

5 Taxation

	Six months ended 31 December 2004	Eight months ended 30 June 2004
	£	£

**Factors affecting tax charges for the period**

The different factors are explained below:

Loss on ordinary activities before tax:	(65,932)	(76,106)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30%	(19,780)	(22,832)
Effects of:		
Expenses not deductible for tax purposes	7,085	2,595
Depreciation in excess of capital allowances	450	-
Tax losses carried forward	12,245	20,237
Tax charge for period	-	-

A deferred tax asset of £33,382 (eight months to 30 June 2004; £20,237) arising on trading losses carried forward at 31 December 2004 has not been recognised due to the uncertainty of the availability of future profits to offset against trading losses.

6 Investments

As at 30 June 2004 and 31 December 2004

	£
	100

Unlisted investment	Country of registration /incorporation	Proportion directly held	Nature of Business
Audley Films LLP	England	Less than 1%	Film production and financing partnership

7 Tangible fixed assets

Cost	Office equipment	Furniture and fittings	Total
As at 1 July 2004	£	£	£
Additions	10,795	36,789	47,584
As at 31 December 2004	10,795	36,789	47,584
Depreciation			
As at 1 July 2004	900	600	1,500
Charged in the period	900	600	1,500
As at 31 December 2004	9,895	36,189	46,084
Net book value			
As at 31 December 2004	-	-	-
As at 1 July 2004	-	-	-

8 Debtors

	As at 31 December 2004	As at 30 June 2004
	£	£
Trade debtors	81,628	-
Other debtors	11,991	16,744
Called up share capital not paid	1,280	10,880
Prepayments and accrued income	176,632	103,642
	<u>271,531</u>	<u>131,266</u>

9 Creditors: amounts falling due within one year

	As at 31 December 2004	As at 30 June 2004
	£	£
Trade creditors	96,828	31,761
Other taxation and social security	49,320	7,694
Other creditors	2,811	10,370
Accruals	13,950	34,000
	<u>162,909</u>	<u>83,825</u>

10 Share capital

	As at 31 December 2004	As at 30 June 2004
	£	£
Authorised: 2,500 ordinary shares of £1 each	2,500	2,500
Allotted and issued: 2,075 ordinary shares of £1 each	<u>2,075</u>	<u>2,075</u>

Intandem was incorporated on 14 October 2003 and registered in England & Wales. The authorised share capital on incorporation was 1,000 ordinary shares of £1 each. On 21 November 2003 the authorised share capital was increased to 1,500 ordinary shares of £1 each, by the creation of 500 ordinary shares of £1 each. On 24 February 2004 the authorised share capital was increased further to 2,500 ordinary shares of £1 each by the creation of 1,000 new ordinary shares of £1 each.

During the period ended 30 June 2004 a total of 2,075 ordinary shares of £1 each were allotted and issued, with an aggregate nominal value of £2,075. A total of 1,680 ordinary shares of £1 each were issued at par, while a further 395 ordinary shares of £1 each were issued at a premium of £799 per ordinary share. The total consideration for these shares was £317,680, with £1,280 remaining unpaid at 31 December 2004 (£10,880 at 30 June 2004).

**11 Share premium account**

	As at 31 December 2004	As at 30 June 2004
At beginning of period	310,605	-
Issue of ordinary shares	-	315,605
Issue and start up costs	(12,766)	(5,000)
Balance carried forward	297,839	310,605

**12 Profit and loss account**

	As at 31 December 2004	As at 30 June 2004
Balance brought forward	(76,106)	-
Loss for the financial period	(65,932)	(76,106)
Balance carried forward	(142,038)	(76,106)

**13 Reconciliation of movement in shareholders' funds**

	Six months ended 31 December 2004	Eight months ended 30 June 2004
Loss for the financial period	(65,932)	(76,106)
Issue of ordinary shares	-	317,680
Issue and start up costs	(12,766)	(5,000)
Opening shareholders' funds	236,574	-
Closing shareholders' funds	157,876	236,574

**14 Cash flows**

	Six months ended 31 December 2004	Eight months ended 30 June 2004
<b>A Reconciliation of operating profit to net cash outflow from operating activities</b>		
Operating loss	(66,965)	(76,079)
Add back depreciation	1,500	-
Increase in debtors	(149,865)	(120,386)
Increase in creditors	84,184	78,725
Net cash outflow from operating activities	(131,146)	(117,740)
<b>B Analysis of change of net funds in year</b>		
Opening net funds	189,033	-
(Decrease) / Increase in cash in year	(185,963)	189,033
Closing net funds	3,070	189,033

**15 Related party transactions**

Gary Smith, a director of Inlandem supplied services to the business through his management company, Edge Venture Capital Limited. The total value of his services charged to the profit and loss account for the six-month period to 31 December 2004 amounted to £60,000 (8 months to 30 June 2004: £83,337).

Andrew McWhirter, a director of Inlandem supplied services to the business through his company, Andrew McWhirter Associates Limited. The total value of his services charged to the profit and loss account for the six-month period to 31 December 2004 amounted to £16,668 (8 months to 30 June 2004: £3,500).

On 13 May 2004 Gary Smith made an interest free loan to Inlandem of £25,000, which was repaid on 24 May 2004 by Inlandem.

**16 Capital commitments**

	Six months ended 31 December 2004	Eight months ended 30 June 2004
Capital expenditure contracted for but not provided in the financial information	£ 21,585	£ -

**17 Commitments under operating leases**

	Six months ended 31 December 2004	Eight months ended 30 June 2004
At 31 December 2004, Inlandem had annual commitments under non cancellable operating leases as follows:		
<b>Land &amp; buildings:</b>		
Expiring between two and five years	65,000	-
<b>Other:</b>		
Expiring between two and five years	5,184	-

**18 Post balance sheet events**

On 6 April 2005, the Company entered into an agreement with Entertainment to acquire the entire issued share capital of its wholly owned subsidiary Inlandem, the consideration for which was £157,876 and which remains outstanding on inter-company loan.

**Nature of financial information**

The financial information presented above in respect of:

- The Company as at 5 April 2005 (Section A);
- Entertainment for the ten months ended 28 February 2005 (Section B); and,
- Inlandem for the eight months ended 30 June 2004 and the six months ended 31 December 2004 (Section C).

does not constitute statutory accounts for each of the periods and dates.

Statutory accounts for Inlandem the eight months ended 30 June 2004 have been delivered to the Registrar of Companies. In respect of the statutory accounts for the eight months ended 30 June 2004 we have made an unqualified report under Section 235 of the Companies Act 1985 and such report did not contain any statement under section 237(2) or (3) of that Act.

**Consent**

We consent to the inclusion of this report in the Prospectus dated 19 April 2005 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

**Baker Tilly**

Chartered Accountants  
Registered Auditor

**PART IV**  
**Additional information**

**1. INCORPORATION AND ACTIVITIES**

- 1.1 The Company was incorporated and registered in England and Wales on 10 February 2005 as Broomico (3710) Limited under the Act as a private limited company with registered number 5360907. On 5 April 2005 the Company was re-registered as a public limited company under the Act with the name Intandem Films Plc.
- 1.2 The principal legislation under which the Company operates is the Act. The liability of the Company's members is limited.
- 1.3 The registered and head office of each Group company is 22 Soho Square, London W1D 4NS.
- 1.4 The principal activity of the Company is that of a holding company of the Group. The Group's business is operated by Intandem Pictures Limited, a private limited company incorporated in England and Wales (registered number 4930997) and a wholly owned subsidiary of the Company, whose principal activity is acting as a film sales and marketing company. Intandem Pictures Limited has an interest of less than 1 per cent in Audley Films LLP, a limited liability partnership which acts as a film production and financing business. The Company has one other wholly owned subsidiary, Intandem Entertainment Limited, a private company incorporated in England and Wales (registered number 5113654) a former holding company which is currently dormant.

