

MBL Group plc

**Directors' report and consolidated
financial statements**

Registered number 4198290

31 March 2011

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Chairman's Statement

The Group has experienced an immensely challenging period both during the financial year ended 31 March 2011 and subsequent to the announcement of the termination of the contract relating to the Group's major customer in April 2011

During the period sales revenues were static at £195.3m and operating profit before exceptional items reduced to £1.5m from £9.9m, representing a fall of £8.4m. The Group has reported a loss before tax of £21.2m with exceptional items of £22.7m being charged in the year.

Summary of results

	2011 £ m	2010 £ m
Revenue	195.3	194.9
Reported operating (loss)/profit	(21.2)	9.9
Operating profit before exceptional items	1.5	9.9
Exceptional items		
Goodwill impairment	(17.0)	-
Property lease termination costs	(1.2)	-
Tangible fixed asset impairment	(2.1)	-
Investments impairment	(1.9)	-
Restructuring and severance costs	(1.2)	-
Release of relocation provision	0.7	-
	(22.7)	-
Reported operating (loss)/profit	(21.2)	9.9
Net interest	(0.0)	(0.0)
Reported (loss)/profit before tax	(21.2)	9.9
Profit before tax before exceptional items	1.5	9.9
Exceptional items	(22.7)	-
Reported (loss)/profit before tax	(21.2)	9.9
Basic EPS (pence)	(121.4)p	40.3p
Adjusted basic EPS (pence)	5.5p	40.3p

Operational Performance

The Distribution business experienced a very difficult trading year being adversely affected by changes within the proposition of its major customer, which comprised 79% of Group sales, 80% of the volume, and shortfalls in sales to other customers. The primary change was an increased concentration of sales of chart titles, which generated a much lower gross margin and led to a significant increase in the level of product returned and the associated overhead costs. The Group's gross margin fell to 7.5% from 11.1% in the prior year.

Regretfully, the Group experienced the premature termination of business relations with its major customer in April 2011. The Group has continued to invest in the new direct routes to market of digital, eCommerce and retail during the year which has contributed to increased operating costs during the period. Whilst management had been working towards the need to reduce the customer concentration and invest in alternative opportunities, the execution of this strategy has been hindered by the impact of the premature termination.

Chairman's Report *(continued)*

The home entertainment market continued to be affected by high price competition from online retailers and supermarkets and this has affected sales to a proportion of the Group's customers. The Distribution business has also experienced increased competition from some of our suppliers directly offering their own propositions to the retail customer.

Termination of major contract

As previously announced, the Group had been informed that its major customer intended to exercise the early break clause on its supply contracts with MBL in September 2011, but that MBL had been invited to tender for the provision of home entertainment logistics services. The customer had also proposed to explore the viability of a Joint Venture with MBL for home entertainment products, utilising the proposed new purpose built site for this standalone business entity.

On 14 March 2011 the Board was informed that the customer had chosen to purchase products directly and would be utilising a third party for its ongoing home entertainment logistics services and the six months notice period was served on MBL.

The announcement that MBL had lost the contract led to the immediate withdrawal of the Group's bank facility and the withdrawal of credit insurance covering MBL, which resulted in the loss of credit limits from major suppliers. Due to this severe restriction in credit the remaining six month period became impossible for MBL to service and, as a consequence, on 4 April 2011 it was mutually agreed to terminate the contracts prematurely.

The difficult circumstances that have had to be managed following the termination have been a serious setback to the future plans of the Group. Management has focused on mitigating as far as possible the effects of the contracts loss as follows:

- Attention toward stock and creditor management to ensure that the Group remains solvent
 - An agreement was reached in April 2011 with the major credit insurers and suppliers to repay on a weekly basis outstanding account balances over a two month period. As at August 2011, all major supply accounts within the Distribution business without queries have been repaid in full and supply continues in many cases on a 'cash with supply' basis.
 - The Group's balance of stock has been significantly mitigated by the Group, utilising and negotiating supplier stock returns allowances and the use of clearance routes. As at August 2011, the Group's total gross stock has been reduced to £5.4m.
- An immediate downsizing of operations commenced with those employees whose roles were directly assigned to the transfer of services being either made redundant or transferred to the new provider during April and May 2011. Regrettably, MBL was obliged to take responsibility for some employees and associated costs that should have transferred with these contracts. A further restructuring exercise was undertaken in June. The total headcount reduction has been 50% across the Group.
- The Group announced in March that it intended to seek a disposal of all or parts of the business. This activity has led to advanced talks to dispose of part of the Group which is no longer considered key to the Group's operations.
- The 15 year lease entered into in 2008 for a new purpose built distribution and office facility has been terminated. The Board has agreed to pay the sum of two year's rent, £1.2 million, as an exit fee.

A dialogue continues with the customer in relation to two outstanding issues which are as follows:

- The debtor position with the customer has largely unwound in line with credit terms, however a balance remains that is subject to continued negotiation.
- Discussion has been entered into with the customer regarding the stock balances attributable to the contracts however the issue of the remaining stock balance remains unresolved.

The Board's intention remains to resolve the remaining issues in a manner that is in the best interests of the Group.

Chairman's Report *(continued)*

Exceptional Items

During the year the Group has recognised several exceptional expenses

Goodwill of £17 million had been recognised in the accounts in relation to the acquisition of Redworth Limited in 2004. The principle trading entity that this goodwill relates to is Music Box Leisure, the Distribution business. In light of the loss of its main customer, and the current challenges within its market, it was considered appropriate for the goodwill to be written down to nil.

The Group has exited its commitment for a new purpose built site for the sum of £1.2 million. This sum will be paid in instalments during this and the following financial year and avoids the obligation to occupy a larger and more expensive property and the associated costs of relocation.

The Group has undertaken a review of its fixed asset investments and, in particular, the assets that were acquired to service the significant volume increases it had experienced since 2008. As a result, machinery, fixed assets and investment in IT have been impaired within the Distribution business of £1.7 million. A further review has been undertaken within the Digital business, and as a result a further £0.4 million of development assets have been impaired.

The Group's investment in U Explore has been evaluated in response to the decision to potentially divest the Digital business. The investment in U Explore was entered into on the basis that synergies between the two businesses could be exploited which would lead to new opportunities for the Digital business. It is acknowledged that prima facie the investment in U Explore appears to have taken place at a high valuation. The rationale for this investment is that the Board were of the opinion that, notwithstanding the potential growth of U Explore in its own right, opportunities were to be gained in the education and Digital market which underpinned the investment decision. As a result of the changes in the Group's financial circumstances the Board considers it inappropriate to continue with the level of investment required to develop its Digital business. As a consequence, the Board's expectations have been revised, however the underlying value of this investment is considered to be a minimum value of £0.4 million.

A further investment impairment of £0.3 million has been recognised in relation to the purchase of the domain name www.bee.com. Although the transactional website became operational in December 2010, the Board believes that this investment cost should be expensed rather than capitalised as a matter of accounting policy.

The restructuring and severance costs incurred following the termination of the Group's main contract have been recognised and amount to £1.2 million.

Cash generation

The Group has maintained its ability to generate good operating cash flows throughout the financial year and been able to manage its working capital post year end whilst under pressure. At the year end the Group has cash balances of £3.5 million and did not have any debt. As at August 2011, the Group continues to have cash balances of £2.0 million to manage its operations within, despite the withdrawals of the limit within its bank facility and credit insurance.

Current trading and outlook

The Group has been reviewing its business plan following the substantial downsizing in operations and the increasing challenges of operating within the home entertainment market. The remaining trade continues to perform to expectations but with increasing pressure on gross margins.

The Board is focused on stabilising the business and are reviewing the investment requirements that are necessary for the less established business operations. It is anticipated that this may lead to further divestment of operations.

Peter Cowgill
Non-Executive Chairman

26 August 2011

Operating Review

The Group has experienced a very challenging year and continues to find the industry it operates within difficult. The consequences of the loss of the Group's major customer earlier this year has created a demanding environment and the Board has been reviewing each operating segment in detail to refocus the operating plan.

Strategy

The home entertainment industry is increasingly price competitive as more consumers look to purchase online and from supermarkets. This is considered to have had an impact on both the Group's Distribution and Wholesale divisions. The Group has invested in direct to consumer routes to market during the last year and initial indications are positive.

Distribution

Music Box Leisure

Music Box Leisure has historically been central to the Group and its customers are exclusively in the "non traditional" sector, for example supermarkets, discount retailers and motorway service centres, rather than conventional high street CD, DVD and Games retailers.

During the year external revenue decreased by 4.3% to £174.1 million from £182.0 million. The decrease was due to the ongoing challenges within the home entertainment industry as a whole. The increase in concentration of 'chart' products continued during the year, which generate lower margins than 'back catalogue' titles and as a result gross margins for the Group have fallen to 7.4% from 11.1%.

The loss of its main customer post year end has had a significant impact on Music Box Leisure as it adjusts to the substantial downsizing that followed. The termination was not managed over the expected notice period and led to a period where the business was absorbing the overhead required to service 79% of the Group's turnover without the associated sales revenue. The business continues to manage the downsizing process and to rationalise its own overhead and support contracts to reflect the lower volume levels.

Music Box Leisure provides a comprehensive supply service to its customers, which includes bespoke category management, labelling, point of sale, promotional offers and merchandising support. The future strategy is to deliver the customer a sustainable, competitive offer and a customer service experience within the commercial constraints of this sector.

Wholesale

MBL Direct ("MBLD")

MBLD is a wholesaler primarily to independent and internet retailers. The independent retail sector has experienced difficult times over the last few years.

External revenue at MBLD increased to £8.3 million from £8.0 million, although this has been at lower gross margins. MBLD competes on stock availability and price. The Group are presently reviewing how to develop and sustain this business within the present challenging environment.

Windsong International Limited ("WI")

WI is well known throughout the industry as an exporter of specialist and rare title CDs and DVDs.

WI experienced a successive good year and has grown its external sales from £4.7 million to £9.0 million.

