

# Shed Media plc

## REPORT AND FINANCIAL STATEMENTS

For the period ended 31 December 2007



Company Registration No 3617464

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## Financial Highlights

	<b>16 months ended 31 December 2007</b>	<b>Year ended 31 August 2006</b>
Turnover	£63.1m	£43.5m
Gross profit	£23.4m	£13m
Adjusted* operating profit	£11.1m	£8m
Pre goodwill amortisation operating margin	18%	18%
Adjusted* profit before tax	£10m	£7.7m
Adjusted** diluted earnings per ordinary share	10.56p	9.53p

Proposed final dividend of 1.1p, increase of 10% (2006 1p)

\* Adjusted profit before tax and adjusted operating profit are stated before goodwill amortisation

\*\* Adjusted diluted earnings per ordinary share is before goodwill amortisation and FRS 20 charge

## Chairman's Statement

Shed Media (the 'Group') has succeeded in transforming the scale and scope of the business in the 16 month period to 31 December 2007. The acquisition of three companies during the period: Outright Distribution, Twenty Twenty and Wall to Wall, has significantly broadened the Group by genre, broadcaster base and geographic spread. These acquisitions have changed the risk profile of the Group, reducing dependence on any one particular brand, and Shed Media now serves 13 broadcast customers in both the UK and the US.

Outright Distribution enables the Group to exploit its programme rights more effectively, selling into over 125 territories worldwide, and to retain the margin otherwise paid out to external distributors. Outright is also growing its quality third party business, attracted by efficient exploitation into many territories and an outstanding catalogue of programme brands.

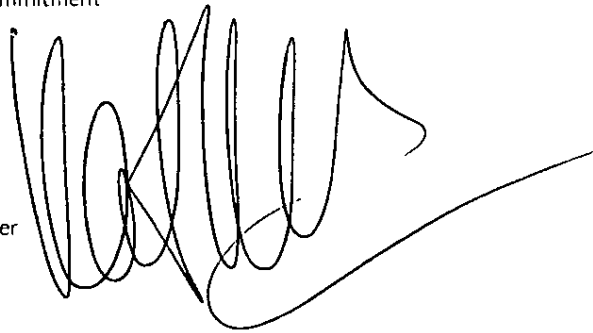
Shed Media's core strategy of building a portfolio of long run returning series, with the capability of generating revenue from intellectual property rights, characterised the acquisitions completed in the period. At the same time as executing this strategy the Group has maintained its position as one of the most efficient producers in the UK, sustaining high operating margins of 18%, twice the industry average.

I am delighted to have welcomed to the Board Chris Bonney, MD of Outright, Peter Casely-Hayford, MD of Twenty Twenty, and Alex Graham, CEO of Wall to Wall. Their experience combined with their enthusiasm for the continued growth of Shed Media has made the task of integrating the businesses very straightforward and effective.

Ann McManus and Maureen Chadwick, founders of Shed Productions, stood down from the Board. Their knowledge and creativity has been, and continues to be the backbone of Shed drama, as they continue in their roles as leading show runners and writers of our long run drama series. I thank them for their invaluable contribution.

In changing economic conditions, broadcast customers need efficient producers and Shed Media's forward order book of 64% of target revenue commissioned, and our proven expertise at delivering quality programming, provides the basis for our confidence in the year.

The expansion of the business and the demands of our customers in competitive markets has placed continuing high demands on the talents and resources of our staff, and I would like to thank them for their hard work and commitment.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

Katherine Innes Ker

## Chief Executive's Statement

### OVERVIEW FOR THE 16 MONTHS

I am pleased to announce Shed Media's final results covering the 16 months to 31 December 2007

Over the 16 months, adjusted operating profit increased to £11.1m. Operating margin, before goodwill amortisation, remains high at 18%, nearly double the industry average of 9.3%.\*

Revenue from the Group's core activities, content production and IP exploitation, has grown strongly. During the period, the Group delivered 209 hours of programming – 38 hours of drama and 171 of factual. Programmes included new ITV1 drama, *Rock Rivals*, *Waterloo Road* series three and *Supernanny USA* season three.

Shed Media's in-house distribution arm, Outright Distribution, has performed strongly, successfully distributing Shed Media content and growing its third party business. Revenue from the Group's IP exploitation accounted for 30% of gross profit. We expect this area of business to grow as the library expands with Shed Group and third party business.

One of the main highlights of the period was the acquisition of *Twenty Twenty* and *Wall to Wall*, two highly respected and trusted production companies, renowned for their compelling, quality programming. The acquisitions further diversify the Group's programme portfolio and broaden our broadcaster customer base. Both companies produce highly profitable programming across a wide range of genres and are an excellent fit alongside Shed Productions and Ricochet. Brands include *Who Do You Think You Are?*, *New Tricks*, *Brat Camp* and *The Choir*. The US presents further opportunities in which to launch *Wall to Wall* and *Twenty Twenty* formats and content.

### Drama

During the 16 months, Shed Productions secured new drama commissions and re-commissions. A third series of *Waterloo Road* was re-commissioned and delivered for BBC1 during the period, with a substantial increase in the order from 12 hours to 20 hours. *Rock Rivals*, an 8 hour prime-time drama, was delivered for ITV1 and *Catwalk Dogs*, a 90 minute drama for ITV1 was delivered.

Post period, a fourth series of *Waterloo Road* has been re-ordered for BBC1 for a run of 20 hours and a new prime-time drama, *Hope Springs* has been ordered for BBC1 (8 x 60 mins).

Shed currently has more major drama series in funded and non-funded development than ever before for broadcasters in the UK and the US.

### Factual

Ricochet performed extremely well during the 16 months, securing 17 new series, 5 in the US and 12 in the UK, whilst delivering a total of 171 hours of programming.

The US business experienced strong growth. In the period, *Supernanny USA 3* was delivered to the ABC Network and the order for *Supernanny USA 4* was increased from an initial 13 episodes to 25 episodes. In addition, Ricochet delivered a new prime time factual entertainment series, *Fat March*, to ABC. Other new commissions included an 8-part series for Bravo, *The Real Housewives of New York City* and a 7 x 60 mins order for an extreme survival series, *The Alaska Experiment*, for Discovery US.

Post-period, ABC has ordered a 5th season of *Supernanny USA* (13 x 60 mins) and a pilot episode of *Supernanny*. Bravo has ordered a second season run of 10 episodes of *The Real Housewives of New York City* following its ratings success and Discovery US has picked up a new 3 x 60 mins major documentary series.

## Chief Executive's Statement (continued)

In the UK, highlights include two new series for the BBC, Blood Sweat and T-Shirts (4 x 60 mins) and Open House (20 x 30 mins) as well as two new brands for Five, Breaking into Tesco (6 x 60 mins) and Unbreakable (8 x 60 mins). In the period, Ricochet also won its first commissions for ITV and UKTV. Ricochet also delivered new series of Supernanny UK, The Mummy Diaries and Born to be Different for Channel 4, and Living in the Sun and Extreme Dreams for the BBC.

Post-period, Channel 4 has ordered a new prime-time factual entertainment series, Danger Women (4 x 60mins), Five has ordered a new features series, Cowboy Builders (6 x 60mins), as well as re-commissioning Breaking into Tesco (6 x 60mins), and the BBC has ordered a new landmark documentary series (3 x 60mins).

## Intellectual Property (IP) Exploitation

IP exploitation was strong and contribution to the bottom line accounted for 30% of gross profit. During the period Outright Distribution sold over 2,100 hours of television in 125 different territories. The programme library continues to grow and with effective exploitation by Outright Distribution, this provides a reliable and growing income stream going forward. Outright continues to capture more profit from Group product, whilst continuing to grow third party business.

A major highlight was securing record pre-sales for Shed's new ITV1 drama Rock Rivals prior to production and securing a Europe wide DVD deal.

## Outlook

Four months into our current financial year we have 227 hours commissioned, representing over 80% of hours and 64% of revenue target. These commissions include most of the major revenue generating brands. Drama accounts for 38 hours, including a new peak time drama, Hope Springs for BBC1 (8 x 60mins) and re-commission of Waterloo Road (20 x 60mins) both for Shed Productions. A fifth series of New Tricks (8 x 60mins) for Wall to Wall and a new 90min drama, Whatever It Takes for Twenty Twenty. ABC has ordered a fifth series of Ricochet's Supernanny USA (13 x 60mins) and BBC1 has re-commissioned a fifth series of Wall to Wall's Who Do You Think You Are? (10 x 60mins).

In addition to the commissions for 2008, Wall to Wall has been re-commissioned to produce a sixth series of New Tricks (8 x 60mins) and sixth series of Who Do You Think You Are? (8 x 60 mins) both for BBC1 and due for delivery in 2009.

The US continues to be an attractive area for growth with our LA production office presently commissioned to make four series this year for broadcasters including ABC, NBC, Bravo and Discovery US. An additional four shows are in paid development with MTV, Spike and SoapNet. Supernanny USA is as strong as ever and the Group is looking forward to the benefit of syndication revenues from 2009.

Delivering on our stated strategy to leverage both Wall to Wall and Twenty Twenty into the US market, Wall to Wall has received its first commission from NBC to develop and cast six episodes for a US version of its successful brand, Who Do You Think You Are? Twenty Twenty has been commissioned by MTV to produce a pilot inspired by its successful Brat Camp format.

The acquisition of Outright Distribution in September 2006 has enabled the Group to capture more profit from its IP rights. The acquisition also made it possible for Outright Distribution to significantly transform its business. Its library has more than doubled with the addition of over 500 hours of major new brands from the Shed Media Group. Outright's strong and extensive library attracts all major international buyers as well as quality third party UK production companies.

## Chief Executive's Statement (continued)

With Shed Media now greatly diversified in terms of brand count and broadcast customers, the Group's risk profile has been transformed. The Group is making good progress in a difficult market in the UK and we are confident of achieving growth for the current financial year.

A handwritten signature in black ink, appearing to read 'Eileen Gallagher', with a stylized, flowing script.

Eileen Gallagher

\* PACT census 2007

## Financial Review

### Revenue and Profits

The 16 month period ending 31st December 2007 saw revenue increase to £63.1m (2006: 12 months – £43.5m)

Geographically, 66% of Group revenue in 2007 was from the UK (2006: 71%), 26% from the US (2006: 19%) and 8% from the rest of the world (2006: 10%)

During the period the Group was commissioned directly by 13 broadcasters in both the UK and US and sold production rights to over 125 territories worldwide

Statutory reported operating profits are £8.6m with a reported profit on ordinary activities of £7.5m. Operating profits before goodwill amortisation are £11.1m with a profit before tax and goodwill of £10m.

Operating margin before goodwill deduction for the period was 18% (2006: 18%) with gross margin at 37% (2006: 30%). The increase in the gross margin is due to stronger ancillary sales and corresponding lower amortisation rates.

### Acquisitions

In September 2006 the Group completed the acquisition of Outright Distribution for £2m which was satisfied by £1m in cash and £1m in shares. An additional consideration of £0.5m in cash and £0.5m in shares is conditional upon profit performance for the period ending June 2008.

In September 2007 we completed the acquisition of Twenty Twenty for £18m which was satisfied by £13.4m in cash and loan notes and £4.6m in shares. An additional consideration of £1.0m in cash and loan notes is conditional upon profit performance for the period ending December 2008.

In November 2007 we completed the acquisition of Wall to Wall for £20.4m which was satisfied by £12.7m in cash and loan notes and £7.7m in shares. An additional consideration of £4m in shares and a super earnout of £1m in cash is conditional upon profit performance for the period ending June 2009.

### Capital Structure and Treasury Policy

During the period Shed Media Plc ("the Company") increased issued ordinary shares to 78,970,292 ordinary shares of 0.1p each. The increase in issued ordinary shares financed both the final earn-out for Ricochet Limited and the acquisitions of Outright, Twenty Twenty and Wall to Wall.

During the period we arranged a debt facility of £44m with Barclays and the Bank of Ireland to help fund the acquisitions and to provide a working capital facility consisting of,

A £32m five year facility to fund the acquisitions of Outright, Twenty Twenty, Wall to Wall and to refinance the existing debt facility used to purchase Ricochet.

A £4m in guaranteed loan notes to fund the acquisitions of Outright, Twenty Twenty and Wall to Wall which are redeemable in one year.

The Company also has a £8m working capital facility which had not been drawn down by the period end.



