

AIR MUSIC & MEDIA GROUP PLC

Company No. 04198290

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2003



Air Music & Media Group PLC

Company Information

Directors

F.J. French - (Non-executive Chairman)
M.D. Frey - (Chief Executive)
M.A. Infante - (Commercial and Marketing Director)
R. Salisbury - (Financial Director)
I. Taylor - (Sales Director)
N. Greenstone - (Non-executive Director)

Secretary

R. Salisbury

Registered Office

Devonshire House
60 Goswell Road
London
EC1M 7AD

Bankers

Barclays Bank Plc
27 Soho Square
London
W1D 3QR

Auditors

Kingston Smith
Middlesex House
800 Uxbridge Road
Hayes
Middlesex
UB4 0RS

Nominated adviser

Seymour Pierce Limited
Corporate Finance
29 - 30 Cornhill
London
EC3V 3NF

Solicitors

Fladgate Fielder
25 North Row
London
W1K 6DJ

Air Music & Media Group Plc

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Air Music & Media Group Plc

Report of the Directors

The directors have pleasure in presenting their report and financial statements for the year ended 31 March 2003.

Principal activities and business review

The principal activities of the group throughout the year were music, film and media licensing and distribution. The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

In December 2002, the company acquired 100% of the share capital of Hollywood DVD Limited. The consideration and basis for accounting for this acquisition is explained in the Notes to the Financial Statements.

Results and dividend

The results of the group for the year are set out on page 4. The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who served the company during the year together with their interests (including family interests) in the shares of the company, at the beginning and end of the year, were as follows:

Ordinary Shares of 2.5p/ of 10p each Air Music & Media Group Plc

	At 31 March 2003	At 1 April 2002
F.J. French	-	-
M.D. Frey	74,480,000	18,620,000
M.A. Infante	31,840,000	7,960,000
R. Salsbury	-	-
I. Taylor	5,600,000	1,400,000
N. Greenstone	-	-

On 20 June 2002 each of the existing ordinary shares of 10p each were subdivided into four ordinary shares of 2.5p each.

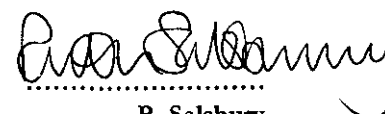
Creditor Payment Terms

The group agrees payment terms with each supplier as part of the terms of the transaction, and then settles sums due to creditors in accordance with the terms agreed. At 31 March 2003, the group had an average of 81 (2002 : 70) days' purchases outstanding with suppliers.

Auditors

Kingston Smith have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act it is proposed that they be re-appointed auditors to the company for the ensuing period.

By Order of the Board


.....
R. Salsbury
Secretary

Devonshire House
60 Goswell Road
London
EC1M 7AD

Dated: 18th JUNE 2003

Air Music & Media Group Plc

Directors' Responsibilities and Report of the Auditors

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group, and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Shareholders of Air Music & Media Group Plc

We have audited the financial statements of Air Music & Media Group Plc for the year ended 31 March 2003 which comprise the Profit and Loss Account, the Balance Sheets, Cash Flow Statement and related notes. These financial statements have been prepared under the historical cost convention and 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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party 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 the directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 the directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

Air Music & Media Group Plc

Directors' Responsibilities and Report of the Auditors

Independent Auditors' Report to the Shareholders of Air Music & Media Group Plc (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Kingston Smith
Chartered Accountants
and Registered Auditors