Digital and eCommerce

Global Media Vault ("GMV")

Global Media Vault is a digital distributor of home entertainment titles and was acquired in 2009. Throughout the financial year extensive investment was made within this business to continue to support the development of its technological capabilities and key contracts. During the financial year GMV developed and launched an eCommerce platform with a major UK retailer which provides physical home entertainment products.

The change in circumstances within the Group has led the Board to consider that the investment required to continue to support GMV's development costs is too great and as a consequence the decision has been made post year end to seek a divestment of this business.

Operating Review *(continued)*

MBL 2010 Limited ("Bee.com")

In December 2010 the Group launched a direct to consumer website www.bee.com. Bee.com sells predominantly home entertainment products. In the financial year to March 2011, revenue was £0.3 million.

Retail

The Group commenced a small trial of three retail stores in 2010 which sell home entertainment products and accessories. The Board recognises the risk associated with long term leases and as such was unwilling to commit to additional stores until it was proven that the store proposition and locations were correct. As at August 2011, two stores remain which have been rebranded to the name 'Bee.com' to complement the investment in the direct to consumer website. The proposition has been adapted to offer the consumer the facility to trade in used titles and early signs are positive. We are presently in negotiation to open further stores.

The Board continues with a cautious approach to all future activities in order to conserve cash and ensure that only those opportunities that give the maximum return with calculated risk are pursued.

The impact the substantial downsizing has had on the morale and stability of the Group's employees cannot be ignored. In these difficult times I would like to thank the team for their ongoing support whilst the restructuring process is implemented. We remain committed to ensuring the Group recovers from these events.

Trevor Allan
Chief Executive

26 August 2011

Financial Review

Financial highlights

The Group experienced a very tough trading environment during the year and although sales remained static at £195.3 million (2010 £194.9 million), extreme pressure on gross margins due to an increased concentration of sales of lower margin 'chart' titles, general pricing challenges and increased overhead costs to support new business streams, resulted in operating profit before exceptional items falling to £1.5 million (2010 £9.9 million)

The consequences of the loss of the Group's major customer led to a number of exceptional items being recognised in the year which total £22.7 million. The exceptional items are detailed within the Chairman's Statement.

Trading results

Activity	31-Mar 2011	31-Mar 2010	Change	31-Mar 2011	31-Mar 2011	31-Mar 2010	Change compared to adjusted Operating profit
	Sales	Sales		Operating profit reported	Operating profit adjusted	Operating profit Reported	
	£ million	£ million		£ million	£ million	£ million	
Distribution	174.1	182.0	(4.3)%	(15.0)	5.4	10.0	(46.0)%
Wholesale	17.3	12.7	36.2%	0.5	0.5	0.2	150.0%
eCommerce and Digital	1.6	0.1	1500%	(3.3)	(3.0)	(0.2)	(1400.0)%
Retail	2.2	-	-	(0.7)	(0.7)	-	-
Other	0.1	0.1	-	(2.7)	(0.7)	(0.1)	(600.0)%
	195.3	194.9	0.2%	(21.2)	1.5	9.9	(84.8)%

Cash flow, working capital and borrowing facilities

Cash generation throughout the year remained positive and net cash from operating activities was £3.9 million (2010 £6.8 million). The cash reserves have supported the strategy to diversify the Group's operations and at the year end the business remained without external debt.

Following the announcement in March 2011 that the Group had received notice that its major customer would end its contracts with Music Box Leisure in September 2011, the Group experienced an immediate loss of supplier, bank and credit insurance confidence. As a consequence post year end the Group has had to manage working capital very carefully and the unwind of the working capital balances of creditors, debtors and stock associated with this customer.

The Group has managed to repay all major supplier balances but remains in a position of securing the majority of product supplies through the payment of cash in advance. It is not anticipated that this situation will improve until the business has a track record that its remaining operations are trading successfully.

The Group has managed to significantly reduce its stock balances by negotiating returns allowances with its major suppliers which has contributed to the reduction in supplier balances outstanding and in reducing the risk of aged and excess stock.

The withdrawal of the bank's confidence in the business resulted in MBL terminating its sales finance facility agreement in May 2011 to avoid incurring further facility charges. The Board continues to review its requirement for additional finance and its potential availability in line with the ongoing review of the business operations.

Taxation

The Group's effective tax rate was (1.29)% compared to 29.8% in 2010.

Financial Review *(continued)*

Summary

The Group has experienced a very challenging period both during the financial year to March 2011 and the current financial year. The Group has focused its attention on managing working capital to ensure that the Group remains solvent following the rapid loss of a significant volume of business.

The Board is in the process of prioritising the resources available to support the development of its future operations and continues to review and reduce its cost base in line with the downsized operations.

Lisa Clarke
Financial Director

26 August 2011

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 March 2011

Principal activities and Business review

The principal activities of the Group throughout the year were the distribution of audio, visual and other entertainment products. A review of the business of the Group for the financial year is detailed as follows

Chairman's Statement (pages 1 to 3)

Operating Review (pages 4 to 5)

Financial Review (page 6 to 7)

Results

Revenue for the year ended 31 March 2011 was £195.3 million and loss before tax was £(21.2) million compared to £194.9 million and a profit before tax of £9.9 million in the previous financial year. The fall in profit after tax is due to increased pressure on gross margins and the loss of a major contract at the year end and the subsequent impairment of assets. The consolidated statement of comprehensive income is set out on page 14.

Dividend

The Directors do not propose a payment of a final dividend (2010: 7.5 pence per share)

Directors

The Directors who held office during the year were as follows

P. A. Cowgill

T. S. Allan

L. S. Clarke

The Director retiring by rotation at the next Annual General Meeting is Peter Cowgill and, being eligible, offers himself for re-election.

Directors' Interests

The interests of the Directors who held office at 31 March 2011 are shown below

	31 March 2011	Ordinary shares of 75p each 31 March 2010
PA Cowgill	200,000	200,000
TS Allan	4,520,399	4,520,399
LS Clarke	12,500	12,500
	<u>4,732,899</u>	<u>4,732,899</u>

There have been no changes in Directors' interests since the year end.

Substantial Interests in Share Capital

Other than those disclosed above, the only other substantial holdings in the Company at the year end were as follows

Sefton Group plc	2,087,579	12.07%
General Portfolio Management Limited	1,519,333	8.78%
T. L. Allan	1,467,682	8.49%
J. M. Allan	733,831	4.24%
Ennismore Fund Management Limited	660,933	3.82%
Artemis Investment Management Limited	515,000	2.98%

Creditor Payment Terms

The Group's policy is to agree payment terms with each supplier as part of the terms of the transaction and then settle the sum due to creditors in accordance with the terms agreed. At 31 March 2011, the Group had an average of 32 days (2010: 32 days) purchases outstanding with suppliers.

Directors' report *(continued)*

Employees

The Group is committed to promoting equal opportunities in employment regardless of employees' gender, colour, race, creed, marital status, ethnic origin or disability. Recruitment, promotion and employee development are based on the suitability of any applicant.

Charitable donations

The Group made charitable donations of £200 during the year (2010: £nil).

Disclosure of information to auditors

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

Principal risk and uncertainties

All businesses are exposed to some risk and many of these risks are common to any business regardless of the market in which it operates. However, the Directors consider that the following risks are more specific to the Group and the markets in which it operates.

Technological advancements The Group sells home entertainment products which could in time become obsolete or consumer preferences may favour digital formats in the future. The Group counters this by offering customers new formats as they become available and by focusing in part on the 'non chart' impulse titles.

Customers purchasing direct from suppliers We have seen some of our customers' competitors purchasing directly from suppliers. To manage this risk, the Group offers where possible a fully bespoke merchandised solution to our customers.

Seasonality The Group's trade is seasonal with the critical trading period for sales and profitability being the Christmas period. Lower than expected performance during this period can have an adverse effect on results for the full year. The Directors manage this risk by managing stock and working capital levels tightly during this period.

Price competition the home entertainment market is highly price competition which can erode gross margins. The group sources product from a variety of suppliers to counter this and reviews the liability of existing contracts on the basis of customer expectations and market conditions.

The Group secures product supply through discretionary uninsured trading limits, substantial advance payments on account. Close management of working capital is key to the success of the Group.

The Directors, having considered the current trading prospects, identifiable risks, working capital requirements and the availability of finance are of the opinion that the Group and Company are going concerns. The accounts have been prepared on this basis.

The Directors consider that the risks noted above are the most significant to the Group but these do not necessarily comprise all risks to which the Group is exposed. In particular, the Group's performance could be adversely affected by poor economic conditions. Additional risks and uncertainties currently unknown to the Directors, or which the Directors currently believe are immaterial, may also have a material adverse effect on its business, financial condition or prospects.

At the Annual General Meeting the Chairman will give an update on the current trading position.

