CONTENDER
ENTERTAINMENT GROUP

Contender Limited

Directors' report and financial statements

Registered number 2989602
31 March 2007

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2007

Principal activities

The principal activity of the company are the sourcing and marketing of general interest DVD's and videos to the retail trade and the production of television programmes for the international broadcast market and the licensing and marketing of intellectual property rights

Results and dividends

There was a profit for the year after taxation amounting to £1,049,242 *(2006, £1,081,436)*

Dividends paid during the year comprise a final dividend of £57,600 *(2006 £57,600)*

On 4 July 2007 the entire share capital of Contender Limited was sold to Entertainment One Ltd

Business review

Overview

The year-ended 31 March 2007 continued the satisfactory progress of the company, with a rise of 14% in revenues to £25 2m (*2006* £22 1m) Gross profit however suffered as a result of taking a substantial write-down in programme and film licenses, where future revenue streams were not considered adequate to support the carrying value of these assets

The bulk of turnover came from Contender Home Entertainment ("CHE", the UK DVD division), making up 94% of the total revenue Most of this turnover is generated by the acquisition of 3rd party rights licensed for UK DVD The major titles of the year included Life On Mars and Spooks (TV Drama), Warrior King, Seven Swords and New Police Story (Film), Will & Grace (Comedy), Coast (Factual), Bratz (Children), Tractor Tom and Peppa Pig (Pre-School) In the case of film properties, CHE is also responsible for the theatrical release, through its Contender Films ("CF") division

The remaining 6% of sales were generated by Contender Distribution ("CD", the international TV sales division) and Contender Merchandising ("CM", the international licensing division) through the control and exploitation of the intellectual property rights to Tractor Tom and Peppa Pig Both of these properties continued to perform well, especially Peppa Pig, which has started to establish itself as a pre-eminent preschool brand in the UK, with significant high street sales of toys and clothing The DVDs are sold through CHE In addition to its encouraging commercial activity, Peppa Pig was awarded the Bafta for best pre-school animation in 2006

Contender Creative ("CC") is the division responsible for the production of original programming, to date this has comprised the creation of Tractor Tom and Peppa Pig under its Rubber Duck Entertainment label These IP rights are then used by other divisions to generate sales and profit

Current Markets

The DVD market in the UK has matured, but still shows some growth – albeit not at the levels seen in the last few years In calendar year 2006, the market was up by over 3% in volume terms and over 9% in value CHE continues to hold about 1% of this market, which is dominated by the major film studios

It is expected that the market will grow only slowly in the future, but that new technologies, such as Blu-Ray and HD-DVD, will give the market a small boost The effect of download on the packaged goods market is uncertain, due to a large number of issues (including infrastructure), and it is expected that only 15% of the entire home video market will be serviced by download by 2015 However, Contender are working on putting into place both the legal rights and the distribution network to enable it to distribute content electronically once the demand has appeared In this shift, the role of a rights-controlling distributor, who acquires, markets and sells programming, will not change

Operational Performance

At the start of the year, CHE moved its DVD duplication and logistics to a new supplier, who have provided a better integrated service for the production, storage and movement of units, as well as improved information management systems

Contender has carefully watched and managed the trend for consumer purchases of DVDs to be made increasingly on-line, rather than through traditional retailers There have been a number of high profile retailer business failures (including Silver Screen, Music Zone, Fopp and Choices), to which the company successfully minimised its financial exposure On-line retailers (including Amazon and Play) make up over 25% (in sales value) of CHE's top 10 accounts

No new productions were started in the year and delivery of the second series of Peppa Pig was completed in May 2007 on time and on budget In addition, after the year-end, production started on two new shows, Humf and Little Kingdom these have been pre-sold to Nick Jr in the UK and will be delivered in 2009

The challenge remains to have Contender's programmes broadcast in the US, enabling the ensuing licensing plan to be actioned

Expansion and future prospects

The Directors recognised that expansion within the UK DVD market would take further investment and, shortly after the year-end, it was announced that Contender was to be bought by Entertainment One Ltd, a leading distributor of home entertainment products in North America This transaction completed on the 4th July 2007