Middlesex House
800 Uxbridge Road
Hayes
Middlesex
UB4 0RS

Dated: 18th June 2003

Air Music & Media Group Plc

Consolidated Profit and Loss Account

For the year ended 31 March 2003

	Note	Existing Activities 2003 £	Acquisition 2003 £	Total 2003 £	Total 2002 £
Group Turnover - Continuing activities	2	5,116,180	2,915,855	8,032,035	4,374,373
Cost of sales		<u>(3,240,482)</u>	<u>(2,111,653)</u>	<u>(5,352,135)</u>	<u>(2,307,951)</u>
Gross Profit - Continuing activities		1,875,698	804,202	2,679,900	2,066,422
Administrative expenses		(1,319,126)	(356,725)	(1,675,851)	(1,373,920)
Other Operating Income		-	-	-	130,000
Group Operating Profit - Continuing activities	3	<u>556,572</u>	<u>447,477</u>	1,004,049	822,502
Interest receivable and similar income	4			1,738	2,162
Interest payable and similar charges	5			<u>(97,126)</u>	<u>(20,893)</u>
Profit on ordinary activities before taxation				908,661	803,771
Taxation	7			<u>(315,869)</u>	<u>(280,912)</u>
Retained Profit for the financial year	20(a)			<u>592,792</u>	<u>522,859</u>
Basic earnings per share	8			<u>0.42p</u>	<u>0.43p</u>

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

Air Music & Media Group Plc

Consolidated Balance Sheet at 31 March 2003

	Notes	2003		2002	
		£	£	£	£
Fixed Assets					
Intangible assets	10	8,809,484		3,071,330	
Tangible assets	11	<u>77,907</u>		<u>46,865</u>	
			8,887,391		3,118,195
Current Assets					
Stocks	13	1,811,002		670,084	
Debtors	14	3,300,487		1,407,987	
Cash at bank and in hand		<u>1,223,425</u>		<u>268,788</u>	
		6,334,914		2,346,859	
Creditors : Amounts falling due within one year	15	<u>(5,202,582)</u>		<u>(1,953,224)</u>	
Net Current Assets			<u>1,132,332</u>		<u>393,635</u>
Total Assets less Current Liabilities			10,019,723		3,511,830
Creditors : Amounts falling due after more than one year	16		(5,791,782)		(1,720,000)
Provision for liabilities and charges					
Deferred tax	21		<u>(2,228)</u>		<u>(142,727)</u>
Net Assets			<u><u>4,225,713</u></u>		<u><u>1,649,103</u></u>
Capital and Reserves					
Called Up Share Capital - equity interests	20(a)		4,124,543		3,043,383
Share Premium	20(a)		1,267,733		365,075
Profit and loss account	20(a)		1,633,233		1,040,441
Merger Reserve	20(a)		<u>(2,799,796)</u>		<u>(2,799,796)</u>
Shareholders' Funds	20(a)		<u><u>4,225,713</u></u>		<u><u>1,649,103</u></u>

Approved by the board on 18 June 2003

M Frey
M Infante Directors

Air Music & Media Group Plc

Company Balance Sheet at 31 March 2003

	Notes	2003		2002	
		£	£	£	£
Fixed Assets					
Investments	12		9,953,876		3,843,534
Current Assets					
Debtors	14	2,006,841		-	
Cash at bank and in hand		<u>669,336</u>		<u>-</u>	
		2,676,177		-	
Creditors : Amounts falling due within one year	15	<u>(1,600,346)</u>		<u>(435,076)</u>	
Net Current Assets/(Liabilities)			<u>1,075,831</u>		<u>(435,076)</u>
Total Assets less Current Liabilities			11,029,707		3,408,458
Creditors : Amounts falling due after more than one year	16		(5,791,782)		-
Net Assets			<u>5,237,925</u>		<u>3,408,458</u>
Capital and Reserves					
Called up share capital - equity interests	20(b)		4,124,543		3,043,383
Share Premium	20(b)		1,267,733		365,075
Profit and loss account	20(b)		<u>(154,351)</u>		<u>-</u>
Shareholders' Funds	20(b)		<u>5,237,925</u>		<u>3,408,458</u>