## Financial Review (continued)

### Earnings per Share

Basic earnings per share in the period was 6.49p (2006 7.44p) based on earnings of £4.3m divided by the weighted average number of shares in issue during the period of 66,092,144 (2006 57,634,688). Diluted earnings per share in the period was 6.42p (2006 7.37p) based on the weighted average number of shares in issue of 66,827,444 (2006 58,151,598).

After adjusting for FRS 20 charges and goodwill amortisation, adjusted basic earnings per share was 10.67p (2006 9.6p) and adjusted diluted earnings per share was 10.56p (2006 9.53p).

### Cash flow

Net Cash Inflow from operating activities was £6.5m (2006 £10.4m), with the main movements being a £3m increase in debtors due to timing of productions and a decrease in creditors of £5.2m.

The overall net cash decreased by £72k (2006 £1m increase) which was the net of the overall growth in the business offset by the acquisitions made during the year.

### Balance Sheet

**Fixed assets** The £5.3m increase in film assets during the period represents the capitalisation of new productions during the period and the addition of the Twenty Twenty and Wall to Wall film libraries. In the current period the Group depreciated on average 82% of assets arising from new drama productions and 90% on new factual entertainment productions. The remainder will be amortised over the life of the production defined by expected future sales. The £13m increase in Fixtures, Fittings and Equipment includes a combination of additions from acquisitions, leasehold improvements, and new edit suites.

**Debtors** The increase in debtors in the period is due to the inclusion of Outright, Twenty Twenty and Wall to Wall debtors. Of the £18.2m (2006 £9.2m), £7m were trade debtors and £9.2m represented accrued income.

**Creditors Due Within One Year** The increase in creditors in the period to £27.7m (2006 £21.2m) has been partly due to the inclusion of Outright, Twenty Twenty and Wall to Wall creditors but also partly due to short term bank loans for production of Rock Rivals £3.6m and New Tricks £1.8m.

**Creditors Due After One Year** During the period creditors due after one year increased to £26.4m (2006 £nil) as a 5 year loan facility was arranged to purchase Outright, Wall to Wall and Twenty Twenty.

**Goodwill** During the period an additional £43.4m of goodwill representing the excess of the purchase price over the fair value of net assets acquired with Outright, Wall to Wall and Twenty Twenty was recognised and is being written off over 20 years.

### International Financial Reporting Standards

The Group will be reporting under International Financial Reporting Standards ('IFRS') from the year commencing 1 January 2008. Management are currently reviewing how this change will affect future results.

## Financial Review (continued)

### Taxation

The tax charge for the period is £3.2m at an effective rate of 32% (2006: 30%) on the operating profit before goodwill amortisation. The effective rate has increased due to a proportion of the operating profit being taxed in the USA.



Jonathon Kemp

Financial and Commercial Director

## Board of Directors

### Chief Executive Officer, Shed Media plc Eileen Gallagher

Prior to co-founding Shed Productions, Eileen was Managing Director of LWT (London Weekend Television) and deputy Managing Director of Granada Broadcasting. She also co-created *Bad Girls* and *The Fugitives*.

Eileen's business experience and strong creative influence have been instrumental in Shed Media's success. As chair of the Independent Producers' Trade Association (PACT) for 2002 and 2003, she was at the forefront of the successful campaign to introduce amendments into the Communications Bill to strengthen the position of the independent production sector in its dealings with broadcasters. In 2002/2003 Eileen picked up two industry awards for outstanding achievements for her work with Shed and the independent production sector as a whole.

### Financial and Commercial Director, Shed Media plc Jonathon Kemp

Jonathon Kemp joined Shed in 2002 from Capitol Films, a film production and financing company, where he was Head of Finance. Jonathon has had experience in a number of UK production and broadcasting companies including Fox Kids, where he was involved in the flotation of the channel. Before that Jonathon worked at Nickelodeon UK.

Jonathon's primary responsibility is the financial management of the Group and the commercial activities. He is an ACMA qualified accountant.

### Chief Operating Officer, Shed Media plc and Managing Director, Ricochet Nicholas Southgate

Nick started his television career in wildlife filmmaking working for the BBC's acclaimed Natural History Unit. After five years at the BBC, including time spent on *Tomorrow's World* and in BBC Childrens, Nick set up his own independent production company, Tiga Films, where he produced and directed documentaries for the BBC and Channel 4.

Nick joined Ricochet in 1999 as a producer/director and in 2000 he formed Ricochet Digital with Nick Powell where he executive produced projects including 'Who Rules the Roost?', 'FightBox', and 'Tetris From Russia with Love'.

Following the merger between Ricochet Digital and Ricochet South, Nick became Creative Director of the new company Ricochet Ltd and subsequently Managing Director, where he continued to oversee a number of key projects both in the UK and for Ricochet LA.

In 2005, Shed acquired Ricochet and in 2007, Nick was appointed as the Chief Operating Officer of the enlarged Group.

### Managing Director, Shed Productions Brian Park

Brian Park was previously Head of Entertainment at Granada, where he stewarded *Stars in their Eyes*, *You've been Framed* and *Russ Abbot*. His subsequent move to drama resulted in him producing *True Love* and *Prime Suspect*. He took over an ailing *Coronation Street*, restoring it as the UK's biggest rating show. Brian produced the first two series of *Bad Girls* and has been Executive Producer on the subsequent series of *Bad Girls*, all series of *Footballers' Wives* and *Waterloo Road*, and the first series of *Bombshell* and *Rock Rivals*.

### Chief Creative Director, Ricochet Nicholas Powell

Nick began working in TV in 1987 at Brook Productions as a researcher on a major series on the international debt crisis. He worked at Diverse Productions in 1988 working on *9 to 5* and at Box.

## Board of Directors (continued)

Productions on The Harrods Sale. In 1989 he transferred to Channel 4 where he produced Comment before becoming series producer on Out of Africa and then series editor on Right to Reply.

In 1995 Nick formed Ricochet, assuming the role of Managing Director. During the last 10 years he has executive produced over 500 hours of prime-time network television in the UK, with many of the series having been shown and broadcast throughout the world. He has overseen many projects including, No Going Back, Its Me Or the Dog, Risking it All, and Supernanny. In 2003, Nick established a Los Angeles office and executive produces the American version of Supernanny for ABC. As well as managing the growth of Ricochet, Nick oversees development and overall company strategy.

In 2005, Shed acquired Ricochet and Nick was appointed to the board of Shed Media.

### **Managing Director Outright Distribution Chris Bonney (appointed 28 September 2006)**

Chris Bonney is the Managing Director of Outright Distribution, Shed Media's wholly owned distribution company, specialising in the areas of factual entertainment, formats and drama.

Chris began his career in 1986 at ECM, a specialist in advertiser-funded programming and format distribution. He left in 1989 to join the TV programming department at Saatchi & Saatchi, followed by a spell as Manager of Sponsorship at Tyne Tees Television. Chris rejoined ECM at the end of 1991, where he rose to become Chief Operating Officer in 2001. Together with a team of experienced television distribution executives from ECM, Chris established Screentime Partners as an MBO in August 2003, which changed its name to Outright Distribution Limited in January 2007 following the acquisition by Shed Media in 2006.

### **Managing Director Twenty Twenty Peter Casely-Hayford (appointed 19 September 2007)**

Peter Casely-Hayford is the Managing Director of Twenty Twenty and has been in the television industry since 1976. He began his career at the BBC in the Television Accounts department, where he gained experience of management and finance in the TV industry. Later, he moved to News and Current Affairs, managing programmes such as Question Time and Newsnight, before becoming Production Unit Manager of Panorama for 5 years.

Peter joined Twenty Twenty in 1990 as the Manager of Production, looking after all areas of management within the company. In 1996 Peter became a director shareholder of Twenty Twenty and was subsequently promoted to Managing Director in 2003. Since that time he has been responsible for the running of the business and profitability of the company. Following Shed Media's acquisition of Twenty Twenty in September 2007, Peter was appointed to the board of Shed Media.

### **Chief Executive Wall to Wall Alex Graham (appointed 29 November 2007)**

Born in Glasgow, Wall to Wall CEO Alex Graham has built the company into one of the UK's leading independent producers. With a reputation for quality and innovation, Wall to Wall has won almost every award on both sides of the Atlantic including several BAFTAs, Emmys, Royal Television Society and Peabody awards. Wall to Wall was recently voted one of the top seven independent producers in the world by Real Screen magazine. In November 2007, Wall to Wall became part of the Shed Media group of companies.

Alex helped create several of Wall to Wall's hit shows including The 1900 House and Who Do You Think You Are? He is executive producer of several of the company's leading shows including Who Do You Think You Are? and New Tricks.

Alex sits on the board of Shed Media. He is a member of PACT Council where he served as chair during 2006 and 2007. He also sits on the board of the Sheffield International Documentary Festival. He is a

## Board of Directors (continued)

fellow of the Royal Television Society, the Royal Society of Arts and a visiting fellow of the University of Bournemouth's Media School

### Non-Executive Chairman Katherine Innes Ker\*†

Katherine Innes Ker is a Non-executive Director of Taylor Wimpey plc, The Ordnance Survey plc and Oakley Capital. Having gained a D Phil in molecular biophysics at Oxford University, she joined UBS Phillips and Drew in 1987 as a UK media analyst. She subsequently worked at Dresdner Kleinwort Benson and SBC Warburg as a Director and pan European media analyst.

Katherine is a trustee of The Tavistock Trust for Aphasia, and has been a Non-executive Director of ITVdigital plc (formerly Ondigital plc), The Television Corporation plc, Fibernet plc, Wickam Capital plc, Williams Lea plc and Bryant Group plc.

### Non-Executive Director David Kogan\*†

David Kogan is the Chief Executive and co-founder of Reel Enterprises Limited, a company specialising in rights negotiations, channel development and sport in the UK and global media markets. Reel Enterprises advise the BBC and other leading UK broadcasters as well as leading sports leagues such as the FA Premier League on all its media rights deals in the UK and overseas.

In 1979, David worked as a marketing executive at Express Newspapers, and then in 1982 he joined the BBC where he worked as a senior producer on news and current affairs programmes such as Today, Newsnight and Breakfast Time. He was the BBC radio editor in New York in 1984/5. In 1988 he joined Reuters Television as Managing Editor. He subsequently became Managing Director in the United Kingdom and was then, for three years, the global Managing Director. He also acted as the launch Managing Editor of GMTV in 1993. In 1996 David joined the Granada Media Group as Executive Director of Granada Channels, which he left to create Reel Enterprises in 1998.

### Creative Director Ann McManus (resigned 6 February 2008)

Ann McManus is the Story Expert and Show Runner at Shed. She is responsible for the script to screen creative overview for all Shed dramas and has extensive experience writing serial drama for major television networks with a large number of storylines and scripts having appeared on screen in the UK and abroad. Working as Story and Script Executive with Brian Park at Granada, she worked on the successful turnaround of an ailing 'Coronation Street'.

### Creative Director Maureen Chadwick (resigned 6 February 2008)

Maureen Chadwick is the Script Expert at Shed and shares the Show Runner role with Ann McManus. Her television credits include 'Eastenders', 'Eldorado', 'Angels', 'Springhill' and 'Coronation Street', plus two of her own screenplays 'Two Golden Balls' and 'Watch with Mother', made for BBC1's Screen One Series.

She has also written original work for theatre and musical theatre and was a finalist for the Vivian Ellis award for new musicals. Maureen is the lead writer for Shed, working closely with Ann McManus to create stories and characters. Together they write key episodes and, where necessary, edit or re-write others, to ensure a consistent style and quality throughout each series.

\* Member of the Audit Committee

† Member of the Remuneration Committee

## Directors' Report

The directors have pleasure in presenting their report on the Group together with the audited financial statements for the period ended 31 December 2007

### Principal activity

Shed Media (the "Group") is an independent television production and distribution company. The Group specialises in contemporary, original drama and factual programming and content and in distributing subsequent rights from these programmes.

### Change of accounting reference date

During the period the Group announced a change in accounting reference date. The nature and timing of the Group's business means it is more appropriate to have a final reporting date after the peak production season and the board is aware that for comparative purposes it is useful for the Group to align the accounting reference date with those of other public companies in the sector.

### Results and Dividends

The results for the Group show a pre-tax profit of £7.5 million (2006 12 months: £6.6 million) for the period and sales of £63.1 million (2006 12 Months: £43.5 million). The Group has net debt of £30.5 million (2006 12 Months: Net Funds of £5.6 million). Net cash flow from operating activities for 2007 was £6.5 million (2006: £10.3 million). The Directors have recommended a final dividend for 2007 of 11p per share, which subject to confirmation at the AGM, will be paid 18 July 2008 to shareholders on the register at 20 June 2008.

