

thebigword Holdings Limited

**Directors' report and consolidated
financial statements**

Registered Number 5551907

31 May 2007

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Directors' report

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

Principal activities

The principal activity of the group continues to be the provision of language translation and interpreting services

Business review

The Directors are pleased to report a 20% increase in turnover to £14.1m. The operating profit (before the amortisation of goodwill) was £387,000 (2006: £884,000), although this represents a reduction from the previous year, investments have been made during the year to drive forward the continued growth of the Group.

Business in China

In May 2006, the Group acquired a business in China. During the year, this has been developed into a full service business, operating out of Beijing and Shanghai, focussed on serving both the fast growing domestic Chinese market and also on strengthening the Group's relationships with global corporate customers who are also establishing a presence in China. China contributed revenues of £292,000 to the Group and the Directors expect this to grow significantly over the next two years.

Interpreting Services

During the year the Group extended its service offering to include telephone interpreting and in August 2006 was awarded a framework contract to supply the UK government. Investments were made during the year to support the implementation of the contract and revenues from the Group's interpreting services will grow over the next 12 months.

Developing Sales Presence

In April 2007, the Group established an office in Dusseldorf, enabling a stronger focus on developing business in Germany which is the single biggest market for language services in Europe. The sales teams in the US and Europe have also been enlarged and the Directors are expecting strong revenue growth from both these regions over the next 12 months.

At 31 May 2007, the Group employed 202 people, in China, Europe and the US, an increase of 80 since 31 May 2006. The Directors have made this investment in order to support the increase in revenue, and profitability, expected in the next 12 months.

Principal Risks and Uncertainties

Although the global translation and interpreting market remains very fragmented, consolidation is occurring amongst the top 20 global players. The Directors believe that it is important for the Group to continue to grow in size, both organically and through acquisition. Prices in the market are under pressure and the Directors believe that successful Language Services businesses need to operate on a global basis and have sufficient critical mass to work with global customers looking to centralise and consolidate their spend on language services.

Technology in the language services market is developing quickly and the Directors believe that Group will need to continue to invest in its technology offering so that it remains competitive in the market.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows

LJ Gould
C Ball

Charitable donations

The group made donations to charities totalling £1,260 in the year (2006 £1,719)

Disclosure of information to auditors

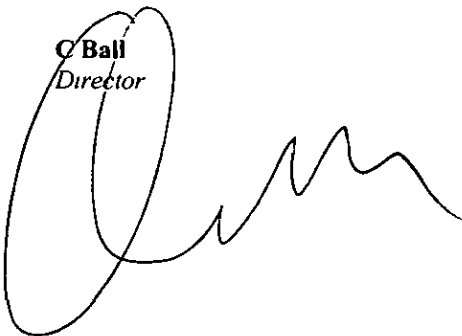
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make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

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board

C Ball
Director



Belmont House
20 Wood Lane
Headingley
Leeds
LS6 2AE

11 February 2008

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

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

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

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

In preparing these financial statements, the directors are required to

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

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



1 The Embankment
Neville Street
Leeds
LS1 4DW

Independent auditors' report to the members of thebigword Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of thebigword Holdings Limited for the year ended 31 May 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliations of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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

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

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

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

Basis of audit opinion

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

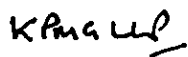
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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

Opinion

In our opinion

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



KPMG LLP
Chartered Accountants
Registered Auditor

11 February 2008

Consolidated profit and loss account

for the year ended 31 May 2007

	Note	2007 £	2006 £
Turnover	1	14,095,390	11,752,138
Cost of sales		(7,531,369)	(5,926,033)
Gross profit		6,564,021	5,826,015
Administrative expenses		(6,176,926)	(4,942,058)
Operating profit before amortisation of goodwill		387,095	884,047
Amortisation of goodwill		(99,075)	(77,919)
Operating profit		288,020	806,128
Interest payable and similar charges	5	(96,007)	(83,472)
Profit on disposal of division	6	-	76,825
Profit on ordinary activities before taxation	2-4	192,013	799,481
Tax on profit on ordinary activities	7	(141,682)	(264,996)
Retained profit for the year	18	50,331	534,485