Approved by the board on 18th June 2003

M Frey

M Infante..... Directors

Air Music & Media Group Plc

Consolidated Cashflow Statement For the year ended 31 March 2003

	2003	2002
	£	£
Net Cash inflow from Operating Activities (Note 1)	823,200	652,763
Returns on Investments and Servicing of Finance		
Interest received	1,738	2,162
Interest paid	<u>(97,127)</u>	<u>(20,893)</u>
Net Cash Outflow from Returns on Investments and Servicing of Finance	(95,389)	(18,731)
Taxation		
Corporation tax paid	<u>(206,580)</u>	<u>(156,302)</u>
Tax paid	(206,580)	(156,302)
Capital Expenditure and Financial Investment		
Payments to acquire tangible fixed assets	(33,054)	(26,650)
Receipts from sale of tangible fixed assets	5,267	-
Payments to acquire intangible fixed assets	<u>(396,362)</u>	<u>(2,176,264)</u>
Net Cash Outflow from Capital Expenditure and Financial Investment	(424,149)	(2,202,914)
Acquisitions and disposals		
Purchase of Subsidiary Undertaking	(860,342)	(434,853)
Net cash acquired with subsidiary	<u>1,478</u>	<u>94,057</u>
Net Cash Outflow from Acquisitions and Disposals	(858,864)	(340,796)
Financing		
Issuing of Ordinary Share Capital	1,650,000	-
Expenses paid in connection with share issue	(416,182)	-
Bank Loan Receipts	-	1,880,000
Repayments of long term debt	(1,880,000)	-
New secured loan repayable 2009	1,812,359	-
Repayments of long term debt	(223,855)	-
New short-term borrowings	<u>650,000</u>	<u>-</u>
	<u>1,592,322</u>	<u>1,880,000</u>
Increase/(Decrease) in Cash in the year	<u>830,540</u>	<u>(185,980)</u>

Air Music & Media Group Plc

Notes to the Consolidated Cashflow Statement

For the year ended 31 March 2003

1	Reconciliation of Operating Profit to		2003	2002
	Net Cash Inflow from Operating Activities		£	£
	Operating profit		1,004,049	822,502
	Depreciation charges		40,475	21,954
	Amortisation of intangible assets		364,883	220,818
	Loss on disposal of tangible assets		3,767	-
	(Increase) in stock		(142,507)	(34,800)
	(Increase)/Decrease in debtors		(82,658)	206,452
	(Decrease) in creditors within one year		(359,443)	(584,163)
	Net effect of foreign exchange differences		(5,366)	-
	Net Cash Inflow from Operating Activities		823,200	652,763
2	Analysis of Net Debt	At 1.4.2002	Movement	At 31.3.2003
		£	£	£
	Cash in hand, at bank	268,788	954,637	1,223,425
	Overdraft	(326,421)	(124,097)	(450,518)
		(57,633)	830,540	772,907
	Debt due within one year	(160,000)	160,000	-
	Debt due after one year	(1,720,000)	1,720,000	-
	Debt due within one year (Note 16)	-	(946,722)	(946,722)
	Debt due after one year (Note 16)	-	(1,291,782)	(1,291,782)
		(1,880,000)	(358,504)	(2,238,504)
	Total	(1,937,633)	472,036	(1,465,597)
3	Reconciliation of cash flow to movement in net debt		2003	2002
			£	£
	Increase/(Decrease) in cash in the year		830,540	(185,980)
	Change in net debt resulting from cashflows		(358,504)	(1,880,000)
	Net (debt)/funds at beginning of the year		(1,937,633)	128,347
	Net (debt) at the end of the year		(1,465,597)	(1,937,633)
4	Purchase of Subsidiary Undertakings		2003	2002
			£	£
	Net assets acquired:			
	Tangible assets		47,714	4,098
	Stock		998,411	110,757
	Debtors		2,034,687	522,370
	Cash at bank		1,478	94,057
	Creditors: Amounts falling due within one year		(2,667,478)	(590,396)
	Creditors: Amounts falling due after more than one year		(11,687)	-
			403,125	140,886
	Goodwill		5,707,217	902,424
			6,110,342	1,043,310
	Satisfied by:			
	Shares Allotted		750,000	608,457
	Cash (including expenses)		860,342	434,853
	Deferred consideration		4,500,000	-
			6,110,342	1,043,310

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements For the year ended 31 March 2003

1 Principal Accounting Policies

Accounting basis and standards

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The accounting policies are unchanged from the previous year.

Basis of Consolidation

The Group accounts consolidate the accounts of Air Music & Media Group Plc and all its subsidiary undertakings up to the balance sheet date, as detailed in Note 12. The purchase of Hollywood DVD Limited has been accounted for in accordance with acquisition accounting principles, and hence shows the results since acquisition on 18 December 2002.