The final dividend proposed at 31 August 2006 of 1p per share was paid on 12 January 2007.

The six month interim dividend of 0.25p per share proposed on 28 February 2007 was paid on 5 July 2007.

## Business Review

### Business environment

The independent television market has benefited from changes in the law. The Communications Act in 2003 and the corresponding changes in terms of trade have enabled producers to own and control the rights to the content they create. This new legislation has most benefited those companies that create valuable rights that sell well in international and UK secondary markets.

The emergence of new media is also an important development in the television market. New technology such as mobile phone streaming and internet downloading give independent producers more opportunities to exploit their content. The companies which own attractive, recognisable brands that platform owners need benefit most from these market developments.

## Directors' Report (continued)

The independent production sector has traditionally been fragmented with hundreds of companies producing a limited number of programmes and owning few, if any, of the rights to those programmes. The favourable changes to market conditions have enabled the emergence of a few dominant players strong enough to buy out smaller competitors. This has led to the creation of the "Super Indie" which benefits from diversification into different production genres thus mitigating the risks associated with creative businesses.

Within this competitive environment the Group has differentiated itself from its competitors as follows:

- **Business Model** – Focussed on multiple profit streams rather than turnover
- **Brands** – Creating powerful brands that sell internationally and across new platforms
- **Operating Margins** – Consistently delivering strong operating margins
- **Visibility of Revenue** – Strong brands and a good reputation with broadcasters who re-commission existing brands and are open to new programme developments
- **Growth** – Organically through an expanding in-house talent pool and strategically through acquisition of brand – owning, brand-creating companies

### Strategy

The Group's overriding objective is to achieve attractive and sustainable rates of growth and returns through a combination of organic growth and acquisitions.

- Strong organic growth through
  - Maintaining and securing key production talent
  - Building on success and reputation with broadcasters
  - Successful exploitation of programming rights
  - Building new broadcaster relationships in the UK and internationally and in particular the US
- Selective acquisition of companies meeting strict criteria
  - Production companies in valuable new genres
  - Brand owning and brand creating capabilities
  - Talent tied in by ownership
  - Right Price
  - New Media

### Key performance indicators ("KPIs")

The board monitors progress on the overall Group strategy and the individual strategic elements by reference to six KPIs:

#### 1 Growth in sales (%)

Year on year sales growth expressed as a percentage. The increase is in line with the Group's growth strategy. Sales have improved due to our successful acquisition and integration of Outright Distribution Limited, Twenty Twenty Productions Limited and Wall to Wall Holdings Limited in the period which has led to the Group strengthening its product through expansion of its genres and making direct distribution sales, thereby not incurring commission on the sale of new products.

## Directors' Report (continued)

### 2 Gross margin (%)

Gross margin is the ratio of gross profit before exceptional items and goodwill amortisation to sales expressed as a percentage. Gross margin has improved on last year within the Group 37% (2006 30%)

### 3 Operating Profit Margin (%)

Operating profit margin is the ratio of operating profit before exceptional items and goodwill amortisation to sales expressed as a percentage. Gross Margin is important to maintain to ensure productions are profitable, but it is essential the Group keeps overheads under control and maintains a strong operating profit margin. The Group produced a strong operating profit margin in the period 18% (2006 18%). The operating profit margin is very strong compared to the industry as a whole and as a KPI will continue to be monitored by the Group.

### 4 EBITDA

The Group monitors its ability to pay loans on a monthly basis by reviewing interest to EBITDA and loan amount to EBITDA. The Group ensures it is clearly able to meet the terms set out in its loan agreements.

### 5 Programming Hours

The Group monitors commissioned programming hours per annum as a KPI. The Group produced 209 programme hours (2006 12 months, 132 programme hours).

### 6 International Sales

In order to grow as a business it is important for the Group to continue to exploit its programmes in the international market. This performance target is reviewed quarterly and the Group anticipates annual growth which enables continual growth of the business. This area of the business has continued to grow in the period.

## Principal Risks

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

The directors consider the following to be the principal risks faced by the Group.

### 1 Competition

The Group operates in a highly competitive market with many companies, small and large, competing for broadcasters' commissions. For the Group to grow it needs to secure re-commissions of existing brands and have new programme brands ready to be commissioned when more mature ones fade. To mitigate the risk of a slow-down in the overall rate of growth our creative teams are constantly developing new programme brands to ensure a healthy pipeline of new productions.

A reputation for consistently delivering high quality programmes is a prime asset in the market and this reputation is dependent on maintaining a pool of high quality creative staff.



## Directors' Report (continued)

### 2 Key Creative Staff

The Group's performance depends largely on the retention of key creative staff. The loss of key individuals or failure to recruit sufficient talent with the right experience and skills can adversely impact the Group's results. During the period the Group has added to its pool of creative staff and encouraged commitment to the Group through share incentive plans. The Group has also successfully trained up younger staff members to take on creative roles and has been successful in retaining them over the long term. When acquiring companies the Group ensures that the talent is tied in through share ownership and performance-based earn out schemes.

### 3 Control of Productions Costs

Once the executive producers have negotiated programme prices with the broadcasters, an internal budget is agreed and it is up to the production departments to ensure programmes are made within or below that budget. There is a risk that productions go over budget at some point during the production process. To control this risk the Group employ skilled production accountants who report into senior Group management on at least a weekly basis. Any drift over budget can be dealt with quickly to ensure the overall production budget is adhered to. There is also adequate insurance in place for each production to cover any unforeseen problems that may affect the cost of production such as key cast illnesses or major equipment failure.

### 4 Financial Risk Management

The board regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complicated financial instruments and where financial instruments are used it is for reduced interest or exchange rate risk. The Group does not trade in financial instruments. Group operations are primarily financed from equity funds raised, retained earnings and bank borrowings (including overdraft facilities). In addition to the primary financial instruments, the Group also has other financial instruments such as debtors, prepayments, trade creditors and accruals that arise directly from the Group's operations. Further information is provided in note 18 to the financial statements.

#### Directors

The directors of the Group are named on pages 9 to 11, together with brief biographical notes. All directors have been in office for the duration of the period unless stated on pages 9 to 11.

#### Directors' interests in shares and options

Details of directors' interests in shares and share options can be found in the Director's Remuneration Report on pages 20 to 23.

#### Retirement and Re-elections of Directors

Katherine Innes Ker and David Kogan retire by rotation from office at the Annual General Meeting. Chris Bonney, Peter Casely-Hayford and Alexander Graham being newly elected to the board will also retire from office at the Annual General Meeting. Being eligible, these directors will offer themselves for re-election in accordance with the Company's Articles of Association.

## Directors' Report (continued)

### Substantial Shareholdings

Directors of the Group had been notified of the following interests, of 3% or more, in the Group's issued share capital at 10 March 2008

Name	Holding at 10 March 2008	%
Nicholas Powell	10,973,266	13.9
Eileen Gallagher	6,325,000	8.0
Alex Graham	6,363,459	8.1
Cyrte Investments	6,483,402	8.2
Ann McManus	6,125,000	8.0
Maureen Chadwick	6,125,000	8.0
Brian Park	6,175,000	7.8
F&C Asset Management	3,407,303	4.3
Nicholas Southgate	3,349,251	4.2
Newton Investment Management	3,000,000	3.8
Peter Casely Hayford	2,454,564	3.1

### Share Capital

Details of the share capital are shown in note 19 to the financial statements

### Registrar

The Registrar is Capita IRG Plc, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

### Employees

The Group is committed to a policy of equal opportunity in matters relating to employment, training and career development of employees and is opposed to any form of less favourable treatment afforded on the grounds of disability, sex, age, race or religion

The Group encourages the involvement of its employees in its management through regular meetings of senior management teams which have responsibility for the dissemination of information of particular concern to employees and for receiving their views on important matters of policy

The Group operates a share option scheme to encourage employees. Details of this scheme are more fully described in note 19

### Political and Charitable Donations

The Group made no political or charitable contributions in the period (2006 £Nil)

### Creditor Payment Policy and Practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with

Trade creditor days for the Group for the period ended 31 December 2007 were 30 days (2006 30 days) based on the ratio of Group trade creditors at the end of the period to the amounts invoiced during the period to trade creditors

## Directors' Report (continued)

### Corporate Governance

Detailed statements of the Group's Corporate Governance and the Group's system of internal control are set out on pages 18 to 19

### The Audit Committee

The committee comprises the following, both of whom are independent Non-executive Directors  
Katherine Innes Ker (chair), David Kogan

### The Remuneration Committee

The committee comprises the following, all of whom are independent Non-executive Directors  
David Kogan (chair), Katherine Innes Ker

### Statement as to Disclosure of Information to Auditors

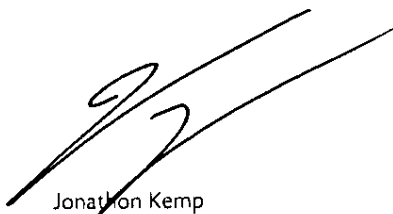
The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have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

### Auditors

A resolution to reappoint Baker Tilly Audit UK LLP, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting. Baker Tilly UK Audit LLP have confirmed their willingness to continue in office as auditors of the Group and a resolution to reappoint them will be proposed at the Annual General Meeting.

### Annual General Meeting

The Annual General Meeting of the Group, will be held at 12pm on the 12 June 2008 at The Tower Room, The Old Sessions House, 22 Clerkenwell Green, London EC1R 0NA. Formal notice of the meeting is set out on page 60.



Jonathon Kemp

Financial and Commercial Director

## Corporate Governance Report

The directors support high standards of Corporate Governance and confirm that they intend to comply with the requirements of the new "Combined Code" on Corporate Governance ("the code") published in 2006, so far as practicable given the size, nature and current stage of the development of the Group. The key Group objective is to enhance and protect shareholder value.

### The Board of Directors

The Board consisted of twelve directors during the period whose names and details appear on pages 9 to 11. The two non-executive directors are considered to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement.

A formal schedule of matters is considered by the board, which meets at least 10 times per year and keeps under constant review the need to hold additional meetings. The board is responsible for

- Overall Group strategy
- Acquisitions
- Monitoring the operating and financial results against plans and budgets
- Ensuring that the necessary financial and human resources are in place for the Group to meet its objectives
- Ensuring that the Group's obligations to its shareholders and others are understood and met

The following committees, which have written terms of reference, deal with specific aspects of the Group's affairs

### Audit Committee

The Audit Committee consists of the two non-executive directors and meets at least twice a year. It is responsible for ensuring that the financial activities of the Group are properly monitored, controlled and reported on. It meets the external auditors without executive directors being present and reviews reports from the auditors.

The Audit Committee recommends the appointment of the external auditors, reviews the audit fee and audit plan and pre-approves all non-audit work in respect of external auditors, prior to commitment by the Group.

### Remuneration Committee

The Remuneration Committee consists of two non-executive directors. It reviews the performance of the executive directors and sets the scale and structure of their remuneration and that of senior management and the basis of their service agreements with due regard to the interests of shareholders. In determining the remuneration of the executive directors and senior management the committee seeks to ensure that the Group will be able to attract and retain executives of the highest calibre. It makes recommendations to the full board concerning the allocation of incentive schemes to employees. No director participates in discussions or decisions concerning his own remuneration.

Further details of the Group's policies on remuneration including details of director's share options are given in the report of the Remuneration Committee report on pages 20 to 23.

### Nomination Committee

The directors consider that, given the size of the board, nominations should be a matter for the board as a whole, and accordingly there is no separate Nomination Committee. This will be reviewed regularly.

## Corporate Governance Report (continued)

### Internal Controls

The directors acknowledge their responsibility for the Group's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal and external publication. The effectiveness of the system of internal controls has been reviewed by the directors and they are satisfied the controls are effective with regard to the size of the Group and the stage of its development. Any system of internal control can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable and not absolute assurance against material misstatement or loss.

Given the size of the Group, there is currently not an internal audit function. This will be reviewed as the Group grows.