**2. SHARE CAPITAL**

- 2.1 Set out below are details of (i) the authorised and issued share capital of the Company as at the date of this document and (ii) the authorised and issued share capital of the Company as it will be immediately following Admission and completion of the Placing assuming the Maximum Subscription is placed pursuant to the Placing.

	<i>As at the date of this document</i>			<i>Immediately following Admission</i>	
	<i>Authorised</i>	<i>Issued and fully paid up</i>	<i>Authorised</i>	<i>Authorised</i>	<i>fully paid up</i>
Ordinary Shares	200,000,000	60,175,000	200,000,000	200,000,000	85,175,000
£	200,000	60,175	200,000	200,000	85,175

Pursuant to resolutions of the Company passed on 5 April 2005:

- 2.1.1 the authorised share capital of the Company was increased from £1,000 to £200,000 by the creation of 199,000 ordinary shares of £1.00 each;
- 2.1.2 each ordinary share of £1.00 each in the share capital of the Company (whether issued or unissued) was subdivided into 1,000 Ordinary Shares of 0.1p each, all such shares to rank pari passu in all respects;
- 2.1.3 the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (within the meaning of section 80 of the Act) of up to (i) £60,174 in connection with the acquisition of Intandem Entertainment Limited; (ii) £25,000 in connection with the Placing; (iii) £5,000 in connection with the issue of the Warrants; and (iv) otherwise up to an aggregate nominal amount of £28,390 provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, 15 months from the date of the passing of the resolution;
- 2.1.4 the agreement for the share for share acquisition of Intandem Entertainment Limited was approved for the purposes of section 320 of the Act;
- 2.1.5 the Directors were empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 2.1.3

above in respect of (i) the allotment of up to 25,000,000 new Ordinary Shares in connection with the Placing; (ii) the issue of the Warrants in respect of up to 5,000,000 new Ordinary Shares; (iii) issues by way of rights issue to shareholders; and (iv) otherwise up to an aggregate nominal amount of £21,200 provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or, if earlier 15 months from the date of the passing of the resolution.

2.2 The Ordinary Shares in issue upon Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form. Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. No temporary documents of title will be issued and it is anticipated that definitive share certificates will be posted by first class post to shareholders on or before 6 May 2005.

2.3 The articles of association permit the holding and transfer of Ordinary Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST.

### 3. MEMORANDUM AND ARTICLES OF ASSOCIATION

#### 3.1 Memorandum of association

The principal objects of the Company are set out in paragraph 4 of its memorandum of association (which is available for inspection at the address specified in paragraph 15 of this Part IV) and include the carrying on of business as a general commercial company and acting as a holding company.

#### 3.2 Articles of association

The articles of association of the Company adopted pursuant to a special resolution of the Company passed on 5 April 2005 ("Articles") include provisions to the following effect:

##### 3.2.1 Voting rights

Subject to any terms as to voting upon which any shares may have been issued or may for the time being be held and to any disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure of interests in shares in the Company, at a general meeting of the Company:

3.2.1.1 every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member, shall, on a show of hands, have one vote; and

3.2.1.2 every member present in person or by representative (in the case of a corporate member) or by proxy shall, on a poll, have one vote for every share of which he is the holder.

Unless the Board otherwise determines, a member shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Company have been paid.

##### 3.2.2 Dividends

Subject to the provisions of the Acts (as defined in the Articles) and of the Articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests in the profits of the Company, but no dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Acts, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Company.

Without prejudice to the provisions of the Articles, the Board may, with the authority of an ordinary resolution of the Company:

3.2.2.1 offer holders of ordinary shares the right to elect to receive further ordinary shares, credited as fully paid, instead of cash in respect of all or part of any dividend or dividends specified by the ordinary resolution;

3.2.2.2 direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.

There are no specified dates on which entitlements to dividends or interest payable by the Company arise.

##### 3.2.3 Distribution of assets on a winding-up

On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, transfer any part of the assets of the Company to trustees on such trusts for the benefit of members as he may determine. The liquidator shall not, however (except with the consent of the member concerned) distribute to a member any asset to which there is attached a liability or potential liability for the owner.

##### 3.2.4 Transfer of shares

Every transfer of shares which are in certificated form must be in writing in any usual form or in any form approved by the Board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

Every transfer of shares which are in uncertificated form must be made by means of a relevant system (as defined in the Uncertificated Securities Regulations 2001).

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up; (b) it is in respect of more than one class of share; (c) it is not duly stamped (if so required); or (d) it is not delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint transferees.

In the case of shares in certificated form, the registration of transfers of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine.

In the case of shares in uncertificated form, the register shall not be closed without the consent of the Operator of the relevant system (as defined in the Articles).

##### 3.2.5 Variation of class rights

Subject to the provisions of the Acts, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question or, at an adjourned meeting, two persons holding shares of the class in question or his proxy. Any holder of shares of the class in question present in person or by proxy may demand a poll. Holders of shares of the class in question shall, on a poll, have one vote for every share of that class held by them.

The rights attached to any class of shares shall not, unless otherwise expressed, be varied or abrogated by the creation or issue of shares ranking pari passu with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

### 3.2.6 *Share capital, changes in capital and purchase of own shares*

Subject to the provisions of the Acts and the Articles, the power of the Company to allot and issue shares shall be exercised by the Board at such times and on such terms and conditions as the Board may determine.

Subject to the provisions of the Acts and to any rights attached to any existing shares: (a) any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution; and (b) the Company may issue redeemable shares.

The Company may, by ordinary resolution, (a) increase its share capital; (b) consolidate, or sub-divide, or then divide, all or any of its shares into shares of a larger amount; (c) sub-divide its shares or any of them into shares of a smaller amount and as a part of such sub-division determine that any of such shares may have any preference or other advantage or deferred or qualified rights or be subject to any restriction as compared with the others; (d) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (e) convert all or any of its paid up shares into stock, and re-convert that stock into paid up shares of any denomination.

Subject to the provisions of the Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Subject to the provisions of the Acts, the Company may purchase all or any of its shares of any class (including redeemable shares).

### 3.2.7 *Directors*

Unless otherwise determined by ordinary resolution, there shall be no maximum number of directors, but the number of directors shall not be less than two.

Subject to the provisions of the Acts and provided that he has disclosed to the directors the nature and extent of any interest, a director may:

3.2.7.1 enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;

3.2.7.2 hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in a professional capacity to the Company, and be remunerated accordingly;

3.2.7.3 be a director or other officer, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and

3.2.7.4 shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal.

Save as otherwise provided by the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he (together with any person connected with him) is to his knowledge materially interested, directly or indirectly (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company); provided that a director shall be entitled to vote and be counted in the quorum in circumstances where the resolution relates:

(a) to the giving of any guarantee, security or indemnity in respect of (i) money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(b) to an offer of securities of the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(c) to another company in which he and any persons connected with him has a direct or indirect interest of any kind, provided that he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent or more of either any class of equity share capital, or the voting rights, in such company;

(d) to any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

(e) to any proposal concerning the purchase or maintenance of any insurance policy under which he may benefit.