Turnover

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

Depreciation

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

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

Intangible Fixed Assets

Music and film production catalogues and rights, associated artwork and masters are capitalised as intangible fixed assets in the Group Balance Sheet and are amortised by equal annual amounts over between 3 and 20 years, as appropriate.

Goodwill

Goodwill arising on acquisitions is capitalised and amortised over the Directors' estimate of its expected useful life, restricted to 20 years, in accordance with FRS10.

Stocks

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

Deferred taxation

Full provision has been made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, calculated at a rate at which it is estimated that tax will be payable in accordance with FRS19.

Leased Assets

Assets held under finance leases and hire purchase contracts are capitalised in the Balance Sheet and depreciated over their expected useful lives. The interest element of the rental obligations is charged to the Profit and Loss Account over the period of the lease on a straight line basis.

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

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

Royalties

Royalties due to the Mechanical Copyright Protection Society are calculated and accounted for on the basis of pressings made.

Other royalties are accounted for, where relevant, when the sale is made.

Foreign Currencies

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

Pension scheme arrangements

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

2 Turnover

2003	2002
£	£

Principal Activities:

Distribution and manufacture of media products - continuing activities

8,032,035	4,374,373
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The geographical analysis of turnover is as follows:

	2003	2002
	£	£
United Kingdom	4,034,043	1,366,485
Europe	1,498,998	1,450,894
North America	2,009,309	1,142,128
Africa	27,650	6,122
Asia	26,870	4,026
Rest of the World	435,165	404,718
	<u>8,032,035</u>	<u>4,374,373</u>

3 Operating Profit

2003	2002
£	£

The operating profit is stated after charging:

Auditors' remuneration	24,000	19,778
Auditors remuneration - non audit services	102,325	37,103
Depreciation - owned tangible fixed assets	40,475	21,954
Amortisation - Goodwill	123,424	25,466
Amortisation - Intangible assets	241,459	195,352
Loss on Foreign Exchange	64,532	9,293
Other operating lease rentals	92,391	73,500
Aborted Flotation and Acquisition costs	-	55,822
	<u>-</u>	<u>55,822</u>

4 Interest Receivable and similar income

2003	2002
£	£

Bank interest received

1,738	2,162
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Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

5	Interest Payable and similar charges	2003	2002
		£	£
	Bank overdraft and loan interest	94,708	19,764
	Interest on overdue taxation	1,738	1,129
	Other interest	680	-
		<u>97,126</u>	<u>20,893</u>

6	Directors and Employees	2003	2002
		£	£
	Total directors' remuneration	<u>421,034</u>	<u>370,256</u>

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

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

Their total remuneration was:

	2003	2002
	£	£
Wages and salaries	855,400	615,313
Social Security costs	80,207	54,841
Other pension costs	-	3,000
Compensation for loss of office	-	15,000
	<u>935,607</u>	<u>688,154</u>

The number of directors receiving contributions into a money purchase scheme is 0 (2002 : 1)

For the highest paid director:

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

During the year, the group paid £15,750 (2002 : £nil) to N. Greenstone in respect of his role as non-executive director.

During the year, the group paid £24,000 (2002 : £24,000) to J. French in respect of his role as non-executive Chairman.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

7	Taxation	2003 £	2002 £
	(a) Analysis of charge in year		
	Current tax:		
	UK Corporation tax on profits of the year	283,354	231,289
	Foreign Tax	30,736	43,042
	Adjustment in respect of prior year	5,030	5,031
	Total current tax (Note 7(b))	319,120	279,362
	Deferred tax:		
	Origination and reversal of timing differences	(3,251)	1,550
	Tax on profit on ordinary activities	315,869	280,912
	(b) Factors affecting tax charge for the year		
	Profit on ordinary activities before tax	908,659	803,771
	Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2002 : 30%)	272,598	241,131
	Effects of:		
	Expenses not deductible for tax purposes	26,388	53,479
	Depreciation for year in excess of capital allowances	1,410	1,550
	Utilisation of tax losses	19,984	(4,997)
	Adjustments to tax in respect of previous years	5,030	5,031
	Other tax differences	(6,290)	(16,832)
	Current tax charge for the year (Note 7(a))	319,120	279,362

8 Earnings per Share

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

No fully diluted earnings per share has been presented as the deferred consideration is not dilutive at the balance sheet date.

