>	20	676,619	1,918,943

## NOTES TO THE FINANCIAL INFORMATION

### 1 Accounting policies

#### *Basis of preparation of financial statements*

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

The consolidated financial statements comprise the audited financial statements of Redworth and its subsidiary and associate undertakings made up to 31 March 2004.

A separate profit and loss account for the parent company has not been prepared as permitted by Section 230(2) of the Companies Act 1985.

#### *Turnover*

Turnover comprises the amounts receivable by the group for goods supplied and services provided, net of VAT and trade discounts.

#### *Intangible fixed assets*

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided at rates calculated to write off the cost of intangible fixed assets, less their estimated residual value, over their expected useful lives.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

Leasehold improvements	over the lease term
Motor vehicles	25 per cent. straight line
Fixtures, fittings, plant and equipment	25 per cent. straight line

#### *Finance leases and hire purchase*

Assets acquired under finance leases or hire purchase are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease.

#### *Operating leases*

Operating lease rentals are charged in the profit and loss account on a straight line basis over the lease term.

#### *Investments*

Investments are stated at the lower of the carrying value and recoverable value.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items. Cost is determined on a first in first out basis and represents the purchase price of products. Net realisable value is based on estimated selling price allowing for all further costs of disposal.

#### *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or at the forward exchange contract rate. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction or the forward exchange contract rate. Exchange differences are taken into account in arriving at the operating profit.

## 1 Accounting policies (continued)

### *Deferred taxation*

Provision is made for deferred taxation using the full provision basis in accordance with Financial Reporting Standard 19. Deferred tax is recognised on all timing differences which have originated but not reversed at the balance sheet date. Timing differences represent accumulated differences between the company's taxable profit and its financial profit and arise from the differences between accelerated capital allowances and depreciation. Deferred tax is measured on a non-discounted basis.

### *Pensions*

Contributions to the Redworth group's defined contribution pension scheme and employee personal pension plans are charged in the profit and loss account in the year in which they become payable.

### *Associated undertakings*

The Redworth group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account and the group's share of net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertaking concerned, which has the same accounting reference date as the rest of the group.

## 2 Turnover

Turnover is attributable to one class of business.

All turnover arose within the United Kingdom.

## 3 Operating profit

The operating profit is stated after charging:

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Auditors' remuneration		
– audit services	13,000	13,500
– non audit services	5,020	1,500
Depreciation		
– owned assets	65,708	175,315
– assets held under finance leases and hire purchase contracts	6,409	10,483
Amortisation of intangible assets	81,593	139,873
Operating lease rentals		
– plant and machinery	15,284	25,928
– motor vehicles	83,689	94,386
– land and buildings	104,750	152,333
Exceptional Item:		
Impairment of fixed asset investment (see note 10)	–	273,688

#### 4 Directors and employees

Staff costs during the period were as follows:

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Wages and salaries	1,630,504	2,636,732
Social security costs	143,213	278,743
Other pension costs	74,113	98,933
	<u>1,847,830</u>	<u>3,014,408</u>

The average number of employees, including executive directors, during the period was:

	<i>Redworth Limited Consolidated 2003 Number</i>	<i>Redworth Limited Consolidated 2004 Number</i>
Administration	17	25
Sales	14	17
Warehouse	72	80
	<u>103</u>	<u>122</u>

Remuneration in respect of directors was as follows:

	<i>2003 £</i>	<i>2004 £</i>
Emoluments	438,114	632,091
Contributions to money purchase pension schemes	40,034	50,984
	<u>478,148</u>	<u>683,075</u>

During the year 3 (2003: 3) directors participated in money purchase pension schemes.

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director:

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Emoluments and benefits under long term incentive schemes	258,401	280,966
Pension contributions	32,154	30,384
	<u>290,555</u>	<u>311,350</u>

## 5 Interest receivable

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Interest receivable from group companies	–	4,981
Other interest receivable	26,239	43,127
	<u>26,239</u>	<u>48,108</u>

## 6 Interest payable and similar charges

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
On bank loans and loan notes	39,342	15,246
Finance charges in respect of finance leases and hire purchase contracts	1,410	1,109
	<u>40,752</u>	<u>16,355</u>

## 7 Tax on profit on ordinary activities

### (a) Analysis of charge on year

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
The taxation charge is based on the profit for the period and represents:		
Corporation tax at 30%	572,125	1,278,856
Prior period adjustments	–	(4,138)
	<u>572,125</u>	<u>1,274,718</u>
Deferred tax	(8,000)	(11,575)
	<u>564,125</u>	<u>1,263,143</u>



## 7 Tax on profit on ordinary activities (continued)

### (b) Factors affecting the tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom of 30 per cent. The differences are explained as follows:

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Profit on ordinary activities before taxation	<u>1,741,895</u>	<u>3,640,630</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30 per cent.	522,569	1,092,189
Effects of:		
Expenses not deductible for tax purposes	45,661	67,677
Depreciation for the period in excess of capital allowances	3,895	16,684
Over provision in prior year	–	(4,138)
Impairment provision not allowed	–	82,106
Share of associate's loss and interest	–	20,200
	<u>572,125</u>	<u>1,274,718</u>

## 8 Intangible fixed assets

	<i>Goodwill £</i>
<b>Cost</b>	
At incorporation	–
On acquisition of subsidiary (note 21)	<u>2,797,467</u>
At 1 April 2003 and 31 March 2004	<u>2,797,467</u>
<b>Amortisation</b>	
At incorporation	–
Charge for the period	<u>81,593</u>
At 1 April 2003	81,593
Charge for the year	<u>139,873</u>
At 31 March 2004	<u>221,466</u>
<b>Net book value</b>	
At 31 March 2004	<u>2,576,001</u>
At 31 March 2003	<u>2,715,874</u>

## 9 Tangible fixed assets

	<i>Freehold Property</i> £	<i>Leasehold Improve- ments</i> £	<i>Fixtures, fittings plant and equipment</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
<b>Cost</b>					
At incorporation	–	–	–	–	–
Acquisition of business	30,129	194,556	548,979	104,121	877,785
Additions	–	22,877	32,238	–	55,115
Disposals	(30,129)	–	(111,001)	(44,022)	(185,152)
At 1 April 2003	–	217,433	470,216	60,099	747,748
Additions	–	12,095	119,550	1,654	133,299
Disposals	–	–	(3,553)	–	(3,553)
At 31 March 2004	–	229,528	586,213	61,753	877,494
<b>Depreciation</b>					
At incorporation	–	–	–	–	–
Acquisition of business	1,466	53,221	237,043	39,372	331,102
Charge for year	–	28,728	42,177	1,212	72,117
Disposals	(1,466)	–	(83,390)	(16,259)	(101,115)
At 1 April 2003	–	81,949	195,830	24,325	302,104
Charge for year	–	49,193	121,270	15,335	185,798
Disposals	–	–	(1,837)	–	(1,837)
At 31 March 2004	–	131,142	315,263	39,660	486,065
<b>Net book value</b>					
At 31 March 2004	–	98,386	270,950	22,093	391,429
At 31 March 2003	–	135,484	274,386	35,774	445,644

The figures stated above include fixtures, fittings, plant and equipment and motor vehicles with a net book value of £19,508 (2003: £29,991) which are held under finance leases and hire purchase contracts.

## 10 Fixed asset investments

Group	<i>Investment in associate</i>	<i>Loan to unlisted investment</i>	<i>Goodwill on acquisition of associate</i>	<i>Total</i>
	£	£	£	£
<b>Cost</b>				
At 1 April 2003	–	181,588	–	181,588
Additions	135,045	–	164,955	300,000
Share of associate's results	(67,336)	–	–	(67,336)
Loans	125,366	(181,588)	–	(56,222)
Amortisation	–	–	(7,560)	(7,560)
At 31 March 2004	<u>193,075</u>	<u>–</u>	<u>157,395</u>	<u>350,470</u>
<b>Provisions</b>				
At 1 April 2003	–	–	–	–
Impairments – exceptional	116,293	–	157,395	273,688
At 31 March 2004	<u>116,293</u>	<u>–</u>	<u>157,395</u>	<u>273,688</u>
<b>Net book amount</b>				
At 31 March 2004	<u>76,782</u>	<u>–</u>	<u>–</u>	<u>76,782</u>
At 31 March 2003	<u>–</u>	<u>181,588</u>	<u>–</u>	<u>181,588</u>

### *Dynamic Entertainment Limited 45 per cent. associate*

During its latest financial year Dynamic Entertainment Limited made a loss after tax of £144,765 (2003: £Nil) and at the end of that year the aggregate of its capital and reserves was £150,463 (2003: £Nil).

The directors have assessed the carrying value of the investment in the associate undertakings as at 31 March 2004, based on the performance of investments since incorporation. Having initially assessed the goodwill to have a useful economic life of 20 years the directors concluded that the goodwill has no remaining useful economic life at 31 March 2004.

Consequently an impairment provision for the unamortised balance at 31 March 2004 has been established. As detailed below a provision against part of the loans due from Dynamic Entertainment Limited has been made. The impairment provision and the provision against the loans due totalling £273,688 has been included as an exceptional item within administrative expenses (see note 3).

On 1 May 2003, Redworth converted £207,121 of its loans to Dynamic Entertainment Limited, a company incorporated in England and Wales, and subscribed a further £92,879 in return for 45 per cent. of its "B" ordinary share capital. The nature of the business is the wholesale of audio and video products.

Included in the investment in associate is a loan of £125,366 to Dynamic Entertainment Limited. The loan together with any overdue interest must bear interest at the rate of 2 per cent. above the base rate of HSBC Bank plc for the period of two years commencing on 1 May 2003 and at a rate of 3 per cent. above such base rate thereafter.

Interest is payable quarterly in arrears. Any loans to Dynamic Entertainment Limited shall be repayable in full on 1 May 2006. In the opinion of the Directors a provision against these loans in the amount of £116,293 is required as at 31 March 2004.

Redworth Limited owns 100 per cent. of the ordinary share capital of Music Box Leisure Limited, a company incorporated in England and Wales. The nature of the business is the wholesale of audio and video products.

The results of Music Box Leisure Limited for the first full year since acquisition are profit for the year after tax of £2,894,686 and its net assets at 31 March 2004 totalled £8,107,342.

## 11 Stocks

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Finished goods	<u>4,214,482</u>	<u>4,776,967</u>

## 12 Debtors

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Trade debtors	4,183,181	5,665,142
Prepayments and accrued income	57,180	77,653
Amounts due from undertakings in which the company has a participating interest	–	1,962
Other debtors	19,431	10,442
Deferred tax	8,000	19,575
	<u>4,267,792</u>	<u>5,774,774</u>

## 13 Creditors: amounts falling due within one year

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Bank loans and overdrafts	–	61,858
Trade creditors	3,780,786	5,628,588
Corporation tax	371,026	734,300
Other tax and social security	375,461	397,222
Accruals and deferred income	1,011,359	1,074,707
Other creditors	96,024	123,458
Deferred consideration	1,000,000	–
Hire purchase and finance lease obligations (see note 15)	12,048	7,767
	<u>6,646,704</u>	<u>8,027,900</u>

#### 14 Creditors: amounts falling due after more than one year

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Hire purchase and finance lease obligations (see note 15)	<u>7,858</u>	<u>549</u>

#### 15 Finance Leases

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
Finance leases are repayable as follows:		
Within one year	12,048	7,767
Between one and two years	6,464	549
Between two and five years	1,394	–
	<u>19,906</u>	<u>8,316</u>

Net obligations under finance lease and hire purchase creditors are secured on the assets concerned.

#### 16 Share capital

	<i>Redworth Limited Consolidated 2003 £</i>	<i>Redworth Limited Consolidated 2004 £</i>
<b>Authorised:</b>		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
<b>Allocated, called up and fully paid:</b>		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

On 28 May 2004 the company issued 460 ordinary £1 shares to Mrs J D Beer, a director, at par for cash consideration.