A director shall not vote or be counted in the quorum on any resolution of the Board or any committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

Unless otherwise determined by the Company by ordinary resolution, a director (other than an alternate director) who does not hold executive office shall be paid for his services as a director fees at such rate (not exceeding £75,000 per annum) as the Board may decide. Such maximum level of fees shall be increased in line with the increase in the General Index of Retail Prices. Any fee payable shall accrue from day to day and shall be distinct from any salary, remuneration or other amounts payable to a director pursuant to other provisions of the Articles.

Each director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director, including any expenses incurred in attending meetings of the board or of any committees of the Board or general meetings or separate meetings of the holders of any class of shares or debentures of the Company. Any director who performs special services for the Company may be paid such extra remuneration by way of additional fees, salary, percentage of profits or otherwise as the Board may determine.

At each annual general meeting of the Company, there shall be required to retire by rotation:

(a) one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third; and (b) in addition, any director who at an annual general meeting shall have been a director at each of the preceding two annual general meetings of the Company (provided that he was not appointed or reappointed at either such annual general meeting and he has not otherwise ceased to be a director and been reappointed by general meeting of the Company at or since either such annual general meeting), and each such retiring director may, if eligible, offer himself for re-election. The directors to retire by rotation shall first be those who wish to retire and not offer themselves for re-election and secondly those who have been longest in office since their last appointment or reappointment and, in the case of those who have been in office an equal length of time, shall, unless they agree otherwise, be determined by lot. Any director appointed by the Board shall hold office until the next annual general meeting, when he shall be eligible for appointment, but shall not be taken into account in determining the directors to retire by rotation at that meeting.

No person shall be or become incapable of being appointed a director by reason of his having attained the age of 70 or any other age and no special notice shall be required in connection with the appointment or the approval of the appointment of any such person, nor shall a director be required to retire by reason of his having attained that or any other age.

Directors shall not be required to hold any shares in the Company.

#### 3.2.8 *Borrowing powers*

Subject to the provisions of the Acts, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security, either outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and, insofar as it is able, of its subsidiary undertakings, so as to procure that the aggregate principal amount outstanding in respect of borrowings by the group shall not, without an ordinary resolution of the Company, exceed a sum equal to four times the aggregate of the amount paid up or credited as paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserves of the Group as shown in the latest audited balance sheet of the Group, after such adjustments and deductions as are specified in the Articles.

#### 3.2.9 *Pensions and benefits*

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities, by insurance or otherwise, for any person who is, or has at any time been, a director or employed by or in the service of the Company or of any company which is a subsidiary company of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is, or was, dependent on him.

#### 3.2.10 *Untraded shareholders*

The Company may sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by virtue of transmission on the death or bankruptcy of a member or otherwise by operation of law if all dividends, warrants and cheques sent, or funds transferred, to such member or person have remained uncashed or been returned to the Company, respectively, for a period of 12 years; the Company has paid at least three cash dividends in respect of those shares during such period; and the Company has, on the expiration of such period given notice of its intention to sell such shares in a national newspaper and an appropriate local newspaper; and no indication is received as to the whereabouts or existence of such member or persons.

The Company shall account to the member or other person entitled to such shares for the net proceeds of such sale.

#### 4. **THE EMI PLAN**

On 5 April 2005 the Company adopted the EMI Plan. The EMI Plan allows the grant of EMI Options.

On 18 April 2005 a number of EMI Options were granted conditionally under the EMI Plan. The grant of these EMI Options will not become unconditional unless Admission occurs.

Further information concerning the grant of the Options is to be found at paragraph 5.2 below. The EMI Plan will be administered by the Board. The principal features of the EMI Plan are as follows:

#### 4.1 *Eligibility*

Any full-time Director and any employee of the Group who devotes a minimum of 25 hours a week (or, if less, three quarters of his committed time under all employments) to the business of the Group is eligible to participate. Actual participation is at the discretion of the Board. Options are personal to the participant and may not be assigned except on the death of the participant, to his personal representatives. Options shall be granted by deed with no consideration payable by the participant.

#### 4.2 *Individual participation limit*

The aggregate market value of Ordinary Shares (measured at the date of grant) of all outstanding options held by any one participant under the EMI Plan and under any other approved company share option scheme or EMI plan adopted or operated by the Company may not exceed £99,990. Options may be granted above this level in the form of an unapproved option, at the discretion of the Board, but to the extent that the value of shares over which such unapproved options are granted exceeds the limit of £99,990, the unapproved options will not benefit from the tax advantages of the EMI Plan.

#### 4.3 *Exercise price of Options*

For any Options granted after Admission, the exercise price will be the higher of the nominal value of an Ordinary Share at the date of grant of the Option and the market value of an Ordinary Share, as agreed with the Inland Revenue.

In respect of the EMI Options granted conditional upon Admission the exercise price is five pence per Ordinary Share. Immediately following Admission, Inland Revenue agreement will be sought that the market value of an Ordinary Share on the date of Admission is not greater than five pence per Share. If the market value of an Ordinary Share is agreed by the Inland Revenue as being greater than 5 pence per Ordinary Share then the exercise price will remain at five pence per Ordinary Share. The difference between the agreed market value and five pence per Ordinary Share will be brought into charge to income tax and national insurance contributions on the exercise of the Options (see paragraph 4.6 below).

#### 4.4 *Exercise and lapse of Options*

Options may normally be exercised within the period of three to ten years after the date of grant. Exceptionally, and subject to the discretion of the Board, Options may be exercised earlier than three years following grant on the cessation of the Option holder's employment. When exercising its discretion, the Board will have regard to the reason for the cessation of employment and the extent to which, in the Board's opinion, the Option holder has contributed to the success of the Company. The Board when exercising its discretion shall be able to determine the number of Ordinary Shares over which the Option is exercisable, the period during which the Option may be exercised and the extent to which any performance targets to which the exercise of the Option is subject, must be achieved (if at all) before the Option may be exercised.

In the case of any Option holder who dies, whether as an employee or not, his Option will lapse no later than twelve months after the date of death.

#### 4.5 *Performance targets*

The Board may impose objective conditions as to the performance of the Group which must normally be satisfied before Options can be exercised. Having granted Options and set a performance target, the Board may vary the performance target provided that the Board reasonably considers that the performance target set no longer represents a fair measure of performance and provided that any new conditions are no more difficult nor easy to satisfy.

It is proposed that in respect of the EMI Options conditionally granted on 18 April 2005 that no Option can be exercised unless the consolidated profit before tax of the Company for any one of the three financial periods ending 30 June 2006, 30 June 2007 and 30 June 2008 is greater than £500,000.

#### 4.6 *PAYE and National Insurance Contributions ("NICs")*

It is a condition of the exercise of an Option that the participant agrees to indemnify his employing company in respect of any tax liabilities (including employers' NICs) arising in connection with an Option.

#### 4.7 *Grant of Options*

For any Options granted after Admission, other than in exceptional circumstances, Options may be granted within 42 days after the announcement of the Company's yearly or half yearly results. Options may only be granted within 10 years of the adoption of the plan.

#### 4.8 *Shares issued on exercise of Options*

Ordinary Shares allotted under the plan rank pari passu with the Company's existing issued Ordinary Shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date the Options are exercised).