### Relationship with Shareholders

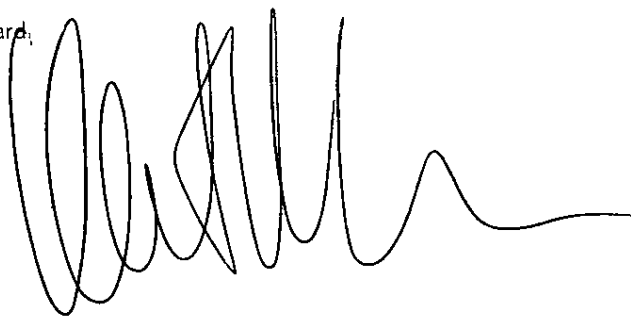
The directors attach great importance to maintaining good relationships with shareholders. Communications with shareholders are given high priority. The directors meet and discuss the performance of the Group with shareholders during the year. Queries raised by shareholders are promptly answered by whoever on the board is best placed to do so. Investors are encouraged to participate in the Annual General Meeting at which the Chairman will present a review of the results and comment on current business activity. The board will be available at the Annual General Meeting to answer shareholder questions.

### Going Concern

After making enquiries the directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. In forming this view the directors have reviewed the annual profit plan for the year ending 31 December 2008 and strategic plan projections for subsequent years. The directors have satisfied themselves that the Group is in a sound financial position and sufficient borrowing facilities will be available to meet the Group's foreseeable cash requirements.

On behalf of the Board,

Katherine Innes Ker



## Directors' Remuneration Report

The following report outlines the Group's policy on the remuneration of executive directors and gives details of the remuneration packages of executive directors and of the fees paid to non-executive directors for the period ended 31 December 2007. A resolution to approve the Report will be proposed at the Annual General Meeting of the Group. The directors have applied the principles of good governance related to director's remuneration as described below.

### Remuneration Committee

The Remuneration Committee comprises two independent non-executive directors David Kogan (chair) and Katherine Innes Ker.

### Remuneration Policy

The remuneration policy of the Committee and of the board is to provide remuneration packages for the Executive Directors and other senior executives in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. It is the Group's policy that a substantial proportion of the executive directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder return and that remuneration should be linked to both individual and Group performance.

Accordingly, executive directors may earn up to an additional 50% of their basic salaries as a performance bonus and have benefited from participation in the Group's share option scheme, as set out below.

It is the policy of the Committee and the board to maintain the above approach to remuneration packages for executive directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. The Committee will continue to review base salaries and performance targets to ensure that they align with the remuneration policy of the Committee and the board and with the Group's strategic objectives. The individual salary, bonus and benefit levels of the executive directors' are, and will continue to be, reviewed annually by the committee. This year the Committee has also undertaken a review of the longer term remuneration, with particular emphasis on selecting longer term incentives.

It is the Group's policy to employ executive directors under contracts with an indefinite term subject to the termination by notice by either party of 12 months. Any compensation payable by the Group would be subject to normal legal principles of mitigation of loss. No compensation would be payable if the service contracts were to be terminated by notice from the executive director or for lawful termination by the Group. There are no provisions for payment of pre-determined compensation under the service contracts.

In relation to future appointments of executive directors, the Committee's and board's policy will remain one of restricting notice periods to 12 months.

Details of individual directors' remuneration and share options are set out on pages 22 and 23 of this Report. The main components of the remuneration for executive directors are:

### Basic Salary

The Group's policy is that basic salaries for executive directors' should take into account the individual's role and responsibilities, performance and experience. For an executive director who is experienced and fully effective in his role, basic salary is targeted at the retail market median for comparable roles.

### Annual bonus

Executive directors are eligible to receive an annual performance bonus up to a maximum of 50% of their annual basic salaries at the time the bonus scheme is announced. The amount of bonus is based on the

## Directors' Remuneration Report (continued)

achievement of profit targets specified and agreed at the beginning of the year. The performance targets for bonus entitlements are intended by the Remuneration Committee to create keen incentives to perform at the highest levels.

### Share Option Schemes

On 14th March 2005 the Group adopted an EMI Scheme under which the Group employees (including executive directors) are eligible for the grant of options to acquire ordinary shares in the Group. Further details are in note 19.

### Performance Share Plan

A key element of the Group's retention and reward strategy is to encourage employee share ownership and facilitate the retention of key staff and talent. The Group operates a Performance Share Plan (PSP) to provide additional share awards to certain employees to reward and motivate existing staff and attract key new hires. The PSP will allow participants to acquire shares subject to and to the extent that performance conditions are satisfied. Awards in the period are detailed in note 19.

### Other benefits

Executive directors are entitled to be provided with private healthcare insurance. Alexander Graham received a pension in the period.

### Non-executive Directors

The fees of the non-executive directors are determined by the executive members of the board and are based on market surveys.

The Group's practice is to appoint non-executive directors under letters of engagement rather than under service contracts. These letters of engagement set out fixed terms of appointment of three years, which may be extended with the agreement of the board.

### Executive Directors' Service Contracts

Details of the executive directors' service contracts are as follows:

	Date of service Agreement
Eileen Gallagher	18 February 2005
Brian Park	18 February 2005
Ann McManus	18 February 2005
Maureen Chadwick	18 February 2005
Jonathon Kemp	18 February 2005
Nicholas Powell	24 November 2005
Nicholas Southgate	24 November 2005
Chris Bonney	28 September 2006
Peter Casely-Hayford	19 September 2007
Alexander Graham	29 November 2007

The Group may terminate any of the above service contracts by giving not less than 12 months notice. Any compensation payable by the Group for early termination would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if a service contract were to be terminated by notice from any of the above directors or for lawful early termination by the Group.

## Directors' Remuneration Report (continued)

In concluding the service contracts, for the directors, the Group took into account the provisions of the Combined Code regarding notice periods for service contracts. In relation to future appointments of executive directors, the committee's and board's policy will remain one of restricting notice periods of termination service contracts to twelve months.

### Non-executive Directors Letters of appointment

The Group's practice for the appointment of non-executive directors is consistent with the provisions of the Combined Code. Non-executive directors are appointed under letters of engagement (rather than under service contracts).

Details of the non-executive directors' letters of engagement are as follows:

	Date of letter of engagement	Unexpired term at the date of this report
Katherine Innes Ker	18 March 2008	10 Months
David Kogan	18 March 2008	10 Months

Each letter of appointment is terminable by either party by giving not less than three months notice or by the Group on payment of fees in lieu of notice. No compensation would be payable to a non-executive director if his/her engagement were terminated as a result of him/her retiring by rotation at an Annual General Meeting, not being elected or re-elected at an Annual General Meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Group.

### Directors' Emoluments

	SALARIES /FEES £	BONUSES £	BENEFITS £	Total remuneration 16 months ended 31 December 2007 £	Total remuneration year ended 31 August 2006 £
<b>Executive Directors</b>					
Eileen Gallagher	213,250	50,000	415	<b>263,665</b>	200,397
Brian Park	213,250	50,000	777	<b>264,027</b>	200,589
Ann McManus	213,250	50,000	699	<b>263,949</b>	200,397
Maureen Chadwick	213,250	50,000	1,013	<b>264,263</b>	200,589
Jonathon Kemp	207,208	50,000	375	<b>257,583</b>	175,284
Nicholas Powell	213,250	50,000	1,192	<b>264,442</b>	163,325
Nicholas Southgate	239,563	50,000	1,192	<b>290,755</b>	163,213
Peter Casely-Hayford	33,750	–	132	<b>33,882</b>	–
Chris Bonney	159,879	–	2,088	<b>161,967</b>	–
Alexander Graham	11,158	–	178	<b>11,336</b>	–
<b>Non-executive Directors</b>					
Katherine Innes Ker	80,600	–	–	<b>80,600</b>	61,467
David Kogan	47,267	–	–	<b>47,267</b>	36,467
<b>Total</b>	<b>1,845,675</b>	<b>350,000</b>	<b>8,061</b>	<b>2,203,736</b>	<b>1,401,728</b>



## Directors' Remuneration Report (continued)

### Directors' Pensions Entitlements

The Group has made pension contributions to Nicholas Powell during the course of the period £nil (2006 £12,217) and Alexander Graham £257 (2006 £nil)

### Directors' interests in Shares and Share Options

	Shareholdings as at 31 December 2007	Shareholdings as at 31 August 2006
Ordinary shares of 0.1p		
Eileen Gallagher	6,125,000	6,125,000
Brian Park	6,125,000	6,125,000
Ann McManus	6,125,000	6,125,000
Maureen Chadwick	6,125,000	6,125,000
Jonathon Kemp	—	—
Nicholas Powell	10,973,266	7,437,708
Nicholas Southgate	3,279,251	2,479,236
Katherine Innes Ker	82,828	82,828
David Kogan	24,166	11,364
Alex Graham	6,363,459	—
Peter Casely Hayford	2,454,564	—
Christopher Bonney	162,162	—

The only director to hold share options at 31 December 2007 was Jonathon Kemp, the details are disclosed in the table below

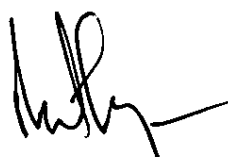
Date of grant	No of Shares	Vesting Date	Expiry Date	Exercise Price
18 March 2005	57,000	14/03/2005	14/03/2015	1p
18 March 2005	62,500	14/03/2007	14/03/2015	88p
18 March 2005	62,500	14/03/2008	14/03/2015	88p

During the period Jonathon Kemp and Nicholas Southgate held shares under the Performance Share Plan (PSP), the details are held below

Director	Date of grant	No of Shares	Date to be received
Jonathon Kemp	1 September 2005	114,679	31/08/2008
Jonathon Kemp	1 September 2006	90,580	31/08/2009
Jonathon Kemp	1 September 2007	147,541	31/08/2010
Nicholas Southgate	1 September 2007	180,328	31/08/2010

### Approval

This report was approved by the board of directors on 16 May 2008 and signed on its behalf by



David Kogan  
Chair – Remuneration Committee

## Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial period which provide a true and fair view of the state of affairs of the Company and the Group and the profit and loss of the Group in that period. In preparing those statements the directors are required to

- Select appropriate accounting policies and apply them consistently
- Make judgements and estimates which are prudent and reasonable, and
- State whether applicable accounting standards have been followed subject to any material departure disclosed and explained in the financial statements and to disclose and prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors confirm that the financial statements on pages 27 to 57 comply with all the above requirements

The directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which allow them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They also have a general responsibility in law for taking such suitable measures as are available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the AIM Rules of the Financial Services Authority.

The maintenance and integrity of the Group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent Auditor's Report to the Members of Shed Media Plc

We have audited the financial statements on pages 27 to 57

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

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, Chief Executive's statement, the Financial Review, the Directors' Report, the Corporate Governance Report and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 Auditor's Report to the Members of Shed Media Plc (continued)

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2007 and of the group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP  
Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London  
WC1B 3ST

16 May 2008

## Consolidated Profit and Loss Account for the period ended 31 December 2007

	Notes	Continuing 16 months ended 31 December 2007 £'000	Acquisitions 16 months ended 31 December 2007 £'000	Total 16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Turnover	1	56,248	6,860	63,108	43,487
Cost of sales		(35,481)	(4,181)	(39,662)	(30,520)
Gross profit		20,767	2,679	23,446	12,967
Other operating expenses (net)		(10,439)	(1,881)	(12,320)	(4,975)
Goodwill amortisation		(1,994)	(526)	(2,520)	(1,088)
Administrative expenses		(12,433)	(2,407)	(14,840)	(6,063)
Operating profit		8,334	272	8,606	6,904
Interest receivable and similar income	2			228	133
Interest payable and similar charges	3			(1,313)	(437)
Profit on ordinary activities before taxation	4			7,521	6,600
Taxation	6			(3,231)	(2,310)
Retained profit for the period/year				<u>4,290</u>	<u>4,290</u>
Basic earnings per ordinary share	9			<u>6.49p</u>	<u>7.44p</u>
Diluted earnings per ordinary share	9			<u>6.42p</u>	<u>7.37p</u>

No statement of recognised gains and losses has been prepared as all such gains and losses have been dealt with in the profit and loss account