Directors

The directors who held office during the year are as shown below

Richard Bridgwood	
Charles Ogilvie	
Jon Bourdillion	
Andrew Sibbald	(resigned 4 July 2007)
Sam Shorr	(resigned 4 July 2007)
Joan Lofts	
Rupert Gavin	(resigned 30 June 2006)
Giles Willits	(appointed 4 July 2007)

Charitable donations

The company made political or charitable donations during the year of £2,246 *(2006 £1,252)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

KPMG LLP will not be proposed as auditors of the company at the forthcoming Annual General Meeting and wil be replaced by the new group auditors

On behalf of the board

Charles Ogilvie
Director

120 New Cavandish Street
London
W1W 6XX

31 JANUARY 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
9 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Contender Limited

We have audited the financial statements of Contender Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account and the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion

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

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

Independent auditors' report to the members of Contender Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

kpmg LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31st January 2008

Profit and loss account
for the year ended 31 March 2007

	Note	2007 £	As restated 2006 £
Turnover	2	**25,167,386**	22,114,059
Cost of sales		**(16,481,213)**	(13,299,990)
Gross profit		**8,686,173**	8,814,069
Administrative expenses		**(6,350,922)**	(6,361,331)
Exceptional administrative expenses	3	**-**	(145,000)
Operating profit		**2,335,251**	2,307,738
Interest payable and similar charges	4	**(639,158)**	(607,486)
Interest receivable and similar charges	5	**8,584**	2,380
Profit on ordinary activities before taxation	3	**1,704,677**	1,702,632
Tax on profit on ordinary activities	7	**(655,435)**	(632,728)
Profit for the financial year		**1,049,242**	1,069,904

The notes on pages 11 to 25 form part of these accounts

There is no difference between the result as disclosed in the profit and loss account and result on a historical cost basis

Balance sheet
at 31 March 2007

	Note	£	2007 £	£	2006 £
Fixed assets					
Intangible assets	9		8,160,949		8,849,133
Tangible assets	10		115,504		62,125
Investments	11		1		1
			8,276,454		8,911,259
Current assets					
Stocks	12	1,027,259		1,119,958	
Debtors	13	9,194,164		10,264,401	
Cash at bank and in hand		597,211		88,669	
		10,818,634		11,473,028	
Creditors amounts falling due within one year	14	(9,328,886)		(10,442,302)	
Net current assets			1,489,748		1,030,726
Total assets less current liabilities			9,766,202		9,941,985
Creditors amounts falling due after more than one year	15		(3,090,438)		(4,355,679)
Provisions for liabilities and charges	17		(289,416)		(204,402)
Net assets			6,386,348		5,381,904
Capital and reserves					
Called up share capital	18		84,020		84,020
Share premium account	19		68,032		68,032
Other reserves	19		-		274,500
Profit and loss account	19		6,234,296		4,955,352
Shareholders' funds			6,386,348		5,381,904

These financial statements were approved by the board of directors on 31st January 2008 and were signed on its behalf by

R Bridgwood
Director

Cash flow statement
for the year ended 31 March 2007

	Note		2007 £		2006 £
Net cash inflow from operating activities	*21*		**4,477,660**		2,405,919
Returns on investments and servicing of finance					
Interest receivable		**8,584**		2,380	
Interest paid		**(547,609)**		(515,117)	
			(539,025)		(512,737)
Taxation					
Taxation paid			**(423,545)**		(1,106,042)
Capital expenditure					
Purchase of intangible fixed assets		**(454,633)**		(396,302)	
Purchase of tangible fixed assets		**(96,346)**		(38,972)	
			(550,979)		(435,274)
Acquisition					
Purchase of subsidiary		-		(84,232)	
			-		(84,232)
Proceeds from share issue			-		6,624
Equity dividends paid			**(57,600)**		(57,600)
Financing					
Movement in bank loans			**(966,720)**		(1,250,000)
Increase/(decrease) in cash in year	*22/23*		**1,939,791**		(1,033,342)