#### 4.9 Change of control

In the event of the takeover, amalgamation or reconstruction of the Company, if the performance targets to which the exercise of any Option is subject has been satisfied then that Option may be exercised within six months of such event.

If the performance target has not been satisfied then the exercise of an Option is subject to the discretion of the Board. When exercising its discretion, the Board will have regard to the extent to which the Option holder has contributed to the success of the Company and the performance of the Company since the date of grant of that Option. The Board is able to determine the number of Ordinary Shares over which the Option is exercisable, the period during which the Option may be exercised and the extent to which any performance targets to which the exercise of the Option is subject, must be achieved (if at all) before the Option may be exercised.

In all cases, the Options may with the agreement of the acquiring company and if certain legislative conditions are fulfilled, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

#### 4.10 Variation of share capital

In the event of a variation of share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction of share capital, then the number of Ordinary Shares subject to a subsisting Option and the exercise price may be adjusted.

#### 4.11 Alterations to the EMI Plan

The Board may alter the EMI Plan where the amendment is to comply with or take account of applicable legislation or statutory regulations or any change therein, or to prevent Options granted under the EMI Plan becoming non-qualifying, or to maintain favourable tax treatment for the Company, or participants in the plan, or potential participants.

No alterations may be made to the EMI Plan which would be to the material advantage of participants without shareholder approval, with any alteration to the material disadvantage of the participants requiring their prior written consent.

#### 4.12 Pension rights

None of the benefits which may be received under the EMI Plan shall be pensionable.

#### 4.13 Dilution limits

No Option may be granted on any date if, as a result the total number of Ordinary Shares issued or issuable pursuant to Options granted under the EMI Plan, when added to the number of Ordinary Shares issued or issuable on the exercise of Options granted and the number of Ordinary Shares issued during the previous ten years, under the EMI Plan:

4.13.1 and any other ordinary share option plan operated by the Company would exceed ten per cent of the Company's Ordinary Shares in issue from time to time; or

4.13.2 and any other discretionary share option plan operated by the Company would exceed five per cent of the Company's Ordinary Shares in issue from time to time (including any treasury shares)

and in respect of each of the limits above when considering the limits any treasury shares will be taken into account. However, Options that have lapsed or have been surrendered and the EMI Options conditionally granted on 18 April 2005 shall not be taken into account when considering the limits set out above.

#### 4.14 Liquidation

In the event of notice being given of a general meeting of the Company at which a resolution is proposed for the voluntary winding up of the Company, Options may be exercised even though any performance targets to which the exercise of the Option is subject, has not been achieved. Subject to this, Options shall lapse on the commencement of any liquidation of the Company.

## 5. DIRECTORS AND OTHER INTERESTS

5.1 The interests (all of which are beneficial unless otherwise stated) of the Directors and persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company which (i) have been notified by each director to the Company pursuant to section 324 or section 328 of the Act, or (ii) which are required to be entered in the register maintained under section 325 of the Act, or (iii) so far as the Directors are aware having made due and proper enquiry of such persons as are connected (within the meaning of section 346 of the Act) with each Director, are interests of a connected person of a Director which would, if the connected person were a director of the Company, be required to be disclosed under paragraphs (i) or (ii) above and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director, as (a) at the date of this document and (b) as they will be immediately following Admission, are as follows assuming the Maximum Subscription is placed pursuant to the Placing:

Director	As at the date of this document		Immediately following Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Gary Smith	22,925,000	38.1%	22,925,000 <sup>1</sup>	26.9%
Andrew Brown	4,930,000	8.2%	4,930,000	5.8%
William Hurman	3,190,000	5.3%	3,190,000	3.7%
Andrew McWhirter	—	—	—	—
John James	870,000	1.4%	870,000	1.0%

<sup>1</sup> Includes 3,100,000 held by Mr Smith's wife; 2,610,000 held by Mr Smith as trustee on behalf of his children; 12,180,000 by Edge Venture Capital Ltd, a company in which Mr Smith is the sole shareholder; and 435,000 by the Winchester Entertainment plc Directors Retirement Plan of which Mr Smith is a trustee and the beneficiary.

5.2 The following EMI Options have been conditionally granted to the following Directors under the EMI Plan. The grant of these EMI Options will become unconditional on Admission:

Director	Number of Ordinary Shares under option	Exercise price per Ordinary Share	Exercise period
Gary Smith	1,500,000	5 pence	from 22 April 2008
Andrew Brown	800,000	5 pence	from 22 April 2008
William Hurman	1,000,000	5 pence	from 22 April 2008

EMI Options have been conditionally granted to other employees of the Group under the EMI Plan in respect of an additional 1,700,000 Ordinary Shares. Certain of these optionholders, along with the Directors (and persons connected with them) will represent a Concert Party for the purposes of the City Code.

All of the above Options have been granted for nil consideration.

5.3 Save as disclosed in paragraphs 5.1 and 5.2 above, none of the Directors has any interest in the share capital of the Company or of any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the Act) have any such interest, whether beneficial or non-beneficial.

5.4 So far as the Directors are aware, the only persons (other than any Director) who is or will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company (a) as at the date of this document and (b) immediately following Admission (assuming the Maximum Subscription is issued pursuant to the Placing) are as follows:

5.11 Save as described in paragraph 8 and paragraph 12 of this Part IV and for trade suppliers, no person has at any time within the 12 months preceding the date of this document received, directly or indirectly, from the Company or any other member of the Group or entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more.

5.12 The details of those companies and partnerships outside the Group of which the Directors have been directors or partners at any time during the five years prior to the date of this document are as follows:

Director	Current directorships and partnerships	Past directorships and partnerships
Gary Smith	Base Group plc Digital Sport Group plc Edge Venture Capital Limited Cure Leukaemia Audley Films LLP Three Strikes Limited	Cobalt Media Capital Limited The Feature Film Company Limited Honest Media Limited UK Films Group PLC Optical Image Limited One Sport Limited Birmingham Film and Television Festival Smartnet Limited Beam Media Limited Digital Sport Publishing Limited Winchester Beep Limited Contentfilm plc Winchester Film Distribution Limited Winchester Film & Television Sales Limited Winchester HeartBreakers Limited Winchester Jellabies Limited Winchester Muggers Limited Winchester Music Limited Winchester Pictures Limited Winchester Productions Limited Winchester (Rainbow) Limited Winchester (The Sea Change) Limited Winchester (Wheels) Limited
Andrew Brown	151 Queenstown Road Limited	None
William Hurman	Grosvenor Road Management Limited	None
Andrew McWhirter	Andrew McWhirter Associates Limited	Albermarle Gallery Limited Little Ship Club Limited Little Ship Club (Members) Limited 3S Technology Limited
John James	City of Birmingham Community College Ethos Trading Company Limited	Steel Plate and Sections Limited Janet Lee Books Limited Birmingham Forward Big FM Radio (West Midlands) Limited British American Business Council in the Midlands Marketing Birmingham Limited The Works Retail Limited Quantum PR PLC Birmingham City Pride

5.13 Save as set out in paragraphs 5.14 to 5.16 below, as at the date of this document no Director:

5.13.1 has any unspent convictions in relation to any indictable offences; or

5.13.2 has been bankrupt or entered into an individual voluntary arrangement; or

Company	As at the date of this document		Immediately following Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Shane Limited	2,465,000	4.1%	2,465,000	2.9%
Edge Venture Capital Limited <sup>1</sup>	12,180,000	20.2%	12,180,000	14.3%
Tigerhawk Limited	3,000,000	5.0%	3,000,000	3.5%
Greg Smith	1,975,000	3.3%	1,975,000	2.3%
Christopher Akers	3,000,000	5.0%	3,000,000	3.5%
Addworth Plc	2,500,000	4.2%	2,500,000	2.9%
Hythe Securities Limited	5,000,000	8.3%	5,000,000	5.9%