Directors' report *(continued)*

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Annual general meeting

The Annual General Meeting is to be held at the company's registered office, Unit 9, Enterprise Court, Lancashire Enterprise Business Park, Centurion Way, Leyland, PR26 6TZ on Monday 26 September 2011 at 10 00am

Special business at the Annual General Meeting

Under resolution 6, it is proposed in accordance with section 551 of the Companies Act 2006, to renew the Directors' authority to allot shares in the company up to a nominal amount of £4,324,020, representing one third of the issued share capital of the Company

Resolution 7 seeks to renew, in accordance with section 570 of the Companies Act 2006, the Directors' authority to allot further shares for cash without first offering them to existing shareholders under the statutory pre-emption procedure. This authority is limited to the issue of equity securities in connection with rights issues and otherwise up to a nominal amount of £648,603, representing approximately 5% of the Company's present issued share capital

The authorities contained in resolutions 6 and 7 will both expire at the conclusion of the Annual General Meeting of the company to be held in 2012 or 15 months after the passing of such resolutions (whichever is the earlier)

The Directors consider that it is appropriate for these authorities to be granted. It is not the Directors' present intention to allot any ordinary shares except to satisfy options that may be exercised under the Company's share option schemes

Under resolution 8, it is proposed to give the Company authority to purchase up to 1,729,606 ordinary shares, representing 10% of its present issued share capital. The Directors consider it to be in the best interests of the Company that it should be authorised to exercise this power and purchase its ordinary shares within the above limit. Whilst the Directors have no immediate plans to make such purchases, they would, in any event, only do so if they believe the effect of any such purchase would increase the earnings per share of the remaining issued share capital. The authority contained in resolution 8 will expire at the conclusion of the Annual General Meeting of the company to be held in 2012

By order of the board



Lisa Clarke
Secretary

Unit 9
Enterprise Court
Lancashire Enterprise Business Park
Centurion Way
Leyland
PR26 6TZ

26 August 2011

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent auditors' report to the members of MBL Group plc

We have audited the financial statements of MBL Group plc for the year ended 31 March 2011 set out on pages 14 to 52

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the basis of preparation note to the financial statements concerning the Group's and the Company's ability to continue as a going concern. In particular, given the significant change in the Group's business strategy and the embryonic state of its reorganisation following the loss of a major customer, achievement of cash flow forecasts is uncertain and any material shortfall would mean the group would need to obtain funding and there are no facilities currently in place for this.

These conditions, along with other matters explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Group and the Company were unable to continue as a going concern.

Independent auditors' report to the members of MBL Group plc (*continued*)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

26 August 2011

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2011

	<i>Note</i>	2011 £000	2011 £000	2010 £000	2010 £000
Revenue	2		195,301		194,868
Cost of sales			(180,713)		(173,209)
Gross profit			14,588		21,659
Distribution expenses			(1,944)		(2,100)
Administrative expenses - normal		(11,118)		(9,650)	
Administrative expenses - exceptional	3	(22,767)		-	
Administrative expenses			(33,885)		(9,650)
Operating (loss)/profit	2		(21,241)		9,909
Operating profit before exceptional items			1,526		9,909
Exceptional items			(22,767)		-
	2		(21,241)		9,909
Financial income	7		20		19
Financial expenses	7		(45)		(53)
Net financing costs			(25)		(34)
(Loss)/profit before tax	4		(21,266)		9,875
Profit before tax before exceptional items			1,501		9,875
Exceptional items			(22,767)		-
			(21,266)		9,875
Taxation income/(expense)	8		275		(2,940)
Total comprehensive (expense)/income for the year			(20,991)		6,935
Basic and diluted (loss) / earnings per share	10		(121 4p)		40 3p

Consolidated Statement of Financial Position
at 31 March 2011

	<i>Note</i>	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	<i>12</i>	1,224	2,430
Intangible assets	<i>13</i>	1,066	17,822
Other investments	<i>14</i>	400	-
Deferred tax assets	<i>15</i>	590	334
		<u>3,280</u>	<u>20,586</u>
Current assets			
Inventories	<i>16</i>	13,324	19,812
Trade and other receivables	<i>17</i>	16,324	9,774
Cash and cash equivalents	<i>18</i>	3,510	5,801
		<u>33,158</u>	<u>35,387</u>
Total assets		<u><u>36,438</u></u>	<u><u>55,973</u></u>
Current liabilities			
Other financial liabilities	<i>19</i>	1	74
Trade and other payables	<i>20</i>	19,823	17,828
Tax payable		1,472	1,505
Provisions	<i>21</i>	943	678
		<u>22,239</u>	<u>20,085</u>
Non-current liabilities			
Other financial liabilities	<i>19</i>	-	1
Provisions	<i>21</i>	600	-
		<u>600</u>	<u>1</u>
Total liabilities		<u><u>22,839</u></u>	<u><u>20,086</u></u>
Net assets		<u><u>13,599</u></u>	<u><u>35,887</u></u>
Equity attributable to equity holders of the parent			
Share capital	<i>23</i>	12,972	12,972
Share premium	<i>23</i>	21,531	21,531
Reserves	<i>23</i>	(2,800)	(2,800)
Retained earnings	<i>23</i>	(18,104)	4,184
		<u>13,599</u>	<u>35,887</u>
Total equity		<u><u>13,599</u></u>	<u><u>35,887</u></u>
Total equity and liabilities		<u><u>36,438</u></u>	<u><u>55,973</u></u>

These financial statements were approved by the Board of Directors on 26 August 2011 and were signed on its behalf by



Lisa Clarke
Director

Registered number 4198290

Consolidated Statement of Changes in Equity
for year ended 31 March 2011

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total £000
At 1 April 2009	12,872	21,454	(2,800)	(1,722)	29,804
Profit for the year	-	-	-	6,935	6,935
Total income for the year	-	-	-	6,935	6,935
Share options exercised	40	1	-	-	41
Shares issued	60	76	-	-	136
Share based payment	-	-	-	9	9
Equity dividends	-	-	-	(1,038)	(1,038)
At 31 March 2010	12,972	21,531	(2,800)	4,184	35,887
Loss for the year	-	-	-	(20,991)	(20,991)
Total income and expense for the year	-	-	-	(20,991)	(20,991)
Share options exercised	-	-	-	-	-
Shares issued	-	-	-	-	-
Share based payment	-	-	-	-	-
Equity dividends	-	-	-	(1,297)	(1,297)
At 31 March 2011	12,972	21,531	(2,800)	(18,104)	13,599

Shares issued

During the year ended 31 March 2010, 80,000 ordinary shares of £0.75 were issued to the shareholders of Global Media Vault Limited as part of the consideration on acquisition. The shares were valued at the market price of £1.70 per share.

Consolidated Statement of Cash Flows

for year ended 31 March 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
(Loss)/profit for the year		(20,991)	6,935
Adjustments for			
Depreciation	12	762	1,160
Amortisation of intangible assets	13	263	83
Impairment of goodwill	13	17,000	-
Impairment of other intangible assets	13	600	-
Impairment of tangible assets	12	1,790	-
Impairment of investments	14	1,610	-
Financial income	7	(20)	(19)
Financial expense	7	45	53
Loss on sale of property, plant and equipment		350	1
Share option charge	22	-	9
Taxation	8	(275)	2,940
		1,134	11,162
(Increase)/decrease in trade and other receivables		(6,550)	1,383
Decrease/(increase) in inventories		6,488	(2,706)
Increase/(decrease) in trade and other payables		2,861	(511)
		3,933	9,328
Tax paid		(15)	(2,519)
Net cash outflow from operating activities		3,918	6,809
Cash flows from investing activities			
Interest received		20	19
Proceeds from sale of property, plant and equipment		11	3
Acquisition of intangible assets	13	(1,107)	-
Acquisition of property, plant and equipment	12	(1,707)	(2,188)
Cash consideration for acquisition of subsidiary		-	(665)
Cash acquired on acquisition of subsidiary		-	252
Acquisition of investments	14	(2,010)	-
Net cash outflow from investing activities		(4,793)	(2,579)
Cash flows from financing activities			
Interest paid		(45)	(43)
Payment of finance lease liabilities		(74)	(33)
Inception of new lease liabilities		-	8
Proceeds from issue of new ordinary shares		-	41
Dividends payable		(1,297)	(1,038)
Net cash outflow from financing activities		(1,416)	(1,065)
Net (decrease)/ increase in cash and cash equivalents		(2,291)	3,165
Cash and cash equivalents at 1 April		5,801	2,636
Cash and cash equivalents at 31 March	18	3,510	5,801

Notes

(forming part of the financial statements)

1 Accounting policies

MBL Group plc (the "Company") is a company incorporated and domiciled in the United Kingdom

The consolidated financial statements represent those of the Company and its subsidiaries (together referred to as the "Group")

The financial statements were approved by the Board of Directors on 26 August 2011

Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 46 to 52

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons

As per the Chairman's statement, in April 2011 the Group lost its major customer who accounted for 79% of the Group's revenue Following this, the Group rationalised the business in order to mitigate as far as possible the effects of the contract loss As part of the new business strategy being implemented the Group expects further rationalisation measures significantly reducing the Groups overhead costs

The Group meets its working capital requirements through cash payments made in advance to suppliers following the loss of credit terms with a number of key suppliers The Group had cash balances of £3.5 million and £2.0 million as at 31 March and 25 August 2011 respectively and currently do not have a bank overdraft or loan facilities

The Directors have prepared cash flow forecasts to 31 March 2013 taking into account the revised strategy for the Group These forecasts show the Group to be cash positive throughout the next 19 months and make a number of assumptions around revenue and profitability of the remaining business activity Furthermore, the Group are also in the late stages of negotiations to dispose of two of its subsidiaries At the time of approval of these financial statements negotiations are ongoing and so the disposal is conditional upon final agreement of the terms of the deal, including the sale price This potential cash inflow has not been assumed in the forecast

Nevertheless, the directors believe that the general economic conditions will continue to present challenges Given the significant change in the Groups business strategy and the embryonic stage of its reorganisation there can be no certainty in relation to these forecast cash flows Any material shortfall will mean that Group would need to obtain funding and as noted above there are currently no facilities in place

Accordingly the directors believe that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and Company's ability to continue as a going concern and it may be unable to continue to realise their assets and discharge their liabilities in the normal course of business The financial statements do not contain any adjustments that would result from the basis of preparation being inappropriate

Notes (continued)

1 Accounting policies (continued)

New standards and interpretation not applied

With effect from 1 April 2010, the Group adopted the following amendments to existing standards

IFRS 3, *Business Combinations*, introduces changes in the accounting treatment of acquisitions, such as the accounting for acquisition-related costs, the initial recognition and subsequent measurement of contingent consideration, and business combinations achieved in stages. The change in accounting policy has been applied prospectively and has not had a material impact on reported results. The impact on future years will depend on the specific acquisitions undertaken, and

Amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires that acquisitions of non-controlling interests that do not result in a change of control are accounted for as transactions with equity holders and, therefore, no goodwill is recognised as a result. The change in accounting policy has been applied prospectively and has not had a material impact on reported results.