#### 17 Reserves

	<i>Merger Reserve £</i>	<i>Profit and Loss Account £</i>	<i>Total £</i>
<b>Group</b>			
At incorporation	–	–	–
Premium on allotment during the period	4,659,667	–	4,659,667
Profit for the financial period	–	1,177,770	1,177,770
At 1 April 2003	<u>4,659,667</u>	<u>1,177,770</u>	<u>5,837,437</u>
Profit for the year	–	2,377,487	2,377,487
At 31 March 2004	<u>4,659,667</u>	<u>3,555,257</u>	<u>8,214,924</u>

## 18 Reconciliation of movements in equity shareholders' funds

	<i>Redworth Limited Consolidated 2003</i>	<i>Redworth Limited Consolidated 2004</i>
	£	£
Profit for the financial period	1,177,770	2,377,487
Issue of shares	4,669,667	–
Opening shareholders' funds	–	5,847,437
Closing shareholders' funds	<u>5,847,437</u>	<u>8,224,924</u>

## 19 Net cash inflow from operating activities

	<i>Redworth Limited Consolidated 2003</i>	<i>Redworth Limited Consolidated 2004</i>
	£	£
Operating profit	1,756,408	3,683,773
Depreciation	72,117	185,798
Amortisation	81,593	139,873
Impairment of fixed asset investment	–	273,688
Loss on sale of tangible fixed assets	48,421	1,615
Increase in stocks	(1,573,056)	(562,485)
Decrease/(increase) in debtors	1,585,208	(1,495,407)
Increase in creditors	45,014	1,960,345
Net cash inflow from operating activities	<u>2,015,705</u>	<u>4,187,200</u>

## 20 Analysis of changes in net (debt)/funds

	<i>Acquisition (excluding cash and overdrafts)</i>	<i>Cash Flow</i>	<i>Other Non-Cash Changes</i>	<i>At 1 April 2003</i>	<i>Cashflow</i>	<i>At 31 March 2004</i>
	£	£	£	£	£	£
Cash in hand and at bank	–	676,619	–	676,619	1,980,801	2,657,420
Overdrafts	–	–	–	–	(61,858)	(61,858)
					<u>1,918,943</u>	
Obligations under finance leases	(26,907)	8,954	(1,953)	(19,906)	11,590	(8,316)
Deferred consideration	(1,000,000)	–	–	(1,000,000)	1,000,000	–
	<u>(1,026,907)</u>	<u>685,573</u>	<u>(1,953)</u>	<u>(343,287)</u>	<u>2,930,533</u>	<u>2,587,246</u>

## 21 Acquisitions

On 1 September 2002 Redworth Limited acquired the entire share capital of Music Box Leisure Limited for a consideration of £6,728,711 satisfied in cash and share for share exchange. The purchase has been accounted for by the acquisition method of accounting. The goodwill arising on consolidation has been capitalised and is to be amortised over a period of 20 years.

The profit after taxation of Music Box Leisure Limited for the period from 1 April 2002, the beginning of the financial year, to 1 September 2002, the date of acquisition, was £591,706. Profit after taxation for the year ended 31 March 2003 was £1,873,118.

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the group:

	<i>Book and Fair Value £</i>
Tangible fixed assets	546,683
Stocks	2,641,426
Debtors	5,845,000
Cash at bank and in hand	1,173,019
Other creditors	(5,218,616)
Corporation tax creditor	(1,029,361)
Hire purchase creditor	(26,907)
Net assets acquired	<u>3,931,244</u>
Consolidated goodwill capitalised	<u>2,797,467</u>
	<u>6,728,711</u>
<i>Satisfied by:</i>	
Cash	1,000,000
Deferred consideration	1,000,000
Share for share exchange	4,666,667
Acquisition costs	62,044
	<u>6,728,711</u>

Management consider that the book value of the assets and liabilities acquired is a fair approximation to the fair values.

The business acquired during the year made the following contributions to, and utilisations of, group cash flow.

	<i>2003 £</i>
Net cash inflow from operating activities	665,026
Returns on investments and servicing of finance	7,535
Taxation	(1,142,461)
Capital expenditure and financial investment	(17,546)
Financing	(8,954)
Decrease in cash	<u>(496,400)</u>

Analysis of net inflow of cash in respect of the acquisition was as follows:

	<i>2003 £</i>
Cash at bank and in hand acquired	<u>1,173,019</u>

## 22 Leasing commitments

At 31 March 2004 the group had annual commitments under operating leases as follows:

	<i>Land and Buildings</i> 2003 £	<i>Other</i> 2003 £	<i>Land and Buildings</i> 2004 £	<i>Other</i> 2004 £
Operating leases which expire:				
within one year	–	11,771	–	15,470
within one and two years	–	33,846	–	26,820
within two and five years	161,250	13,877	161,250	35,150
	<u>161,250</u>	<u>59,494</u>	<u>161,250</u>	<u>77,440</u>

## 23 Related party transactions

During the year Music Box Leisure Limited purchased goods totalling £691,350 from Dynamic Entertainment Limited, a 45 per cent. associate of Redworth. At the year end Music Box Leisure Limited owed Dynamic Entertainment Limited £174,130.

During the year Redworth received interest amounting to £4,981 from Dynamic Entertainment Limited.

Also at the year end, Dynamic Entertainment Limited owed amounts to Redworth. The amounts outstanding are detailed in notes 10 and 12.

## 24 Controlling Parties

The company is controlled by T S Allan.



## **PART V**

### **FINANCIAL INFORMATION ON MUSIC BOX LEISURE LIMITED**

#### **FINANCIAL INFORMATION ON MUSIC BOX LEISURE LIMITED (“MBL”) FOR THE YEARS ENDED 31 MARCH 2003 AND 2002**

##### **Basis of financial information**

The financial information contained in Part V of this document does not constitute statutory accounts within the meaning of section 240 of the Act. The financial information for the two years ended 31 March 2003 has been extracted, without material adjustment, from the audited consolidated financial statements of Music Box Leisure Limited for those periods. Copies of the financial statements for these two periods have been delivered to the Registrar of Companies in England and Wales. Grant Thornton Chartered Accountants and Registered Auditors, of Heran House, Albert Square, Manchester, M60 8GT, have made a report under section 235 of the Act in respect of the statutory consolidated financial statements for the two years ended 31 March 2003. Such reports were unqualified and did not contain a statement under section 237(2) or (3) of the Act.

## PROFIT AND LOSS ACCOUNT

		<i>Year to</i> <i>31 March</i> <i>2002</i>	<i>Year to</i> <i>31 March</i> <i>2003</i>
	<i>Note</i>	£	£
<b>Turnover</b>	2	20,712,843	30,938,689
Cost of sales		(16,122,227)	(25,095,203)
<b>Gross profit</b>		<u>4,590,616</u>	<u>5,843,486</u>
Distribution costs		(291,065)	(442,312)
Administrative expenses		(1,874,689)	(2,712,028)
Other operating income		3,240	–
<b>Operating profit</b>	3	<u>2,428,102</u>	<u>2,689,146</u>
Interest receivable and other income		51,654	50,073
Interest payable and similar charges	5	(45,038)	(38,615)
<b>Profit on ordinary activities before taxation</b>		<u>2,434,718</u>	<u>2,700,604</u>
Tax on profit on ordinary activities	6	(751,154)	(827,486)
<b>Profit for the financial period</b>		<u>1,683,564</u>	<u>1,873,118</u>

There were no recognised gains or losses other than the profit for the financial period.

## BALANCE SHEET

		<i>As at</i> <i>31 March</i> <i>2002</i> £	<i>As at</i> <i>31 March</i> <i>2003</i> £
<b>Fixed assets</b>			
Tangible fixed assets	7	483,358	445,644
<b>Current assets</b>			
Stocks	8	2,400,282	4,214,482
Debtors	9	2,860,237	5,531,036
Cash at bank and in hand		1,025,433	674,535
		<u>6,285,952</u>	<u>10,420,053</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(3,419,122)</u>	<u>(5,645,183)</u>
<b>Net current assets</b>		<u>2,866,830</u>	<u>4,774,870</u>
<b>Total assets less current liabilities</b>		3,350,188	5,220,514
<b>Creditors: amounts falling due after more than one year</b>	11	<u>(10,650)</u>	<u>(7,858)</u>
		<u>3,339,538</u>	<u>5,212,656</u>
<b>Capital and reserves</b>			
Called up share capital	13	10,000	10,000
Profit and loss account	14	3,329,538	5,202,656
<b>Equity shareholders' funds</b>	15	<u>3,339,538</u>	<u>5,212,656</u>

## CASHFLOW STATEMENT

		<i>Year to</i> <i>31 March</i> <i>2002</i>	<i>Year to</i> <i>31 March</i> <i>2003</i>
	<i>Notes</i>	£	£
<b>Net cash inflow from operating activities</b>	16	1,187,341	1,009,431
<b>Returns on investments and servicing of finance</b>			
Interest paid		(42,877)	(36,605)
Finance lease interest paid		(2,161)	(2,010)
Interest received		51,654	50,073
<b>Net cash inflow from returns on investments and servicing of finance</b>		6,616	11,458
<b>Taxation</b>		(267,082)	(1,230,460)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(406,788)	(173,431)
Sale of tangible fixed assets		24,432	50,512
<b>Net cash outflow from capital expenditure and financial investment activities</b>		(382,356)	(122,919)
<b>Financing</b>			
Capital element of finance lease rentals		(27,104)	(18,408)
<b>Increase in cash in the year</b>	18	517,415	(350,898)

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Principal accounting policies**

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

Certain costs previously treated as administrative expenses have been reclassified as costs of sales. The method of depreciation has changed from reducing balance to straight line. The effect of these changes on the current and preceding years' results (where applicable) and financial position was not significant. All other principal accounting policies of the company have remained unchanged from the previous year and are set out below.

*Turnover*

Turnover is the total amount receivable by MBL for goods supplied and services provided, excluding VAT and trade discounts.

*Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected life. The rates generally applicable are as follows:

Freehold property	2 per cent. on cost
Fixtures and fittings	25 per cent. straight line
Motor vehicles	25 per cent. straight line
Plant and equipment	25 per cent. straight line
Leasehold improvements	over the life of the lease

*Stocks*

Stocks are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items.

*Deferred taxation*

Deferred taxation is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

*Foreign currency*

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

*Contributions to pension schemes*

Contributions to MBL's defined contribution scheme and employee personal pension plans are charged to the profit and loss account in the year in which they become payable.

*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 regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

## 2. Turnover and profit on ordinary activities before taxation

The turnover and profit on ordinary activities before taxation are attributable to the principal activity of the company and arise wholly within the United Kingdom.

## 3. Operating Profit

The profit on ordinary activities before taxation is stated after charging:

	2002	2003
	£	£
Auditors' remuneration		
– audit services	13,000	13,000
– non audit services	–	5,020
Depreciation		
– owned assets	171,253	126,740
– assets held under finance leases and hire purchase contracts	11,810	5,164
Loss on disposal of fixed assets	20,058	40,652
	<u>          </u>	<u>          </u>

## 4. Directors and employees

	2002	2003
	£	£
Staff costs during the period were as follows:		
Wages and salaries	1,632,304	2,355,444
Social security costs	170,100	201,330
Other pension costs	141,179	79,888
	<u>1,943,583</u>	<u>2,636,662</u>

The average number of employees of MBL during the period was:

	2002	2003
	<i>Number</i>	<i>Number</i>
Directors	4	4
Administration	13	17
Sales	14	16
Warehouse	58	72
	<u>89</u>	<u>109</u>

Remuneration in respect of directors was as follows:

	2002	2003
	£	£
Emoluments	386,195	789,473
Contributions to money purchase pension schemes	125,707	65,003
	<u>511,902</u>	<u>854,476</u>

During the year 3 directors (2002 – 4) participated in money purchase pension schemes.

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director:

	2002	2003
	£	£
Emoluments	109,826	353,794
Pension contributions	58,040	32,154
	<u>167,866</u>	<u>385,948</u>

## 5. Interest payable and similar charges

	2002	2003
	£	£
Bank interest	23	6,504
Loan interest	42,854	30,101
Finance charges in respect of finance leases	2,161	2,010
	<u>45,038</u>	<u>38,615</u>

## 6. Tax on profit on ordinary activities

	2002	2003
	£	£
The taxation charge is based on the profit for the period and represents:		
Corporation tax at 30%	766,000	835,486
Deferred tax	(14,846)	(8,000)
	<u>751,154</u>	<u>827,486</u>

### *Factors affecting the tax charge for the period*

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom of 30 per cent. (2002 – 30 per cent.). The differences are explained as follows:

	2002	2003
	£	£
Profit on ordinary activities before taxation	<u>2,434,718</u>	<u>2,700,604</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30 per cent.	730,415	810,181
<i>Effects of:</i>		
Expenses not deductible for tax purposes	26,176	21,680
Capital allowances for the period in excess of depreciation	8,678	6,677
General rounding	731	1,076
Under provision in prior year	–	2,486
Group relief	–	(6,614)
	<u>766,000</u>	<u>835,486</u>

## 7. Tangible fixed assets

	<i>Freehold Property</i>	<i>Leasehold Improvements</i>	<i>Fixtures, fittings plant and equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>
	£	£	£	£	£
<b>Cost</b>					
At 1 April 2001	30,129	–	247,143	134,014	411,286
Additions	–	183,938	206,850	43,895	434,683
Disposals	–	–	(12,110)	(68,531)	(80,641)
At 31 March 2002	30,129	183,938	441,883	109,378	765,328
Additions	–	33,495	139,334	12,525	185,354
Disposals	(30,129)	–	(111,001)	(61,804)	(202,934)
At 31 March 2003	–	217,433	470,216	60,099	747,748
<b>Depreciation</b>					
At 1 April 2001	603	–	80,921	53,534	135,058
Charge for year	603	36,788	123,466	22,206	183,063
Disposals	–	–	(3,168)	(32,983)	(36,151)
At 31 March 2002	1,206	36,788	201,219	42,757	281,970
Charge for year	–	45,161	78,001	8,742	131,904
Disposals	(1,206)	–	(83,390)	(27,174)	(111,770)
At 31 March 2003	–	81,949	195,830	24,325	302,104
<b>Net book value</b>					
At 31 March 2003	–	135,484	274,386	35,774	445,644
At 31 March 2002	28,923	147,150	240,664	66,621	483,358

The figures stated above include assets with a net book value of £30,102 (2002 – £35,429) which are held under finance leases and similar hire purchase contracts. The depreciation charged on these assets for the period was £15,615 (2002 – £11,810).