<sup>1</sup>A Company in which Gary Smith is the sole shareholder

5.5 Save as disclosed in Part I of this document and in paragraphs 5.1 and 5.4 above, the Company is not aware of any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

5.6 In addition to the Options granted (as detailed in paragraph 5.2), the following Warrants to subscribe for Ordinary Shares have been issued for nil consideration conditional upon Admission, all of which will be exercisable at any time between Admission and the third anniversary of Admission:

Company	Number of Ordinary Shares	Exercise price
City Financial Associates Limited	2,000,000	5p
Hansard Communications plc	500,000	5p
Addworth plc	1,000,000	5p
	<u>3,500,000</u>	

5.7 Save as disclosed in paragraphs 3, 5.2 and 5.6 above and 8 below, no share or loan capital of the Company or any of its subsidiary undertakings is under option or agreed conditionally or unconditionally to be put under option.

5.8 Save as set out in this paragraph and 6.7, no Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by the Group in the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

Intandem has signed a Heads of Terms with Noel Gay Media Ltd in relation to an animated feature film provisionally entitled, The Spirit of Old Trafford ("the Film").

Under the terms of that agreement, Intandem is obliged to raise £112,000 for the development of the script and key character designs to be used in the Film.

Intandem has been appointed executive producer and international sales and marketing company and has the right to raise a minimum of 50 per cent of the production budget for the film which is estimated to be £3.2 million.

Intandem has entered into an agreement with Three Strikes Ltd to provide development funds for the film. As Intandem's stated policy is to refrain from investing in film production, Gary Smith founded Three Strikes Ltd to raise finance for the development and production finance for, amongst other projects, The Spirit of Old Trafford. Gary Smith is a director and major shareholder in Three Strikes Ltd.

Intandem has received a fee of £5,000 from Three Strikes Ltd for services rendered in establishing the company. Intandem remains the executive producer and international sales company for the Film.

5.9 No Director has, or has had any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired of by, or leased to, any member of the Group.

5.10 There are no outstanding loans granted by any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.

- 5.13.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
- 5.13.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- 5.13.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or
- 5.13.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.
- 5.14 In February 2002, Gary Smith as a director of Winchester Entertainment plc (now ContentFilm Plc) was the subject of an FSA investigation into a profit warning and share sale. The FSA closed the investigation and confirmed that no further action would be taken.
- 5.15 On 24 June 2004, a county court order was issued against Gary Smith acknowledging that he owed £815,946.55, including costs and interest, to the Inland Revenue in connection with capital gains tax owed on the sale of various shares. Subsequently, Mr Smith paid the total sum due and owing to the Inland Revenue under the order and on 14 March 2005 he received notification in writing from the Inland Revenue that the full amount had been paid.
- 5.16 Andrew McWhirter was a director of 3S Technology Limited, which was the subject of a creditors voluntary winding up and went into liquidation on 3 August 2001. The liquidator's statement of affairs, dated 7 August 2001, revealed an estimated deficiency, as regards members, of £910,852.28. The last liquidators statement of receipts and payments, dated 3 February 2004, revealed a surplus of £151.88 in respect of realisations against disbursements paid. 3S Technology Limited was subsequently dissolved on 20 September 2004.
- 6. DIRECTORS' SERVICE AGREEMENTS, LETTERS OF APPOINTMENT AND EMOLUMENTS**
- 6.1 On 5 April 2005, Gary Smith entered into a service agreement with Intandem Pictures Limited under the terms of which he has agreed to act as the Executive Chairman of the Company for a salary of £120,000 per annum.
- 6.2 On 5 April 2005, Andrew Brown entered into a service agreement with Intandem Pictures Limited under the terms of which he has agreed to act as an Executive Director of the Company for a salary of £80,000 per annum.
- 6.3 On 5 April 2005, William Hurman entered into a service agreement with Intandem Pictures Limited under the terms of which he has agreed to act as an Executive Director of the Company for a salary of £80,000 per annum.
- 6.4 The appointments referred to at paragraphs 6.1 to 6.3 are all for a fixed term of one year from 1 April 2005 and continue thereafter unless either Intandem Pictures Limited or the executive director give at least 6 months' notice to terminate the appointment, such notice to expire on or after the first anniversary of the commencement date.
- 6.5 Following Admission, Gary Smith, Andrew Brown and William Hurman will be entitled to participate in a bonus scheme the terms and amount of which are to be determined at the discretion of the Board.
- 6.6 The salaries of the executive directors referred to in paragraphs 6.1 to 6.3 above will be reviewed twice annually (in September and March) by the Company's remuneration committee. Each of the executive directors are entitled to 25 working days of paid holiday per annum. Their service agreements contain restrictive covenants which are applicable on termination of employment and apply for a period of six months thereafter.
- 6.7 On 6 April 2005, Andrew McWhirter Associates Limited and Andrew McWhirter entered into a consultancy agreement with Intandem Pictures Limited under the terms of which Andrew McWhirter Associates Limited agreed to provide the services of Andrew McWhirter as a finance director to the Company. Pursuant to the agreement the services will be provided for a fixed term of 12 months from 1 July 2004 and the agreement

continues thereafter until terminated by three months' notice by either Andrew McWhirter Associates Limited or Intandem Pictures Limited. Andrew McWhirter Associates Limited will be paid £2,500 per month (plus VAT and expenses) for the provision of Andrew McWhirter's services during the one year fixed term (and thereafter, if applicable). Andrew McWhirter is obliged to devote no less than an average of 25 hours per calendar month to providing services throughout the one year fixed term (and thereafter, if applicable).

- 6.8 John James entered into a letter of appointment with the Company dated 5 April 2005 which sets out the terms of his appointment as a non-executive Director of the Company with effect from 1 March 2005. The appointment is subject to John James' re-election at the next annual general meeting and his satisfactory performance and is terminable on three months' notice by either party. The fee payable for his services as a non-executive Director is £15,000 per annum and is subject to annual review.
- 6.9 Save as disclosed in paragraphs 6.1 to 6.8 above, there are no existing or proposed service agreements or consultancy agreements between any of the Directors and the Company or any Group company which cannot be terminated by the Company or any Group company without payment of compensation within 12 months.
- 6.10 The aggregate of the remuneration paid and benefits in kind (including bonus payments) granted to the Directors by any member of the Group in respect of the financial period from 14 October 2003 to 30 June 2004 was approximately £104,000.
- 6.11 It is estimated that based upon arrangements in force as at the date of this document, the aggregate remuneration to be paid and benefits in kind (excluding bonus payments which remain to be determined by the Board) to be granted to the Directors by any member of the Group for the financial year ending 30 June 2005 will be approximately £310,000.
- 6.12 There are no arrangements under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the financial period from 14 October 2003 to 31 December 2004.