A number of new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC but are not yet effective for the year ended 31 March 2011, and therefore have not yet been adopted by the group but will be applied prospectively.

IAS 24, *Related Party Disclosures*, is effective for years commencing on or after 1 January 2011 and will amend the definition of a related party. The potential impact on the Group's accounts will be dependent on the specific transaction.

IFRS 9, *Financial Instruments*, is effective for years commencing on or after 1 January 2013. If endorsed, this standard will simplify the classification of financial assets for measurement purposes but is not anticipated to have a significant impact on the financial statements.

Amendment to IFRS 7, *Financial Instruments Disclosures* is applicable for years commencing on or after 1 January 2011 and 1 July 2011. This amendment relates to disclosure requirements and is not anticipated to have a significant impact on the financial statements.

The IASB May 2010 issued *Improvements to IFRSs*, a collection of amendments to seven standards, will be applied prospectively from the effective date of years beginning on or after 1 January 2011.

The financial statements are presented in sterling, rounded to the nearest thousand. The financial statements have been prepared under a historical costs basis, as modified for financial assets and liabilities at fair value through the consolidated statement of comprehensive income.

Basis of consolidation

The Group financial statements comprise the financial statements of the Company and all of its subsidiary undertakings made up to the financial year end. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies are consistently applied throughout the Group. Inter-company balances and transactions have been eliminated. Material profits from inter-company sales, to the extent that they are not yet realised outside the Group, have also been eliminated.

Notes (continued)

1 Accounting policies (continued)

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following areas:

Note 12 Tangible fixed assets

Note 13 Intangible assets

Note 14 Investments

Note 16 Inventories

Note 17 Trade and other receivables

Note 21 Provisions

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated statement of comprehensive income.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

a Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items

b Leased assets

Assets funded through finance leases are capitalised as property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of the fair value and the present value of the minimum lease payments. Future instalments under such leases, net of financing costs, are included within interest bearing loans and borrowings. Rental payments are apportioned between the finance element, which is included in finance costs, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the consolidated statement of comprehensive income on a straight line basis over the life of the lease.

Lease incentives are credited to the consolidated statement of comprehensive income on a straight line basis over the life of the lease.

c Depreciation

Depreciation is charged to the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Leasehold properties	-	over the lease term
Improvements to leasehold properties	-	over the lease term
Plant and machinery	-	10% - 33 3% per annum on straight line basis
Fixtures and fittings	-	10% - 33 3% per annum on straight line basis
Computer equipment	-	10% - 33 3% per annum on straight line basis
Motor vehicles	-	25% per annum on straight line basis
Rental stock	-	33 3% per annum on straight line basis

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the average costing principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

Notes (continued)

1 Accounting policies (continued)

Intangible assets

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as at

- the fair value of the consideration, plus
- the recognised amount of any non-controlling interests in the acquire, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire, less
- the net recognised amount of the identifiable assets acquired and liabilities assumed

When the excess is negative, negative goodwill is recognised immediately in the Consolidated Income Statement.

In respect of business acquisitions between 1 April 2006 and 31 December 2009 goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

The classification and accounting treatment of business combinations that occurred prior to 1 April 2006 have not been reconsidered in preparing the Groups opening adopted IFRS balance sheet at 1 April 2006.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is stated at cost less any accumulated losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment. The CGUs used are Distribution, E-commerce and other. The recoverable amount is compared to the carrying amount of the CGU including goodwill. The recoverable amount of a CGU is determined based on value-in-use calculations.

In respect of acquisitions prior to 1 April 2006, goodwill is included at 1 April 2006 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, amortisation of goodwill has ceased as required by IFRS 3. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The following useful lives have been determined for intangible assets:

Intellectual property	-	3 years
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Revenue

Revenue represents the invoiced value of goods sold net of customer returns (which include estimates of returns after the balance sheet date), rebates and settlement discounts and is net of value added tax.

Revenue from the sale of goods is recognised in the consolidated statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

Customer rebates are calculated on net sales over predefined annual periods. Settlement discounts are deducted from the payment of invoices, less credit notes, made by customers.

Revenue from the licensing of film and music rights represents the invoiced value of royalties net of value added tax.

Notes (continued)

1 Accounting policies (continued)

Exceptional items

Items that are, in aggregate, material in size and unusual or infrequent in nature, are included within operating profit and disclosed separately as exceptional items in the consolidated statement of comprehensive income

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the consolidated statement of comprehensive income, helps provide an indication of the Group's underlying business performance. The principle items which will be included as exceptional items are

- Impairment of goodwill
- Impairment of tangible assets
- Impairment of other intangible assets
- Impairment of non-current other assets
- Provision for rentals on onerous property leases
- Provisions for re-organisation

Taxation

Tax comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax on the following temporary differences are not recognised: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Dividends

Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established.

Notes (continued)

1 Accounting policies (continued)

Impairment of assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive income.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

i) Calculation of recoverable amount

The recoverable amount of the Group's investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Capital management

Group and Company's capital includes share capital, reserves and retained earnings. The Group and Company's policy is to maintain the ability to continue as a going concern, in order to provide returns to the shareholder and benefits to other stakeholders. The Group, and Company, invest in financial assets that will provide an adequate level of return to the shareholder commensurate with the level of risk.

The Group and Company manages the capital structure and adjusts this in light of the changes in the economic conditions and risk associated with the underlying assets. In order to maintain or adjust the capital structure, the Group and Company may adjust the amount of any dividend paid to the shareholder, return capital to the

Notes (continued)

1 Accounting policies (continued)

shareholder, issues new shares, or sell assets. The Group, and Company, are not subject to any externally imposed capital requirements. There have been no material changes in the management of capital during the period.

Operating segments

The segments disclosed in Note 2 reflect the Group's management and internal reporting structure and the trading subsidiaries of the Group.

The Group comprises the following main business segments:

<i>Distribution</i>	The distribution, merchandising and sale of home entertainment products (primarily pre-recorded films, music and computer and console games) to general retailers for whom these products are not the primary focus of the retailer.
<i>Wholesale</i>	The sale of home entertainment products to specialist independent and internet retailers.
<i>Digital / Ecommerce</i>	Digital distribution of home entertainment titles and the sale of home entertainment products to the end consumer via the internet.
<i>Retail</i>	The sale of home entertainment products via retail outlets.
<i>Other</i>	A combination of revenue streams including the acquisition or license of film and music rights for manufacture, sale and download.

Expenses

Royalties

Royalties are calculated on the basis of sales made with the exception of fixed fee arrangements which are accounted for on an equal basis over the period of the relevant agreement.

Operating lease payments

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised in the consolidated statement of comprehensive income as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Financing income and expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the consolidated statement of comprehensive income.

Interest income and interest payable is recognised in the consolidated statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the consolidated statement of comprehensive income on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the consolidated statement of comprehensive income using the effective interest rate method.

Employee benefits

Defined contribution pension

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the consolidated statement of comprehensive income.

Notes (continued)

1 Accounting policies (continued)

Share based payments

The Group operates an HM Revenue and Customs approved Enterprise Management Incentive ('EMI') share option scheme which allows Group employees to acquire shares of the ultimate parent company, these awards are granted by the ultimate parent. The grant of the options is at the discretion of the Directors. In addition two further schemes were introduced in the prior year, being the Company Share Option Plan ('CSOP') and the Long Term Incentive Plan ('LTIP'). The granting of options in these schemes is also at the discretion of the Directors.

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

Notes (continued)

2 Segmental analysis

The Group has adopted IFRS 8 Operating Segments in 2010 and disclose five main reporting segments, being Distribution, Wholesale, Digital and eCommerce, Retail and Other activities. This disclosure correlates to the internal reporting performance information that Operational Management and the Board of Directors review to operating profit level. The categories also correlate with the business activities of the trading subsidiary companies of the Group.

A new segment for Retail has been included due to the setting up of Big Retail Limited during the year.

Certain overheads of the Group, financial income/expenses and taxation are only accounted for and reported at Group level and these expenses have not been allocated to a segment.

Revenue is mainly derived from UK based customer sales with less than 5.4% (2010: 3.3%) of revenue from customers in Europe and overseas.

Intersegment transactions are undertaken in the ordinary course of business on a cost recovery basis.

All assets are located in the UK.

Consolidated statement of comprehensive income for year ended 31 March 2011:

	Distribution £000	Wholesale £000	Digital and eCommerce £000	Retail £000	Other £000	Total £000
Gross revenue	184,940	18,239	1,568	2,174	172	207,093
Intersegment revenue	(10,893)	(887)	-	-	(12)	(11,792)
Revenue	174,047	17,352	1,568	2,174	160	195,301
Operating profit/(loss) before exceptional and central costs	5,417	547	(2,966)	(726)	221	2,493
Exceptional items	(20,444)	-	(388)	-	(1,935)	(22,767)
Central costs	-	-	-	-	(967)	(967)
Operating profit/(loss)	(15,027)	547	(3,354)	(726)	(2,681)	(21,241)
Net financing expense						(25)
Taxation income						275
Loss for the period						(20,991)
Total assets and liabilities						
Total assets	29,123	2,817	2,929	998	379	36,246
Goodwill	-	-	192	-	-	192
Total liabilities	(20,322)	(730)	(1,165)	(234)	(388)	(22,839)
Total segment net assets/(liabilities)	8,801	2,087	1,956	764	(9)	13,599
Capital Expenditure						
Intangible assets	-	-	751	-	356	1,107
Tangible fixed assets	1,299	11	301	89	7	1,707
Depreciation	561	54	54	63	30	762
Amortisation	-	-	263	-	-	263
Impairment charges						
Goodwill	17,000	-	-	-	-	17,000
Intangible assets	-	-	275	-	325	600
Tangible fixed assets	1,678	-	112	-	-	1,790
Investments	-	-	-	-	1,610	1,610

Notes (continued)