## 8. Stocks

	2002	2003
	£	£
Stocks	2,400,282	4,214,482

## 9. Debtors

	2002	2003
	£	£
Trade debtors	2,790,655	4,183,181
Prepayments and accrued income	40,381	57,180
Amounts due from group undertakings	–	1,266,244
Other debtors	29,201	16,431
Deferred tax	–	8,000
	2,860,237	5,531,036



## 10. Creditors: amounts falling due within one year

	2002	2003
	£	£
Trade creditors	1,653,839	3,780,785
Corporation tax	766,000	371,026
Other taxation and social security	218,476	375,461
Accruals and deferred income	296,392	1,009,839
Other creditors	71,231	96,024
Hire purchase and finance lease obligations	15,741	12,048
Directors' current accounts	397,443	–
	<u>3,419,122</u>	<u>5,645,183</u>

Obligations under finance leases are secured on the relevant assets.

## 11. Creditors: amounts falling due after more than one year

	2002	2003
	£	£
Hire purchase and finance lease obligations (see note 12)	<u>10,650</u>	<u>7,858</u>

## 12. Borrowings

	2002	2003
	£	£
<i>Finance leases</i>		
Finance leases are repayable as follows:		
Within one year	15,741	12,048
Between one and two years	–	6,464
Between two and five years	10,650	1,394
	<u>26,391</u>	<u>19,906</u>

## 13. Share capital

	2002	2003
	£	£
<b>Authorised:</b>		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<b>Allocated, called up and fully paid:</b>		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

## 14. Profit and loss account

	£
At 1 April 2001	1,645,974
Profit for the year	1,683,564
At 1 April 2002	<u>3,329,538</u>
Profit for the year	1,873,118
At 31 March 2003	<u>5,202,656</u>

## 15. Reconciliation of movements in equity shareholders' funds

	2002	2003
	£	£
Profit for the financial period	1,683,564	1,873,118
Opening shareholders' funds	1,655,974	3,339,538
Closing shareholders' funds	<u>3,339,538</u>	<u>5,212,656</u>

## 16. Net cash inflow from operating activities

	2002	2003
	£	£
Operating profit	2,428,102	2,689,146
Depreciation	183,063	131,904
Loss on sale of tangible fixed assets	20,058	40,652
(Increase) in stocks	(1,353,426)	(1,814,200)
(Increase) in debtors	(1,009,093)	(2,662,799)
Increase in creditors	918,637	2,624,728
Net cash inflow from operating activities	<u>1,187,341</u>	<u>1,009,431</u>

## 17. Analysis of changes in net funds/(debt)

	<i>At</i>	<i>Non</i>		<i>At</i>	<i>Non</i>		<i>At</i>
	<i>1 April</i>	<i>Cash</i>	<i>Cash</i>	<i>1 April</i>	<i>Cash</i>	<i>Cash</i>	<i>31 March</i>
	<i>2001</i>	<i>Flow</i>	<i>Flow</i>	<i>2002</i>	<i>Flow</i>	<i>Flow</i>	<i>2003</i>
	£	£	£	£	£	£	£
Cash in hand	567,837	–	457,596	1,025,433	–	(350,898)	674,535
Overdraft	(59,819)	–	59,819	–	–	–	–
	<u>508,018</u>	<u>–</u>	<u>517,415</u>	<u>1,025,433</u>	<u>–</u>	<u>(350,898)</u>	<u>674,535</u>
Finance leases	(25,600)	(27,895)	27,104	(26,391)	(11,923)	18,408	(19,906)
	<u>482,418</u>	<u>(27,895)</u>	<u>544,519</u>	<u>999,042</u>	<u>(11,923)</u>	<u>(332,490)</u>	<u>654,629</u>

## 18. Reconciliation of net cash flow to movement in net funds

	2002	2003
	£	£
Increase/(decrease) in cash in the year	517,415	(350,898)
Cash outflow from finance leases	27,104	18,408
Inception of finance leases	(27,895)	(11,923)
Movement in net funds in the year	<u>516,624</u>	<u>(344,413)</u>
Net funds brought forward	482,418	999,042
Net funds carried forward	<u>999,042</u>	<u>654,629</u>

## 19. Capital commitments

There were no capital commitments at 31 March 2002 or 2003.

## 20. Contingent liabilities

There were no contingent liabilities at 31 March 2002 or 2003.

## 21. Retirement benefits

### *Defined contribution pension scheme*

The MBL group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of MBL.

## 22. Leasing commitments

Operating lease commitments amounting to £193,869 (2002 – £232,881) are due within one year. The leases to which these amounts relate expire as follows:

	<i>Property</i> 2002 £	<i>Other</i> 2002 £	<i>Property</i> 2003 £	<i>Other</i> 2003 £
Operating leases which expire:				
within one year	–	19,616	–	11,771
within one and two years	59,000	33,025	–	33,846
within two and five years	80,625	40,615	134,375	13,877
	<u>139,625</u>	<u>93,256</u>	<u>134,375</u>	<u>59,494</u>

## 23. Related party transactions

Included within fixed asset disposals is a £7,000 loss on disposal relating to the sale of a motor vehicle to Miss T.L. Allan, a director of MBL.

Included within additions to motor vehicles in the year ended 31 March 2002 is £16,000 relating to the purchase of a motor vehicle from Mrs. C.S. Allan, a director of MBL.

## 24. Ultimate Parent Undertaking

With effect from 1 September 2002, the ultimate parent undertaking has been Redworth Limited, incorporated in the United Kingdom.

## PART VI

### PRO FORMA STATEMENT OF NET ASSETS

The Directors  
Air Music & Media Group plc  
Chiltern House  
3rd Floor, 184 High Street  
Berkhamsted  
Hertfordshire  
HP4 3AP

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London  
EC4N 8EL

13 September 2004

Dear Sirs

#### **PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP**

We report on the pro forma statement of net assets set out in this Part VI of the prospectus of Air Music & Media Group plc dated 13 September 2004, which has been prepared, for illustrative purposes only, to provide information about how the acquisition of Redworth and the placing might have affected the financial information presented.

#### **Responsibilities**

It is the responsibility solely of the directors of Air Music & Media Group plc to prepare the pro forma financial information.

It is our responsibility to form an opinion on the pro forma statement of net assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma statement of net assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

#### **Basis of Opinion**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards and Bulletin 1998/8 issued by the Auditing Practices Board. Our work, which involved no independent examination of any underlying financial information, consists primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the proforma statement of net assets with the directors of Air Music & Media Group plc.

#### **Opinion**

In our opinion:

- (a) The proforma statement of net assets has been properly compiled on the basis stated;
- (b) Such basis is consistent with the accounting policies of Air Music & Media Group plc;
- (c) The adjustments are appropriate for the purpose of the proforma statement as disclosed.

Yours faithfully

KINGSTON SMITH  
Chartered Accountants and Registered Auditors

## Pro forma Statement of Net Assets

The unaudited pro forma Statement of Net Assets of the group, illustrating the effect on the group of the acquisition of Redworth Limited, as if it took place on 31 March 2004, is set out below. The Pro forma Statement has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the group.

	<i>Air Music &amp; Media Group plc 31 March 2004 Audited £ (Note 1)</i>	<i>Redworth Limited 31 March 2004 Audited £ (Note 2)</i>	<i>Adjustments £</i>	<i>Note</i>	<i>Pro forma £</i>
<b>Fixed Assets</b>					
Intangible assets	7,994,407	2,576,001	24,375,076	3	34,945,484
Tangible assets	156,579	391,429	–		548,008
Investments	–	76,782	–		76,782
	<u>8,150,986</u>	<u>3,044,212</u>	<u>24,375,076</u>		<u>35,570,274</u>
<b>Current Assets</b>					
Stock and work in progress	1,550,234	4,776,967	–		6,327,201
Debtors	6,061,041	5,774,774	–		11,835,815
Cash at bank and in hand	2,223,399	2,657,420	(2,600,000)	6	2,280,819
	<u>9,834,674</u>	<u>13,209,161</u>	<u>(2,600,000)</u>		<u>20,443,835</u>
<b>Creditors due within one year</b>	<u>(7,582,226)</u>	<u>(8,027,900)</u>	<u>–</u>		<u>(15,610,126)</u>
<b>Net Current Assets</b>	<u>2,252,448</u>	<u>5,181,261</u>	<u>(2,600,000)</u>		<u>4,833,709</u>
<b>Total Assets less Current Liabilities</b>	10,403,434	8,225,473	21,775,076		40,403,983
<b>Creditors due after more than one year</b>	<u>(2,769,445)</u>	<u>(549)</u>	<u>(13,000,000)</u>	4,5	<u>(15,769,994)</u>
<b>Net Assets</b>	<u>7,633,989</u>	<u>8,224,924</u>	<u>8,775,076</u>		<u>24,633,989</u>

**Notes:**

- 1 The Air Music & Media Group plc figures have been extracted from the audited financial statements of Air Music & Media Group plc for the year ended 31 March 2004.
- 2 The Redworth Limited figures have been extracted from the audited financial statements of Redworth Limited for the year ended 31 March 2004.
- 3 Goodwill Arising on acquisition of Redworth Limited
 

Consideration:		£
Shares issued in exchange on completion		10,000,000
Cash paid on completion financed by:		
Bank Loan	10,000,000	
Loan from Redworth	2,600,000	
Net proceeds from share placing (after deducting transaction costs) and additional cash	<u>5,000,000</u>	
		17,600,000
Deferred consideration		<u>5,000,000</u>
		32,600,000
Less:		
Net assets acquired		<u>(8,224,924)</u>
Goodwill		<u>24,375,076</u>

**4** Deferred consideration

The deferred consideration, payable in shares or cash, is dependent on the results of Redworth Limited for the year ended 31 March 2005 and is subject to a maximum of £10,000,000 and minimum of £nil. A deferred consideration of £5,000,000 has been assumed for the purposes of this statement.

**5** Bank Loan

Creditors due after more than one year have been adjusted to include an £10,000,000 bank loan to finance the cash consideration payable on completion.

**6** Loan from Redworth

An adjustment has been made to reflect the proposed £2,600,000 loan to be paid by Redworth to Air Music & Media Group plc just after completion to finance an element of the initial consideration.

## PART VII

### ADDITIONAL INFORMATION

#### 1. THE COMPANY, ITS SHARE CAPITAL AND THE GROUP

- 1.1 The Company was incorporated in England and Wales as a private limited company on 11 April 2001 under the Act with registered number 04198290 and with the name Bird Trading Limited. On 6 September 2001 it changed its name to Air Music & Media Group Limited. On 11 September 2001, the Company was reregistered as a public company. The Company's principal place of business is at Chiltern House, 184 High Street, Berkhamsted, Hertfordshire HP4 3AP.
- 1.2 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 shares of £1 each. On 5 September 2001 it increased its authorised share capital to £5,000,000 divided into 5,000,000 ordinary shares of £1 each. On 7 September 2001 its authorised share capital was subdivided into 50,000,000 ordinary shares of 10p each.
- 1.3 On 20 June 2002 the authorised share capital of the Company was subdivided into 200,000,000 Ordinary Shares of 2.5p each.
- 1.4 On 4 July 2002 the entire issued share capital of the Company was admitted to trading on AIM.
- 1.5 On 26 September 2002 the authorised share capital of the Company was increased to £10,000,000 divided into 400,000,000 Ordinary Shares of 2.5p each.
- 1.6 The liability of the members of the Company is limited.
- 1.7 The authorised and issued share capital of the Company as at the date of this document and as it will be following completion of the Placing and the issue of the Consideration Shares and as it would be assuming the issue of the maximum number of Deferred Consideration Shares are, will and would be as follows:

	<i>Authorised number of Ordinary Shares</i>	<i>Nominal value £</i>	<i>Issued and fully paid number of Ordinary Shares</i>	<i>Nominal value £</i>
As at the date of this document	400,000,000	10,000,000	205,830,747	5,145,768.68
Immediately following Admission	800,000,000	20,000,000	369,905,747	9,247,643.675

- 1.8 Pursuant to Resolution number 9, the Directors will be given authority to allot Ordinary Shares up to an aggregate nominal amount of £1,601,875 in respect of the Placing, £6,746,294.23 in respect of the Acquisition and £4,623,821 otherwise, such authority expiring on the earlier of 5 January 2006 and the conclusion of the next Annual General Meeting of the Company.
- 1.9 The Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities issued by the Company.
- 1.10 The Company is a holding company and the business of the Group is the development and acquisition of music copyrights, and the licensing in of third party music copyrights and the exploitation of those rights through the production and sale of budget priced audio CDs, digital versatile discs and video.