Statement of total recognised gains and losses
for the year ended 31 March 2007

	2007	2006
	£	£
Profit for the financial year	**1,049,242**	1,069,904
Total recognised gains and losses relating to the financial year	**1,049,242**	**1,069,904**
Prior year adjustment (as explained in note 1)	(11,532)	
Total gains and losses recognised since last annual report	**1,037,710**	

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

In these financial statements the following new standards have been adopted for the first time

FRS 20 'Share-based payments'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption FRS 20 'Share-based payments' requires the costs associated with share options to be recognised over the vesting period of those options The effect of its adoption is described in note 24

Basis of preparation

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

The Company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group financial statements These financial statements present information about the Company as an individual undertaking and not about its group

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold properties	-	straight line over the life of the lease
Computer equipment	-	3 years straight line
Plant and machinery	-	4 years straight line

No depreciation is provided on freehold land

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Notes *(continued)*

Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads

Share-based payments and restatement

The share option programme allows employees to acquire shares of the Company The fair value of options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting

The prior year figures in the profit and loss account have been restated for the impact of FRS 20 The charge of £11,532 relating to 2006 has been treated as a prior year adjustment due to a change in accounting policy In the year to 31 March 2007, a charge in relation to share-based payments of £12,802 has been made

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Notes *(continued)*

Accounting policies ***(continued)***

Classification of financial instruments issued by the Company (continued)

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy The finance cost on the financial liability component is correspondingly higher over the life of the instrument

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Turnover

DVD's and videos.

Turnover in relation to DVD's and videos represents the total invoiced value, excluding value added tax, of sales made during the year, less provision for returns

Television licences

Turnover on television licence sales represents the invoiced value of licence fees, excluding value added tax, which is recognised when the following criteria are met

a) the licence term has commenced
b) a licence agreement has been executed by both parties
c) delivery to licence agreement has occurred and substantially all technical requirements have been met
d) collection of the fee is reasonably assured

Merchandising licences

Turnover on licensing and merchandising sales represents the invoiced value of licence fees, excluding value added tax, which is recognised when the following criteria are met

a) the licence term has commenced
b) a licence agreement has been executed by both parties
c) collection of the fee is reasonably assured

Royalty advances and recording costs

Advances paid to artists in respect of future royalties together with recording costs recoverable from future royalties are carried forward as an asset pending recovery through royalties earned on future record sales When full recovery is uncertain, these costs are written down to estimated recoverable amounts

Notes *(continued)*

2 Turnover analysis

	2007	2006
	£	£
Turnover by geographical area		
United Kingdom	**23,989,890**	20,201,448
Overseas	**1,177,496**	1,912,611
	25,167,386	22,114,059
Turnover by class of business		
DVD's and videos	**23,657,385**	20,319,746
Television licences	**338,209**	250,346
Merchandising licenses	**1,171,792**	1,543,967
	25,167,386	22,114,059

3 Profit on ordinary activities before taxation

	2007	2006
	£	£
Profit on ordinary activities before taxation is stated after charging.		
Audit services	**25,000**	20,000
Non audit services	**8,950**	4,000
Amortisation of intangible asset	**1,254,977**	1,334,055
Depreciation - tangible fixed assets	**42,969**	49,971
Operating lease rentals		
Plant and machinery	**26,524**	20,309
Land and buildings	**105,471**	153,540
Loss on foreign currencies	**-**	59,807

During the year to 31 March 2006 the company incurred exceptional administration expenses of £145,000 in relation to aborted fundraising activities

4 Interest payable and similar charges

	2007	2006
	£	£
Payable on bank loans and overdrafts	**547,609**	482,388
Payable on other loans	**91,549**	125,098
	639,158	607,486

Notes *(continued)*

5 Interest receivable and similar charges

	2007 £	2006 £
Bank interest receivable	**8,584**	2,380

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees 2007	2006
Administration	**7**	9
Marketing and production	**27**	29
Directors	**4**	4
	38	42