2 Segmental analysis (continued)

Reconciliation to loss before income tax:

	£000
Reportable segment profit	2,493
Central costs	(967)
Exceptional items	(22,767)
Net finance expense	(25)
	<hr/>
Loss before tax	(21,266)
	<hr/>

Consolidated statement of comprehensive income for year ended for the year ended 31 March 2010

	Distribution £000	Wholesale £000	Digital and eCommerce £000	Retail £000	Other £000	Total £000
Gross revenue	189,474	13,009	427	-	346	203,256
Intersegment revenue	(7,485)	(350)	(350)	-	(203)	(8,388)
Revenue	<hr/> 181,989	<hr/> 12,659	<hr/> 77	<hr/> -	<hr/> 143	<hr/> 194,868
Operating profit/(loss) before exceptional and central costs	10,059	166	(211)	-	401	10,415
Exceptional items	-	-	-	-	-	-
Central costs	-	-	-	-	(506)	(506)
Operating profit/(loss)	<hr/> 10,059	<hr/> 166	<hr/> (211)	<hr/> -	<hr/> (105)	<hr/> 9,909
Net financing expense						(34)
Taxation expense						(2,940)
Profit for the period						<hr/> 6,935
<i>Total assets and liabilities</i>						
Total assets	34,247	2,577	692	-	1,296	38,812
Goodwill	17,000	-	161	-	-	17,161
Total liabilities	(18,703)	(458)	(343)	-	(582)	(20,086)
Total segment net assets/(liabilities)	<hr/> 32,544	<hr/> 2,119	<hr/> 510	<hr/> -	<hr/> 714	<hr/> 35,887
<i>Capital expenditure</i>						
Intangible assets	-	-	905	-	-	905
Tangible fixed assets	1,658	48	132	-	350	2,188
Depreciation	1,109	43	7	-	1	1,160

Notes (continued)

2 Segmental analysis (continued)

Reconciliation to profit before income tax

	£000
Reportable segment profit	10,415
Central costs	(506)
Exceptional items	-
Net finance expense	(34)
Profit before tax	<u>9,875</u>

Major customers

In 2011 and 2010 one customer represented more than 10% of the Group's revenues. The revenue from this customer is disclosed in the Distribution segment and represents 79% of the total Group revenues in 2011 (2010: 78%). In April 2011, the contracts to supply this customer were terminated early by mutual agreement.

3 Exceptional items

The following exceptional items were charged to the Statement of Comprehensive Income during the financial year:

	2011 £000	2010 £000
Goodwill impairment	17,000	-
Tangible fixed assets impairment	1,790	-
Intangible asset impairment	600	-
Investment impairment	1,610	-
Property lease termination costs	1,200	-
Restructuring and severance costs	1,245	-
Release of relocation provision	(678)	-
	<u>22,767</u>	<u>-</u>

4 (Loss)/profit before tax

(Loss)/profit before tax is stated after charging / (crediting)

	2011 £000	2010 £000
Auditors' remuneration		
Audit of these financial statements	79	60
Tax compliance	20	15
Other services relating to taxation	15	10
Other services	156	-
Amortisation of intangible assets	263	83
Impairment of goodwill	17,000	-
Impairment of intangible assets	600	-
Impairment of tangible fixed assets	1,790	-
Impairment of investments	1,610	-
Rentals payable under operating leases		
Plant and machinery	100	51
Buildings	920	603
Depreciation		
Owned assets	694	1,128
Leased assets	68	32
Loss on disposal of fixed assets	350	1

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2011	2010
Selling and distribution	280	237
Administration	92	93
	<u>372</u>	<u>330</u>

The aggregate payroll costs of these persons were as follows

	2011 £000	2010 £000
Wages and salaries	7,838	8,157
Share based payments (See note 22)	-	9
Social security costs	799	690
Other pension costs	161	71
	<u>8,798</u>	<u>8,927</u>

6 Directors' remuneration

Directors' salaries and benefits charged in the year to 31 March 2011 are set out below along with the comparatives

	2011 £000	2011 £000	2011 £000	2011 £000	2011 £000	2010 £000
	Salary	Benefits Excluding pension	Annual bonus	Pension cost	Total	Total
P Cowgill Non-executive	30	-	-	-	30	330
T Allan Executive	350	36	-	2	388	1,120
L Clarke Executive	120	16	-	11	147	265
	<u>500</u>	<u>52</u>	<u>-</u>	<u>13</u>	<u>565</u>	<u>1,715</u>

The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was one (2010 one). Full details of the conditional awards to the Executive Director under a Long Term Incentive Plan is shown below

Name		At start of year	At end of year
L Clarke	Long Term Incentive Plan 2010 to 2012	83,916	83,916
L Clarke	CSOP 2010 to 2012	16,759	16,759

Notes (continued)

7 Finance income and expense

	2011 £000	2010 £000
Bank interest	20	19
Finance income	20	19
On bank loans and overdrafts	18	12
On tax	25	13
Finance charges payable in respect of finance lease and similar hire purchase contracts	2	10
Other interest	-	18
Finance expenses	45	53

8 Taxation

Recognised in the consolidated statement of comprehensive income

	2011 £000	2010 £000
<i>Current tax expense</i>		
Current year	181	2,889
Adjustments for prior years	(199)	143
Total current tax (credit)/charge	(18)	3,032
<i>Deferred tax</i>		
Deferred tax (income)/expense (origination and reversal of temporary differences)	(355)	220
Adjustment relating to prior years	98	(312)
Total deferred tax credit	(257)	(92)
Corporation tax (income)/expense	(275)	2,940

9 Reconciliation of effective tax rate

The current tax charge for the period is lower (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2011 £000	2010 £000
(Loss)/profit for the period	(21,266)	9,875
Tax using the UK corporation tax rate of 28% (2010 28%)	(5,955)	2,765
<i>Effects of</i>		
Expenses not deductible (principally amortisation and impairment)	5,694	177
Change in tax rates	39	-
Effect of tax losses utilised	-	(31)
Over provided in prior years	(101)	33
Overseas company effect	97	-
Small companies relief	(3)	(4)
Research and development credit	(46)	-
Total tax (income) / expense	(275)	2,940

Notes (continued)

10 Earnings per share

The calculation of basic earnings per share has been calculated on the loss after tax of £20,991,000 (2010 profit £6,935,000) and the weighted average number of ordinary shares in issue during the year of 17,296,068 shares of 75p each (2010 17,296,068 shares of 75p each)

The calculation for diluted earnings per share is identical to that used for the basic earnings per share

The adjusted earnings per share, as disclosed below, was calculated using the profits after tax for the financial year having added back exceptional items (after adjusting for the effect of tax) calculated with reference to the basic and diluted weighted average share in issue during the year

	2011 £000	2010 £000
(Loss)/profit after taxation	(20,991)	6,935
Exceptional items	22,767	-
Taxation on exceptional items	(828)	-
Profit for adjusted calculation	948	6,935
Basic and diluted (loss)/profit per share	(121.4)p	40 3p
Basic and diluted adjusted profit per share	5.5p	40 3p

11 Acquisitions

MBL Group plc acquired 100% of the issued ordinary share capital of Megafit Limited and Gamesfan Limited on 1 February 2011. The consideration paid was satisfied by £20,001 cash and £20,000 deferred consideration, together with associated fees of £2,000.

Megafit Limited is an online retailer of health supplements and associated accessories. Gamesfan Limited owns the domain name www.gamesfan.com.

Neither company traded between the date of acquisition and the 31 March 2011 therefore the consolidated results do not include any trading figures in relation to these acquisitions. The net assets of both Megafit Limited and Gamesfan Limited were not considered material for the purpose of group consolidation.

Also during the year the Group acquired certain assets of Outnow Entertainment Limited from its administrators on 1 February 2011 for £100,000 consideration. The assets were acquired by a newly incorporated company, Outnow Home Entertainment Limited.

Outnow Home Entertainment Limited provides an online DVD rental service for home entertainment titles.

The consolidated results include revenue of £104,153 and a loss of £133,264 in respect of the acquired assets since the date of incorporation.

The table below shows the provisional goodwill calculation.

	Net assets at acquisitions £000
Net assets at acquisition date	
Intangible assets	62
Tangible assets	38
Trade receivables	10
Cash and cash equivalents	16
Trade payables	(57)
Net assets	69
Consideration	
Cash	100
Goodwill	31

Notes (continued)

12 Property, plant and equipment

	Land and Buildings £000	Fixtures & fittings £000	Motor vehicles £000	Rental DVD's £000	Total £000
Cost					
Balance at 1 April 2009	457	2,028	479	-	2,964
Additions	16	2,022	150	-	2,188
Acquisition of subsidiary	-	265	-	-	265
Disposals	-	-	(10)	-	(10)
Balance at 31 March 2010	473	4,315	619	-	5,407
Balance at 1 April 2010	473	4,315	619	-	5,407
Additions	202	1,353	29	123	1,707
Disposals	-	(376)	(32)	(1)	(409)
Balance at 31 March 2011	675	5,292	616	122	6,705
Depreciation and impairments					
Balance at 1 April 2009	302	1,382	124	-	1,808
Depreciation and other amounts written off tangible assets in the year	118	901	141	-	1,160
Acquisition of subsidiary	-	15	-	-	15
Disposals	-	-	(6)	-	(6)
Balance at 31 March 2010	420	2,298	259	-	2,977
Balance at 1 April 2010	420	2,298	259	-	2,977
Depreciation and other amounts written off tangible assets in the year	20	585	151	6	762
Impairment	182	1,608	-	-	1,790
Disposals	-	(20)	(28)	-	(48)
Balance at 31 March 2011	622	4,471	382	6	5,481
Net book value					
At 1 April 2009	155	646	355	-	1,156
At 31 March 2010 and 1 April 2010	53	2,017	360	-	2,430
At 31 March 2011	53	821	234	116	1,224

Leased plant and machinery

At 31 March 2011 the net carrying amount of equipment held under finance leases was £nil (2010 £68,000) and the depreciation charged on these assets was £68,000 (2010 £32,000)