1.11 The Company, which is the parent company of the Group, has the following subsidiary undertakings:

<i>Name</i>	<i>Activity</i>	<i>Date of Incorporation</i>	<i>Issued Share Capital</i>	<i>Percentage of Share Capital held</i>
1276353 Ontario Limited	Holding company	01.04.98	CAN\$40	100
Airborne Security and Investigation Services Limited	Non-trading company	16.12.92	£100	100
Air Music & Media Limited	Other entertainment activities	30.10.95	£100	100
Clifford Asset Management Limited	Non-trading company	12.02.96	£100	100
GB Records Limited	Non-trading company	27.09.99	£2	100
GFS Group Limited	Holding company	04.03.97	£2	100
Going For A Song Limited	Entertainment activities	04.07.96	£100,000	99.98
Hollywood DVD Limited	Entertainment activities	21.02.83	£100	100
Legacy Entertainment Inc	Distribution of compact discs and music cassettes	16.04.96	CAN\$100	100
Music on Download Limited	Non-trading company	20.12.99	£1	100
New Sound Limited	Entertainment activities	08.12.95	£100	100
RPO Records Limited	Non-trading company	28.01.00	£1	100
The Original Record Company Limited	Non-trading company	04.03.02	£100	100

The subsidiaries listed above are all private limited companies, are incorporated in England and Wales and have their registered offices at Devonshire House, 60 Goswell Road, London EC1M 7AD, except for:

- (a) Going For A Song Limited, GFS Group Limited, RPO Records Limited and Music on Download Limited which each have their registered office at Quadrant House, 80-82 Regent Street, London W1R 5PA; and
- (b) Legacy Entertainment Inc and 1276353 Ontario Limited, which are incorporated under the laws of the Province of Ontario, Canada and whose registered offices are both c/o Terry Perusini, 369, Glover Road, Stoney Creek, Ontario, Canada L8 E 6C9.

1.12 Following completion of the Acquisition, the following additional companies will form part of the Enlarged Group:

<i>Name</i>	<i>Activity</i>	<i>Date of Incorporation</i>	<i>Issued Share Capital</i>	<i>Percentage of Share Capital held</i>
Redworth Limited	Holding company	19.04.02	£10,460	100
Music Box Leisure Limited	Distributor of CDs, DVDs and videos	16.01.98	£10,000	100
Entertainment Solutions Direct Limited	Wholesaler of CDs, DVDs and videos	22.03.04	£2	100
Dynamic Entertainment Limited	Seller and distributor of CDs, DVDs and videos	26.11.02	£181.82	45

The proposed subsidiaries listed above are all private limited companies, are incorporated in England and Wales and have their registered offices at Unit 9, Enterprise Court, Lancashire Enterprise Business Park, Centurion Way, Leyland, Lancashire PR26 6TZ save for Dynamic Entertainment Limited, whose registered office is at Fairfax House, 15 Fulwood Place, London WC1V 6AY.



## 2. SUBSTANTIAL SHAREHOLDERS

Except for the interests of the Directors and the Proposed Directors, which are set out in paragraph 3.1, and the interests of the Concert Party disclosed in paragraph 4.1, the Directors are not aware of any holdings of Ordinary Shares representing three per cent. or more of the nominal value of the Company's issued share capital.

## 3. DIRECTORS' AND PROPOSED DIRECTORS' INTERESTS

3.1 The interests of the Directors, the Proposed Directors, their immediate families and of persons connected with them, within the meaning of section 346 of the Act, in the share capital of the Company as at the date of this document and on Admission, all of which are beneficial, are and will be as follows:

<i>Name</i>	<i>Ordinary Shares (% issued share capital) as at the date of this document</i>	<i>Ordinary Shares (% Enlarged Issued Share Capital) on Admission</i>	<i>Ordinary Shares (% Potential Enlarged Issued Share Capital) after issue of Deferred Consideration Shares</i>
John French	30,000 (0.01%)	30,000 (0.01%)	30,000 (0.01%)
Mark Frey*	74,480,000 (36.19%)	74,480,000 (20.13%)	74,480,000 (13.80%)
Michael Infante JP	31,840,000 (15.47%)	31,840,000 (8.61%)	31,840,000 (5.90%)
Ruth Salsbury	0 (0%)	0 (0%)	0 (0%)
Ivan Taylor	5,100,000 (2.48%)	5,100,000 (1.38%)	5,100,000 (0.94%)
Roger Putnam	0 (0%)	0 (0%)	0 (0%)
Trevor Allan	0 (0%)	58,891,013 (15.92%)	158,918,441 (29.44%)
Janice Beer	0 (0%)	7,648,184 (2.07%)	20,638,759 (3.82%)
Alexander Sorrell	0 (0%)	4,780,115** (1.29%)	12,899,225*** (2.39%)

\*Mark Frey's interest in the share capital of the Company is held through Galaxy Management Corporation a company owned by trusts of which he is a beneficiary.

\*\*Alexander Sorrell will hold 956,023 of these shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

\*\*\*Alexander Sorrell will hold 2,579,845 of these shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

3.2 As at the date of this document, no options, except the options granted to Ruth Salsbury to purchase 2,000,000 shares in the Company, over Ordinary Shares had been granted to Directors.

3.3 Following Completion, the Proposed Directors will hold the following amount of Loan Notes:

	<i>Loan Notes immediately following Completion</i>
Janice Beer	£773,997
Alexander Sorrell	£673,040
Trustees of Alexander Sorrell Settlement*	£168,260

\*A trust of which Alexander Sorrell and his family are beneficiaries.

3.4 Save as disclosed in this paragraph 3, none of the Directors or Proposed Directors, nor any member of their respective immediate families, nor any person connected with them within section 346 of the Act, is or, immediately following the Acquisition, will be interested in any share capital of the Company.

3.5 Save as disclosed in this paragraph 3, the Company has not been notified of any interest (within the meaning of Part VI of the Act) which represents three per cent. or more of the Existing Ordinary Shares or, following Admission, will represent three per cent. or more of the Enlarged Issued Share Capital, nor, so far as the Company is aware, are there any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

#### 4. OTHER INTERESTS IN SHARES

4.1 The Vendors and their holdings of Ordinary Shares at the date of this document, on Admission and following the issue of the Deferred Consideration Shares, are as follows:

<i>Name</i>	<i>At the date of this document</i>	<i>Ordinary Shares</i>	<i>Immediately following Admission</i>	<i>% of the Issued Share Capital</i>	<i>Maximum number of Deferred Shares</i>	<i>Following the maximum issue of Deferred Consideration Shares</i>	
						<i>Ordinary Shares</i>	<i>% of the Potential Enlarged Issued Share Capital</i>
Trevor Allan	0	58,891,013		15.92%	100,027,428	158,918,441	29.44%
Tonya Allan	0	19,120,459		5.17%	32,476,438	51,596,897	9.56%
James Allan	0	9,560,229		2.58%	16,238,219	25,798,448	4.78%
Janice Beer	0	7,648,184		2.07%	12,990,575	20,638,759	3.82%
Alexander Sorrell	0	4,780,115*		1.29%	8,119,110**	12,899,225***	2.39%
<b>Total</b>	<b>0</b>	<b>100,000,000</b>		<b>27.03%</b>	<b>169,851,770</b>	<b>269,851,770</b>	<b>49.99%</b>

\* Alexander Sorrell will hold 956,023 of these shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

\*\* Alexander Sorrell will hold 1,623,822 of these shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

\*\*\* Alexander Sorrell will hold 2,579,845 of these shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

4.2 The directors of Redworth are Trevor Allan, Janice Beer and Alexander Sorrell, all of whose business address is at Unit 9, Enterprise Court, Lancashire Enterprise Business Park, Centurion Way, Leyland, Lancashire PR26 6TZ.

4.3 As at the date of this document, no Ordinary Shares are owned or controlled, directly or indirectly, or have been dealt in for value by Redworth.

4.4 The following dealings for value in the Ordinary Shares have been carried out by the Directors or their related trusts during the 12 months prior to the publication of this document:

<i>Name</i>	<i>Dealing</i>	<i>Date</i>	<i>Number of Ordinary Shares</i>	<i>Price</i>
John French	Purchase	08/12/03	30,000	8.25p

4.5 Save as disclosed in paragraphs 3 and 4, none of the Vendors nor any of the Directors or Proposed Directors, nor any member of their immediate families, nor any persons acting in concert with any of the Vendors for the purposes of the Placing or the Acquisition, owns or controls or is interested, directly or indirectly, in any ordinary shares in the capital of the Company or in any securities convertible into rights to subscribe for or options (including traded options) in respect of, or derivatives referenced to, ordinary shares in the capital of the Company.

4.6 Save as disclosed in paragraphs 3 and 4, none of the Vendors nor the Directors or Proposed Directors nor any person acting in concert with any of them, nor any members of their immediate families or any family trust has dealt for value in ordinary shares in the capital of the Company during the 12 months preceding the date of this document.

4.7 Save as disclosed in paragraphs 3 and 4, no subsidiary of the Company, nor any pension funds of either the Company or any of its subsidiaries or any pension fund of the Vendors, nor any current bank, financial or other professional adviser to the Group or the Vendors, nor any person controlling, controlled by or under the same control as any such bank or adviser (other than an exempt market-maker), nor any fund manager in respect of its discretionary managed funds (other than an exempt fund manager) which controls, is controlled by, or is under the same control as the Group or the Vendors, or

is connected with the Company, or any current bank, financial or other professional adviser to the Group or the Vendors, owns or controls any ordinary shares in the capital of the Company or any securities convertible into, rights to subscribe for or options (including traded options) in respect of, or derivatives referenced to, such Ordinary Shares.

- 4.8 No agreement, arrangement or understanding (including any compensation arrangement) exists between the Vendors or any person acting in concert with the Vendors and any of the Directors, recent directors, Shareholders or recent shareholders of the Company having any connection with or dependence upon the Placing or the Acquisition.
- 4.9 As at the date of this document, the Concert Party owns or controls, directly or indirectly, the following shares in Redworth:

	<i>Number of shares in Redworth</i>	<i>Percentage of issued share capital of Redworth</i>
Trevor Allan	6,160	58.89%
Tonya Allan	2,000	19.12%
James Allan	1,000	9.56%
Janice Beer	800	7.65%
Alexander Sorrell*	500	4.78%
	<u>10,460</u>	<u>100%</u>

\*Immediately prior to Completion, options over shares in Redworth will be exercised, which will result in the shareholdings set out above. Alexander Sorrell will hold 100 of his shares in the Alexander Sorrell Settlement, a trust of which he and his family are beneficiaries.

- 4.10 As at the date of this document, no shares in Redworth are owned or controlled, directly or indirectly, or have been dealt in for value by the Company or the Directors during the 12 months preceding the date of this document.
- 4.11 Save as disclosed in this document, there is no agreement, arrangement or understanding whereby the beneficial ownership of any Consideration Shares or Deferred Consideration Shares will be transferred to any other person.
- 4.12 The following dealings for value in the Ordinary Shares have been carried out by Seymour Pierce and Seymour Pierce Ellis Limited, a company which is part of the same group of companies as Seymour Pierce, on behalf of advisory clients, during the 12 months prior to the date of publication of this document:

<i>Date</i>	<i>Nature of trade</i>	<i>Number of Ordinary Shares</i>	<i>Price</i>
19/09/03	Sale	100,000	8.5p
22/09/03	Sale	100,000	9p
23/09/03	Sale	50,000	9p
23/09/03	Sale	50,000	9p
02/10/03	Sale	200,000	7.5p
02/10/03	Sale	900,000	7.5p
06/10/03	Sale	50,000	9p
10/10/03	Purchase	888,889	7.5p
10/10/03	Sale	1,420,596	7.5p
10/10/03	Purchase	50,000	7.5p
13/10/03	Sale	1,333,333	7.5p
12/11/03	Sale	100,000	9.5p

<i>Date</i>	<i>Nature of trade</i>	<i>Number of Ordinary Shares</i>	<i>Price</i>
13/11/03	Sale	100,000	9.5p
14/01/04	Purchase	100,000	8.5p
26/01/04	Sale	50,000	9p
13/02/04	Sale	75,000	7.5p
02/04/04	Sale	50,000	7.5p
02/04/04	Sale	50,000	7.5p
07/04/04	Sale	250,000	6.5p
07/04/04	Sale	2,147,853	6.5p
07/04/04	Sale	1,897,853	6.75p
07/04/04	Sale	25,000	7.75p
30/04/04	Sale	1,647,853	6.5p
07/06/04	Sale	225,000	9.5p
21/07/04	Purchase	1,777,777	7.5p

## **5. SHARE OPTION SCHEME**

The Company has introduced a discretionary share option scheme pursuant to the Rules of the Enterprise Management Incentive Scheme (“the Scheme”) adopted by board resolution on 15 May 2003. The main terms of the Scheme are set out below:

### *Grants of Options*

Options may be granted to eligible employees at the discretion of the Board subject to the provisions of the Scheme. The Directors may in their discretion include any conditions or limitations upon the exercise of the option such that the option holder shall only be entitled to exercise the option subject to the fulfilment of one or more of the conditions. All employees and Directors of the Group will be eligible to participate in the Scheme.