## 7. TAXATION

The following comments are intended as a general guide to current UK tax law and Inland Revenue practice. They are intended only for shareholders who are resident or ordinarily resident in the UK for tax purposes and who hold their Ordinary Shares as investments rather than trading stock and who are the beneficial owners thereof. The position for employees or directors subscribing for shares and warrants under the Placing has not been addressed. Any shareholder who is in any doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

### 7.1 Dividends

- 7.1.1 The Company will not be required to withhold tax at source from dividend payments it makes.
- 7.1.2 Individual shareholders resident in the UK for tax purposes should generally be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their total income tax liability. The amount of the tax credit is one ninth of the amount of the net cash dividend. The amount of the dividend received by such an individual shareholder and the associated tax credit are both included in calculating the individual shareholder's income for UK tax purposes.
- 7.1.3 The rate of income tax on dividends is 10 per cent. for lower and basic rate taxpayers. The tax credit will discharge the income tax liability of an individual shareholder who is not liable to income tax at a rate greater than the basic rate. Higher rate taxpayers will be liable to tax on such dividends at the rate of 32.5 per cent., so that an individual shareholder who is a higher rate taxpayer will have further tax to pay, after taking account of the tax credit, equal to 25 per cent. of the net cash dividend.
- 7.1.4 Generally, shareholders who are not liable to UK tax on dividends are no longer entitled to reclaim the tax credit attaching to dividends paid by the Company. UK Pension funds are not entitled to reclaim any part of the tax credit associated with dividends paid by the Company.
- 7.1.5 A UK resident corporate shareholder will not normally be liable to corporation tax in respect of any

dividend received.

## 7.2 Capital gains

7.2.1 A disposal of Ordinary Shares by a shareholder who is either resident or, in the case of an individual, ordinarily resident for tax purposes in the UK, or is not UK resident but carries on a trade, profession, or vocation in the UK through a branch or agency to which the Ordinary Shares are attributable, may, depending on the shareholder's circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable on his return to UK taxation of chargeable gains (subject to any available exemptions or reliefs).

7.2.2 For UK resident individual shareholders, taper relief may be available to reduce the amount of the gain chargeable to tax. The availability and rate of taper relief will depend upon the period of ownership of the Ordinary Shares and on whether the Ordinary Shares qualify as business assets or not for the individual in question.

7.2.3 For UK resident shareholders within the charge to corporation tax, taper relief is not available but an indexation allowance should be available to reduce the amount of the chargeable gain realised on a disposal of the Ordinary Shares.

## 7.3 Inheritance Tax – Business Property Relief (“BPR”)

Unquoted ordinary shares in trading companies potentially qualify for 100 per cent BPR which gives up to 100 per cent exemption from Inheritance Tax. Where an investor makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax should be payable in respect of the value of the shares, provided the relevant conditions are met. In the case of the Company, any such relief may be unavailable to shareholders if the Company carries on certain excluded activities including the making or holding of investments. BPR is restricted to the extent that the value of any of a company's business includes excepted assets.

## 7.4 Stamp Duty and Stamp Duty Reserve Tax

Stamp duty and stamp duty reserve tax (“SDRT”) treatment under the Placing and in respect of the subsequent transfer of Ordinary Shares will be as follows:

7.4.1 in relation to Ordinary Shares issued by the Company pursuant to the Placing, no liability to stamp duty or SDRT will arise on issue or on the issue of definitive share certificates by the Company;

7.4.2 the transfer of Ordinary Shares will generally be liable to stamp duty at the rate of 50p per £100 of the amount or value of the consideration given rounded up (if necessary) to the nearest £5. An agreement to transfer Ordinary Shares will generally be subject to SDRT at 0.5 per cent. of the agreed consideration. However, if within the period of six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee;

7.4.3 no stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out in 7.4.2 above;

7.4.4 a transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration.

Special rules apply to certain categories of person including intermediaries and persons connected with depository arrangements and clearance services

## 7.5 EIS tax relief

The following information provides an outline only of the EIS. It is strongly recommended that potential investors obtain independent advice from a professional adviser to take into account the effect of the legislation in the context of their particular personal circumstances.

The tax legislation in respect of the EIS income tax and EIS deferral relief is found in sections 289 – 312 ICTA 1988 and schedule 5B TCGA 1992. The following is a summary of the more common conditions and should not be construed as comprehensive.

### 7.5.1 EIS Relief

Income tax relief, CGT deferral relief, CGT exemption relief and loss relief may all be available to investors under the EIS legislation. EIS Relief can be claimed only by a “qualifying investor” (see below) who subscribes for new “eligible shares” (see below) issued by a “qualifying company” (see below).

#### 7.5.1.1 Income tax relief

Individuals who qualify may deduct an amount that is equal to tax at the lower rate of income tax on the amounts subscribed for qualifying shares in qualifying companies from their total liability to income tax for the tax year in which the shares are issued. EIS Relief is obtained at a rate of up to 20 per cent. The maximum investment is £200,000 per tax year. Spouses are entitled to a maximum of £200,000 each. The minimum amount subscribed must be at least £500.

For income tax purposes (but not CGT deferral, see below), the individual does not need to be a UK resident. However, income tax relief is only available where an investor has a UK income tax liability. The amount of income tax relief cannot exceed an individual's tax liability before other reliefs given by way of discharge of tax. Relief is normally given in the tax year in which the individual invests.

#### 7.5.1.2 CGT exemption

To the extent that EIS income tax relief is given and not withdrawn, any capital gain accruing to an individual on the first disposal of the shares issued three or more years after the date of issue (or, if later, three or more years after the anniversary of the date trading commences) is not chargeable to CGT. The exemption does not extend to any gain deferred by CGT deferral (see above).

#### 7.5.1.3 Loss relief

Where an investor incurs a loss on the first disposal of their shares, the loss calculated after deducting EIS income tax relief from the base cost usually may be set against either chargeable gains or taxable income at the election of the investor.

### 7.5.2 “Qualifying Investor” for EIS Income Tax Relief

An individual must not be, nor have been within the previous two years prior to the date of issue of the shares, connected with the Company, or become connected with it within the next three years (or, if later, within the three years following the date of commencement of trading), if they are to retain the tax reliefs. The main rules relating to connection are that:

7.5.2.1 neither the individual nor their associates may be an employee, partner or paid director of the Company (subject to (iii) below) or its subsidiaries. An unpaid director is not disqualified if they are reimbursed travelling or subsistence expenses which would otherwise be allowable for taxation;

7.5.2.2 neither the individual nor their associates may control the Company or possess more than 30 per cent of the issued ordinary share or loan capital or voting powers in the Company or rights carrying entitlements to 30 per cent of the assets available for distribution to equity holders;

7.5.2.3 an individual may become a paid director of the Company provided at the time they subscribe for eligible shares they were not, and had not previously been, otherwise connected with the Company nor with the trade carried on by the Company by reference to (i) or (ii) above. Any remuneration paid to a director must be reasonable.

There is also various anti-avoidance legislation, in particular the value realisation rules. Under these, EIS income tax relief may be reduced or withdrawn where the investor receives any value from the Company. Relief of the investor may also be withdrawn where other shareholders of the Company are repaid capital or receive value from the Company.

#### 7.5.3 *Qualifying Company*

For a period of three years following the issue of the shares (or, if later, three years following the date of commencement of the trade), the Company must only:

7.5.3.1 carry on a qualifying trade; and/or

7.5.3.2 be the parent company of a group which exists wholly, or substantially wholly for the purposes of carrying on qualifying trades; and

7.5.3.3 not be disqualified by anti-avoidance rules.

At least 80 per cent. of the money raised by the issue of qualifying shares must be employed wholly for the purpose of a qualifying business activity within 12 months of the date of the issue of the shares or, if later, the commencement of trade and the balance within 24 months of the date of issue (or commencement of trade, if later).