## Consolidated Balance Sheet 31 December 2007

	Notes	31 December 2007 £'000	31 August 2006 £'000
Fixed Assets			
Goodwill	10	68,804	27,940
Tangible Assets	11	12,383	5,789
		<u>81,187</u>	<u>33,729</u>
Current Assets			
Stock and work in progress	13	–	203
Debtors	14	18,186	9,222
Cash at bank and in hand		6,559	6,631
Total Current Assets		<u>24,745</u>	<u>16,056</u>
Creditors amounts falling due within one year	15	(27,711)	(21,160)
Net Current Liabilities		<u>(2,966)</u>	<u>(5,104)</u>
Total assets less current liabilities		<u>78,221</u>	<u>28,625</u>
Creditors amounts falling due after more than one year	16	(26,400)	–
Provisions for liabilities	17	(6,982)	(5,323)
Net assets		<u>44,839</u>	<u>23,302</u>
Capital and reserves			
Called up share capital	19	79	60
Share premium	21	28,241	9,990
Share option reserves	20	453	213
Own shares held in trust	20	(450)	–
Profit and loss account	22	16,516	13,039
Equity shareholders' funds		<u>44,839</u>	<u>23,302</u>

The accounts were approved by the Board of Directors and authorised for issue on 16 May 2008 and signed on its behalf by



Eileen Gallagher  
Chief Executive



Jonathon Kemp  
Financial and Commercial Director

## Company Balance Sheet 31 December 2007

	Notes	31 December 2007 £'000	31 August 2006 £'000
<b>Fixed Assets</b>			
Tangible Assets	11	995	701
Investments	12	78,730	30,604
		<u>79,725</u>	<u>31,305</u>
<b>Current Assets</b>			
Debtors	14	5,568	4,796
Cash at bank and in hand		697	–
<b>Total Current Assets</b>		<u>6,265</u>	<u>4,796</u>
<b>Creditors amounts falling due within one year</b>	15	(16,091)	(13,544)
<b>Net Current Liabilities</b>		<u>(9,826)</u>	<u>(8,748)</u>
<b>Total Assets less Current Liabilities</b>		<u>69,899</u>	<u>22,557</u>
<b>Creditors amounts falling due after one year</b>	16	(26,400)	–
<b>Provisions for liabilities</b>	17	(6,891)	(5,000)
<b>Net Assets</b>		<u>36,608</u>	<u>17,557</u>
<b>Capital and reserves</b>			
Called up share capital	19	79	60
Share premium	21	28,241	9,990
Share option reserve	20	453	213
Own shares held in trust	20	(450)	–
Profit and loss account	22	8,285	7,294
<b>Equity shareholders' funds</b>		<u>36,608</u>	<u>17,557</u>

The accounts were approved by the Board of Directors and authorised for issue on 16 May 2008 and signed on its behalf by



Eileen Gallagher  
Chief Executive



Jonathon Kemp  
Financial and Commercial Director

## Consolidated Cash Flow Statement for the period ended 31 December 2007

	Notes	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Net Cash Inflow from Operating Activities	I	6,500	10,369
Returns on investment and servicing of finance			
Interest received		228	133
Interest paid		(1,313)	(437)
Net Cash Outflow from returns on investment and servicing of finance		(1,085)	(304)
Taxation		(2,141)	(4,390)
Capital Expenditure			
Payments to acquire film assets		(3,461)	(3,124)
Payments to acquire tangible fixed assets		(4,317)	(28)
Sales from proceeds of fixed assets		6	-
Net Cash Outflow from capital expenditure and financial investments		(7,772)	(3,152)
Acquisition			
Purchase of subsidiary undertaking		(30,523)	(7,500)
Expenses to acquire subsidiary undertaking		(930)	(603)
Cash held by subsidiary undertaking on acquisition		2,369	6,248
Net Cash Outflow for acquisition		(29,084)	(1,855)
Equity Dividends Paid		(813)	(649)
Net Cash (Outflow) / Inflow before use of liquid resources and financing		(34,395)	19
Financing			
New borrowings		34,773	1,000
Purchase of own shares		(450)	-
Net Cash Inflow from financing		34,323	1,000
(Decrease)/Increase in cash in the period/year		(72)	1,019



## Notes to the Consolidated Cash Flow Statement for the period ended 31 December 2007

### I. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating Profit	8,606	6,904
Depreciation charge	3,056	1,979
Goodwill amortisation	2,520	1,088
Loss on disposal	18	—
Share option charge	240	163
Decrease in stocks	203	1,314
Increase in debtors	(2,971)	(1,795)
(Decrease)/increase in creditors	(5,172)	716
Net Cash inflow from operating activities	6,500	10,369

### II Analysis of movement in the Group's net funds in the period

	At 1 September 2006 £'000	Cash flow £'000	Acquisitions £'000	At 31 December 2007 £'000
Cash at bank and in hand	6,631	(2,441)	2,369	6,559
Bank loans	(1,000)	(34,773)	(1,306)	(37,079)
	5,631	(37,214)	1,063	(30,520)

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

	2007 £'000	2006 £'000
(Decrease)/increase in cash in the period	(72)	1,019
Cash (inflow) from increase in debt and lease financing	(36,079)	(1,000)
Change in net funds resulting from cash flows	(36,151)	19
Net Funds at 1 September 2006	5,631	5,612
Net Debt at 31 December 2007	(30,520)	5,631

### IV. Non Cash Movements

On 25 September 2006 the Group increased issued share capital as part of the acquisition of Outright Distribution Limited see note 28. On 19 September 2007 the Group issued share capital and £2m in loan notes as part of the acquisition of Twenty Twenty Productions Limited see note 28. On 29 November 2007 the Group issued Share Capital and £2.1m in loan notes for the acquisition of Wall to Wall Holdings Limited see note 28.

## Accounting policies

The principal accounting policies, which have been consistently applied in the Group's financial information throughout the period under review, are as follows

### Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom

### Basis of consolidation

The consolidated financial information incorporates the financial information relating to Shed Media Plc and its subsidiary undertakings made up to 31 December 2007

### Development Expenditure

Development expenditure has been written off as incurred, unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the development expenditure is deferred

### Tangible fixed assets

Tangible fixed assets are stated at historical cost

For programme assets, depreciation is provided in accordance with the income forecast method whereby depreciation is taken to the profit and loss account on a pro rata basis calculated as the income received in the accounting period in relation to the expected revenue over the life of the programme

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows –

- Fixtures, fittings & equipment 25% straight line
- Computer equipment 50% straight line

### Programme assets held under finance leases

Programme assets held under finance leases are treated as if they had been purchased outright at the present value of the rentals payable, less finance charges, over the primary period of the agreements. Any surplus generated from the excess of interest due from the sale proceeds held on deposit as compared with the interest payable under the lease agreement is recognised as profit in the period of initial contract, after accounting for related costs

### Operating Leases

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

### Going Concern

The Directors regularly review that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the Financial Statements. See corporate governance statement for additional information

### Investments

Fixed asset investments are stated at cost less any provision for diminution in value

## Accounting policies (continued)

### Stock and Work In Progress

Work in progress is stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the television productions to their present stage of completion.

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

### Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account for the year.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

### Turnover

Turnover represents amounts receivable for work carried out in producing television programmes and is recognised on the basis of the value of costs related to production activity. Turnover also includes sums receivable from the exploitation of programmes in which the Group owns rights. Gross profit on production activity is recognised based upon the stage of completion of the production and in accordance with the underlying contract.

For distribution income the amount recognised in the profit and loss account represents the value of the licence fees including withholding tax but excluding Value Added Tax.

Distribution income is recognised when

- An agreement is contracted
- The arrangement is fixed and determinable
- And for finished programme sales when the programme is delivered

### Goodwill

The goodwill arising on acquisitions has been capitalised and amortised on a straight line basis over 20 years from the date of acquisition. The amortisation period is considered by the directors to be a reasonable estimate of useful economic life. Goodwill is based on the difference between the fair value of the consideration including all costs relating to the acquisition and the net assets of the acquired entity (after fair value adjustments).

## Accounting policies (continued)

### Deferred Consideration

Where the deferred consideration is dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. This contingent deferred consideration is re-assessed annually and a corresponding adjustment is made to goodwill arising on acquisition. The difference between the present value and the total amount payable at a future date gives rise to a finance charge which is charged to the profit and loss account and credited to the liability over the period in which the consideration is deferred.

### Deferred financing Costs

Bank arrangement fees and associated legal costs are amortised over the term of the debt facility.

### Share-Based Payment

The Group has adopted Financial Reporting Standard 20 (FRS20) Share-based payments in the current year. FRS20 requires the recognition of a charge for share-based payment transactions which include, for example, share options granted to employees that require a certain length of service before vesting.

Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

There was not a material difference between the prior year charge under UITF 17 and the current year charge and consequently no prior year adjustments have been made.

## Notes to the Financial Statements for the period ended 31 December 2007

### 1. Turnover and Profit on Ordinary activities before Taxation

The Group's turnover, gross profit before taxation and net assets are derived from its principal activity being the provision of television and film production services and the exploitation of the rights to those productions

Sales were made in the following geographical markets

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
United Kingdom	36,706	30,734
USA	16,209	8,063
Rest of world	10,193	4,690
	<b>63,108</b>	<b>43,487</b>

Profit before tax was made in the following geographical markets

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
United Kingdom	3,009	2,986
USA	2,232	440
Rest of world	2,280	3,174
	<b>7,521</b>	<b>6,600</b>

Net Assets can split into the following geographical markets

	31 December 2007 £'000	31 August 2006 £'000
United Kingdom	44,385	23,246
USA	454	56
	<b>44,839</b>	<b>23,302</b>

### 2. Interest receivable and similar income

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Bank interest receivable	228	133

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 3. Interest payable and similar charges

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Loan arrangement fees	85	–
Loan interest	1,228	437
	<b>1,313</b>	<b>437</b>

### 4. Profit on ordinary activities before taxation

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Profit on ordinary activities before taxation is arrived at after charging/(crediting)		
Operating lease rentals		
– property rents	719	237
Depreciation of tangible fixed assets		
– owned assets	2,925	1,979
– production assets under finance leases	131	–
National insurance rebate	(165)	–
Auditors' remuneration		
– statutory audit of parent and consolidated accounts	69	64
– statutory audit of subsidiary companies	115	33
– other services (see below)	112	52
Exchange rate losses	67	226
Goodwill amortisation	2,520	1,088

Additional fees were paid to Baker Tilly Corporate Finance LLP in respect of Group acquisitions totalling £239,000 (2006 £75,000)

#### Non audit services

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Taxation services	92	20
Other services	20	32
	<b>112</b>	<b>52</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 5. Employee Costs

The aggregated remuneration of all employees including directors comprised

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Wages and salaries	17,194	9,123
Social security costs	2,032	484
Share based payments	240	213
	<b>19,466</b>	<b>9,820</b>

Average number of persons employed by the Group during the period

	Number	Number
Management and administration	142	118
Technical	274	133
Sales	5	-
	<b>421</b>	<b>251</b>

There was an average of 178 self employed production people during the year (2006 140) Self employed production people were paid a total of £4,888,547 (2006 £4,797,446)

### Directors' Emoluments

	Salaries/ Fees £	Bonuses £	Benefits £	Total remuneration 16 months ended 31 December 2007 £	Total remuneration year ended 31 August 2006 £
<b>Directors Total</b>					
Eileen Gallagher	213,250	50,000	415	<b>263,665</b>	200,397
Brian Park	213,250	50,000	777	<b>264,027</b>	200,589
Ann McManus	213,250	50,000	699	<b>263,949</b>	200,397
Maureen Chadwick	213,250	50,000	1,013	<b>264,263</b>	200,589
Jonathon Kemp	207,208	50,000	375	<b>257,583</b>	175,284
Nicholas Powell	213,250	50,000	1,192	<b>264,442</b>	163,325
Nicholas Southgate	239,563	50,000	1,192	<b>290,755</b>	163,213
Peter Casely-Hayford	33,750	-	132	<b>33,882</b>	-
Chris Bonney	159,879	-	2,088	<b>161,967</b>	-
Alexander Graham	11,158	-	178	<b>11,336</b>	-
<b>Non-executive Directors</b>					
Katherine Innes Ker	80,600	-	-	<b>80,600</b>	61,467
David Kogan	47,267	-	-	<b>47,267</b>	36,467
<b>Total</b>	<b>1,845,675</b>	<b>350,000</b>	<b>8,061</b>	<b>2,203,736</b>	<b>1,401,728</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### Directors' Pensions Entitlements

The Group has made pension contributions to Nicholas Powell during the course of the period £nil (2006 £12,217) and Alexander Graham £257 (2006 £nil)

### 6. Taxation

	Notes	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Current taxation			
UK corporation tax charge for the period		3,002	2,250
Adjustment in respect of prior periods		(707)	(6)
Total current tax		2,295	2,244
Deferred tax	17	936	66
<b>Total tax</b>		<b>3,231</b>	<b>2,310</b>