9 Profit for the Financial year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements. The group profit for the financial year of £592,792 (2002 : £522,859) includes a loss of £154,351 (2002 : £nil) which is dealt with in the financial statements of the company.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

10 Intangible Assets

	Goodwill £	Catalogue Rights, Licences, Masters and Artwork £	Total Group £
Cost			
At 1 April 2002	857,963	2,802,522	3,660,485
Exchange difference		(875)	(875)
Additions due to acquisition of Hollywood DVD Limited	5,707,217	-	5,707,217
Additions	-	396,362	396,362
At 31 March 2003	<u>6,565,180</u>	<u>3,198,009</u>	<u>9,763,189</u>
Amortisation			
At 1 April 2002	25,466	563,689	589,155
Exchange difference		(333)	(333)
Charge for the year	123,424	241,459	364,883
At 31 March 2003	<u>148,890</u>	<u>804,815</u>	<u>953,705</u>
Net Book Value			
At 31 March 2003	<u>6,416,290</u>	<u>2,393,194</u>	<u>8,809,484</u>
At 31 March 2002	<u>832,497</u>	<u>2,238,833</u>	<u>3,071,330</u>

11 Tangible Fixed Assets

	Group £	Fixtures, Fittings and Other Assets Company £
Cost		
At 1st April 2002	112,927	-
Additions due to acquisition of Hollywood DVD Limited	64,143	-
Exchange difference	(371)	-
Additions	33,054	-
Disposals	(15,000)	-
At 31 March 2003	<u>194,753</u>	-
Depreciation		
At 1 April 2002	66,062	-
Additions due to acquisition of Hollywood DVD Limited	16,429	-
Exchange difference	(154)	-
Charge for the year	40,475	-
Disposals	(5,966)	-
At 31 March 2003	<u>116,846</u>	-
Net Book Value		
At 31 March 2003	<u>77,907</u>	-
At 31 March 2002	<u>46,865</u>	-

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

12 Investments - Company

	Cost and Net Book Value at 1.4.2002	Additions	Cost and Net Book Value at 31.3.2003
Shares in group undertakings:			
Air Music & Media Limited	2,800,000	-	2,800,000
Legacy Entertainment Inc.	1,043,410	-	1,043,410
1276353 Ontario Limited	22	-	22
Clifford Asset Management Limited	100	-	100
London Media Securities Limited	2	-	2
Hollywood DVD Limited	-	6,110,342	6,110,342
	<u>3,843,534</u>	<u>6,110,342</u>	<u>9,953,876</u>

The company holds more than 10% of the share capital of the following:

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

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

A summary of the assets and liabilities of Hollywood DVD Limited is shown in Note 4 to the Cash Flow Statements. No fair value adjustments were considered necessary. Goodwill of £5,707,217 has arisen on this purchase taking account of a fair estimate of the deferred consideration.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

12 Investments - Company (continued)

The summarised profit and loss account for Hollywood DVD Limited from 1 October 2002 to the date of acquisition, was as follows:

	Hollywood DVD Limited £
Turnover	1,886,991
Cost of Sales	(1,366,553)
Gross Profit	520,438
Administrative Expenses	(496,346)
Net Profit before taxation	24,092

The profit after tax for the year ended 30 September 2002 was £379,033.