The aggregate payroll costs of these persons were as follows

	2007 £	2006 £
Wages and salaries	**2,214,352**	2,045,314
Social security costs	**260,699**	234,757
Pension contributions	**117,628**	130,690
Share-based payments	**12,802**	11,532
	2,605,481	2,422,293

Remuneration in respect of directors was as follows

	2007 £	2006 £
Emoluments	**817,213**	727,785
Pension contributions to money purchase pension schemes	**57,750**	45,112
Share-based payments	**12,802**	11,532
	887,765	784,429

During the year 4 directors (2006 4) participated in money purchase pension schemes

Notes *(continued)*

6 Staff numbers and costs *(continued)*

The amount set out above includes remuneration in respect of the highest paid director as follows

	2007 £	2006 £
Emoluments	**373,356**	322,201
Pension contributions to money purchase pension schemes	**30,000**	23,700
	403,356	345,901

7 Taxation

The tax charge is based on the profit for the year and represents

	2007 £	2006 £
United Kingdom corporation tax at 30% *(2006 30%)*	**573,620**	718,336
Adjustment in respect of prior period	**(3,199)**	(24,847)
Total current rate	**570,421**	693,489
Deferred tax – origination and reversal of timing differences	**84,063**	(59,223)
Deferred tax - adjustment in respect of prior period	**951**	(1,538)
	655,435	632,728

The tax assessed for the year is higher *(2006 higher)* than at the standard rate of corporation tax in the United Kingdom of 30% *(2006 30%)* The differences are explained as follows

	2007 £	2006 £
Profit on ordinary activities before taxation	**1,704,677**	1,702,632
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% *(2006 30%)*	**511,403**	510,790
Effects of		
Expenses not deductible for tax purposes	**61,189**	15,494
Adjustment in respect of prior periods	**(3,199)**	(24,847)
Difference between capital allowances and depreciation	**(4,614)**	629
Accelerated tax relief for investment in generation of intellectual property rights	**(107,159)**	86,304
Amortisation of purchased goodwill	**105,119**	105,119
Total current tax charge (see above)	**570,421**	693,489

Notes *(contınued)*

7 Taxation *(contınued)*

There are no specıal cırcumstances that affect the current and total tax charges for the current perıod

From the 1 Aprıl 2008 the Corporatıon Tax rate wıll decrease to 28% (2007 30%)

There are no factors that may effect the current and total tax charges ın future perıods

8 Dıvidends

	2007 £	2006 £
Paıd durıng the year		
Equıty dıvıdends on Ordınary 'B' shares	**57,600**	57,600
Proposed after the year-end (not recognısed as a lıabılıty)		
Equıty dıvıdends on Ordınary 'B' shares	-	57,600

9 Intangıble fixed assets

	Purchased goodwıll £	Intellectual property rıghts £	Total £
Cost			
At begınnıng of year	7,183,864	5,734,966	12,918,830
Addıtıons	-	566,793	566,793
At end of year	7,183,864	6,301,759	13,485,623
Amortısatıon			
At begınnıng of year	768,137	3,301,560	4,069,697
Charge for the year	367,200	887,777	1,254,977
At end of year	1,135,337	4,189,337	5,324,674
Net book value			
At 31 March 2007	**6,048,527**	**2,112,422**	**8,160,949**
At 31 March 2006	6,415,727	2,433,406	8,849,133

The purchased goodwıll shown above arose from the acquısıtıon ın February 2004 of Medusa Communıcatıons & Marketıng Lımıted ("Medusa") Followıng the acquısıtıon the trade, assets and lıabılıtıes of Medusa were hıved up to Contender Lımıted

As a result of the transfer of trade, the dırectors are of the opınıon that the remaınıng cost of ınvestment ıs more approprıately shown as goodwıll on acquısıtıon rather than wrıtten off Thıs represents a true and faır overrıde from the provısıons of the Companıes Act 1985 (4 Sch 14) on the grounds that ıt was not true and faır to make a profit and loss account charge to wrıte down the remaınıng value of the ınvestment sınce the goodwıll ıs stıll present, ıt ıs now purchased goodwıll ın Contender Lımıted rather than part of the cost on the ınvestment