There are no recognised gains or losses other than the profit for the financial year stated above

There is no difference between the profit disclosed above and the profit under a historical cost basis

In both years trading relates to continuing operations

Reconciliations of movements in shareholders' funds

for the year ended 31 May 2007

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Profit/(loss) for the financial year	50,331	534,485	(29,583)	(17,604)
Retained profit/(loss)	50,331	534,485	(29,583)	(17,604)
New share capital subscribed	-	-	-	114,300
Share premium on issue of shares	-	-	-	85,700
Net addition to/(reduction in) shareholders' funds	50,331	534,485	(29,583)	182,396
Opening shareholders' (deficit)/funds	(280,961)	(815,446)	182,396	-
Closing shareholders' (deficit)/funds	(230,630)	(280,961)	152,813	182,396

Consolidated balance sheet
 at 31 May 2007

	Note	2007		2006	
		£	£	£	£
Fixed assets					
Tangible assets	9		385,497		390,061
Intangible fixed assets	10		277,516		207,713
Investments	11		56,375		75,000
			<u>719,388</u>		<u>672,774</u>
Current assets					
Debtors	12	3,066,596		2,577,303	
Cash at bank and in hand		40,447		1,234,767	
		<u>3,107,043</u>		<u>3,771,377</u>	
Creditors: amounts falling due within one year	13	<u>(2,953,999)</u>		<u>(3,039,143)</u>	
Net current assets			<u>153,044</u>		<u>1,037,923</u>
Total assets less current liabilities			<u>872,432</u>		<u>1,710,697</u>
Creditors: amounts falling due after more than one year	14		<u>(1,103,062)</u>		<u>(1,726,662)</u>
Net liabilities			<u>(230,630)</u>		<u>(280,961)</u>
Capital and reserves					
Called up share capital	16		114,300		114,300
Share premium	17		85,700		85,700
Merger reserve			(408,201)		(408,201)
Profit and loss account	18		<u>(22,429)</u>		<u>(72,760)</u>
Shareholders' deficit			<u>(230,630)</u>		<u>(280,961)</u>

These financial statements were approved by the board of directors on 11 February 2008 and were signed on its behalf by


 C Ball
 Director


 LJ Gould
 Director

Company balance sheet

at 31 May 2007

	Note	2007	2006
		£	£
Fixed assets			
Investments	11	1,700,000	1,700,000
		<u>1,700,000</u>	<u>1,700,000</u>
Current assets			
Cash at bank and in hand		2,630	2,909
		<u>2,630</u>	<u>2,909</u>
Creditors: amounts falling due within one year	13	(1,174,817)	(770,513)
Net current liabilities		<u>(1,172,187)</u>	<u>(767,604)</u>
Total assets less current liabilities		<u>527,813</u>	<u>932,396</u>
Creditors: amounts falling due after more than one year	14	(375,000)	(750,000)
Net assets		<u>152,813</u>	<u>182,396</u>
Capital and reserves			
Called up share capital	16	114,300	114,300
Share premium	17	85,700	85,700
Profit and loss account	18	(47,187)	(17,604)
Shareholders' funds		<u>152,813</u>	<u>182,396</u>

These financial statements were approved by the board of directors on 11 February 2008 and were signed on its behalf by


 C Ball
 Director


 LJ Gould
 Director

Consolidated cash flow statement
for the year ended 31 May 2007

	<i>Note</i>	2007 £	2006 £
Net cash (outflow)/inflow from operating activities	20	(221,260)	1,009,370
Returns on investments and servicing of finance	21	(81,911)	(1,572,510)
UK corporation tax paid		(334,000)	(27,478)
Capital expenditure	21	(229,241)	(197,760)
Acquisitions and disposals	21	(63,358)	75,000
Financing	21	(606,240)	1,062,067
(Decrease)/increase in cash		(1,536,010)	348,689

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 May 2007. A true and fair override has been invoked and the merger method of accounting has been used in the preparation of the group accounts.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

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

Purchased goodwill is capitalised and amortised over a period of 3-20 years, as determined by the directors.