Notes (continued)

13 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
Cost			
Balance at 1 April 2009	35,048	-	35,048
Acquisition of subsidiary	161	744	905
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2010	35,209	744	35,953
	<hr/>	<hr/>	<hr/>
Balance at 1 April 2010	35,209	744	35,953
Acquisition of assets	31	1,076	1,107
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2011	35,240	1,820	37,060
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
Balance at 1 April 2009	18,048	-	18,048
Amortisation charge	-	83	83
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2010	18,048	83	18,131
	<hr/>	<hr/>	<hr/>
Balance at 1 April 2010	18,048	83	18,131
Amortisation charge	-	263	263
Impairment	17,000	600	17,600
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2011	35,048	946	35,994
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 April 2009	17,000	-	17,000
	<hr/>	<hr/>	<hr/>
At 31 March 2010 and 1 April 2010	17,161	661	17,822
	<hr/>	<hr/>	<hr/>
At 31 March 2011	192	874	1,066
	<hr/>	<hr/>	<hr/>

The carrying value of goodwill is allocated to the following cash generating units ('CGU's')

	2011 £000	2010 £000
Distribution	-	17,000
E-commerce	31	-
Other	161	161
	<hr/>	<hr/>
	192	17,161
	<hr/>	<hr/>

The intellectual property acquired during the year relate to the acquisition of the Bee.com domain name and certain assets of Outnow Entertainment Limited (see note 11). The assets belong to the digital and ecommerce business segment.

Impairment testing for intangible assets with indefinite lives including goodwill

In accordance with the Group's accounting policy, goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. In accordance with International Accounting Standard 36 (IAS 36), an impairment charge is recognised for goodwill and other intangible assets with indefinite useful lives when their carrying amount exceeds the "recoverable amount", defined as the higher of fair value less costs to sell and value in use.

Notes (continued)

13 Intangible assets (continued)

Impairment testing for intangible assets with indefinite lives including goodwill (continued)

The recoverable amount of the CGU's has been determined on a value in use basis ("VIU") and was calculated by reference to the cash flows taken from the Group and individual Company forecasts as detailed below. The calculation of VIU requires the exercise of significant judgement by the Board in determining the assumptions to be used.

MBL Limited

The £17 million goodwill brought forward from prior years has been allocated in full to the distribution business and has been fully impaired in the year. The market and economic outlooks when the 2011 impairment review was performed had substantially deteriorated compared to the outlooks performed in 2010 for the distribution business. This, together with the loss of its major customer in March 2011, has resulted in an exceptional charge against the goodwill of the distribution business. Under the rules set out in IAS36, goodwill impairment charges cannot be reversed in future periods. The amortisation and impairment charges are recognised within administration expenses within the statement of comprehensive income.

The present value of its future cash flows has been calculated with the following key assumptions:

- Cash flows for year 1 represent management's best estimate of future cash flows as at 31 March 2011 and are based upon the Group's approved budget for the year ending 31 March 2012. The main assumption underlying these forecasts is the loss of a key customer towards the current year end.
- Cash flows for year 2 assume a 0% growth rate in revenue from those forecast for the year ending 31 March 2012, and reflect the expiry of supply contracts in the relevant periods. For the purpose of the impairment review, management consider it appropriate to not extend the forecasts further than two years given the emerging status of the new company strategy therefore no cash flows beyond this period have been incorporated into the VIU calculation.
- The pre-tax adjusted discount rate used in testing was 15.0% (2010 13.4%). This rate reflects the risk and uncertainty inherent in the current economic climate, the lack of confidence with which the near future can be forecast and the risks specific to the Group and the industry in which it operates.

Global Media Vault Limited

The remaining £161,000 of goodwill is attributable to Global Media Vault Limited ("GMV") and was recognised on its acquisition in the previous year. GMV remains largely in a development phase of its digital capability and during the year entered into an ecommerce supply agreement with a major retailer. The carrying value of goodwill has been reviewed appropriate given the future prospects for this CGU.

The present value of its future cash flows has been calculated with the following key assumptions:

- Cash flows for year 1 represent management's best estimate of future cash flows as at 31 March 2011 and are based upon the Group's approved budget for the year ending 31 March 2012. The main assumption underlying this budget is the continuation of trade with key customers, based upon signed contracts where appropriate.
- Cash flows for year 2 assume a 33.5% growth rate in revenue from those forecast for the year ending 31 March 2012. No cash flows beyond this period have been incorporated into the VIU calculation because year 1 and year 2 in total support the current carrying value.
- The pre-tax adjusted discount rate used in testing was 13.4% (2010 13.4%). This rate reflects the risk and uncertainty inherent in the current economic climate, the lack of confidence with which the near future can be forecast and the risks specific to the Group and the industry in which it operates.

Other

The £31,000 goodwill acquired in the year relates to the acquisition of the assets of Outnow Entertainment Limited in February 2011. Additionally the Bee.com trademark acquired in the year for £325,000 has been fully impaired.

Notes (continued)

14 Investments

	£000
Cost	
Balance at 1 April 2009 and 1 April 2010	-
Additions	2,010
	<hr/>
Balance at 31 March 2011	2,010
	<hr/>
	£000
Impairment	
Balance at 1 April 2009 and 1 April 2010	-
Impairment	1,610
	<hr/>
Balance at 31 March 2011	1,610
	<hr/>
	£000
Net book value	
At 1 April 2009 and 1 April 2010	-
	<hr/>
At 31 March 2011	400
	<hr/>

The additions to investments in the year comprise a £2,010,000 investment in a 15% shareholding in U-Explore Limited, which has subsequently been partially impaired during the year (see note 3)

Notes (continued)

15 Deferred tax assets

Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following

	2011 £000	2010 £000
Property, plant and equipment	590	147
Provisions	-	187
	<u>590</u>	<u>334</u>

The deferred tax assets have been recognised as the Group is anticipating paying corporation tax for the foreseeable future and expects to utilise the deferred tax assets

Movement in deferred tax during the year

	1 April 2010 £000	Recognised in income statement £000	31 March 2011 £000
Property, plant and equipment	147	443	590
Provisions	187	(187)	-
	<u>334</u>	<u>256</u>	<u>590</u>

Movement in deferred tax during the prior year

	1 April 2009 £000	Recognised in income statement £000	31 March 2010 £000
Property, plant and equipment	81	66	147
Provisions	161	26	187
	<u>242</u>	<u>92</u>	<u>334</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

	2011 £000	2010 £000
Tax losses	191	168

Deferred tax assets have not been recognised in respect of this item as there is uncertainty as to whether the subsidiary company in which the loss sits will make a profit in the future

Notes (continued)

16 Inventories

	2011 £000	2010 £000
Finished goods	13,324	19,812

Finished goods are stated after deducting a stock provision of £2,722,197 (2010 £2,184,450) to reduce the carrying value to the lower of cost and net realisable value. The provision is calculated by comparing the cost of each stock line to an estimate of future selling price. The Group has considerable experience in judging future selling prices for the majority of its stock. Should the estimate of future selling prices be incorrect, this would impact the gross margin reported in the year ending 31 March 2012.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £174,795,000 (2010 £168,959,000).

17 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	13,444	8,141
Other trade receivables	2,264	1,270
Prepayments and accrued income	616	363
	<u>16,324</u>	<u>9,774</u>

Trade receivables are stated net of a provision for future credit notes and bad debt provision.

The provision for future credit notes is required since at the year end the value of customer returns relating to pre year end sales is unknown. The provision is estimated by applying historic returns rates specific to customer and product type to the pre year end turnover. Should the estimate of credit notes provision be incorrect, this would impact the gross margin to be reported in the year ending 31 March 2012.

The bad debt provision is estimated by reviewing the amounts owed by customers and considering the likelihood of default by the customer. Should the estimate of bad debt provision be incorrect, this would impact the bad debt charge, and consequently administrative expenses to be reported in the year ending 31 March 2012.

The ageing of trade receivables is detailed below.

	£000 Gross	2011 £000 Provision	£000 Net	£000 Gross	2010 £000 Provision	£000 Net
Not past due – 60 days	12,580	-	12,580	8,286	(150)	8,136
Past 60 days	1,839	(975)	864	218	(213)	5
	<u>14,419</u>	<u>(975)</u>	<u>13,444</u>	<u>8,504</u>	<u>(363)</u>	<u>8,141</u>

The Board considers that the carrying amount of trade and other receivables approximates to their fair value. Credit risk with respect to trade receivables is considered moderate due to the credit worthiness of our customer base. In situations where the risk associated to trading with specific customers is considered higher than usual appropriate credit insurance is sought.

Notes (continued)

18 Cash and cash equivalents

	2011 £000	2010 £000
Cash and cash equivalents per balance sheet	3,510	5,801
Cash and cash equivalents per cash flow statements	3,510	5,801

Cash balances denominated in currencies other than UK sterling totalled £10,000 (2010 £67,000)

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. This facility has been terminated post year end. Barclays Bank Plc had fixed and floating charges over the assets of the company and its UK subsidiaries.

The maximum potential liability for the Company at the balance sheet date was £nil (2010 £nil).