10 Tangible fixed assets

	Short leasehold property £	Plant and machinery £	Fixtures fittings and equipment £	Total £
Cost				
At beginning of year	97,574	200,644	123,963	422,181
Additions	-	17,223	79,123	96,346
At end of year	97,574	217,867	203,086	518,527
Depreciation				
At beginning of year	90,990	164,655	104,409	360,054
Provided in year	4,245	22,916	15,808	42,969
At end of year	95,235	187,571	120,217	403,023
Net book value				
At 31 March 2007	**2,339**	**30,296**	**82,869**	**115,504**
At 31 March 2006	6,584	35,988	19,553	62,125

11 Fixed Asset Investments

	Wholly owned subsidiary undertakings £
Cost at 1 April 2006 and 31 March 2007	1

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital, all of which were dormant, are as follows

Name of subsidiary undertaking	Country	Holding	Share held %
Medusa Communications & Marketing Limited	United Kingdom	£1 Ordinary shares	100
Contender Entertainment Limited	United Kingdom	£1 Ordinary shares	100
Film Resources Limited	United Kingdom	£1 Ordinary shares	100
The Movie Association B V	Netherlands	€10 Ordinary shares	100

Notes *(continued)*

12 Stocks

	2007 £	2006 £
Stock of DVD's and videos	**1,027,259**	1,119,958
	1,027,259	1,119,958

13 Debtors

	2007 £	2006 £
Trade debtors	**4,774,206**	3,574,231
Prepayments and accrued income	**4,409,626**	6,679,164
Other debtors	**10,332**	11,006
	9,194,164	10,264,401

14 Creditors: amounts falling due within one year

	2007 £	2006 £
Bank loans and overdrafts	**2,326,962**	3,593,143
Variable rate convertible loan notes 2003	**225,000**	-
Trade creditors	**3,417,670**	4,317,781
Corporation tax	**423,620**	276,744
Other taxation and social security	**401,444**	253,672
Accruals and deferred income	**881,573**	909,029
Other creditors	**1,652,617**	1,091,933
	9,328,886	10,442,302

The bank loans and overdraft are secured by a fixed and floating charge over all the assets of the company

Notes *(contınued)*

15 Creditors: amounts fallıng due after more than one year

	2007	2006
	£	£
Bank loans	**3,090,438**	3,269,826
Varıable rate convertıble loan notes 2003	-	225,000
Varıable rate convertıble loan notes 2020	-	860,853
	3,090,438	4,355,679

A proportıon of the varıable rate convertıble loan notes 2003 ("The 2003 Notes "), ıssued on 2 March 2003, were convertıble at any tıme up to November 2007 ınto fully paıd shares ın the event of at least 75% of the shares of the company beıng acquıred or the company's shares beıng admıtted to a recognısed ınvestment exchange Dependent on the date of such a transactıon, between 20% and 100% of the 2003 notes would be converted Upon exercıse, one ordınary 'B' share would have been ıssued ın exchange for £40 to £80 of the nomınal value of the 2003 Notes per share

In the event that no conversıon event occurred prıor to 1 March 2007 up to 50% of The Notes could be converted ınto ordınary 'B' shares of £1 on the conversıon basıs of one share for each £90 of nomınal value of The 2003 Notes As part of the acquısıtıon of the Company by Entertaınment One Ltd, The 2003 Notes were converted ınto ordınary shares on 13 June 2007 under the terms of the Loan Note Instrument These shares subsequently formed part of the entırety of shares purchased by Entertaınment One Ltd on 4 July 2007

As part of the acquısıtıon of Medusa the company created £952,400 Varıable Rate Convertıble Loan Notes 2020 ("The 2020 Notes"), ıssued on 17 February 2004 Durıng the year the 2020 loan notes were fully repaıd ın cash

The bank loans totallıng £4,569,826 *(2006 £4,584,147)* bear ınterest at 2 5% above based rate