Fixed assets and depreciation

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

Fixtures and fittings	-	20-33% per annum
Motor vehicles	-	25% per annum

Investments

Investments held as fixed assets are stated at cost less amounts written off for any permanent diminution in value.

Foreign currencies

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

Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred

Taxation

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

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

Classification of financial instruments issued by the Group

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

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

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

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

Share based payments

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Hire purchase and finance lease contracts

The fair value (cost) of assets acquired under hire purchase and finance lease contracts is included under fixed assets and depreciated in accordance with the company's accounting policy on depreciation. The amounts outstanding under the contract are included under creditors due within one year and creditors due after more than one year, for the immediate and longer term instalments respectively

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers during the year

Cash

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

2 Notes to the profit and loss account

	2007 £	2006 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
<i>Auditors' remuneration</i>		
Audit of these financial statements	5,500	5,500
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	10,500	10,000
Other services relating to taxation	16,646	26,737
All other services	1,300	7,000
Depreciation of tangible fixed assets		
Owned	243,718	208,003
Amortisation of intangible assets	99,075	77,919
(Profit)/loss on sale of fixed assets	(4,913)	9,966
Hire of other assets – operating leases, being rental of premises	240,434	156,585
	<u> </u>	<u> </u>

3 Remuneration of directors

	2007 £	2006 £
Directors' emoluments	459,892	425,448
	<u> </u>	<u> </u>

The emoluments of the highest paid director were £261,550 (2006 £259,039) All emoluments are paid through the subsidiary Link Up Mitaka Limited

Retirement benefits are accruing to the following number of directors under

	2007	2006
Money purchase schemes	2	2
	<u> </u>	<u> </u>

Notes (continued)

4 Staff numbers and costs

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

	2007	2006
Directors	2	3
Administration	200	119
	<u>202</u>	<u>122</u>

The aggregate payroll costs of these persons were as follows

	2007 £	2006 £
Wages and salaries	4,026,669	3,056,479
Social security costs	415,142	302,295
Pension costs (see note 24)	64,743	56,755
	<u>4,506,555</u>	<u>3,415,529</u>

5 Interest payable and similar charges

	2007 £	2006 £
Bank interest	85,045	72,510
Finance costs on shares classified or debt	10,962	10,962
	<u>96,007</u>	<u>83,472</u>

6 Profit on disposal of division

On 10 April 2006, the group disposed of its recruitment division, as follows

	£	£
Consideration		
Cash	75,000	
Shares	75,000	
	<u></u>	
		150,000
Cost of disposal		
Goodwill relating to division		(73,175)
		<u>76,825</u>

Notes (continued)

7 Taxation

	2007	2006
	£	£
<i>UK corporation tax</i>		
Current tax on income for the period	100,997	305,689
Adjustments in respect of prior periods	18,780	-
	<u>119,777</u>	<u>305,689</u>
<i>Foreign tax</i>		
Current tax on income for the period	14,000	-
	<u>14,000</u>	<u>-</u>
Total current tax	<u>133,777</u>	<u>305,689</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	8,670	(45,059)
Adjustments in respect of prior periods	(765)	4,366
	<u>7,905</u>	<u>(40,693)</u>
Tax on profit on ordinary activities	<u>141,682</u>	<u>264,996</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2006 higher) than the standard rate of corporation tax in the UK (30%, 2006 30%) The differences are explained below

	2007	2006
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	192,013	799,481
Current tax at 30% (2006 30%)	<u>57,604</u>	<u>239,844</u>
<i>Effects of</i>		
Expenses not deductible for tax purposes	52,068	52,886
Fixed asset timing differences	13,403	6,122
Non-taxable income	-	(32,100)
Short term timing differences	(22,073)	38,937
Tax rate differences	13,995	-
Adjustments in respect of prior periods	18,780	-
Total current tax charge (see above)	<u>133,777</u>	<u>305,689</u>

Notes (continued)

8 Related party transactions

Rent of £131,786 (2006 £107,000) has been charged to Link-Up Mitaka Limited in the year through Link-Up Services FURB Scheme, of which the Gould family are trustees and members. There were no prepaid or accrued amounts outstanding at the end of the year (2006 £nil).