The current tax charge is reconciled with the standard rate of UK corporation tax as follows

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Profit on ordinary activities before taxation	7,521	6,600
UK corporation tax at standard rate of 30%	2,256	1,980
<b>Factors affecting the charge for the period</b>		
Expenses not deductible for tax purposes	30	-
Capital allowances in excess of depreciation	65	(116)
Tax losses utilised	(334)	-
Goodwill on consolidation not deductible	777	-
Timing differences re film assets	56	-
Other disallowable expense	-	358
Adjustments to tax charge in respect of previous periods	(707)	(6)
Share based payments	62	-
Higher rate of tax on overseas income	76	-
Other tax adjustments	14	28
<b>Current tax charge for period</b>	<b>2,295</b>	<b>2,244</b>

### 7. Profit of the holding Company

The parent company's profit after tax for the period to 31 December 2007 amounted to £1,804,000 (2006 £2,225,000). The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone



## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 8. Dividends Group

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Final Proposed Dividend at 31 August 2006 and 31 August 2005 – 1p per ordinary share (2006 1p)	650	500
Interim Dividend – 0.25p per ordinary share (2006 0.25p)	163	149
<b>Equity Dividends paid in the year</b>	<b>813</b>	<b>649</b>

The final dividend proposed at 31 August 2006 totalling £650,000 was paid to shareholders registered at the close of business on 12 January 2007 on 9 February 2007

The interim dividend proposed on 28 February 2007 totalling £163,000 was paid on 5 July 2007 to shareholders registered at the close of business on 8 June 2007

The final dividend of 11p per ordinary share proposed at 31 December 2007 is payable to shareholders on 18 July 2008 registered at the close of business on 20 June 2008

### 9. Earnings per ordinary share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares has been adjusted for the issue of shares during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion for all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Group's ordinary shares, determined in accordance with the provisions of FRS 22

	16 months ended 31 December 2007 No of shares	Year ended 31 August 2006 No of shares
Weighted average number of shares in issue	66,092,144	57,634,688
Weighted average number of dilutive shares – share options	735,300	516,910
<b>Total number of shares for calculating diluted earnings per share</b>	<b>66,827,444</b>	<b>58,151,598</b>

The alternative measure of earnings per share is provided because it reflects the Group's underlying trading performance by excluding the effect of goodwill amortisation and share scheme amortisation

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Basic and diluted earnings	4,290	4,290
Goodwill amortisation	2,520	1,088
Share option charge	240	163
Underlying earnings before goodwill and share option charge	7,050	5,541

Earnings per share is calculated as follows

	16 months ended 31 December 2007 p	Year ended 31 August 2006 p
Basic earnings per ordinary share	6.49	7.44
Diluted earnings per ordinary share	6.42	7.37
Basic earnings per ordinary share before goodwill and share option charges	10.67	9.61
Diluted earnings per ordinary share before goodwill and share option charges	10.56	9.53

### 10. Goodwill – Group

	Notes	£'000
Cost		
Cost at 1 September 2006		29,028
Additions	28	43,384
At 31 December 2007		72,412
Amortisation		
Amortisation at 1 September 2006		1,088
Amortisation Charge in Period		2,520
At 31 December 2007		3,608
At 31 December 2007		68,804
At 31 August 2006		27,940

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 11. Tangible Fixed Assets – Group

	Programme Assets £'000	Fixtures, Fittings and Equipment £'000	Total £'000
<b>Cost</b>			
At 1 September 2006	12,064	974	13,038
Arising on Acquisitions	1,462	601	2,063
Additions	6,159	1,452	7,611
Disposals	–	(128)	(128)
<b>At 31 December 2007</b>	<b>19,685</b>	<b>2,899</b>	<b>22,584</b>
<b>Depreciation</b>			
At 1 September 2006	6,954	295	7,249
Depreciation for the period	2,315	741	3,056
On Disposals	–	(104)	(104)
<b>At 31 December 2007</b>	<b>9,269</b>	<b>932</b>	<b>10,201</b>
<b>Net book value at 31 December 2007</b>	<b>10,416</b>	<b>1,967</b>	<b>12,383</b>
<b>Net book value at 31 August 2006</b>	<b>5,110</b>	<b>679</b>	<b>5,789</b>

The above programme asset titles include 232 drama hours and 457 factual hours of programming

Programmes with a net book value of £313,535 (2006 £651,739) are held under finance leases. The related depreciation charge for the period in respect of these assets is £338,204 (2006 £302,868)

### 11. Tangible Fixed Assets – Company

	Programme Assets £'000	Fixtures, Fittings and Equipment £'000	Total £'000
<b>Cost</b>			
At 1 September 2006	788	99	887
Transfer from subsidiaries	50	–	50
Additions	–	489	489
<b>At 31 December 2007</b>	<b>838</b>	<b>588</b>	<b>1,426</b>
<b>Depreciation</b>			
At 1 September 2006	123	63	186
Depreciation for the period	126	119	245
<b>At 31 December 2007</b>	<b>249</b>	<b>182</b>	<b>431</b>
<b>Net book value at 31 December 2007</b>	<b>589</b>	<b>406</b>	<b>995</b>
<b>Net book value at 31 August 2006</b>	<b>665</b>	<b>36</b>	<b>701</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 12. Fixed Asset Investments – Company

	Notes	£'000
Shares in Group undertakings		
Cost		
At 1 September 2006		30,604
Additions	28	48,126
At 31 December 2007		78,730

#### Principal Subsidiaries

The investments in subsidiary undertakings as at 31 December 2007 are as follows

Name	Principal Activity	% Ownership ordinary shares
Shed Productions Limited*	Television Production	100
Shed Productions (Jailbirds) Limited*	Television Production	100
Shed Productions (ET) Limited*	Television Production	100
Shed Productions (WR) Limited*	Television Production	100
Shed Productions (DH) Limited*	Television Production	100
Shed Productions (Bad Girls) Limited*	Television Production	100
Shed Productions (FW) Limited*	Television Production	100
Shed Productions (FW2) Limited*	Television Production	100
Shed Productions (FW4) Limited*	Television Production	100
Ricochet Limited*	Television Production	100
Ricochet Productions Limited* <sup>△</sup>	Television Production	100
Ricochet Digital Limited* <sup>△</sup>	Television Production	100
Supernanny USA Inc ** <sup>△</sup>	Television Production	100
Ricochet Television Inc ** <sup>△</sup>	Television Production	100
Off the Grid Limited* <sup>△</sup>	Television Production	100
Mamo Inc** <sup>△</sup>	Television Production	100
TBTW Inc** <sup>△</sup>	Television Production	100
Supernanny Web Limited* <sup>△</sup>	Television Production	100
Alaska Experiment Inc** <sup>△</sup>	Television Production	100
Twenty Twenty Productions Ltd*	Television Production	100
Twenty Twenty Brighton Ltd* <sup>△</sup>	Television Production	100
Outright Distributions Ltd*	Distribution	100
Wall to Wall (Holdings) Ltd*	Television Production	100
Wall to Wall Television Ltd* <sup>△</sup>	Television Production	100
Wall to Wall Media Ltd* <sup>△</sup>	Television Production	100
Spring Place Services Ltd* <sup>△</sup>	Television Production	100
Wall to Wall (New Tricks) Limited* <sup>△</sup>	Television Production	100
Wall to Wall Inc** <sup>△</sup>	Television Production	100
George IV Inc** <sup>△</sup>	Television Production	100
Wall to Wall (Egypt) Ltd* <sup>△</sup>	Television Production	100
Wall to Wall Drama Ltd* <sup>△</sup>	Television Production	100

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 12. Fixed Asset Investments – Company (continued)

Joint Ventures/ Associates

The investments in Joint Ventures/Associates as at 31 December 2007 are as follows

Name	Principal Activity	% Ownership ordinary shares
All Banged Up Limited*	Non trading	50
Bad Girls London Ltd*	Non trading	50
Fightbox Limited* <sup>Δ</sup>	Television Production	50
Brand Events History* <sup>Δ</sup>	Television Production	22.5

\* Registered in England and Wales

Δ Indirectly Owned

\*\* Registered in United States of America

The Joint Ventures/Associates are not material to the Group for disclosure purposes

### 13. Stocks and work in progress – Group

	31 December 2007 £'000	31 August 2006 £'000
Work in Progress	–	203
	–	203

### 14. Debtors

	Notes	Group		Company	
		31 December 2007 £'000	31 August 2006 £'000	31 December 2007 £'000	31 August 2006 £'000
Trade debtors		6,974	5,632	132	261
Amounts owed to Group undertakings		–	–	3,820	2,621
Other debtors		1,976	767	946	572
Prepayments and accrued income		9,236	2,747	670	1,137
Deferred tax asset	17	–	76	–	70
		<b>18,186</b>	<b>9,222</b>	<b>5,568</b>	<b>4,796</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 15. Creditors amounts falling due within one year

	Group		Company	
	31 December 2007 £'000	31 August 2006 £'000	31 December 2007 £'000	31 August 2006 £'000
Loans (note 18)	10,679	1,000	5,190	1,000
Loan notes	4,010	7,500	4,010	7,500
Bank overdrafts	–	–	–	45
Payments received on account	310	5,700	–	–
Trade creditors	2,499	432	98	49
Amounts due to Group Undertakings	–	–	5,672	3,879
Corporation tax	370	401	(27)	–
Other taxation and social security	858	1,280	79	280
Other creditors	136	690	315	1
Accruals and deferred Income	8,849	4,157	754	790
	<b>27,711</b>	<b>21,160</b>	<b>16,091</b>	<b>13,544</b>

### 16. Creditors amounts falling due after one year

	Group		Company	
	31 December 2007 £'000	31 August 2006 £'000	31 December 2007 £'000	31 August 2006 £'000
Loans (note 18)	26,400	–	26,400	–
	<b>26,400</b>	<b>–</b>	<b>26,400</b>	<b>–</b>

### 17. Provisions for liabilities

	Deferred Consideration £'000	Group Deferred Taxation £'000	Total £'000
Opening position at 1 September 2006	5,000	323	5,323
Utilised in the year	(5,000)	–	(5,000)
Acquisitions	6,885	(1,086)	5,723
Transfer to profit and loss account	–	860	936
<b>Balance at 31 December 2007</b>	<b>6,885</b>	<b>97</b>	<b>6,982</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 17. Provisions for liabilities (continued)

	Deferred Consideration £'000	Company Deferred Taxation £'000	Total £'000
Opening position at 1 September 2006	5,000	–	5,000
Utilised in the year	(5,000)	–	(5,000)
Acquisitions	6,885	–	6,885
Transfer to profit and loss account	–	6	6
<b>Balance at 31 December 2007</b>	<b>6,885</b>	<b>6</b>	<b>6,891</b>

Provision for deferred tax has been made as follows

		Group		Company	
	Notes	31 December 2007 £'000	31 August 2006 £'000	31 December 2007 £'000	31 August 2006 £'000
Accelerated capital allowances		41	340	–	(3)
Other timing differences		11	(93)	–	(67)
Tax losses carried forward		(924)	–	–	–
Film Asset		969	–	–	–
		<b>97</b>	<b>247</b>	<b>–</b>	<b>(70)</b>
Net provision at start of period		247	–	(70)	–
Acquisitions		(1,086)	181	–	–
Net deferred tax charge in profit and loss account for the period	6	936	66	76	(70)
Net provision at end of period		<b>97</b>	<b>247</b>	<b>6</b>	<b>(70)</b>
Disclosed within debtors	14	–	76	–	70
Gross Provision as above		97	323	6	–

#### Deferred Consideration – Group and Company

	31 December 2007 £'000	31 August 2006 £'000
Within one year	3,356	5,000
Between one and two years	3,529	–
	<b>6,885</b>	<b>474</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 18. Financial Instruments

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

Although the majority of transactions the Group undertakes are with UK broadcasters, UK Suppliers and UK distributors in UK Sterling, the Group does have a satellite office in the United States of America and enters into contractual arrangements with American broadcasters. Contractual arrangements are also from time to time made in US dollars by the UK entities within the Group. In certain circumstances some purchasing takes place with overseas suppliers who bill in local currency.

Where exchange risk is perceived the Group considers its exposure and uses financial instruments to reduce this risk. At 31 December 2007 the Group did not have any financial instruments in place.