Notes *(continued)*

16 Borrowings

Borrowings are repayable as follows

	2007 £	2006 £
Within one year		
Bank loans and other borrowings	**1,704,388**	1,314,320
Bank overdraft	**847,574**	2,278,823
After one and within two years		
Bank loans and other borrowings	**1,490,438**	1,579,389
After two and within five years		
Bank loans and other borrowings	**1,600,000**	1,690,437
	5,642,400	6,862,969

The bank loans totalling £4,794,826 *(2006 £4,584,147)* bear interest at 2 5% above based rate

17 Provisions for liabilities and charges

	Deferred taxation £
At 1 April 2006	204,402
Provided during the year	85,014
At 31 March 2007	**289,416**

Deferred taxation provided for in the financial statements relates to accelerated capital allowances, and accelerated tax relief for investments in generation of intellectual property rights

18 Called up share capital

	2007 £	2006 £
Authorised		
204,800 ordinary 'A' shares of 25p each	**51,200**	51,200
115,200 ordinary 'B' shares of £1 each	**115,200**	115,200
80,000 ordinary 'C' shares of £1 each	**80,000**	80,000
	246,400	246,400
Allotted, called up and fully paid		
102,400 ordinary 'A' shares of 25p each	**25,600**	25,600
57,600 ordinary 'B' shares of £1 each	**57,600**	57,600
820 ordinary 'C' shares of £1 each	**820**	820
	84,020	84,020

Notes *(continued)*

18 Called up share capital *(continued)*

Voting rights

The 'A', 'B' and 'C' ordinary shares rank equally in the right to vote at general meetings

The majority 'A' shareholder is entitled to appoint two persons to be directors Two additional directors will be nominated by the 'A' shareholders sending notice to 'B' shareholders to nominate two other directors The nominations are voted on by 'B' shareholders

Rights to dividends

'C' shareholders cannot receive dividends or any other distributions in respect of the 'C' shares

Entitlement on winding up

The capital and assets of the company shall firstly be applied among 'A' shares, 'B' shares and 'C' shares pro-rata in relation to the paid up amount upon each share

19 Share premium account and reserves

	Other reserve £	Share premium account £	Profit and loss account £
At beginning of year	274,500	68,032	4,955,352
Profit for the financial year	-	-	1,049,242
Loan note redemption	(274,500)	-	274,500
Equity dividends paid	-	-	(57,600)
Share options	-	-	12,802
At end of year	-	**68,032**	**6,234,396**

20 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Profit for the financial year as previously stated	**1,049,242**	1,081,436
Prior year adjustment (as explained in note 1)	-	(11,532)
	1,049,242	1,069,904
Equity dividends paid	**(57,600)**	(57,600)
	991,642	1,012,304
Share options	**12,802**	11,532
Increase in share capital	-	800
Increase in share premium	-	5,824
Shareholders' funds brought forward	**5,381,904**	4,351,444
Shareholders' funds carried forward	**6,386,348**	5,381,904

Notes *(continued)*

21 Net cash inflow from operating activities

	2007 £	2006 £
Operating profit	**2,335,251**	2,307,738
Amortisation		
Intellectual property rights	**887,777**	979,018
Investments	**367,200**	355,037
Depreciation	**42,969**	49,971
Decrease/(Increase) in stock	**92,699**	(2,753,250)
Decrease/(increase) in debtors	**1,070,237**	(69,576)
(Decrease)/increase in creditors	**(331,270)**	1,525,449
Share options	**12,802**	11,532
Net cash inflow from operating activities	**4,477,665**	2,405,919

22 Reconciliation of net cash flow to movement in net debt

	2007 £	2006 £
Increase/(decrease) in cash in the year	**1,939,791**	(1,033,342)
Repayment of debt	**966,720**	1,250,000
Change in debt resulting from cash flows	**2,906,511**	216,658
Non cash movements	**(91,548)**	(143,116)
Net debt at 1 April 2006	**(7,860,152)**	(7,933,694)
Net debt at 31 March 2007	**(5,045,189)**	(7,860,152)