To be qualifying, the shares of the Company must not be quoted on a recognised stock exchange at the time the eligible shares are issued and no arrangements must exist at that time for the Company to become quoted.

#### 7.5.4 *Eligible Shares*

Eligible EIS shares are new ordinary shares which, throughout the period of 3 years beginning with the date on which they are issued or, if later, the date of commencement of the trade, carry no present or future preferential right to dividends or to the Company's assets on its winding up and carry no present or future right to be redeemed.

#### 7.5.5 *Provisional Approval*

The Company has received from the Inland Revenue provisional approval that the Company will be carrying on a qualifying trade and that the shares to be issued will be "eligible shares". Provisional approval, once given, is indicative but is not binding on the Inland Revenue. The position could also be affected by acts or omissions of the Company during the 3 year period from the issue of the shares (or, if later, the date of commencement of the trade).

#### 7.5.6 *Claims*

Investors claim income tax relief by submitting a tax relief certificate (Form EIS 3) issued to them by the Company to the Inspector of Taxes dealing with their own tax affairs. The claims for relief must be made no later than 5 years after the 31 January following the end of the tax year in which the shares are issued.

#### 7.5.7 *Carry Back of Relief*

For shares subscribed on or after 6 April and before 6 October, up to one half of the investment (up to £25,000) may be effectively carried back to the previous tax year if the relevant claim is made.

#### 7.5.8 *Withdrawal of EIS Relief*

If the conditions for EIS Relief relating to a company cease to be satisfied during the period of three years from the issue of the shares (or, if later, three years from the date of commencement of trade), the relief will be withdrawn. EIS Relief will also be wholly or partly withdrawn if, for example, the claimant receives significant value from the Company (other than dividends) or disposes of the shares within three years of the date of issue (or, if later, within three years of the date of commencement of the trade). EIS Relief will also be lost if an investor takes out a loan under special terms connected in any way with the shares.

#### 7.5.9 *CGT deferral*

CGT deferral enables investors to defer capital gains by reinvesting in qualifying investments. Provided a capital gain realised on any asset is reinvested in new "eligible shares" of a "qualifying company" within 3 years of the disposal giving rise to the gain or not more than 1 year prior to a disposal giving rise to a gain, assessment to tax on the gain arising may be deferred until the qualifying investment is sold or (if within 3 years from subscription, or commencement of trade, if later) otherwise ceases to qualify. At this point, the deferred gain would come back into charge, without the benefit of any additional taper relief.

The legislation, conditions and anti-avoidance rules for deferral relief are broadly similar to those for EIS income tax relief outlined above, but there are differences.

#### 8. **WARRANTS**

The Company has issued for nil consideration, conditional upon Admission, Warrants to subscribe for an aggregate of 3,500,000 Ordinary Shares. The terms of the warrant instrument provide that the Warrants are exercisable at any time from Admission to the third anniversary of Admission. The exercise price payable on exercise of the Warrants is 5 pence per share. Further details of the issue of the Warrants is set out at paragraph 5.6 of this Part IV.

The principal features of the warrant instrument are as follows:

##### 8.1 *Shares issued on exercise of Warrants*

Ordinary Shares allotted pursuant to the Warrants will rank pari passu with the Company's existing issued Ordinary Shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date the relevant Warrants are exercised).

##### 8.2 *Change of control*

In the event of the takeover of the Company, Warrants may be exercised or require the Company to procure that a like offer or invitation for any Warrants is made as if the Warrants had been exercised and as if the Ordinary Shares issued pursuant to such exercise had been issued.

##### 8.3 *Variation of share capital*

In the event of a variation of share capital by way of capitalisation, bonus issue, rights issue, sub-division, consolidation or reduction of share capital, then the number of Ordinary Shares subject to a subsisting warrant and the exercise price may be adjusted.

All or any rights attached to the Warrants may be altered or abrogated with the consent in writing of the Company and either the consent in writing of any warrantholders entitled to subscribe for not less than 75 per cent. of the Ordinary Shares subject to the Warrants or the sanction of an EGM of warrantholders.

##### 8.4 *Winding up*

In the event of a voluntary winding up of the Company each warrantholder shall be entitled to be treated as if he had immediately before the date of passing the resolution fully exercised his rights to acquire Ordinary Shares pursuant to his Warrants and to rank pari passu with the holders of Ordinary Shares. In the event of a reconstruction or amalgamation, the Company will procure that each warrantholder is granted a substituted warrant of a value equivalent to the value of the Warrants immediately prior to such reconstruction or amalgamation.

##### 8.5 *Other provisions*

For so long as any Warrants remain outstanding the Company agrees not to issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to holders of its Ordinary Shares; or within six weeks of the final exercise date make any offer of new Ordinary Shares for subscription or purchase by way of a rights issue; or modify the rights attached to the Ordinary Shares or create any new class of shares with greater rights than the Ordinary Shares (except in accordance with any scheme involving the issue of shares to employees or ex-employees); or (except with the sanction of an EGM of warrantholders or except by the redemption of redeemable shares) reduce by repayment to its shareholders its share capital or any share premium account or capital redemption reserve fund.

**9. WORKING CAPITAL**

The Directors are of the opinion, having made due and careful enquiry, taking into account available bank and other facilities and the net proceeds of the Placing receivable by the Company assuming the Minimum Subscription is issued that the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

**10. SIGNIFICANT CHANGE**

Save as disclosed in Part I of this document, there has been no significant change in the financial or trading position of the Group since 31 December 2004, the date to which the Group's financial statements have been audited for the purposes of the report set out at Part III of this document.

**11. LITIGATION**

No member of the Group is involved in any legal or arbitration proceedings which are having or may have a significant effect on the Group's financial position nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Group.

**12. PLACING AGREEMENT**

By an agreement (being the Placing Agreement) dated 19 April 2005 and made between (1) the Company (2) the Directors and (3) City Financial Associates Limited ("CFA"), CFA has agreed, subject to the fulfilment of certain conditions, to act as agent in co-ordinating and arranging the placing of the Placing Shares at the Placing Price. Such conditions include Admission taking place not later than 8.00am on 22 April 2005 (or such later time and/or date as CFA may agree, being not later than 8.00am on 20 May 2005).

Under the Placing Agreement:

12.1 the Company has agreed to pay CFA, in each case conditional upon Admission, a corporate finance advisory fee of £70,000; and to grant Warrants exercisable over 2,000,000 Ordinary Shares (in each case plus any applicable VAT);

12.2 certain warranties and indemnities have been given to CFA by the Company and certain warranties by the Directors as to the accuracy of the information in this document and as to other matters in relation to the Group and its business;

12.3 each of the Directors has severally agreed not to dispose of any Ordinary Shares (or any interest therein) and to use reasonable endeavours to procure that a person who is a connected person will not dispose of any Ordinary Shares, before the first anniversary of Admission and any disposal of Ordinary Shares by a Director between the first and second anniversaries of Admission will only be made with the Company's broker's consent, not to be unreasonably withheld or delayed; and

12.4 CFA may terminate the Placing Agreement before Admission in certain circumstances, including for material breach of the warranties referred to above and if certain force majeure circumstances or significant events arise before Admission.