13 Stocks

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Raw materials	-	-	27,283	-
Work in progress	4,593	-	12,384	-
Finished goods	1,806,409	-	630,417	-
	<u>1,811,002</u>	<u>-</u>	<u>670,084</u>	<u>-</u>

14 Debtors

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Trade debtors	2,575,408	-	1,169,493	-
Amounts owed from group undertakings	-	1,993,576	-	-
Other debtors	95,245	3,340	97,569	-
Prepayments and accrued income	629,834	9,925	140,925	-
	<u>3,300,487</u>	<u>2,006,841</u>	<u>1,407,987</u>	<u>-</u>

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Notes to the Consolidated Financial Statements (Continued) For the year ended 31 March 2003

15 Creditors : Amounts falling due within one year	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Net obligations under hire purchase contracts	14,258	-	-	-
Bank loans and overdrafts	1,397,240	1,301,015	486,421	-
Trade creditors	2,106,485	19,127	805,565	-
Amounts owed to group undertakings	-	270,204	-	435,076
Corporation tax	633,122	-	245,804	-
Social security and other taxes	345,953	-	11,724	-
Other creditors	30	-	13,530	-
Accruals and deferred income	705,494	10,000	390,180	-
	<u>5,202,582</u>	<u>1,600,346</u>	<u>1,953,224</u>	<u>435,076</u>

The companies in the group have given unlimited cross guarantees, as part of a collective net overdraft facility to secure the bank liabilities of each other.

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

The maximum potential liability for the company at the balance sheet date was £nil (2002 : £2,163,500).

The group companies party to the charges and the guarantees are:

Air Music & Media Group Plc
Air Music & Media Limited
Select Entertainment Limited
Going for a Song Limited

16 Creditors : Amounts falling due after more than one year	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Bank loans and overdrafts	1,291,782	1,291,782	1,720,000	-
Other creditors - deferred consideration	4,500,000	4,500,000	-	-
	<u>5,791,782</u>	<u>5,791,782</u>	<u>1,720,000</u>	<u>-</u>
Amounts repayable by instalments:				
In less than one year	946,722	946,722	160,000	-
In more than one year but not more than two years	256,577	256,577	160,000	-
In more than two years but not more than five years	730,732	730,732	480,000	-
In more than five years	<u>304,473</u>	<u>304,473</u>	<u>1,080,000</u>	<u>-</u>

17 Controlling Party

There is no one controlling party.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued) For the year ended 31 March 2003

18 Transactions With Directors

During the year, the group was invoiced £104,024 (2002 : £46,641) by Fladgate Fielder, a firm of solicitors in which N. Greenstone (a non-executive director of the company) is a partner.

19 Future Financial Commitments

(a) Operating Leases

At 31st March 2003 the group had annual commitments under operating leases as set out below:

	Group		Group	
	2003	2003	2002	2002
	Land and	Other	Land and	Other
	Buildings		Buildings	
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	-	7,683
In second to fifth years	39,000	34,049	19,376	33,549
After five years	<u>27,365</u>	<u>-</u>	<u>27,365</u>	<u>-</u>

At the year end the company did not have any operating lease commitments.

Air Music & Media Group Plc

20 (a) Shareholders' Funds - Group

2003 Group	Profit and Loss Account £	Share Capital £	Share Premium £	Merger Reserve £	Total £
At 1 April 2002	1,040,441	3,043,383	365,075	(2,799,796)	1,649,103
Shares issued on acquisition of Hollywood DVD Limited	-	318,660	431,340	-	750,000
Shares issued during the year	-	762,500	471,318	-	1,233,818
Retained profit for the year	592,792	-	-	-	592,792
At 31 March 2003	1,633,233	4,124,543	1,267,733	(2,799,796)	4,225,713

During the year, the company issued 18,000,000 2.5p Ordinary shares for cash, at 5p per share and 12,500,000 2.5p ordinary shares for cash at 6p per share to raise net funds of £1,233,818. The funds raised were used to provide additional working capital for the group.

2002 Group	Profit and Loss Account £	Share Capital £	Share Premium £	Merger Reserve £	Total £
Shares issued on acquisition of Air Music and Media Limited	-	2,800,000	-	-	2,800,000
Shares issued on acquisition of Legacy Entertainment Inc.	-	243,383	365,075	-	608,458
Excess of par value of shares issued over par value of merged company	-	-	-	(2,799,796)	(2,799,796)
Reserves of merged company	517,582	-	-	-	517,582
	517,582	3,043,383	365,075	(2,799,796)	1,126,244
Profit retained for year	522,859	-	-	-	522,859
	1,040,441	3,043,383	365,075	(2,799,796)	1,649,103