23 Analysis of changes in net debt

	At 1 April 2006 £	Cash flow £	Non-cash movement £	At 31 March 2007 £
Cash in hand	88,669	**508,542**	-	**597,211**
Overdraft	(2,278,823)	**1,431,249**	-	**(847,574)**
	(2,190,154)	**1,939,791**	-	**(250,363)**
Variable rate convertible loan note 2004	(225,000)	-	-	**(225,000)**
Variable rate convertible loan note 2020	(860,852)	**952,400**	(91,548)	-
Bank term loans	(4,584,146)	**14,320**	-	**(4,569,826)**
	(7,860,152)	**2,906,511**	(91,548)	**(5,045,189)**

Notes *(continued)*

24 Share-based payments

The Company has share option schemes whereby directors and employees are able to subscribe for ordinary shares in the Company Details of options granted are as follows

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
Option grant to employees at 14 September 2001	9,600	3 years from grant date	31 December 2010
Option grant to employees at 5 July 2002	4,000	3 years from grant date	31 December 2010
Option grant to employees at 28 October 2003	4,000	3 years from grant date	31 December 2010
Option grant to employees at 10 September 2004	4,000	3 years from grant date	31 December 2010
Option grant to employees at 30 August 2005	4,000	3 years from grant date	31 December 2010

The number and weighted average exercise prices of share options in Contender Ltd are as follows.

	2007 Weighted average exercise price	**2007 Number of options**	2006 Weighted average exercise price	2006 Number of options
Outstanding at the beginning and end of the period	£5 03	25,600	£3 95	21,600
Exercisable at 31 March 2007	£2 97	17,600		

The options outstanding at the year end have an exercise price in the range of £2 50 to £10 84

Share based payments

The Company share option scheme provides for an exercise price equal to the market price of the Company's shares at the date of grant The vesting period is 3 years If options remain unexercised after 31 December 2010 the options expire Furthermore, if an employee leaves the Company before their options vest, the options are forfeited at the date of leaving

All share incentives are over £1 ordinary C shares of the Company The Group grants share incentives to employees in the form of share options Share options vest over a period of 3 years, whilst individuals are employed by the Company There are no market conditions associated with the share option grants

The employee expense is recognised equally over the time from grant until vesting of the incentive The employee expense in 2007 was £12,802 (2006 £11,532) The fair value has been measured using a Black-Scholes model

The weighted average inputs to model for options granted between 2003 and 2005 are as follows

Fair value at measurement date (£)	2 09 – 4 38
Share price (£)	2 50 – 10 84
Exercise price (£)	2 50 – 10 84
Expected volatility	45 6 – 48 7
Expected life (year)	4 - 5
Dividend yield	0%
Risk free interest rate	4 08% - 4 94%

The expected volatility is based on the historic volatility of businesses comparable to the Company over a period of time equal in length to the relevant expected life of the option and ending at the date of grant

Notes *(continued)*

25 Capital commitments

	2007	2006
	£	£
Contracted for but not provided for in these financial statements	**2,995,628**	3,101,278

26 Contingent liabilities

There were no contingent liabilities at 31 March 2007 or 31 March 2006

27 Pensions

The company 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 the company

28 Leasing commitments

Operating lease payments amounting to £235,471 *(2006 £180,347)* are due within one year The leases to which these amounts relate expire as follows

	2007		2006	
	Land and buildings	**Other**	Land and buildings	Other
Within one year	**208,735**	**26,736**	-	-
Between one and five years	**268,450**	**20,040**	153,540	26,807
	477,185	**46,766**	153,540	26,807

29 Controlling related party

Mr Richard Bridgwood controls the company by virtue of owning 64% of the issued share capital On 4 July the entire share capital of Contender Limited was acquired by Entertainment One Ltd

30 Post balance sheet events

On the 4 July 2007 all the company's shares were purchased by Entertainment One Ltd from the existing shareholders and so became the ultimate controlling shareholding

As part of the acquisition of the Company by Entertainment One Ltd, The 2003 Notes were converted into ordinary shares on 13 June 2007 under the terms of the Loan Note Instrument These shares subsequently formed part of the entirety of shares purchased by Entertainment One Ltd on 4 July 2007