The Group companies party to the charges and the guarantees are

MBL Group plc
Air Music and Media Copyright Limited
Air Music and Media Sales Limited
Redworth Limited
Music Box Leisure Limited
MBL Direct Limited
Windsong International Limited
Maximum Entertainment Limited
Global Media Vault Limited
MBL 2010 Limited
Outnow Home Entertainment Limited
Big Retail Limited

19 Interest-bearing loans and borrowings

	2011 £000	2010 £000
Non-current liabilities		
Finance lease liabilities	-	1
Current liabilities		
Finance lease liabilities	1	74

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than one year	1	-	1	77	3	74
Between one and five years	-	-	-	1	-	1
	1	-	1	78	3	75

Notes (continued)

20 Trade and other payables

	2011 £000	2010 £000
Trade payables	16,293	15,172
Other trade payables	2,244	623
Accruals and deferred income	1,286	2,033
	<u>19,823</u>	<u>17,828</u>

The trade and other payables balances are all due within one year

21 Provisions

	Relocation	Lease commitment	Restructuring costs	Total
At 1 April 2010	678	-	-	678
Created	-	1,200	343	1,543
Released	(678)	-	-	(678)
Utilised	-	-	-	-
	<u>-</u>	<u>1,200</u>	<u>343</u>	<u>1,543</u>
At 31 March 2011	-	1,200	343	1,543
	<u>-</u>	<u>1,200</u>	<u>343</u>	<u>1,543</u>
Represented by:				
Non current	-	600	-	600
Current	-	600	343	943
	<u>-</u>	<u>1,200</u>	<u>343</u>	<u>1,543</u>

At 31 March 2010, the Group had a commitment to relocate the main operations to a new purpose built distribution centre during the year to March 2011 and a £678,000 provision for relocation costs was recognised to cover expected redundancy and property dilapidation costs. Within the year to March 2011, the loss of a major customer resulted in the decision that such a move should not take place and as a consequence the provision has been released. A further provision of £1,200,000 has been created for exit costs in relation to terminating the lease for the new site which is equivalent to two years rent. Post the balance sheet date, an agreement to terminate the lease has been signed and it is therefore anticipated that this provision will be utilised in full.

The announcement of the loss of the Group's major customer, representing 79% of turnover, has led to a substantial downsizing in operations. A provision of £343,000 has been created in relation to employee redundancy costs. Since the year end, these redundancies have taken place and the provision will be utilised in full.

Notes (continued)

22 Employee benefits

Pension plans

The group only operates defined contribution pension schemes. The pension charge for the year represents contributions payable by the Group of £161,000 (2010 £71,000).

Share-based payments

The Group operates an HM Revenue and Customs approved EMI share option scheme. The scheme is open to employees of the Group. The grant of the options is at the discretion of the Directors. The performance criteria for all options granted require that the option holder remains in employment with the Group at the date of exercise.

Details of ordinary shares, which are subject to options under this scheme and are outstanding at 31 March 2011, are set out below. Shares under option were not dilutive for the purpose of calculating the diluted earnings per share.

Grant date	Number of options at 1 April 2010	Number of options granted in year	Number of options exercised in year	Number of options at 31 March 2011	Original subscription price	Exercise period
14 August 2006	3,333	-	-	3,333	79p	15 Aug 2009 to 15 May 2013

The average share price during the period was 109.2p (2010 151.3p). The options outstanding at the year end have an exercise price of 79p.

CSOP

The Group operates an HM Revenue and Customs approved CSOP share option scheme. The scheme is open to employees of the Group. The grant of the options is at the discretion of the Directors. The performance criteria for all options granted require that the option holder remains in employment with the Group at the date of exercise.

Details of ordinary shares, which are subject to options under this scheme and are outstanding at 31 March 2011, are set out below. Shares under option were not dilutive for the purpose of calculating the diluted earnings per share.

Grant date	Number of options at 1 April 2010	Number of options granted in year	Number of options exercised in year	Number of options at 31 March 2011	Original subscription price	Exercise period
13 January 2010	55,864	-	-	55,864	179p	14 Jan 2013 to 14 Jan 2020

Notes (continued)

22 Employee benefits (continued)

Long Term Incentive Plan

On 24 March 2010, the Company made conditional awards over 113,916 ordinary shares under the MBL Group plc Long Term Incentive Plan scheme to senior employees ('LTIP'). Under the scheme, shares vest at the end of a three year period dependant on the achievement of an EBITDA target for each of the three financial years from 2010 to 2012.

A share based payment credit of £nil has been credited to the profit and loss account (2010 credit £9,000)

The total expenses recognised for the period arising from share based payments are as follows

	2011 £000	2010 £000
Equity settled share based payment credit / (expense)	-	9
Total carrying amount of liabilities / (assets) for equity settled arrangements	15	15

23 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Merger Reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2009	12,872	21,454	(2,800)	(1,722)	29,804
Issue of shares	100	77	-	-	177
Profit for the year	-	-	-	6,935	6,935
Dividend to equity shareholders	-	-	-	(1,038)	(1,038)
Equity-settled share based payment transactions	-	-	-	9	9
Balance at 31 March 2010	12,972	21,531	(2,800)	4,184	35,887
Balance at 1 April 2010	12,972	21,531	(2,800)	4,184	35,887
Issue of shares	-	-	-	-	-
Loss for the year	-	-	-	(20,991)	(20,991)
Dividend to equity shareholders	-	-	-	(1,297)	(1,297)
Equity-settled share based payment transactions	-	-	-	-	-
Balance at 31 March 2011	12,972	21,531	(2,800)	(18,104)	13,599

Share capital

The capital structure of the Group consists of equity attributable to holders of the parent company, comprising issued share capital, share premium and retained earnings

	Number of ordinary shares		Ordinary share capital	
	2011 £000	2010 £000	2011 £000	2010 £000
At 31 March	17,296	17,296	12,972	12,972

The total number of authorised ordinary shares was 26,666,666 (2010 26,666,666) with a par value of 75p per share (2010 75p per share). All issued shares are fully paid.

Notes (continued)

24 Financial instruments

Financial assets

The Group's financial assets are all categorised as receivables and comprise 'Trade and other receivables' and 'Cash and cash equivalents'. The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an alternative market.

Cash and cash equivalents comprise short-term cash deposits with major UK clearing banks and earn floating rates of interest based upon bank rates or rates linked to LIBOR. The currency profile of cash and cash equivalents is as follows:

	2011 £000	2010 £000
Group		
Sterling	3,500	5,734
Euro	10	31
Other	-	36
	<u>3,510</u>	<u>5,801</u>
Company		
Sterling	<u>6</u>	<u>19</u>

Financial liabilities

The Group's financial liabilities are categorised as payables and comprise 'Trade and other payables'.

Credit risk

Investments of cash surpluses are made through major UK clearing banks which must meet minimum credit ratings as required by the Board.

All customers who trade on credit terms are subject to credit verification procedures and, if deemed appropriate, credit insurance cover is sought. Trade receivable balances are reviewed on an ongoing basis and provision is made for impairment should amounts be considered not to be recoverable.

Liquidity risk

The Group's policy is to manage its cash and borrowings requirement to minimise interest rate expense whilst ensuring that the Group has sufficient liquidity to meet the operating needs of the business. The forecast cash profile is reviewed on an ongoing basis to ensure that sufficient headroom remains. Short term flexibility is achieved through utilising invoice financing facilities.

Interest rate risk

The Group finances its operations by a mixture of retained profits and short term bank borrowings. The Group's bank borrowings are at floating rates.

The Group cancelled its invoice financing facility in May 2011 following a Board review. At 31 March 2011, the Group's invoice financing facility was not utilised.

A change of 1% in the average interest rates during the year would change the profit before tax by £6,000 (2010: £9,000).

Notes (continued)

24 Financial instruments (continued)

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currency giving rise to this risk is the Euro with both sales and purchases being made in this currency.

The Group predominantly protects against foreign currency risk by pricing and invoicing in sterling. Where sales are priced in Euro the risk is regularly reviewed and managed by the holding of foreign currency.

A 10% strengthening of sterling relative to the Euro during the year would have increased the profit before tax by £22,000 (2010 £27,000). A 10% weakening of sterling relative to the Euro during the year would have decreased the profit before tax by £20,000 (2010 £25,000).

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

Group	Carrying amount 2011 £000	Fair value 2011 £000	Carrying Amount 2010 £000	Fair value 2010 £000
Trade and other receivables	16,324	16,324	9,774	9,774
Cash and cash equivalents	3,510	3,510	5,801	5,801
Trade and other payables	(19,823)	(19,823)	(18,506)	(18,506)
	<u>11</u>	<u>11</u>	<u>(2,931)</u>	<u>(2,931)</u>
Unrecognised gains/(losses)		-		-

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land & Buildings £000	Other £000	Total 2011 £000	Total 2010 £000
Less than one year	242	9	251	305
Between one and five years	149	2	151	285
More than five years	-	-	-	600
	<u>391</u>	<u>11</u>	<u>402</u>	<u>1,190</u>

The Group leases various warehouses, offices, motor vehicles and equipment under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

After the balance sheet date, Music Box Leisure Limited terminated a fifteen year term property lease they entered in 2008, in respect of the planned relocation of their main office and warehouse premises which is no longer going ahead. The cost of terminating the lease was £1,200,000 and is included within exceptional items.

Notes (continued)

26 Related party transactions

During the year, Music Box Leisure Limited made purchases on normal commercial terms with Sales Media Solutions Limited of £nil (2010 £2,832,000), Media Sales Direct Limited of £621,000 (2010 £5,224,000) and Cabletower Limited of £814,000 (2010 £nil). James Allan, brother of Trevor Allan (Director of MBL Group plc), is a shareholder and director of all three companies, and also a shareholder of MBL Group plc. At 31 March 2011, Music Box Leisure Limited was owed £nil (2010 £359,000) by Sales Media Solutions Limited, £nil (2010 £49,000) by Media Sales Direct Limited and £51,000 (2010 £nil) by Cabletower Limited. These balances represent payments on account for stock supply.

27 Post balance sheet events

At the year end, the Group had been served notice by its major customer for the termination of two supply agreements. The notice period for these contracts was six months; however, on 4 April 2011, supply was ended on a mutually agreed basis. The termination of this contract has necessitated a substantial downsizing and restructuring of operations and the termination of a lease agreement for a new site.

28 Dividends

After the reporting date the following dividends were proposed by the Directors. The dividends were not provided for at the reporting date.