### *Time of exercise and lapse of options*

Subject to the provisions of the rules and the option agreement, an option may be exercised in whole or in part or may not be exercised or shall lapse in the following circumstances:

- (a) an option shall not be exercisable unless the performance conditions is or are satisfied;
- (b) an option may not be exercised any later than 10 years after the date of grant of the option;
- (c) in the event an option holder ceases to be an employee the Directors have absolute discretion, exercisable within 40 days of the date of such cessation, to permit the option holder to exercise options provided that if the option holder shall not exercise options within 40 days (or in the case of cessation by reason of death within 1 year) after the date of such cessation the options shall lapse; and
- (d) in the event of a takeover the option holder will have 40 days to accept the terms of replacement options granted by the acquiring company after which time the options will lapse.

### *Limits on size and duration of the Scheme*

The maximum number of Ordinary Shares in respect of which options may be granted under the Scheme shall not exceed an amount equivalent to five per cent. of the issued share capital of the Company.

## **6. IRREVOCABLE UNDERTAKINGS**

- 6.1 Save as disclosed in paragraph 4.4 of Part VII of this document, none of the persons who have given irrevocable undertakings described in paragraph 6.2 below have dealt for value in Ordinary Shares during the 12 months preceding the date of this document.

- 6.2 The following Directors have signed irrevocable undertakings to vote in favour of the Resolutions numbered 6 to 11 in respect of their entire shareholdings in the Company as follows:

<i>Shareholder</i>	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of the Company's issued voting share capital</i>
John French	30,000	0.01%
Mark Frey*	74,480,000	36.19%
Michael Infante JP	31,840,000	15.47%
Ivan Taylor	5,100,000	2.48%

\*Mark Frey's shareholding is held through Galaxy Management Corporation, a company owned by trusts of which he is a beneficiary.

## **7. DIRECTORS' AND PROPOSED DIRECTORS' TERMS OF APPOINTMENT**

- 7.1 The Company has entered into the agreements described at paragraphs (a) to (f) below and it is proposed that the Company will enter into the agreements described at paragraphs (g) to (i) at Completion:

- (a) an agreement with Mark Frey dated 3 September 2001. He is paid an annual salary of £103,500 (pursuant to reviews of his salary by the Directors in accordance with the agreement) and is entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Mark Frey may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Mark Frey is also provided with a fully expensed motor car. The total estimated value of benefits in kind to be paid to Mark Frey in the current financial year amounts to £19,000. The agreement is terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the Company if, among other things, Mark Frey is in material breach of its terms. No contractual compensation is payable to Mark Frey in the event the agreement is terminated summarily. On Completion the Company will enter into a new agreement with Mark Frey containing the same remuneration terms;
- (b) an agreement with Michael Infante JP dated 3 September 2001. He is paid an annual salary of £103,500 (pursuant to reviews of his salary by the Directors in accordance with the agreement) and is entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Michael Infante JP may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. The total estimated value of benefits in kind to be paid to Michael Infante in the current financial year amounts to £19,000. The agreement is terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the Company if, among other things, Michael Infante JP is in material breach of its terms. No contractual compensation is payable to Michael Infante JP in the event the agreement is terminated summarily. On Completion the Company will enter into a new agreement with Michael Infante containing the same remuneration terms;
- (c) an agreement with Ivan Taylor dated 3 September 2001. He is paid an annual salary of £70,000 (pursuant to reviews of his salary by the Directors in accordance with the agreement) and is entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Ivan Taylor may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Ivan Taylor is also provided with a fully expensed motor car. The total estimated value of benefits in kind to be paid to Ivan Taylor in the current financial year amounts to £9,600. The agreement is terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the Company if, among other things, Ivan Taylor is in material breach of its terms. No contractual compensation is payable to Ivan Taylor in the event the agreement is terminated summarily;

- (d) an agreement with Ruth Salsbury dated 25 February 2002. She is paid an annual salary of £60,500 (pursuant to reviews of her salary by the Directors in accordance with the agreement) and is entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Ruth Salsbury may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Ruth Salsbury is also provided with a motor car. The total estimated value of benefits in kind to be paid to Ruth Salsbury in the current financial year amounts to £12,400. The agreement is terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the Company if, among other things, Ruth Salsbury is in material breach of its terms. No contractual compensation is payable to Ruth Salsbury in the event the agreement is terminated summarily. On Completion the Company will enter into a new agreement with Ruth Salsbury containing the same remuneration terms, save that she will receive an additional car allowance of £12,000 per annum;
- (e) a letter of appointment dated 26 November 2001 pursuant to which John French was appointed non-executive chairman. He is paid £25,000 annually (pursuant to reviews of his fee by the Directors in accordance with the letter of appointment). His appointment is for 12 months and is then terminable on six months' notice on either side. The appointment may be terminated summarily by the Company if the appointee is, among other things, incapable of properly performing his duties under his appointment.

The only amendment to the agreement between the Company and John French in the previous 6 months is that his salary was increased from £24,000 to its current level with effect from 1 May 2004;

- (f) a letter of appointment dated 11 December 2003 pursuant to which Roger Putnam was appointed non-executive director. He is paid £16,000 per annum. His appointment is terminable on three month's notice on either side. The appointment may be terminated summarily by the Company if the appointee is, among other things, incapable of properly performing his duties under his appointment;
- (g) an agreement with Trevor Allan. The agreement will provide for an annual salary of £115,000 and he will be entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Trevor Allan may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Trevor Allan will be provided with a car allowance of £15,000 per annum and a contribution to his personal pension scheme capped at £30,000 per annum. The total estimated value of benefits in kind to be paid to Trevor Allan in the current financial year amounts to £46,700. The agreement will be terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the Company if, among other things, Trevor Allan is in material breach of its terms. No contractual compensation is payable to Trevor Allan in the event the agreement is terminated summarily.

Trevor Allan did not have a service agreement with Redworth. He was paid £115,000 per year, a car allowance of £15,000 per year, a pension to which Redworth contributed, private health care insurance and family health care. In addition, Trevor Allan was entitled to receive a bonus of 5 per cent. of the adjusted profits of Redworth;

- (h) an agreement with Janice Beer. The agreement will provide for an annual salary of £70,000 and she will be entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Janice Beer may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Janice Beer will be provided with a fully expensed car and a continuation to her personal pension scheme of 20 per cent. of her basic salary. The total estimated value of benefits in kind to be paid to Janice Beer in the current financial year amounts to £24,900. The agreement will be terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the company if, among other things, Janice

Beer is in material breach of its terms. No contractual compensation is payable to Janice Beer in the event the agreement is terminated summarily.

Janice Beer was employed as a director of Redworth pursuant to an agreement dated 2 May 1998. She was paid an annual salary of £70,000 and was entitled to receive private health care insurance. Janice Beer was entitled to receive a bonus of 4 per cent. of the adjusted profits of Redworth and was also provided with a motor car. A pension contribution of 20 per cent. of her salary was paid to the Norwich Union Pension Fund. The agreement was terminable by her on 6 months' prior written notice. The agreement did not expressly state that it was terminable on 6 months' notice by the Redworth, but stated that after she was removed as a director at a general meeting then Redworth would give her 6 months' notice. The agreement was terminable by the Redworth with immediate effect on certain grounds of misconduct.

- (i) an agreement with Alexander Sorrell. The agreement will provide for an annual salary of £66,000 and he will be entitled to join such private medical healthcare scheme and permanent health insurance scheme as the Company may provide from time to time. Alexander Sorrell may be eligible to participate in such bonus scheme as may be agreed with the Company from time to time. As at the date of this document, no such scheme is in place. Alexander Sorrell will be provided with a car allowance of £9,000 per annum and a contribution to his personal pension scheme of 10 per cent. of his basic salary. The total estimated value of benefits in kind to be paid to Alexander Sorrell in the current financial year amounts to £16,300. The agreement will be terminable on 12 months' written notice from either party. The agreement may be terminated summarily by the company if, among other things, Alexander Sorrell is in material breach of its terms. No contractual compensation is payable to Alexander Sorrell in the event the agreement is terminated summarily.

Alexander Sorrell was employed as a director of Redworth pursuant to an agreement dated 30 September 2002. He was paid an annual salary of £66,000 and was entitled to receive private health care insurance, family health care, a car allowance of £9,000 per year and a stakeholder pension company contribution of 10 per cent. In the last 6 months his bonus was increased with effect from 1 May 2004 to 3.5 per cent. of adjusted profits. The agreement would have automatically terminated when he became 65, if he was prohibited from being a director or if he resigned his office or his office was vacated. The agreement could be terminated without notice if he was guilty of gross misconduct, serious breach, became bankrupt or was convicted of a criminal offence. The agreement could be terminated by 3 months' notice if he was incapacitated for 90 days in any 12 month period.

- 7.2 The aggregate remuneration paid and benefits in kind granted to the Directors during the period ended 31 March 2004 amounted to £448,641 and the estimated aggregate remuneration and benefits in kind to to be paid to the Directors and Proposed Directors during the period ended 31 March 2005 is £661,572.
- 7.3 The emoluments receivable by the Directors will not be varied as a consequence of Admission.
- 7.4 Save as disclosed in this paragraph 7, none of the service contracts entered into by the Directors has been entered into or amended within 6 months prior to the date of this document.

## 8. ADDITIONAL INFORMATION ON THE DIRECTORS AND PROPOSED DIRECTORS

8.1 The Directors have held the following directorships or been partners in the following partnerships within the five years prior to the publication of this document:

	<i>Current:</i>	<i>Past:</i>
John French	Air Music & Media Group plc Avanti Screenmedia Group plc Croma Group plc Croma Defence Systems Limited I-Financial Services Group plc Lea-Francis Limited Newsquare Limited The Claims People Group plc	Ever 1286 Limited IMS Marketing Communications Limited Lydney Products Limited Maine Investments Limited Sevenside Group Employee Benefit Trust Limited Sevenside Group Limited The Pet Club plc Webdetect Limited
Mark Frey	Airborne Security and Investigation Services Limited Air Music & Media Group plc Air Music & Media Limited Clifford Asset Management Limited Clifford Properties Limited GB Records Limited GFS Group Limited Going For A Song Limited Hollywood DVD Limited Maverick Music Limited Music on Download Limited New Sound Limited RPO Records Limited The Original Record Company Limited	Airborne Security Limited Frey Aviation Limited Musical Download Limited Pegasus Security Services Limited
Michael Infante JP	1276353 Ontario Limited Airborne Security and Investigation Services Limited Air Music & Media Group plc Air Music & Media Limited Clifford Asset Management Limited GB Records Limited GFS Group Limited Going For A Song Limited Hollywood DVD Limited Legacy Entertainment Inc Music on Download Limited New Sound Limited RPO Records Limited The Original Record Company Limited	Airborne Security Limited Musical Download Limited Pegasus Security Services Limited
Ruth Salsbury	Air Music & Media Group plc Air Music & Media Limited Hollywood DVD Limited	None
Ivan Taylor	Air Music & Media Group plc Air Music & Media Limited Going For A Song Limited	None



	<i>Current:</i>	<i>Past:</i>
Roger Putnam	Automotive Skills Limited Air Music & Media Group PLC British Motor Industry Heritage Trust Ford Motor Company Limited Halcyon Days Limited Invest in Thames Gateway London Limited Jaguar Daimler Heritage Trust Society of Motor Manufacturers and Traders Limited (The) The Walpole Committee Limited	Jaguar Limited Jaguar Cars Limited Jaguar Cars Overseas Holdings Limited Jaguar Cars Exports Limited Jaguar Collection Limited (The) Project XJ220 Limited Society of Motor Manufacturers and Traders Limited (The)

The Proposed Directors have held the following directorships or have been partners in the following partnerships within the five years prior to the publication of this document:

	<i>Current:</i>	<i>Past:</i>
Trevor Allan	Redworth Limited Music Box Leisure Limited CD4Me.co.uk Limited	Dynamic Entertainment Limited
Janice Beer	Redworth Limited Music Box Leisure Limited Dynamic Entertainment Limited	None
Alexander Sorrell	Redworth Limited Music Box Leisure Limited Entertainment Solutions Direct Limited Jame Limited Forkeeps Limited Dynamic Entertainment Limited	None

8.2 Save as disclosed elsewhere in this document, no Director or Proposed Director has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had a bankruptcy order made against him or her or entered into an individual voluntary arrangement;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or which entered into any composition or arrangement with its creditors generally or any class of its creditors whilst he or she was a director of that company or within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership placed into compulsory liquidation, administration or partnership voluntary arrangements where he or she was a partner at the time of or within the 12 months preceding such events;
- (e) been subject to the receivership of any asset or of a partnership of which he or she was a partner at the time of or within the 12 months preceding such events;
- (f) been publicly criticised by any statutory or regulatory authority, including recognised professional bodies;
- (g) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; or

(h) had a name other than his/her existing name.