Rent of £16,667 (2006 £nil) has been charged to Link-Up Mitaka Limited in the year by MW Properties No 35 Limited, of which the Gould family are members and trustees. There were no prepaid or accrued amounts outstanding at the end of the year (2006 £nil).

9 Tangible fixed assets

	Motor vehicles	Fixtures and fittings and computer equipment	Website development costs	Total
	£	£	£	£
Cost				
At beginning of year	14,907	735,622	137,170	887,699
Additions	-	244,940	-	244,940
Disposals	-	(41,511)	-	(41,511)
At end of year	14,907	939,051	137,170	1,091,128
Depreciation				
At beginning of year	311	360,157	137,170	497,638
Charge for year	3,727	239,991	-	243,718
Eliminated on disposals	-	(35,725)	-	(35,725)
At end of year	4,038	564,423	137,170	705,631
Net book value				
At 31 May 2007	10,869	374,628	-	385,497
At 31 May 2006	14,596	375,465	-	390,061

Notes (continued)

10 Intangible fixed assets

Group	Goodwill £
<i>Cost</i>	
At beginning of year	339,380
Additions (see note 26)	168,878
	<hr/>
At end of year	508,258
	<hr/>
<i>Amortisation</i>	
At beginning of year	131,667
Charge for year	99,075
	<hr/>
At end of year	230,742
	<hr/>
<i>Net book value</i>	
At 31 May 2007	277,516
	<hr/>
At 31 May 2006	207,713
	<hr/>

Goodwill was acquired through the purchase of Linguistico, Eurolingua PLS Limited, Translation Services, Chanterelle Limited, 20th Century Translation and Interpreters, Aardvark Translation Services Limited, Language Business Centre, Idioma Translation Services Limited, Carmona UK Limited, Multilingual Services Limited, MM Translations Limited, Network Communications AS and Beijing Rainbow Network Limited

Notes (continued)

11 Investments

Group	Trade investments £
Cost	
At beginning and end of year	75,000
Provisions	
At beginning of year	-
Charge in year	18,625
At end of year	18,625
Net book value	
At 31 May 2007	56,375
At 31 May 2006	75,000
	2007 £
Investment in Strontium plc	75,000
Provision against investment	(18,625)
	56,375
	2006 £
	75,000
	-
	75,000

Company	Interest in subsidiary undertaking £
Investment in Link-Up Mitaka Limited at cost	1,700,000

The companies in which the company's interest is more than 10% are as follows

<i>Subsidiary undertakings</i>	Country of incorporation	Proportion held	Principal activity
Link-Up Mitaka Limited	England and Wales	100%	Translation Services
Multilingual Services Limited*	England and Wales	100%	Dormant
Mitaka Limited*	England and Wales	100%	Dormant
Aardvark Translation Services Limited*	England and Wales	100%	Dormant
Carmona UK Limited*	England and Wales	100%	Dormant
TheBigWord Limited*	England and Wales	100%	Dormant
Thebigword INC*	USA	100%	Translation Services
Beijing Rainbow Network Limited*	China	100%	Translation Services

* investment held in Link-Up Mitaka Limited

Notes (continued)