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

#### a) Financial Assets

	31 December 2007 £'000	31 August 2006 £'000
Cash at bank in hand – variable rate of interest	6,559	6,631
Interest accrues at the bank's overnight rate		

#### b) Financial Liabilities

	31 December 2007 £'000	31 August 2006 £'000
Loans (variable rate)	31,590	1,000
Production Loans (variable rate)	5,489	–
Loan Notes (fixed rate)	4,010	7,500

#### c) Currency exposures

The Group reviews currency risk and considers hedging when occasionally entering into large foreign currency contracts to eliminate the cost. At the year end there were no foreign exchange hedges (2006 Nil).

The Group had one bank account denominated in a currency other than the Group reporting currency. At 31 December 2007 the US dollar balance translated to £873,240 (2006 £nil).



## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 18. Financial Instruments (continued)

#### d) Borrowing Facilities

The Group has borrowing facilities available at 31 December 2007 of £32m which was fully drawn down at the balance sheet date (2006 £4.5m). The loan is at a variable rate of 1.75% over LIBOR. On the 8 January 2008 a hedge was in place to fix the rate at 6.75% while the production loans have an average interest rate of 7.15%. The loan notes are at a fixed rate of 5.25%.

At 31 August 2006 there was a banking facility of £4m of which £1m was drawn at the balance sheet date. This had a variable rate with an average interest rate of 6% and 3 average months to maturity.

	Average interest rate (%) of floating rate financial liabilities	Average interest rate (%) of fixed rate financial liabilities	Average months to maturity of fixed liabilities
Sterling	6.75	5.25	35
Loans payable within one year			
	At 31 December 2007 £'000	At 31 August 2007 £'000	
Loans – payable within one year	5,190	1,000	
Productions Loans	5,489	–	
Total	10,679	1,000	
Loans payable after one year			
	At 31 December 2007 £'000	At 31 August 2007 £'000	
Loans – payable 2–5 years	26,400	–	
Total	26,400	–	

The long term loan is secured against the net assets of the main operating companies in the Group while the short term production loans are secured against the production income contracted from the broadcaster.

#### e) Fair values of financial assets and liabilities

The fair value of the Group's financial assets and liabilities is not considered to be materially different from their book values.

#### f) Liquidity Risk

The Group reviews its cash position on a monthly basis and ensures it has sufficient access to cash for its operational needs. The repayment of the loan notes, £4m (2006 £7.5m) will be financed by cash resources.

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 19. Share Capital – Group and Company

	31 December 2007 £'000	31 August 2006 £'000
Authorised		
80,000,000 ordinary shares at 0.1 pence each	80	80
Allotted issued and fully paid		
78,970,292 (2006 59,916,944) ordinary shares at 0.1 pence each	79	60

On the 25 September 2006 the issued share capital was increased with the issue of 772,200 ordinary shares of 0.1p each to fund the acquisition of Outright Limited

On 31 October 2006 the issued share capital was increased from 59,916,944 to 64,252,514 through the issue of 4,335,570 ordinary shares of 0.1p each. This was to fund the earn – out on the acquisition of Ricochet Limited

The issued share capital was further increased on the 19 September 2007 by 5,033,168 ordinary shares of 0.1p each to fund the acquisition of Twenty Twenty Productions Ltd

On the 29 November 2007 the issued share capital was increased to 78,970,292 with the issue of 8,912,410 ordinary shares of 0.1p each to fund the acquisition of Wall to Wall Holdings Ltd

#### Share Options

At 31 December 2007 the following options had been granted through the EMI Share Option Scheme

At 31 August 2006 options over ordinary shares of 0.1p each	Granted in the period options over ordinary shares of 0.1p each	At 31 December 2007 options over ordinary shares of 0.1p each	Date from which exercisable	Expiry date	Exercise Price
57,000	–	57,000	14/03/05	14/03/15	0.1p
179,959	–	179,959	14/03/07	14/03/15	88p
179,959	–	179,959	14/03/08	14/03/15	88p
47,874	–	47,874	01/05/05	01/05/15	0.1p
25,000	–	25,000	25/11/07	25/11/15	88p
25,000	–	25,000	25/11/08	25/11/15	88p
28,500	–	28,500	25/05/08	25/05/15	125.5p
28,500	–	28,500	25/05/09	25/05/16	125.5p
185,000	–	185,000	25/11/07	25/11/16	107p
–	60,250	60,250	28/12/08	28/12/17	155p
–	60,250	60,250	28/12/09	28/12/18	155p
<b>756,792</b>	<b>120,500</b>	<b>877,292</b>			

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

At 31 December 2007 the following shares were granted through the Performance Share Plan (PSP)

Date of grant	No of Shares	Date to be received
1 September 2005	255,046	31/08/2008
1 September 2006	201,450	31/08/2009
1 September 2007	495,082	31/08/2010

The share price at 31 December 2007 was 82p and the highest and the lowest share prices during the period ended 31 December 2007 were 81 5p and 138p respectively

### 20. Other Reserves

#### a) Share Option Reserve - Group and Company

	31 December 2007 £'000
At 1 September 2006	213
Charge in period	240
At 31 December 2007	453

The balance held in Share Option reserves, both within the Group and the Company relates to payments due for the above share schemes as per FRS20 – Share Based Payments

The charge for the year was calculated using the Black-Scholes option pricing model using the following inputs

	31 December 2007
Expected volatility	23.9%
Expected Life (years)	5
Risk Free Rate	5.4%

Expected volatility was determined by calculating the historical volatility of the Group's share price from listing on 29 March 2005 to 28 February 2008. The expected life used on the model is based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations

A risk free rate of 5.4 per cent has been used for both years, which reflects the interest rate that it is assumed can be obtained by investing in financial instruments with no default risk

No share options were exercised during the year

#### Own shares held in trust

On 17 August 2007 the Group purchased £450,000 of its own shares. This equated to 456,496 shares with a purchase value of 98 5p

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 21. Share Premium – Group and Company

	31 December 2007 £'000
At 1 September 2006	9,990
Premium on allotment during the period	18,251
<b>At 31 December 2007</b>	<b>28,241</b>

### 22 Profit and loss account – Group

	31 December 2007 £'000
1 September 2006	13,039
Profit for period	4,290
Equity dividends paid (note 8)	(813)
<b>31 December 2007</b>	<b>16,516</b>

### 22. Profit and loss account – Company

	31 December 2007 £'000
1 September 2006	7,294
Profit for period	1,804
Equity dividends paid (note 8)	(813)
<b>31 December 2007</b>	<b>8,285</b>

### 23. Reconciliation in Movement of Shareholders' Funds

	Group		Company	
	31 December 2007 £'000	31 August 2006 £'000	31 December 2007 £'000	31 August 2006 £'000
Profit for the Period/Year	4,290	4,290	1,804	2,225
Equity Dividends Paid	(813)	(649)	(813)	(649)
	3,477	3,641	991	1,576
New share capital subscribed	18,270	10,000	18,270	10,000
Share Option Reserves	240	163	240	163
Own shares held in trust	(450)	–	(450)	–
Net increase in shareholders' funds	21,537	13,804	19,051	11,739
Opening shareholders' funds	23,302	9,498	17,557	5,818
<b>Closing shareholders' funds</b>	<b>44,839</b>	<b>23,302</b>	<b>36,608</b>	<b>17,557</b>

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 24. Commitments under operating leases

The Group was committed to making the following payments during the next year under non-cancellable operating leases as follows

	31 December 2007 £'000	31 August 2006 £'000
Land and buildings		
Expiring in the first year	76	33
Expiring between two and five years	567	210
Expiring after five years	82	231
	725	474

### 25 Capital Commitments

At each year-end the Group was committed to making the following capital payments during the next year in respect of operating leases

	16 months ended 31 December 2007 £'000	Year ended 31 August 2006 £'000
Land and buildings	–	305

### 26. Related Party Disclosures

The Group has taken advantage of the exemption in FRS 8 – Related Party Transactions not to disclose transactions between Group companies

At the year end the Group owed Peter Casely-Hayford £78,749 (2006 £nil) relating to additional consideration on the acquisition of Twenty Twenty. This was paid on 21 January 2008. The Group also owed Alexander Graham £815,973 (2006 £nil) due to additional consideration relating to an acquired tax asset on the Wall to Wall acquisition. This will be paid as the tax asset is utilised.

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 27 Substantial transactions

The Group has entered into various sale and leaseback transactions on the television programmes "Bad Girls" series 2,3 and 4 and "Footballers Wives" series 1 and 2. Amounts are held on deposit accounts as a result of these transactions and comprise money to provide for the discharge of future leasing liabilities. The banks with which these sums are deposited have given guarantees to the lessors in respect of lease liabilities. A liability would only crystallise upon the failure of the bank holding the deposit. This is considered remote and therefore these balances have not been included within the Group's balance sheet. The amounts involved are as follows:

	31 December 2007 £'000	31 August 2006 £'000
Amounts held on deposit	20,207	13,019
Less: loans outstanding	(20,207)	(13,019)
	-	-
The maturity of the above amount is as follows:		
Less than one year	2,210	1,199
Two to five years	9,621	5,428
Over five years	8,376	6,392
	20,207	13,019

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 28. Acquisitions

#### Outright Distribution Limited

On 25 September 2006 the Group acquired the issued share capital of Outright Distribution Limited for initial consideration of £2.0 million satisfied by £1.0 million in cash and £1.0 million through the issue of 772,200 new ordinary shares at 129.5 pence per share, representing 13% of the enlarged issued share capital of the Group. The cash element of the consideration was funded from the Group's existing cash resources.

In addition, subject to certain performance criteria for the period to 30 June 2008, additional consideration of up to £10 million will be payable in new ordinary shares and cash. This has been provided for within provisions for liabilities. The total maximum consideration is therefore £3.0 million.

On 18 January 2007 Screentime Partners Limited was renamed Outright Distribution Limited.

This acquisition has been incorporated into the Group's balance sheet at the fair value at the date of acquisition.

#### Assets and liabilities acquired

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Tangible fixed assets	4	–	4
Debtors	885	(143)	742
Cash at bank and in hand	195	–	195
Creditors	(1,177)	–	(1,177)
Net liabilities acquired	(93)	(143)	(236)
Goodwill capitalised			3,316
Total cost of acquisition			3,080
<i>Comprising</i>			
Cash			1,000
Shares allotted			1,000
Deferred consideration – cash and shares to be allotted			1,000
Costs			80
Total			3,080

#### Effect of acquisitions on Cash flow

	16 months ended 31 December 2007 £'000
Net Cash Inflow from Operating Activities	349
Taxation	(47)
Net Cash Outflow from capital expenditure	(220)
Net Cash Inflow before use of liquid resources and financing	82
Increase in cash	82

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 28. Acquisitions (continued)

#### Additional statutory information

Loss after tax for the period between 1 July 2006 to 25 September 2006 was £218,482 and for the year ending 30 June 2006 £75,874

#### Twenty Twenty Productions Limited

On 19 September 2007 the Group acquired the issued share capital of Twenty Twenty Productions Limited for initial consideration of £18.0 million satisfied by £11.4 million in cash and £4.6 million through the issue of 5,033,165 new ordinary shares at 91.5 pence per share, representing 6.3% of the enlarged issued share capital of the Group, and £1.89 million in Loan Notes

In addition, subject to certain performance criteria for the period to 31 December 2008, additional consideration of up to £13 million will be payable in ordinary shares and loan notes. This has been provided for within provisions for liabilities. The total maximum consideration is therefore £19.3 million

This acquisition has been incorporated into the Group's balance sheet at the fair value at the date of acquisition

#### Assets and liabilities acquired

	Book Value £'000	Accounting Policy Alignment £'000	Fair Value £'000
Tangible fixed assets	50	369	419
Debtors	1,606	(284)	1,322
Cash at bank and in hand	814	–	814
Creditors	(1,323)	237	(1,086)
Net Assets acquired	1,147	322	1,469
Goodwill capitalised			18,036
Total cost of acquisition			19,505
<i>Comprising</i>			
Cash			11,444
Shares allotted			4,605
Loan Notes			1,890
Deferred consideration – Shares, loan notes and cash			1,214
Costs			352
Total			19,505



## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 28. Acquisitions (continued)

Effect of acquisitions on Cash flow

	16 months ended 31 December 2007 £'000
Net Cash Inflow from Operating Activities	407
Net Cash inflow from returns on investment and servicing of finance	16
Net Cash Outflow from capital expenditure	(70)
Net Cash Inflow before use of liquid resources and financing	353
Increase in cash	353

Additional statutory information

	Period 1 June 2007 to 30 September 2007 £'000	Year Ending 31 May 2007 £'000
Turnover	2,608	9,259
Operating Profit	459	1,493
Profit before Tax	491	1,527
Profit after Tax	344	1,094

#### Wall to Wall Holdings Limited

On 29 November 2007 the Group acquired the issued share capital of Wall to Wall Holdings Limited for initial consideration of £20.4 million satisfied by £10.6 million in cash and £7.7m through the issue of 8,912,410 new ordinary shares at 86 pence per share, representing 11.1% of the enlarged issued share capital of the Group, and £2.1 million in Loan Notes.