- 8.3 No Director has or has had any interest in any transaction with the Company which was unusual in its nature or conditions or significant to the business of the Company and which was effected during the current or previous financial year or during any previous financial year and which remains in any respect outstanding or unperformed.
- 8.4 AM&M entered into an agreement on 3 April 2000 with Clifford Asset Management Limited for the acquisition of a catalogue of music copyrights for £2,000,000. At the time of this agreement, Clifford Asset Management Limited was the majority shareholder in AM&M, and its directors were Mark Frey and Michael Infante JP who together were beneficially interested in the entire issued share capital of Clifford Asset Management Limited. On 24 June 2002 the Company obtained an indicative open market valuation of the catalogue, by an independent valuer, based on certain assumptions in relation to its exploitation, of £2.5 million to £3 million.
- 8.5 There are no loans or guarantees provided by any member of the Group for the benefit of any Director and there are no arrangements whereby any Director has agreed to waive future emoluments nor have there been any such arrangements in the financial year last preceding the date of this document.

## **9. INFORMATION ON THE VENDORS**

The Vendors, all of whose business address is Unit 9, Enterprise Court, Lancashire Enterprise Business Park, Centurion Way, Leyland, Lancashire PR26 6TZ, and their details are set out below:

- (a) Trevor Allan is a Proposed Director, whose details are set out in Part I on page 13 of this document;
- (b) Tonya Allan, age 36, is Trevor Allan's sister and she is the customer service manager at MBL, with responsibility for the sales administration function and customer service teams;
- (c) James Allan, age 28, is Trevor Allan's brother and he is the buying controller at MBL, responsible for negotiating stock purchases with suppliers and supervising the buying office;
- (d) Janice Beer is a Proposed Director, whose details are set out in Part I on page 13 of this document;
- (e) Alexander Sorrell is a Proposed Director, whose details are set out in Part I from page 13 of this document; and
- (f) Halliwell Landau Trustees Limited is the co-trustee (with Alexander Sorrell) of the Alexander Sorrell Settlement, a trust of which Alexander Sorrell and his family are beneficiaries.

## **10. MEMORANDUM OF ASSOCIATION**

The principal objects of the Company are set out in Clause 4(a)(i) of its memorandum of association and are to carry on business as a general commercial company.

## **11. ARTICLES OF ASSOCIATION**

### **Existing Articles of Association**

The Existing Articles contain, amongst others, the following provisions:

#### *Votes of members*

- (a) On a show of hands every member, who being an individual, is present in person or, being a corporation is present by a duly authorised representative, has one vote, and on a poll every member has one vote for every share of which he is the holder.
- (b) Unless the directors determine otherwise, a member of the Company is not entitled in respect of any shares held by him to vote at any general meeting of the Company if any amounts payable by him in respect of those shares pursuant to a call have not been paid or if the member has a holding of at least

0.25 per cent. of any class of shares of the Company and has failed to comply with a notice under section 212 of the Act (“section 212 notice”).

#### *Variation of rights*

Subject to the provisions of the Act, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated in such manner, if any, as may be provided by such rights or in the absence of any such provision with the consent in writing of the holders of at least three fourths in nominal value of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of that class but not otherwise. The quorum at any such meeting is two or more persons holding, or representing by proxy, at least one third in nominal value of the issued shares in question.

#### *Transfers of shares*

- (a) Subject to the provisions of the articles relating to CREST, all transfers of shares will be effected in the manner authorised by the Stock Transfer Act 1963 and must be signed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of it.
- (b) The directors may, in their absolute discretion and without assigning any reason, refuse to register the transfer of a share in certificated form if it is not fully paid or if the Company has a lien on it, or if it is not duly stamped, or if it is by a member who has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a section 212 notice. In exceptional circumstances approved by the London Stock Exchange, the directors may refuse to register any transfer, provided that their refusal does not disturb the market.
- (c) Save as mentioned in paragraph (b) above the articles of association contain no restrictions on the free transferability of fully paid ordinary shares provided that the transfers are in favour of not more than four transferees, the transfers are in respect of only one class of share and the provisions in the articles of association relating to registration of transfers have been complied with.

#### *Payment of dividends*

Subject to the provisions of the Act and to any special rights attaching to any shares, the Company may declare dividends out of the profits of the Company according to the amounts paid up on the shares held by them, provided that no dividend will be declared in excess of the amount recommended by the directors. Interim dividends may be paid if profits are available for distribution and if the directors so resolve.

#### *Unclaimed dividends*

Any dividend unclaimed after a period of 12 years from the date of its declaration will, if the directors so resolve, be forfeited and will revert to the Company.

#### *Untraceable shareholders*

The Company may sell any share if, during a period of 12 years at least three dividends in respect of such shares have been paid, no cheque or warrant in respect of any such dividend has been cashed and no communication has been received by the Company from the relevant member. The Company must advertise its intention to sell any such share in both a national daily newspaper and in a newspaper circulating in the area of the last known address to which cheques or warrants were sent. Notice of the intention to sell must also be given to the London Stock Exchange.

#### *Return of capital*

On a winding-up of the Company, the balance of the assets available for distribution will, subject to any sanction required by the Act, be divided amongst the members.

### *Borrowing powers*

- (a) Subject to the provisions of the Act, the directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets, including its uncalled or unpaid capital, and to issue debentures and other securities and to give guarantees.
- (b) The directors are required to restrict the borrowing of the Company and exercise all voting and other rights and powers of control exercisable by the Company in relation to subsidiary companies, if any, so as to secure, as regards subsidiary companies so far as by such exercise they can secure, that the aggregate amount for the time being remaining outstanding of all money borrowed by the Company and its subsidiaries, if any (the "Group") and for the time being owing to persons outside the Group does not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to six times the aggregate of the nominal amount of the share capital of the Company for the time being issued and paid up or credited as paid up and the amounts for the time being standing to the credit of the consolidated reserves, including share premium account, capital redemption reserve and profit and loss account, of the Group all as shown in its then latest audited balance sheet and after adjustment as specified in article 22.3.

### *Directors*

- (a) No shareholding qualification is required of a director.
- (b) The directors are entitled to fees at the rate decided by them, subject to an aggregate limit of £100,000 per annum (together with remuneration which is payable to any executive director) or such additional sums as the Company may by ordinary resolution determine. The Company may by ordinary resolution also vote extra fees to the directors which, unless otherwise directed by the resolution by which it is voted, will be divided amongst the directors as they agree, or failing agreement, equally. The directors are also entitled to be repaid all travelling, hotel and other expenses incurred by them in connection with the business of the Company.
- (c) At every annual general meeting, one third of the directors who are subject to retirement by rotation, or as near to it as may be, will retire from office. Each retiring director is eligible for reappointment.
- (d) The directors may from time to time appoint one or more of their body to be the holder of an executive office on such terms as they think fit.
- (e) Except as provided in paragraphs (f) and (g) below, a director may not vote or be counted in the quorum present on any motion in regard to any contract, transaction, arrangement or any other proposal in which he has any material interest, which includes the interest of any person connected with him, otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. Subject to the Act, the Company may by ordinary resolution suspend or relax this provision to any extent or ratify any transaction not duly authorised by reason of a contravention of it.
- (f) In the absence of some other material interest than is indicated below, a director is entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:
  - (i) the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant as the holder of such shares, debentures or other securities or in its underwriting or sub-underwriting;

- (iv) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, as defined in Part VI of the Act, provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company, or of a third company through which his interest is derived, or of the voting rights available to members of the relevant company;
  - (v) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue;
  - (vi) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of any scheme for enabling employees including full time executive directors of the Company and for any subsidiary to acquire shares of the Company or any arrangement for the benefit of employees of the Company or any of its subsidiaries and which does not award to any director any privilege or benefit not generally awarded to the employees to whom such a scheme relates; and
  - (vii) any contract, arrangement, transaction or proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons including the directors.
- (g) If any question arises at any meeting as to the materiality of a director's interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question must be referred to the chairman of the meeting and his ruling in relation to any other director will be final and conclusive except in a case where the nature or extent of the interests of such director has not been fairly disclosed.
- (h) The directors may provide or pay pensions, annuities, gratuities and superannuation or other allowances or benefits to any director, ex-director, employee or ex-employee of the Company or any of its subsidiaries or any wife, widow, children and other relatives and dependants of any such director, ex-director, employee or ex-employee.
- (i) **CREST**  
The directors may implement such arrangements as they think fit in order for any class of shares to be held in uncertificated form and for title to those shares to be transferred by means of a system such as CREST in accordance with the Uncertificated Securities Regulations 2001 and the Company will not be required to issue a certificate to any person holding such shares in uncertificated form.

### **Proposed Amendments to the Articles of Association**

The principal differences between the New Articles and the Existing Articles are summarised below:

#### *Electronic Communications*

The Companies Act 1985 (Electronic Communications) Order 2000 ("the Regulations") came into force in December 2000. They enable companies and members (as well as company registrars) to use electronic communications in place of the written documents required by various existing provisions of the Act. The Regulations have effect whether or not changes are made to the Existing Articles. It is proposed, however, that the provisions relating to electronic communications are set out expressly and adopted in the New Articles for the sake of clarity and reference.

The New Articles contain new definitions in article 1, changes to enable the appointment of proxies using electronic communications (as set out primarily in article 17) and new provisions for the sending of annual accounts and notices by the Company to those persons entitled to receive them using electronic communications (as set out in article 37 and 40).

Electronic communications may only be effective, as set out in the Regulations, where there is an agreement between the Company and the relevant person as to the method of the electronic communications and the

address where the electronic communications may be sent. Failing any prior agreement any communications by or to the Company will be by written document.

#### *Treasury Shares*

Recent legislative developments permit public listed companies, subject to certain restrictions, to hold their own shares which they repurchase as treasury shares for resale at a later date. The New Articles contain amendments to take into account the possible existence of treasury shares.

#### *CREST*

The New Articles include consequential amendments arising from the replacement of the Uncertificated Securities Regulations 1995 by the Uncertificated Securities Regulations 2001.

#### *Other Changes*

Other changes include the re-ordering and consequential renumbering of some articles. It is not believed that any of these changes are of the same significance as those highlighted above.

The Existing Articles and the New Articles marked-up to show the full terms of the proposed amendments to the Existing Articles will be available for inspection for the date of this document until the close of the AGM at the offices of Nicholson Graham & Jones, 110 Cannon Street, London EC4N 6AR during normal business hours on any weekday (Saturdays and public holidays excepted) and for at least 15 minutes prior to the AGM.

## **12. MATERIAL CONTRACTS**

12.1 The following contracts, not being contracts in the ordinary course of business have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:

- (a) a debt factoring agreement between HSBC Invoice Finance (UK) Limited and Hollywood DVD Limited dated 22 May 2002 pursuant to which Hollywood DVD Limited can from time to time borrow 80 per cent. of relevant delivered invoices, subject to other applicable limits;
- (b) an overdraft facility dated 6 February 2004 between (1) Barclays Bank Plc (2) the Company (3) GFSL (4) Select Entertainment Ltd and (5) AM&M. The overdraft facility is up to a gross limit of £1,000,000 (one million pounds) and a net limit of £250,000 (two hundred and fifty thousand pounds) and is repayable on demand. Each borrower may utilise the facility only up to the amount of the individual sub-limit which is £1,000,000 (one million pounds) for the Company and nil for each of GFSL, Select Entertainment Ltd and AM&M;
- (c) a treasury loan facility dated 18 June 2002 between Barclays Bank Plc and the Company. The loan facility is for £900,000 which may be drawn in one amount by 20 July 2002. The facility is for a term of seven years from first drawdown. The purpose of the facility is to refinance the existing loan facility with HSBC Republic Bank (UK). Repayments are to be made quarterly and are £128,600 per annum (£32,150 per quarter). Certain directors have provided guarantees in respect of this facility;
- (d) a treasury loan facility dated 18 June 2002 between Barclays Bank Plc and the Company. The loan facility is for £1,000,000 which may be drawn in one amount by 20 July 2002. The facility is for a term of seven years from first drawdown. The purpose of the facility is to refinance the existing loan facility with HSBC Republic Bank (UK). Repayments are to be made quarterly and in years one and two are £180,000 per annum (£45,000 per quarter) and in year three onwards are £128,000 per annum (£32,000 per quarter);
- (e) the Company has, conditional on Admission, executed a guaranteed loan note instrument constituting £1,615,297 guaranteed loan notes 2007. Barclays Bank plc will guarantee each payment by the Company of the principal amount and interest payable on any of the Loan Notes subject to a maximum aggregate liability of the principal amount and one quarter's interest thereon. The Loan Notes accrue interest from day to day at a rate equivalent to LIBOR (as defined in the Loan facility), to be paid in quarterly instalments in arrears commencing 2004. Each Loan

Note holder may, on giving the Company 30 days notice, require the Company to repay all or any part of his Loan Notes in amounts or integral multiples of £100,000 on any interest payment date following the date 6 months after the issue of the Notes. If at any time the principal amount of the Loan Notes outstanding is less than £100,000 the Company may, after giving to the Noteholders 30 days' prior notice, repay on the expiration of such notes the whole of the Loan Note. On any Interest Payment Date falling on or after 30 September 2006, the Company may, after giving the Noteholders 30 days' prior notice, repay all or any part of the Loan Notes. The final repayment date in respect of the Loan Notes is 30 September 2007, unless previously repaid or purchased by the Company.

The Loan Notes are registered and are transferable without restriction in principal amounts and integral multiples of £100,000.