12 Debtors

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	2,894,757	2,047,590	-	-
Prepayments and accrued income	86,410	68,423	-	-
Other debtors	15,980	383,936	-	-
Deferred tax asset (note 15)	69,449	77,354	-	-
	<u>3,066,596</u>	<u>2,577,303</u>	<u>-</u>	<u>-</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank overdraft	341,690	-	-	-
Bank loan	248,600	231,240	-	-
Trade creditors	689,563	735,898	-	-
Corporation tax	104,374	317,461	-	-
Taxation and social security	428,375	306,189	-	-
Other creditors	11,989	72,602	-	6,311
Accruals and deferred income	992,383	1,238,728	3,134	-
Amounts owing to group companies	-	-	1,171,683	764,202
Shares classified as debt	137,025	137,025	-	-
	<u>2,953,999</u>	<u>3,039,143</u>	<u>1,174,817</u>	<u>770,513</u>

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank loan (see below)	728,062	976,662	-	-
Loan stock	375,000	750,000	375,000	750,000
	<u>1,103,062</u>	<u>1,726,662</u>	<u>375,000</u>	<u>750,000</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year (continued)

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Payable within one year	248,600	231,240	-	-
Payable within two to five years	1,103,062	1,726,662	375,000	750,000
	<u>1,361,662</u>	<u>1,957,902</u>	<u>375,000</u>	<u>750,000</u>

The bank loan is secured by way of a fixed and floating charge over the assets of the group

15 Deferred tax

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Deferred taxation				
At beginning of year	77,354	36,661	-	-
(Charge)/credit for the year in the profit and loss account	(7,905)	40,693	-	-
At end of year – deferred tax asset	<u>69,449</u>	<u>77,354</u>	<u>-</u>	<u>-</u>

The asset arises as follows

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Accelerated capital allowances	38,687	24,579	-	-
Short term timing differences	30,762	52,775	-	-
	<u>69,449</u>	<u>77,354</u>	<u>-</u>	<u>-</u>

Factors affecting future tax charge and deferred taxation

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement and have either been enacted in the 2007 Finance Act or are expected to be enacted in the 2008 Finance Act. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in Finance Act 2007 would be to reduce the deferred tax asset recognised at 31 May 2007 by £5k. This is due to the reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008.

The other changes to be enacted would have no further effects on the deferred tax provided at 31 May 2007.

Notes *(continued)*

16 Called up share capital

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Authorised				
13,000,000 ordinary shares of 1p each	130,000	130,000	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Allotted, called up and fully paid				
11,430,000 ordinary shares of 1p each	114,300	114,300	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

17 Share premium

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Share premium account	85,700	85,700	85,700	85,700
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

18 Profit and loss account

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
At start of year	(72,760)	(607,245)	(17,604)	-
Profit/(loss) for the year	50,331	534,484	(29,583)	(17,604)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(22,429)	(72,760)	(47,187)	(17,604)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company's loss for the financial year was £29,583 (2006 £17,604)

Notes (continued)

19 Commitments

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Operating leases which expire				
Within one year	1,925	130,045	-	-
In the second to fifth years inclusive	100,000	-	-	-
Over five years	105,000	-	-	-
	<u>206,925</u>	<u>130,045</u>	<u>-</u>	<u>-</u>

20 Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Operating profit	288,020	806,128	-	-
Depreciation charge	243,718	208,003	-	-
Amortisation of goodwill	99,075	77,919	-	-
(Profit)/loss on disposal of tangible fixed assets	(4,913)	9,966	-	-
Increase in debtors	(487,198)	(1,048,144)	-	-
(Decrease)/increase in creditors	(378,587)	955,498	-	-
Increase in provisions	18,625	-	-	-
	<u>(221,260)</u>	<u>1,009,370</u>	<u>-</u>	<u>-</u>
Net cash (outflow)/inflow from operating activities	(221,260)	1,009,370	-	-

Notes (continued)

21 Cash flow statement

Returns on investments and servicing of finance

	2007	Group	2006
	£		£
Interest paid	(81,911)		(72,510)
Purchase of shares in subsidiary	-		(1,500,000)
	<u>(81,911)</u>		<u>(1,572,510)</u>