In addition, subject to certain performance criteria for the period to 30 June 2009, additional consideration of up to £4 million payable in ordinary shares which has been provided for with provisions for liabilities. An additional super earnout of £1 million in cash is payable if targets are exceeded. Additional consideration of £1.2 million is payable as an acquired tax asset is utilised. The total maximum consideration is therefore £26.6 million.

## Notes to the Financial Statements (continued) for the period ended 31 December 2007

### 28. Acquisitions (continued)

#### Wall to Wall Holdings Limited (continued)

This acquisition has been incorporated into the Group's balance sheet at the fair value at the date of acquisition

#### Assets and liabilities acquired

	Book Value £'000	Accounting Policy Alignment £'000	Fair Value £'000
Tangible fixed assets	547	1,094	1,641
Debtors	3,845	1,490	5,335
Cash at bank and in hand	1,360	–	1,360
Creditors	(4,827)	–	(4,827)
Work in progress	1,214	(1,214)	–
Net Assets acquired	2,139	1,370	3,509
Goodwill capitalised			22,032
Total cost of acquisition			25,541

#### Comprising

Cash	10,579
Shares allotted	7,664
Loan Notes	2,120
Consideration relating to tax asset	1,142
Deferred consideration – Ordinary Shares and Cash	3,529
Costs	507
Total	25,541

#### Effect of acquisitions on Cash flow

	16 months ended 31 December 2007 £'000
Net Cash Inflow from Operating Activities	(1,329)
Net Cash Outflow from capital expenditure	(9)
Net Cash Inflow before use of liquid resources and financing	(1,338)
Net Cash Inflow from financing	569
Decrease in cash	(769)

## Notes to the Financial Statements (continued)

### for the period ended 31 December 2007

#### Additional statutory information

	<b>Period from 1 July 2007 to 30 November 2007 £'000</b>	<b>Year Ending 30 June 2007 £'000</b>
Turnover	5,237	19,501
Operating Profit	1,421	982
Profit before Tax	587	1,248
Profit after Tax	411	851

## Shareholder Information

### Annual General Meeting

The Annual General Meeting ("AGM") of Shed Media plc ("Group") will be held at The Tower Room, The Old Sessions House, 22 Clerkenwell Green, London EC1R 0NA on 12 June 08 at 12 pm. Each shareholder is entitled to attend and vote at the AGM. A notice relating to the 2007 AGM is included within the annual report and accounts on page 60. The Form of Proxy for use at that AGM accompanies this annual report and accounts separately.

### Dividend Payments

The recommended final dividend (if approved at the 2007 Annual General Meeting) will be paid on 18 July 2008 to shareholders on the register at 20 June 2008. All dividends will be paid by cheque.

### Shareholder Information on the internet

The Group maintains an investor relations zone on its website ([www.shedproductions.com](http://www.shedproductions.com)) which contains links to useful investor information.

## Company Information

### Registrars

Capita IRG Plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Auditors

Baker Tilly UK Audit LLP  
2 Bloomsbury Street  
London  
WC1B 3ST

### Registered Head Office

2 Holford Yard  
London  
WC1X 9HD

### Brokers

Landsbanki  
Old Change House  
128 Queen Victoria Street  
London  
EC4V 4BJ

A copy of this Annual Report is being sent to all shareholders. The Report is also placed on the investor relations section of the Group's website [www.shedproductions.com](http://www.shedproductions.com)

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

When considering what action to take, you are recommended to seek your own financial advice immediately from your stockbroker, bank, solicitor, accountant or other independent financial adviser who, if you are in the United Kingdom, is duly authorised under the Financial Services and Markets Act 2000, as amended

If you have sold or otherwise transferred all of your shares in Shed Media plc (the "Company"), please send this document together with the Form of Proxy, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom you have sold or transferred your shares for delivery to the purchaser or transferee

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**Shed Media plc**

a company incorporated and registered in England and Wales  
under the Companies Act 1985 with registered number 3617464

**Notice of Annual General Meeting**

to be held on

**12 June 2008**

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Notice of an Annual General Meeting of the Company, to be held at 12 00 p.m. on 12 June 2008 at The Tower Room, The Old Sessions House, 22 Clerkenwell Green, London EC1R 0NA is set out overleaf

A Form of Proxy for use at the Annual General Meeting is enclosed and, to be valid, should be completed in accordance with the instructions printed thereon and returned so as to reach the Company's registrar, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) as soon as possible but in any event not later than 48 hours before the time and date fixed for holding the Annual General Meeting or any adjournment thereof. Completion and posting of the Form of Proxy does not prevent a shareholder from attending, speaking and voting in person at the Annual General Meeting

## SHED MEDIA PLC

### NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an ANNUAL GENERAL MEETING of Shed Media plc (the "Company") will be held at The Tower Room, The Old Sessions House, 22 Clerkenwell Green, London EC1R 0NA at 12 00 pm on 12 June 2008 for the purposes of considering and, if thought fit, passing the following resolutions as to which those numbered 1 to 9 and 11 and 13 will be proposed as ordinary resolutions and those numbered 10, 12 and 14 will be proposed as special resolutions

#### THE RESOLUTIONS

- 1 To receive and adopt the directors' report and the Company's annual accounts for the 16 month period ended 31 December 2007, together with the auditors' report on those accounts
- 2 To approve and adopt the directors' remuneration report for the 16 month period ended 31 December 2007
- 3 To consider the recommendation of the directors of a final dividend for the 16 month period ended 31 December 2007 of 11 pence per ordinary share in the capital of the Company, to be paid on 18 July 2008 to shareholders whose names appear on the register at the close of business on 20 June 2008 and, if thought fit, to declare a dividend accordingly
- 4 To re-elect Katherine Innes Ker as a director of the Company who retires by rotation but has offered herself for re-election
- 5 To re-elect David Kogan as a director of the Company who retires by rotation but has offered himself for re-election
- 6 To elect Christopher Bonney as a director of the Company who having been appointed as a director by the board since the last annual general meeting offers himself for election to the board
- 7 To elect Peter Casely-Hayford as a director of the Company who having been appointed as a director by the board since the last annual general meeting offers himself for election to the board
- 8 To elect Alexander Graham as a director of the Company who having been appointed as a director by the board since the last annual general meeting offers himself for election to the board
- 9 To reappoint Baker Tilly as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid and to authorise the directors to fix the remuneration of the auditors
- 10 That the Company be and is hereby generally and unconditionally authorised (pursuant to section 166 of the Companies Act 1985 (the "Act")) to make one or more market purchases (as defined in section 163 of the Act) of its own ordinary shares on such terms and in such manner as the directors of the Company may from time to time determine in accordance with the articles of association of the Company and Chapter VII of Part V of the Act, provided that this power shall
  - (a) expire at the conclusion of the next annual general meeting of the Company or 15 months after the date of its passing (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of ordinary shares which may be completed by or executed wholly or partly after the expiration of this authority,
  - (b) be limited to the purchase of up to 11,845,543 ordinary shares,
  - (c) not permit the payment of a price per ordinary share (exclusive of any expenses payable by the Company) which is not less than 0.1 pence per share nor more than 105 per cent of the average of the middle market quotations for the shares on the Daily Official List (AIM) of London Stock Exchange plc for the five business days immediately preceding the date on which the purchase of ordinary shares is made,

- (d) before its expiry, entitle the Company to enter into any contract for the purchase of its own securities which might be executed and completed wholly or partly after its expiry and to make purchases of its own shares in pursuance of any such contract

Following any purchase of ordinary shares by the Company pursuant to the foregoing powers, the Company may hold such shares in treasury or dispose of or otherwise deal with them in accordance with the provisions of the Act

- 11 That the directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities of the Company (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £26,323 provided that this authority shall (unless earlier revoked, varied or extended by the Company in general meeting) expire at the earlier of the conclusion of the next annual general meeting of the Company or 15 months from the date of passing this resolution save that the Company may before the expiry of this period make an offer or agreement which would or might require securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired. The authority granted by this resolution shall be in addition to and not in substitution for all existing authorities to allot relevant securities (as defined above) granted to the directors
- 12 That, subject to and conditional upon the passing of resolution 11 above ("Section 80 Resolution"), pursuant to section 95 of the Act and in addition to all existing powers under that section, the directors be and are hereby generally empowered to allot equity securities (within the meaning of section 94 other than section 94(3A) of the Act) for cash pursuant to the authority conferred by the Section 80 Resolution or otherwise in the case of treasury shares (as defined in section 162A of the Act), at any time up to the earlier of (1) the conclusion of the next annual general meeting of the Company and (2) the expiry of the period of 15 months from the date of the passing of this resolution, in each case as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to
  - (a) the allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as practicable) to the respective numbers of equity securities held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, and
  - (b) the allotment of equity securities for cash (otherwise than pursuant to paragraph 12(a) above) up to an aggregate nominal amount of £3,949

and save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired

In this resolution

- a) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right, and
- b) words and expression defined in or for the purposes of section 89 to 96 inclusive of the Act shall bear the same meanings herein

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "That subject to and conditional upon the passing of resolution 11 above ("Section 80 Resolution")" were omitted

#### SPECIAL BUSINESS

- 13 To increase the authorised share capital of the Company from £80,000 to £105,000 by the creation of 25,000,000 ordinary shares of 0 1p each ranking pari passu in all respects with the existing ordinary shares of 0 1p each in the capital of the Company



- 14 That the articles of association produced to the meeting and for the purpose of identification marked "A" and initialled by the chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association

By order of the board

A handwritten signature in black ink, appearing to be 'J. Kemp', written over a horizontal line.

Jonathon Kemp  
Financial and Commercial Director

19 May 2008

Registered office  
2 Holford Yard  
London  
WC1X 9HD

#### Notes

- 1 A member of the Company entitled to attend, speak and vote at the above Annual General Meeting (the "AGM") may appoint one or more proxies to attend, speak and vote instead of him. A proxy need not also be a member of the Company.
- 2 Completion and return of a form of proxy does not preclude a member from attending, speaking and voting at the AGM in person should he so wish.
- 3 A form of proxy is enclosed and to be valid must be completed, signed and returned so as to reach the Company's registrar, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 12.00 p.m. on 10 June 2008 being 48 hours before the time fixed for holding the AGM or any adjournment thereof.
- 4 Copies of the directors' service contracts, letters of appointment and a copy of the memorandum and articles of association of the Company together with the proposed articles showing the changes will be available for inspection by members at the registered office of the Company during normal business hours from the date of this Notice until the conclusion of the AGM.
- 5 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 12.00 p.m. on 10 June 2008. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(S)(a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars no later than 12.00 p.m. on 10 June 2008.
- 6 Pursuant to Regulation 41 of The Uncertificated Securities Regulations 2001, only those members registered in the Register of Members of the Company as at close of business as at 6.00 pm on 10 June 2008 are entitled to attend, speak or vote at this AGM in respect of the number of shares registered in their name at 6.00 pm on 10 June 2008. Changes to entries in the register after 6.00 pm on 10 June 2008 shall be disregarded in determining the right to attend, speak or vote at the AGM.

## APPENDIX

### EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1 Articles which duplicate statutory provisions

Provisions in the current articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2 Form of resolution

The current articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

3 Convening extraordinary and annual general meetings

The provisions in the current articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

4 Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the current articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may also be appointed. The proposed articles reflect all of these new provisions.

5 Age of directors on appointment

As a provision limiting the age at which a director can be appointed could now fall foul of the Employment Equality (Age) Regulations 2006, the provision in the current articles providing for no retirement on account of age is unnecessary so has been removed from the proposed articles.

6 Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The proposed articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position with respect to conflicts arising on or after 1 October 2008.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the new articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

7 Notice of board meetings

Under the current articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

8 Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9 Generally the opportunity has been taken to bring clearer language into the proposed articles and in some areas to conform the language of the proposed articles