**13. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by any member of the Group and are, or may be, material to the Group or have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

13.1 the Placing Agreement as summarised in paragraph 12 of Part IV of this Document;

13.2 a nominated adviser agreement dated 19 April 2005 between the Company and CFA pursuant to which CFA is appointed by the Company to act as nominated adviser for the purposes of the AIM Rules. The Company agrees to pay an annual retainer of £20,000 (plus VAT) (or such other fee as the parties may from time to time agree) which is payable quarterly in advance. The agreement contains certain undertakings and indemnities given by the Company. The agreement is terminable by either party giving not less than 3 months' notice in writing and forthwith in the event of the appointment of a liquidator, receiver,

administrative receiver or administrator over the Group or any part of the Group or in the event of a material breach unremedied within 14 days. CFA can terminate if the Company does not pay any sums due under this agreement, in the event of fraud and if the Company fails to comply with advice given by CFA and such failure CFA reasonably believes could jeopardise or damage the reputation of CFA;

13.3 a broker agreement dated 19 April 2005 between the Company and CFA appointing the Company as broker pursuant to the AIM Rules. The Company agrees to pay an annual fee of £5,000 (plus VAT and expenses or such other fee as the parties may agree from time to time). Such fee is payable quarterly in advance. The agreement terminates by either party giving not less than 3 months notice in writing or in the event of the appointment of a liquidator, receiver, administrative receiver or administrator or in the event of a material breach unremedied 14 days after service of a notice. CFA may terminate forthwith if the Company does not pay any sums due under this agreement, in the event of a fraudulent act by any director or the Company, a breach of laws or regulations and failure to comply with advice that in the reasonable opinion of CFA, could jeopardise or damage the reputation of CFA;

13.4 the Intandem Pictures Limited share purchase agreement dated 7 October 2004 and entered into between Intandem Entertainment Limited and the shareholders of Intandem Pictures Limited in relation to the purchase by Intandem Entertainment Limited of the entire issued share capital of Intandem Pictures Limited in consideration of the issue and allotment of 60,174,000 ordinary shares in Intandem Entertainment Limited, credited as fully paid up;

13.5 the Intandem Entertainment Limited share purchase agreement dated 5 April 2005 and entered into between the Company and the shareholders of Intandem Entertainment Limited in relation to the purchase by the Company of the entire issued share capital of Intandem Entertainment Limited in consideration of the issue and allotment of 60,174,000 Ordinary Shares, credited as fully paid up.

13.6 the sale and purchase agreement dated 5 April 2005 and entered into between Intandem Entertainment Limited (formerly Intandem Films Limited) and the Company for the transfer of the entire issued share capital of Intandem Pictures Limited to the Company. The consideration for the shares in Intandem Pictures Limited was £157,876 and was treated in the books of both of the vendor and purchaser companies as an interest free unsecured loan repayable on demand.

**14. CITY CODE**

After consultation with The Panel on Takeovers and Mergers the parties below have been identified as forming a concert party (the "Concert Party") for the purposes of the City Code as they are considered founder members of the Company.

The Concert Party controls in aggregate 42.1% of the issued share capital of the Company. For so long as the Panel considers the Concert Party exists and assuming that neither any member of the Concert Party disposes of any Ordinary Shares nor that the Company issues any Ordinary Shares which in either case reduces or dilutes the Concert Party's existing shareholding, if the members of the Concert Party were to exercise their options (assuming no other option holders or warrant holder were to exercise their holdings) the Concert Party would control up to 44.9% of the Issued Share Capital of the Company.

**Concert Party**

	Interest in the Ordinary Shares on Admission	
	Ordinary Shares	Options granted
Gary Smith Concert Party (see below)	24,900,000	1,500,000
Andrew Brown, Director	4,930,000	800,000
Billy Hurman, Director	3,190,000	1,000,000
Denise Bridgeman, employee	1,740,000	400,000
Sasha Dein, employee	1,160,000	500,000
	<u>35,920,000</u>	<u>4,200,000</u>
		42.1

**Gary Smith Concert Party**

	Interest in the Ordinary Shares on Admission		Options granted
	Ordinary Shares	%	
Gary Smith	4,600,000	5.4	1,500,000
Samantha Smith (wife of Gary Smith)	3,100,000	3.6	-
Minor children of Gary Smith	2,610,000	3.1	-
Greg Smith (brother of Gary Smith)	1,975,000	2.3	-
Trustees of Winchester Entertainment Plc Director's Retirement Plan* 435,000	12,180,000	14.3	-
Edge Venture Capital Limited**	24,900,000	29.2	1,500,000

\* Gary Smith is a beneficiary

\*\* A Company in which Gary Smith is the sole shareholder

**15. GENERAL**

15.1 The total amount being raised by the Company through the Placing is £1,250,000 assuming the Maximum Subscription is issued pursuant to the Placing. The total costs and expenses of, or incidental to, the Placing and Admission, all of which are payable by the Company, are estimated to be approximately £270,000. The expected net proceeds of the Placing, after deduction of such costs and expenses, is £980,000. No expenses of the Placing are being specifically charged to subscribers or purchasers under the Placing.

15.2 The Placing Price of 5 pence represents a premium of 4.9 pence above the nominal value of 0.1p per Ordinary Share. The Placing Price is payable in full on application.

15.3 The minimum amount which, in the opinion of the Directors, must be raised by the issue of new Ordinary Shares pursuant to the Placing in order to provide the sums required to be provided pursuant to paragraph 21 of Schedule 1 to the Regulations is £900,000 (being the amount which would be raised by the sale of the Minimum Subscription in the Placing) which will be applied as described in Part I of this document.

15.4 The accounting reference date of the Company is 30 June.

15.5 The auditors of the Company are Baker Tilly of 2 Bloomsbury Street, London WC1B 3ST. The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240(5) of the Act. The Group's first statutory accounts for the financial year ended 30 June 2005 have not yet been produced or delivered to the Registrar of Companies in England and Wales. Accordingly, the auditors have not yet reported on such accounts pursuant to section 235 of the Act and no report pursuant to section 249A(2) of the Act has been made.

15.6 The following details are (if applicable) set out in the placing letters sent to prospective investors by City Financial Associates Limited in connection with the Placing: the period during which the offer constituted by the Placing is open; the arrangements for payment for the Placing Shares; the arrangements during the period prior to Admission for the return of monies received from such investors where their applications are not accepted; and the timetable for the return of such monies.

15.7 Baker Tilly has given and has not withdrawn its written consent to the inclusion in this document of its name and the report set out in Part III in the form and context in which it appears.

15.8 City Financial Associates Limited has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

15.9 Copies of this document will be available to the public free of charge at the offices of DLA Piper Rudnick Gray Cary UK LLP, 3 Noble Street, London EC2V 7EE and at the registered office of the Company, from the date of this document until one month after Admission.

**16. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of DLA Piper Rudnick Gray Cary UK LLP, 3 Noble Street, London EC2V 7EE for a period of 14 days from the date of this document:

16.1 the memorandum and articles of association of the Company;

16.2 the audited consolidated financial statements of the Group for the financial period ended 30 June 2004;

16.3 the report by Baker Tilly set out in Part III of this document and the statement of adjustments relating to it;

16.4 the rules of the EMI Plan;

16.5 the warrant instrument referred to in paragraph 8 of this Part IV;

16.6 the Directors' service and consultancy agreements and appointment letter referred to in paragraph 6 of this Part IV;

16.7 the material contracts referred to in paragraph 13 of this Part IV; and

16.8 the letters of consent referred to in paragraph 15 of this Part IV.

Dated 19 April 2005