Capital expenditure

	2007	Group	2006
	£		£
Payments to acquire tangible fixed assets	(239,940)		(200,760)
Receipts from sale of tangible fixed assets	10,699		3,000
	<u>(229,241)</u>		<u>(197,760)</u>

Acquisition and disposals

	2007	Group	2006
	£		£
Receipts from sale of business	-		75,000
Purchase of subsidiary undertaking	(84,358)		-
Cash acquired with subsidiary	21,000		-
	<u>(63,358)</u>		<u>75,000</u>

Financing

	2007	Group	2006
	£		£
Payment of loans	(606,240)		(434,933)
New loans	-		1,500,000
	<u>(606,240)</u>		<u>1,062,067</u>

Notes (continued)

22 Reconciliation of net cash flow to movement in net debt

	Group	
	2007	2006
	£	£
(Decrease)/increase in cash	(1,536,010)	348,689
Changes in loans	606,240	(1,062,067)
	<hr/>	<hr/>
Movement in net debt in period	(929,770)	(713,378)
Net debt at beginning of year	(723,135)	(9,757)
	<hr/>	<hr/>
Net debt at end of year	(1,652,905)	(723,135)
	<hr/>	<hr/>

23 Analysis of net debt

	At start of year	Cash flow	At end of year
	£	£	£
Cash	1,234,767	(1,536,010)	(301,243)
Debt due within one year	(231,240)	(17,360)	(248,600)
Debt due after one year	(1,726,662)	623,600	(1,103,062)
	<hr/>	<hr/>	<hr/>
	(723,135)	(929,770)	(1,652,905)
	<hr/>	<hr/>	<hr/>

24 Pension scheme

Group and company

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £64,743 (2006 £56,755).

Contributions amounting to £200 (2006 £200) were payable to the scheme and are included in accruals at year end. Contributions amounting to £1,215 (2006 £798) were prepaid to the scheme and are included in prepayments at year end.

Notes (continued)

25 Employee share schemes

Share based payments - group

In December 2005, the group established an EMI option scheme to incentivise directors and key employees. The options granted are exercisable only upon a change of control.

No share based payment charge will be recognised in the profit and loss account until such time as it becomes probable that this vesting condition will be met, at which time a catch-up charge will be incurred.

At 31 May 2007 there were 1,288,190 options outstanding (2006 1,288,190) with a weighted average exercise price of 5p (2006 5p).

The number and weighted average exercise prices of share options in existence are as follows:

	2007 Weighted average exercise price £	2007 Number of options	2006 Weighted average exercise price £	2006 Number of options
Outstanding at the beginning of the period	0.05	1,288,190	-	-
Granted during the period	-	-	0.05	1,288,190
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	0.05	1,288,190	0.05	1,288,190
Exercisable at the end of the period		-		-

Notes (continued)

26 Acquisitions

On 18 May 2006 the group acquired 100% of the share capital of Beijing Rainbow Network Limited, a company incorporated in China. The results and net assets of Beijing Rainbow Network Limited were not included in the group financial statements in the prior year as they were not considered material to the group's operations for the short period to 31 May 2006.

In the current year, the results and net assets of Beijing Rainbow Network Limited have been brought into the group financial statements. The resulting goodwill of £168,878 was capitalised and will be written off over 10 years. 10 years is deemed to be the period over which the directors anticipate that added value will be derived from Beijing Rainbow Network Limited.

	Book / Fair value
	£000
Fixed assets	
Tangible	5
Current assets	
Debtors	10
Cash	21
Total assets	<u>36</u>
Creditors	(122)
Total liabilities	<u>(122)</u>
Net liabilities	(84)
Goodwill	<u>169</u>
Purchase consideration and costs of acquisition	<u>85</u>

The directors consider that book value of net assets and liabilities acquired equates to fair value.

The acquired undertaking made a loss of £97,000 in its previous 16 month financial period to 31 May 2006.