The Loan Notes shall become immediately repayable on demand at par together with the accrued interest upon the occurrence of a number of events of default including (without limitation) if the Company fails to repay the principal amount of or interest in accordance with its terms or if the Company fails to comply with any provision of the instrument which continues for a period of 10 business days following the delivery by the Noteholders of a notice setting out the nature of such failure and requesting a remedy;

- (f) the Acquisition Agreement pursuant to which the Company has conditionally agreed to acquire the entire issued share capital of Redworth from the Vendors, for an initial consideration of £27.6 million. The Acquisition Agreement is conditional, *inter alia*, on the passing of Resolutions 6 to 11 by the Shareholders, Admission and the grant of the Waiver. Certain commercial warranties are being given by the Vendors (other than the trustees of the Alexander Sorrell Settlement) to the Purchaser in respect of the Redworth Group (other than Dynamic Entertainment Limited). The Purchaser is giving substantially the same warranties to the Vendors in respect of the Group.

The consideration for the Acquisition is to be satisfied on Completion by the issue of 100,000,000 Consideration Shares, by the issue of £1,615,297 of Loan Notes (to be constituted conditional on Admission) and a cash payment of £15,984,703 (of which £2,600,000 shall be payable within 48 hours from Completion or the next business day immediately after such period). The terms of the Loan Notes are set out in paragraph 12.1(e) of Part VII of this document. The Loan Notes will not be convertible into Ordinary Shares.

The Deferred Consideration is calculated by reference to the adjusted profit before interest and tax of Redworth ("PBIT"). If the additional consideration is payable, it will equal £5 million plus a multiple of the adjusted profit before tax of Redworth up to a maximum consideration of £10 million. In the event that the PBIT is less than the agreed target, the additional consideration to be paid to the Vendors will be £5 million less a multiple of the amount by which the PBIT is less than the agreed target.

Any additional consideration due to the Vendors will be satisfied by the allotment to them of Deferred Consideration Shares provided that the maximum number of Deferred Consideration Shares that can be issued does not increase the aggregate shareholding of the Vendors over 49.99 per cent. of the voting rights attached to the then issued share capital. In the event that the amount of additional consideration payable is such that it exceeds the value of the maximum number of Deferred Consideration Shares that may be issued, the balance of the consideration will be met by a cash payment. The value of the Deferred Consideration Shares for these purposes will be dependent on the middle market quotation as derived from the AIM Appendix to the Official List of an Ordinary Share (the "Middle Market Price"). If the average Middle Market Price for the twenty trading days immediately preceding 15 May 2005 is equal to or less than 15 pence, the value of each Deferred Consideration Share shall be the lesser of (i) 10 pence or (ii) the average Middle Market Price when rounded up for the twenty trading days immediately preceding 15 May 2005. If the average Middle Market Price for the twenty trading days immediately preceding 15 May 2005 exceeds 15 pence, the value of each Deferred Consideration Share shall be the aggregate of 10 pence plus 0.5 pence for each 1 pence the average Middle Market Price (when rounded up) for the twenty trading days immediately preceding 15 May 2005 exceeds 15 pence.

Save as provided below, under the terms of the Acquisition Agreement the Vendors have agreed not to dispose of any of their interests in any Ordinary Shares, and to procure that persons connected with them within the meaning of the Act do not dispose of any of their interests in Ordinary Shares (other than with the prior written consent of the Company and its brokers and in certain specified circumstances including accepting a general offer made to all the holders of issued Ordinary Shares for the time being in accordance with the provisions of the Code or making a disposal to such offeror or potential offeror; or executing and delivering an irrevocable commitment or undertaking to accept a general offer made or to be made to all the holders of issued Ordinary Shares for the time being (other than any issued shares held by the offeror and/or persons acting in concert with the offeror) in accordance with the provisions of the Code) before the first anniversary of the date of Admission and for the twelve month period thereafter only to dispose of such interests following prior consultation with the Company and its brokers with a view to the maintenance of an orderly market in the Ordinary Shares.

During the first 12 months following Admission, the restrictions set out in this paragraph shall not apply to the Vendors if any of the Directors, acting alone or together and whether by one or a series of transactions, dispose of more than 100,000 Ordinary Shares, provided that this exception shall only apply to the proportion which such disposal or disposals by the Directors represents as a percentage of their holdings on Admission;

- (g) a Sale and Purchase Agreement dated 22 November 2002 and made between (1) the Company, (2) Warren Goldberg and (3) Spencer Pearce pursuant to which the Company acquired the entire issued share capital of Hollywood DVD Limited. The initial consideration for the sale and purchase was £750,000 payable in cash and the allotment of 12,746,431 Ordinary Shares of 2.5p each. In addition further consideration to be determined on the basis of the after tax profit of Hollywood DVD Limited for the 2.5 years ended 31 March 2005;
- (h) a Share Purchase Agreement dated 7 October 2003 and made between (1) the Company and (2) Colin Ashby, Peter Harris, Marcus Shelton and Carl Forbes pursuant to which the Company acquired the entire issued share capital of The Original Record Company Limited. The initial consideration for the acquisition was £794,627 including expenses, satisfied by £419,627 cash and £375,000 as an issue of 4,604,610 shares to Colin Ashby, Peter Harris, Marcus Shelton and Carl Forbes at a premium of £0.05644. In addition, £1,236,198 is payable, dependent on future performance;
- (i) a nominated adviser agreement dated 1 March 2003 made between (1) the Company (2) the then directors of the Company and (3) Seymour Pierce pursuant to which the Company appointed Seymour Pierce to act as nominated adviser to the Company for the purposes of the AIM Rules. The Company agreed to pay Seymour Pierce an annual retainer of £15,000 plus VAT for its services as nominated adviser. The agreement contains certain undertakings and indemnities given by (1) the Company and (2) the then directors of the Company in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement is subject to termination on 3 months notice by either party;
- (j) a broker agreement dated 11 August 2003 made between (1) the Company (2) the then directors of the Company and (3) Seymour Pierce pursuant to which the Company appointed Seymour Pierce to act as broker to the Company. The Company agreed to pay Seymour Pierce an annual retainer of £15,000 plus VAT for its services as broker. The agreement contains certain undertakings and indemnities given by (1) the Company and (2) the then directors in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement is subject to termination on 3 months notice by either party; and
- (k) a placing agreement dated 13 September 2004 between (1) Seymour Pierce (2) the Company (3) the Directors and (4) the Proposed Directors pursuant to which, conditional upon, *inter alia*, completion of the Acquisition (save only for Admission), the Loan Facility becoming unconditional and Admission taking place by no later than 20 September 2004 (or such date as the Company and Seymour Pierce may agree), Seymour Pierce has agreed to use its reasonable endeavours to procure placees for the Placing Shares at the Placing Price failing which it will



itself subscribe for such shares. Under the terms of the Placing Agreement the Company has agreed to pay Seymour Pierce a corporate finance fee of £100,000 plus VAT and a commission of 3.25 per cent. of the value of the Placing Shares subscribed at the Placing Price.

The Placing Agreement contains certain representations, warranties and indemnities in favour of Seymour Pierce given by the Company, the Directors and the Proposed Directors together with provisions which enable Seymour Pierce to terminate the Placing Agreement in certain circumstances prior to Admission, including (amongst other matters) circumstances where any warranties are found to be untrue or inaccurate in any material respect.

Save as provided below, under the terms of the Placing Agreement the Proposed Directors have agreed not to dispose of any of their interests in any Ordinary Shares, and to procure that persons connected with them within the meaning of the Act do not dispose of any of their interests in Ordinary Shares (other than with the prior written consent of Seymour Pierce and in certain specified circumstances including in acceptance of a takeover offer for the Company or agreement to accept a takeover offer for the Company by the provision of an irrevocable undertaking or by way of sale to any offeror or potential offeror in respect of any such offer, in each case provided that such offer is open to all of the holders of Ordinary Shares and is otherwise made in accordance with the Code) before the first anniversary of the date of Admission and for the twelve month period thereafter only to dispose of such interests following prior consultation with Seymour Pierce with a view to the maintenance of an orderly market in the Ordinary Shares.

During the first 12 months following Admission, the restrictions set out in this paragraph shall not apply to the Proposed Directors if any of the Directors, acting alone or together and whether by one or a series of transactions, dispose of more than 100,000 Ordinary Shares, provided that this exception shall only apply to the proportion with such disposal or disposals by the Directors represents as a percentage of their holdings on Admission;

- (l) Tanya Allan and James Allan have agreed not to dispose of any of their interests in any Ordinary Shares, and to procure that persons connected with them within the meaning of the Act do not dispose of any of their interests in Ordinary Shares (other than with the prior written consent of Seymour Pierce and in certain specified circumstances including in acceptance of a takeover offer for the Company or agreement to accept a takeover offer for the Company by the provision of an irrevocable undertaking or by way of sale to any offeror or potential offeror in respect of any such offer, in each case provided that such offer is open to all of the holders of Ordinary Shares and is otherwise made in accordance with the Code) before the first anniversary of the date of Admission and for the twelve month period thereafter only to dispose of such interests following prior consultation with Seymour Pierce with a view to the maintenance of an orderly market in the Ordinary Shares.

During the first 12 months following Admission, the restrictions set out in this paragraph shall not apply to the Proposed Directors if any of the Directors, acting alone or together and whether by one or a series of transactions, dispose of more than 100,000 Ordinary Shares, provided that this exception shall only apply to the proportion with such disposal or disposals by the Directors represents as a percentage of their holdings on Admission;

- (m) The Loan Facility consisting of a term loan facility of £7 million, which may be used to finance the payment of cash consideration pursuant to the Acquisition Agreement, to guarantee the Loan Notes and to pay any expenses relating to the Acquisition, and a revolving credit facility of £3 million to finance the working capital requirements of Redworth following Completion. The loan facilities will be available from the date of Completion for a period of three years and the term facility will be repayable in equal quarterly instalments totaling £1,666,667 per annum. The rate of interest on the loan facilities is variable and calculated as LIBOR plus 1.85 per cent. per annum in respect of the term loan facility and LIBOR plus 1.95 per cent. per annum in respect of the revolving credit facility. The obligations of the Company under the loan facility agreement are guaranteed on a joint and several basis by the Company and Redworth and its subsidiaries.]

12.2 The following contracts, not being contracts in the ordinary course of business have been entered into by members of the Redworth Group within the two years preceding the date of this document and are or may be material:

- (a) a sale and purchase agreement dated 5 September 2002 and made between (1) Constance Allan, (2) Trevor Allan, (3) Tonya Allan, (4) James Allan and (5) Redworth pursuant to which Redworth acquired the entire issued share capital of MBL. The consideration was satisfied by the payment of £1,000,000 in cash (£500,000 at completion and £500,000 on 6 January 2003) and the issue of £1,000,000 secured loan notes of Redworth to Constance Allan. In respect of the sellers other than Constance Allan, the consideration was satisfied by the issue and allotment of 7,000 ordinary shares of £1 each in the capital of Redworth to be split between the sellers as to 4,000 shares to Trevor Allan, 2,000 shares to Tonya Allan and 1,000 shares to James Allan. Warranties were given by the sellers in relation to title for the shares only; and
- (b) a shareholders agreement dated 1 May 2003 and made between (1) Redworth, (2) Beverley King and (3) Dynamic Entertainment Limited pursuant to which Redworth subscribed for B ordinary shares of 1p each in the capital of Dynamic Entertainment Limited at a subscription price of £36.67 per share. This related to 8,122 B ordinary shares of 1p each. Redworth also made a loan available to Dynamic Entertainment Limited of an amount not exceeding £150,000 for the working capital requirements of Dynamic Entertainment Limited. The shareholders agreement sets out the rights of the shareholders and administration of Dynamic Entertainment Limited.

### **13. WORKING CAPITAL**

The Directors and the Proposed Directors are of the opinion that, having made due and careful enquiry, the Company has sufficient working capital for its present requirements, that is for 12 months from Admission.

### **14. LITIGATION**

14.1 No member of the Group is involved in any legal or arbitration proceedings which have or, since incorporation, may have had, a significant effect on the financial position of the Company or any of its subsidiaries nor, so far as the Directors or the Proposed Directors are aware, are any such proceedings pending or threatened against the Group or any member of the Group.

14.2 No member of the Redworth Group is involved in any legal or arbitration proceedings which have or, since incorporation, may have had, a significant effect on the financial position of Redworth or any of its subsidiaries nor, so far as the Directors or the Proposed Directors are aware, are any such proceedings pending or threatened against Redworth or any of its subsidiaries.

### **15. TAXATION**

The comments in this paragraph are intended as a general guide to the tax position under United Kingdom law and what is understood to be Inland Revenue practice as at the date of this document and may not apply to certain shareholders, such as dealers in securities. They relate only to persons who are the absolute beneficial owners of Ordinary Shares, are resident (or, if individuals, are resident or ordinarily resident) in the United Kingdom for United Kingdom tax purposes (except where stated otherwise) and who hold Ordinary Shares as investments and not as trading stock. Different rules may apply in other cases. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.

#### **15.1 Stamp Duty and Stamp Duty Reserve Tax**

The issue of New Ordinary Shares by the Company will not give rise to a liability to stamp duty or stamp duty reserve tax.