	2011 £000	2010 £000
7.5p per ordinary share	-	1,297
Dividends on issued ordinary share capital		
	2011 £000	2010 £000
Final dividend of 7.5p (2010 6.0p) per qualifying ordinary share paid in respect of prior period, but not recognised as a liability in that period	-	1,297

Company Balance Sheet

At 31 March 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible fixed assets	3	7	350
Investments	4	1,285	24,761
Deferred tax asset		94	-
		<u>1,386</u>	<u>25,111</u>
Current assets			
Debtors	5	20,567	16,390
Cash at bank and in hand		6	19
		<u>20,573</u>	<u>16,409</u>
Creditors amounts falling due within one year	6	<u>(11,413)</u>	<u>(4,678)</u>
Net current assets		<u>9,160</u>	<u>11,731</u>
Net assets		<u>10,546</u>	<u>36,842</u>
Capital and reserves			
Called up share capital – equity interests	8	12,972	12,972
Share premium	8	21,531	21,531
Profit and loss account	8	(23,957)	2,339
Shareholders' funds		<u>10,546</u>	<u>36,842</u>

Approved by the Board on 26 August 2011 and signed on its behalf by



Lisa Clarke
Director

Registered number 4198290

Company Notes *(forming part of the financial statements)*

1 Accounting policies

Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

No profit or loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The loss after tax for the Company was £24,999,000

Cash flow statement

The Company is exempt under the terms of Financial Reporting Standard 1 from the requirement to publish its own cash flow statement, as its cash flows are included within the consolidated cash flow statement of the Group

Turnover

Turnover represents the invoiced value of goods sold net of customer rebates and net of value added tax. Sales are recognised as turnover on despatch of goods to customers

Depreciation

Depreciation on tangible 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

Land and building leasehold	over the lease term
Fixtures, fittings and equipment	10% - 33 3% straight line
Motor vehicles	25% straight line

Investments

The Company's investments in group companies are stated at cost less provision for impairment

Deferred taxation

Deferred taxation 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 have been recognised in full, calculated at a rate at which it is estimated that tax will be payable in accordance with FRS 19. Deferred taxation has not been discounted

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

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange 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

Dividends

Dividends receivable are recognised when the Company's right to receive payments is established. Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established

Notes (continued)

2 Share options

The Group operates an HM Revenue and Customs approved EMI share option scheme. The scheme is open to employees of the Group. The grant of the options is at the discretion of the Directors. The performance criteria for all options granted require that the option holder remains in employment with the Group at the date of exercise.

Details of ordinary shares, which are subject to options under this scheme and are outstanding at 31 March 2011, are set out below. Shares under option were not dilutive for the purpose of calculating the diluted earnings per share.

Grant date	Number of options at 1 April 2010	Number of options granted in year	Number of options exercised in year	Number of options at 31 March 2011	Original subscription price	Exercise period
14 August 2006	3,333	-	-	3,333	79p	15 Aug 2009 to 15 May 2013

The average share price during the period was 109.2p (2010: 151.3p). The options outstanding at the year end have an exercise price of 79p.

CSOP

The Group operates an HM Revenue and Customs approved CSOP share option scheme. The scheme is open to employees of the Group. The grant of the options is at the discretion of the Directors. The performance criteria for all options granted require that the option holder remains in employment with the Group at the date of exercise.

Details of ordinary shares, which are subject to options under this scheme and are outstanding at 31 March 2011, are set out below. Shares under option were not dilutive for the purpose of calculating the diluted earnings per share.

Grant date	Number of options at 1 April 2010	Number of options granted in year	Number of options exercised in year	Number of options at 31 March 2011	Original subscription price	Exercise period
13 January 2010	55,864	-	-	55,864	179p	14 Jan 2013 to 14 Jan 2020

Long Term Incentive Plan

On 24 March 2010, the Company made conditional awards over 113,916 ordinary shares under the MBL Group plc Long Term Incentive Plan scheme to senior employees ('LTIP'). Under the scheme, shares vest at the end of a three year period dependant on the achievement of an EBITDA target for each of the three financial years from 2010 to 2012.

A share based payment credit of £nil has been credited to the profit and loss account (2010: credit £9,000).

The fair value of the liability is re-measured at each balance sheet date and settlement date.

The total expenses recognised for the period arising from share based payments are as follows:

	2011 £000	2010 £000
Equity settled share based payment credit / (expense)	-	9
Total carrying amount of liabilities / (assets) for equity settled arrangements	15	15

Notes (continued)

3 Tangible fixed assets

	Plant and machinery £000	Total £000
<i>Cost</i>		
Balance at 1 April 2010	350	350
Additions	8	8
Disposals	(350)	(350)
Balance at 31 March 2011	8	8
<i>Depreciation and impairments</i>		
Balance at 1 April 2010	-	-
Depreciation charge for the year	42	42
Disposals	(41)	(41)
Balance at 31 March 2011	1	1
<i>Net book value</i>		
At 1 April 2010	350	350
At 31 March 2011	7	7

4 Investments

	Net book value At 31 March 2010 £000	Acquisitions in year £000	Provision for diminution in value £000	Net book value At 31 March 2011 £000
Shares in group undertakings				
Global Media Vault Limited	843	-	-	843
Air Music and Media Copyright Limited	-	-	-	-
The Original Record Company Limited	-	-	-	-
Redworth Limited	23,918	-	(23,876)	42
Impairment of investment	-	-	-	-
Maximum Entertainment Limited	-	-	-	-
	24,761	-	(23,876)	885
Fixed asset investments				
U-Xplore	-	2 010	(1,610)	400
Total	24,761	2,010	(25,486)	1,285

All investments are shown at cost less provision for diminution in value

Notes (continued)

4 Investments (continued)

The company holds more than 20% of the share capital of the following principal subsidiary undertakings

	Country of incorporation	Class of share	Proportion Held	Nature of business	Year end
Air Music and Media Copyright Limited	England	Ordinary	100%	Licensing	31/03
Air Music and Media Sales Limited	England	Ordinary	99.98%	Distribution & licensing	31/03
MBL Direct Limited	England	Ordinary	100%	Wholesale	31/03
Global Media Vault Limited	England	Ordinary	100%	Digital media	31/03
Maximum Entertainment Limited	England	Ordinary	100%	Distribution & licensing	31/03
Music Box Leisure Limited	England	Ordinary	100%	Distribution	31/03
New Sound Limited	England	Ordinary	100%	Distribution & licensing	31/03
Redworth Limited	England	Ordinary	100%	Holding company	31/03
Windsong International Limited	England	Ordinary	100%	Wholesale	31/03
Outnow Home Entertainment Limited	England	Ordinary	100%	E-Commerce	31/03
Big Retail Limited	England	Ordinary	100%	Retail	31/03
MBL 2010 Limited t/a Bee.com	England	Ordinary	100%	E-Commerce	31/03
Megafit Limited	England	Ordinary	100%	E-Commerce	30/09
Gamesfan Limited	England	Ordinary	100%	E-Commerce	30/06
MBL Guernsey PCC Limited	Guernsey	Ordinary	100%	E-Commerce	31/03

All shares in the company's subsidiaries carry one voting right each. Voting rights are therefore identical to the proportion of shares held. The companies Air Music and Media Sales Limited and New Sound Limited are held by Air Music and Media Copyright Limited which is itself a 100% subsidiary of the Company. The companies Music Box Leisure Limited, Outnow Home Entertainment Limited, Big Retail Limited, MBL Guernsey PCC Limited, MBL Direct Limited, Megafit Limited, Gamesfan Limited and Windsong International Limited are held by Redworth Limited which is itself a 100% subsidiary of the company. All other subsidiaries are held directly by the company.

5 Debtors

	2011 £000	2010 £000
Trade debtors	92	14
Amounts owed from group undertakings	20,457	16,301
Other debtors	17	57
Prepayments and accrued income	1	18
	<u>20,567</u>	<u>16,390</u>

Notes (continued)

6 Creditors amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	96	43
Amounts owed to group undertakings	11,198	4,363
Other creditors	42	42
Accruals and deferred income	77	230
	<u>11,413</u>	<u>4,678</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. Barclays Bank Plc has fixed and floating charges over the assets of the company and its UK subsidiaries.

The maximum potential liability for the Company at the balance sheet date was £nil (2010 £nil).

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

MBL Group plc
Air Music and Media Copyright Limited
Air Music and Media Sales Limited
Redworth Limited
Music Box Leisure Limited
MBL Direct Limited
Windsong International Limited
Maximum Entertainment Limited
Global Media Vault Limited
MBL 2010 Limited
Outnow Home Entertainment Limited
Big Retail Limited

7 Controlling party

There is no one controlling party.

Notes (continued)

8 Shareholders' funds

	Profit and loss account £000	Share premium £000	Share Capital £000	Total £000
2011				
At 1 April 2010	2,339	21,531	12,972	36,842
Loss for the year	(24,999)	-	-	(24,999)
Equity dividends	(1,297)	-	-	(1,297)
FRS 20 share based payment	-	-	-	-
At 31 March 2011	(23,957)	21,531	12,972	10,546
	Profit and loss account £000	Share premium £000	Share Capital £000	Total £000
2010				
At 1 April 2010	2,753	21,454	12,872	37,079
Profit for the year / Share capital issued	615	77	100	792
Equity dividends	(1,038)	-	-	(1,038)
FRS 20 share based payment	9	-	-	9
At 31 March 2010	2,339	21,531	12,972	36,842
			2011	2010
The share capital comprises			£000	£000
<i>Authorised</i>				
26,666,666 (2010 26,666,666) Ordinary shares of 75p each (2010 75p)			20,000	20,000
<i>Called up, allotted and fully paid</i>				
17,296,068 (2010 17,296,068) Ordinary shares of 75p each (2010 75p)			12,972	12,972

9 Profit for the financial year

As permitted in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Group retained loss for the financial year of £20,991,000 (2010 profit of £6,935,000) includes a loss of £24,999,000 (2010 profit of £615,000) which is dealt with in the financial statements of the Company.

10 Capital commitments

There are no capital commitments at the year end.

11 Auditors' remuneration

The auditor's remuneration is disclosed in the notes to the Group accounts.