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

20 (b) Shareholders' Funds - Company

2003	Profit and Loss Account £	Share Capital £	Share Premium £	Total £
At 1 April 2002	-	3,043,383	365,075	3,408,458
Shares issued in the year	-	1,081,160	902,658	1,983,818
Loss for the year	(154,351)	-	-	(154,351)
At 31 March 2003	(154,351)	4,124,543	1,267,733	5,237,925

The share capital comprises:

Authorised:

400,000,000 Ordinary shares of 2.5p each/
50,000,000 Ordinary shares of 10p each

2003 £	2002 £
10,000,000	5,000,000

Called up, allotted and fully paid:

164,981,720 Ordinary shares of 2.5p each/
30,433,830 Ordinary shares of 10p each

4,124,543	3,043,383
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Shareholders' Funds - Company

2002	Profit and Loss Account £	Share Capital £	Share Premium £	Total £
Shares issued in the year	-	3,043,383	365,075	3,408,458
Profit for the year	-	-	-	-
	-	3,043,383	365,075	3,408,458

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

21 Provisions for Liabilities and Charges - Group and Company

Deferred taxation

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

Group	2003 Amount provided £	2003 Potential liability £	2002 Amount provided £	2002 Potential liability £
Chargeable gain rolled over	-	-	137,248	137,248
Accelerated Capital allowances	2,228	2,228	5,479	5,479
	<u>2,228</u>	<u>2,228</u>	<u>142,727</u>	<u>142,727</u>

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

Company

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

22 Financial Instruments

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

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

The main risks arising from the group's financial instruments are interest risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the 1 April 2002.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows in the desired currencies at both fixed 3 months in advance and floating rates of interest. The group's policy is to keep between 60% and 75% of its borrowings at 3 monthly fixed rates of interest. At the year end 71% of the group's borrowings were at 3 monthly fixed rates.

Liquidity risk

As regards liquidity, the group's policy has, throughout the year, been to ensure continuity of funding. At least 10% of its borrowings should mature in more than five years. At the year end 14% of the group's borrowings were due to mature in more than five years.

Short term flexibility is achieved by overdraft facilities.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 March 2003

Foreign currency risk

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

About one third of the sales of the group's UK business is to customers outside of the UK. Those sales are priced and invoiced in sterling.

Interest rate risk profile of financial assets and financial liabilities

Financial Assets

The interest rate profile of the group's financial assets (excluding short-term debtors) at 31 March 2003 was :-

Currency	Total £	Fixed rate financial assets £	Financial assets on which no interest is received £
Sterling	732,657	400,000	332,657
Euro	2,700	-	2,700
Canadian dollar	250,810	-	250,810
US dollar	237,258	-	237,258
Total	1,223,425	400,000	823,425

The fixed rate financial asset is a 4 month treasury deposit that bears interest at 3.075% p.a.

Financial liabilities

The interest rate profile of the group's financial liabilities at 31 March 2003 was:

Currency	Total £	Floating rate financial liabilities £	3 Month fixed rate financial liabilities £
Sterling	2,689,022	1,101,663	1,587,359

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

Currency exposures

As at 31 March 2003 the group had no material currency exposure.

Air Music & Media Group Plc

Notes to the Consolidated Financial Statements

For the year ended 31 March 2003

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 March 2003 was as follows:

	2003 £	2002 £
In one year or less, or on demand	1,397,240	486,241
In more than one year but not more than two years	256,577	160,000
In more than two years but not more than five years	730,732	480,000
In more than five years	304,473	1,080,000
	<u>2,689,022</u>	<u>2,206,241</u>

Borrowing facilities

The group has no undrawn committed borrowing facilities.

Fair values of financial assets and financial liabilities

Both book values and fair values of the group's financial assets and liabilities are not considered to be materially different as at 31 March 2003.

	Book value and fair value £
Primary financial instruments held or issued to finance the group's operations	
Short-term financial liabilities and current portion of long-term borrowings	(1,397,240)
Long-term borrowings	(1,291,782)
Financial assets	<u>1,223,425</u>