The acquisition of the entire issued share capital of Redworth by the Company will give rise to a liability to stamp duty or stamp duty reserve tax at a rate of 0.5 per cent. on the market value of the shares acquired.

Any subsequent disposal of Placing Shares will generally give rise to payment of ad valorem stamp duty on the transfer document at the rate of 50p per £100, or part, on the amount or value of the consideration paid, subject to minimum duty of £5. Agreements for such transfers are generally subject to stamp duty reserve tax (unless, in general, the transfer of the relevant shares is duly stamped with ad valorem duty), generally at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay any stamp duty reserve tax is generally that of the transferee or purchaser. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the member or dealer will normally account for the collection and payment of the tax, but in all other cases the transferee or purchaser must account for the tax to the Inland Revenue.

A transfer of Ordinary Shares effected on a paperless basis through CREST will generally be subject to stamp duty reserve tax at the rate of 0.5 per cent. of the value of the consideration.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or stamp duty reserve tax, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

## **15.2 Taxation of Chargeable Gains**

A subsequent disposal of Placing Shares by persons resident or ordinarily resident in the United Kingdom in a tax year which gives rise to gains may be liable to capital gains tax (individuals and trustees) and corporation tax (companies). Liability to tax and the rate of tax will depend on the shareholder's circumstances and the availability of exemptions or allowable losses.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate shareholders during the period of ownership. For individuals and trustees, taper relief may be available to reduce the amount of a chargeable gain according to how long the asset has been held. This may, for example, reduce the rate of capital gains tax for an individual who is a higher rate taxpayer who has held the Placing Shares for two complete years to a rate of 10 per cent.

Individuals and certain trusts have an overall annual exemption from capital gains tax for the first £8,200 of chargeable gains in the current tax year. Most settlements have an equivalent exemption of £4,100 in the current tax year: this exemption is divided amongst settlements created by the same settlor.

Losses realised on the disposal of assets are set against other gains made during the tax year or carried forward and set against gains in future tax years.

Different tax treatment applies to persons who trade in securities.

Persons who are neither resident nor ordinarily resident in the United Kingdom will not normally be liable to capital gains tax in the United Kingdom in respect of any gain accruing to them on a disposal of Placing Shares. The terms of a relevant double taxation treaty may apply to persons with dual residence.

## **15.3 Taxation of Dividends**

When the Company pays a dividend it would not be required to withhold tax at source. A tax credit equal to 10 per cent. of the dividend and the associated tax credit, attaches to a dividend, i.e. the tax credit is equivalent to one ninth of the dividend.

Individual shareholders resident in the United Kingdom who pay tax at the lower or basic rate only, which, in respect of dividend income, is 10 per cent. with effect from 6 April 1999, have no further tax liability in respect of the dividend. Individual shareholders resident in the United Kingdom who pay tax at the higher rate, pay tax in respect of dividend income at 32.5 per cent. on the dividend received and the tax credit (the gross dividend), but will be able to offset the 10 per cent. tax credit against such liability and will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which

is equal to 25 per cent. of the net cash dividend received). Individual shareholders cannot reclaim the whole or part of any tax credit attaching to a dividend from the Inland Revenue.

Whether individual shareholders who are not resident in the United Kingdom for tax purposes (other than Commonwealth citizens, EEA nationals, residents of the Channel Islands or the Isle of Man and certain other categories of shareholders who are entitled to a tax credit on dividends received as if they were resident in the United Kingdom) are entitled to claim the whole or any part of any tax credit in respect of a dividend will usually depend on the terms of any applicable double tax treaty between the United Kingdom and their jurisdiction of residence. Such shareholders may be subject to tax on such dividends in their jurisdiction of residence and should consult their own professional advisers. The amount which can be reclaimed is likely to be minimal.

In normal circumstances United Kingdom resident corporate shareholders are not liable to corporation tax on any dividends received and are unable to reclaim the whole or any part of the tax credit attached to a dividend from the Inland Revenue.

## **16. MIDDLE MARKET QUOTATIONS**

The following table shows the closing middle market quotations for Existing Ordinary Shares as derived from the AIM Appendix to the Daily Official List of the London Stock Exchange at the close of business on the first business day of each month for the last six months and on the date that trading in the Existing Ordinary Shares on AIM was suspended on 2 July 2004:

<i>Date:</i>	<i>Closing Middle Market Price:</i>
2 February 2004	9.25p
1 March 2004	8.25p
1 April 2004	8.00p
4 May 2004	7.50p
1 June 2004	7.50p
1 July 2004	9.00p
2 July 2004	10.00p

## **17. CONSENTS**

17.1 Kingston Smith, chartered accountants, have given and not withdrawn their written consent to the issue of this document with the inclusion in it of their reports and letters and references to their name in the form and context in which they respectively appear and have accepted responsibility for such reports and letters.

17.2 Seymour Pierce Limited has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.

## **18. OTHER INFORMATION**

18.1 The expenses of the Acquisition, Placing and Admission are estimated at £545,00 (including VAT) and are payable by the Company.

18.2 The accounting reference date of the Company is 31 March.

18.3 The business of the Enlarged Group is substantially dependent on the acquisition and exploitation of copyrights as described in this document.

18.4 Except as stated in Part I of this document, there are no significant investments in progress by the Company.

18.5 Except as stated in Part I of this document, no exceptional factors have influenced the Company's or the Enlarged Group's activities.

- 18.6 There are no arrangements in force for the waiver of future dividends.
- 18.7 There are no specific dates on which entitlement to dividends or interest thereon on Ordinary Shares arises.
- 18.8 For the purposes of paragraph 21(a) of Part IV of Schedule I of the POS Regulations, as the Placing is fully underwritten, there is no minimum amount which must be raised for the Company pursuant to the Placing.
- 18.9 Except as disclosed in Part III of this document, there has been no significant change in the financial or trading position of the Group since 31 March 2004, the date to which the last audited accounts of the Company were drawn up.
- 18.10 Except as disclosed in Part IV of this document, there has been no significant change in the financial or trading position of Redworth since 31 March 2004, the date to which the last set of audited accounts of Redworth were drawn up.
- 18.11 Since 31 March 2004, the date to which the last audited accounts of the Company were drawn up, and except as stated in this document and for the advisers named on page 3 of this document, no person has received, directly or indirectly, from the Company within the 12 months preceding the Company's application for Admission to trading on AIM or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price or any other benefit with a value of £10,000 or more at the date of Admission.
- 18.12 It is expected that certificates in respect of the New Ordinary Shares will be despatched on 14 October 2004. CREST accounts will be credited on the date of Admission.
- 18.13 The Placing Price represents a premium of 5.5p over the nominal value of 2.5p of each Ordinary Share.
- 18.14 Monies received from the applicants pursuant to the Placing will be held in accordance with the Placing letters issued by Seymour Pierce until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all aspects by 20 October 2004 application monies will be returned to applicants as soon thereafter as is practicable.
- 18.15 The Vendors have given assurances to the Company that following completion of the Acquisition they have no intentions other than to see the continuation of the Company's business and have no plans to introduce any major changes to the business or in the Company's employees' terms of engagements and the employment rights of the employees will be fully safeguarded.

## **19. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday, Saturdays and public holidays excepted, at the offices of Nicholson Graham & Jones, 110 Cannon Street, London EC4N 6AR for one month from the date of Admission:

- (a) the Existing Articles;
- (b) the New Articles;
- (c) the memorandum and articles of association of Redworth;
- (d) the letters and reports set out in Parts III, IV, V and VI of this document;
- (e) the audited accounts of the Company for the two years ended 31 March 2004;
- (f) the audited accounts of Redworth for the two years ended 31 March 2004;
- (g) the Acquisition Agreement;

- (h) the service agreements and proposed service agreements referred to in paragraph 7 of Part VII of this document;
- (i) the material contracts referred to in paragraph 12 of Part VII of this document;
- (j) the written consents of Kingston Smith and Seymour Pierce Limited referred to in paragraph 17 of Part VII of this document; and
- (k) the irrevocable undertakings referred to in paragraph 6 of Part VII of this document.

## **20. COPIES OF THIS DOCUMENT**

Copies of this document will be available, free of charge, at the offices of Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL from the date of this document during normal business on any weekday, Saturdays and public holidays excepted, for one month from the date of Admission.

Dated 13 September 2004

# AIR MUSIC & MEDIA GROUP PLC

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Air Music & Media Group plc (the “**Company**”) will be held at the offices of Nicholson Graham & Jones at 110 Cannon Street London EC4N 6AR on 6 October 2004 at 10 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions, and resolutions 10 and 11 will be proposed as special resolutions:

### ORDINARY RESOLUTIONS

1. To receive and adopt the directors’ report and audited accounts for the financial year ended 31 March 2004.
2. To re-elect Mr Mark Frey, who is retiring by rotation, as a director of the Company.
3. To re-elect Mr Michael Infante JP, who is retiring by rotation, as a director of the Company.
4. To reappoint Kingston Smith as auditors to the Company.
5. To authorise the directors to fix the remuneration of the auditors.
6. That acquisition by the Company of the entire issued share capital of Redworth Limited upon the terms and subject to the conditions contained in the acquisition agreement (the “**Acquisition Agreement**”) dated 13 September 2004 and made between the Company and Trevor Allan, Tonya Allan, James Allan, Janice Beer, Alexander Sorrell and Alexander Sorrell and Halliwell Landau Trustees Limited as trustees of the Alexander Sorrell Settlement (together the “**Vendors**”) (a copy of the form of which has been produced to the meeting and initialled for the purpose of identification by the Chairman) be and is hereby approved and that the consent of the holders of ordinary shares of 2.5p each in the Company (“**Ordinary Shares**”) to the transactions contemplated by the Acquisition Agreement be and is hereby given.
7. That, subject to the passing of resolution 6 (above), the waiver granted by the Panel on Takeovers and Mergers of any requirement under Rule 9 of The City Code on Takeovers and Mergers for the Concert Party to make a general offer to shareholders of the Company as a result of the allotment and issue to the Concert Party by the Company pursuant to the Acquisition Agreement such number of shares necessary to satisfy the terms of the Acquisition Agreement provided that following such issue the Concert Party shareholdings will not exceed 49.99 per cent., assuming the maximum deferred consideration is paid, be and is hereby approved.
8. That the authorised share capital of the Company be and is hereby increased from £10,000,000 to £20,000,000 by the creation of 400,000,000 new Ordinary Shares.
9. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the “**Act**”) to exercise all the powers of the Company to allot relevant securities up to:
  - (a) an aggregate nominal amount of £6,746,294.23 in connection with the proposed Acquisition (as defined in the Company’s circular to shareholders dated 13 September 2004);
  - (b) an aggregate nominal amount of £1,601,875 in connection with the proposed Placing (as defined in the Company’s circular to shareholders dated 13 September 2004); and
  - (c) otherwise up to an aggregate nominal amount of £4,623,821

provided that this aggregate authority shall (unless previously revoked or varied by the Company in general meeting) expire on the earlier of 5 January 2006 and the conclusion of the next Annual General

Meeting of the Company after the passing of this resolution save that the Company may, before such expiry, 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 offer or agreement as if this authority had not so expired (and this authority shall be in substitution for all subsisting authorities to the extent unused, other than in respect of any allotments made pursuant to offers or agreements made prior to the passing of this resolution) and in this resolution the expression “relevant securities” and references to allotment of relevant securities shall have the same respective meanings as in section 80 of the Act.

### **SPECIAL RESOLUTIONS**

10. That the directors be and are hereby empowered pursuant to section 95(1) of the Act to allot equity securities for cash under the authority conferred on them by resolution 9 (above) up to an aggregate nominal amount of £2,989,021.55 as if section 89(1) of the Act did not apply to any such allotment save that the Company may, before the expiry of this power, 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 this power had not so expired (and this power shall be in substitution for all subsisting powers to the extent unused, other than in respect of any allotments made pursuant to offers or agreements made prior to the passing of this resolution) and in this resolution the expression “equity securities” and references to allotment of equity securities shall have the same respective meanings as in section 94 of the Act.
11. The document produced to the meeting and initialled for the purpose of identification by the Chairman be and is hereby adopted as the articles of association of the Company in substitution for the existing articles of association of the Company with effect from the conclusion of this meeting.

By Order of the Board

Ruth Salisbury  
**Company Secretary**

13 September 2004

*Registered Office:* Devonshire House  
60 Goswell Road  
London  
EC1M 7AD

#### **NOTES:**

- I. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- II. A form of proxy is enclosed with the Circular of which this Notice forms part. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, must be lodged with the Company’s registrar, Neville Registrars, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the time fixed for the meeting. Lodging a form of proxy will not preclude a member from attending the meeting and voting in person.
- III. In accordance with regulation 41 of the Uncertificated Securities Regulations 2001, only those ordinary shareholders registered in the register of members of the Company as at 10 a.m. on 4 October 2004, or in the event that the meeting is adjourned, in such register 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the relevant register of securities after 10 a.m. on 4 October 2004 or, in the event that the meeting is adjourned, in such register less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- IV. In order to comply with The City Code on Takeovers and Mergers, resolution 7 will be taken on a poll.