

15 May 2007

PRESS RELEASE

RDF MEDIA GROUP PLC (“RDF” OR THE “GROUP”) FULL YEAR RESULTS FOR THE YEAR ENDED 31 JANUARY 2007

Financial highlights

- Group turnover up 67% to £99.3m (2006: £59.5m)
- Gross profit up 78% to £30.1m (2006: £16.9m)
- Adjusted operating profit* up 70% to £9.2m (2006: £5.4m)
- Adjusted fully diluted earnings per share up 27% to 16.9p (2006: 13.3p)

**before goodwill amortisation, FRS 20 charge (share based payments) and flotation costs (2006 only)*

Other highlights

- Organic growth - gross profit up 45% at RDF’s largest content company, RDF TV
- Group now represented in factual, entertainment, drama, comedy and children’s
- More than 100 titles (2006: 45) delivered to 19 broadcasters (2006:11)
- Three acquisitions during the year (Presentable, Foundation and Comedy Unit)
- RDF Rights voted leading independent distributor in *Broadcast* peer poll
- US Production business returns to growth in transition year – gross profit up 32%
- RDF Digital launched to create content for broadcast on broadband.

Outlook

The Board remains confident about the prospects for the year ahead.

David Frank, Chief Executive, commented:

“Over the last year we have continued to build RDF in both content and rights exploitation and simultaneously broadened the range of activities in which we are engaged. That this has been delivered alongside impressive organic growth in our core businesses and investment in new revenue opportunities is testament to the commitment and skills of people involved across the whole Group.

In the UK, the US and the major territories across the globe into which we sell, the demand for popular programming and formats remains strong. Through RDF Rights, we are now better positioned than ever to manage the exploitation of the associated global secondary rights income. Our confidence about the future is also underpinned by a further strengthening of our rights ownership position, particularly in new media, and the potential for new revenue streams from emerging broadcast technologies.”

For further information, please contact:

RDF Media Group plc

David Frank, Chief Executive
Janice Price, Chief Financial Officer
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Alice Robertson, Head of Marketing and Publicity

Tel: 020 7013 4000 or
Tel: 07867 971517 / 020 7597 3886 on Tuesday 15th May am

An analyst presentation will be held today at 9.30am at Investec, 2 Gresham Street, London, EC2V 7QP. To register please call Investec on 020 7597 4243. Photographs are also available on request from Alice Robertson at RDF (020 7013 4479).

An interview with David Frank in video/audio and text will be available from 7.00am BST on 15th May 2007 on: www.rdfmedia.com and www.cantos.com.

There will be an audio webcast with slide presentation at 9.30am BST. To access this live webcast, please visit the Group website www.rdfmedia.com or www.cantos.com. An on-demand version of the webcast will be available on the Group's website later during the day on 15th May 2007.

RDF MEDIA GROUP PLC RESULTS FOR THE YEAR ENDED 31 JANUARY 2007

Overview for the period

The board is delighted to announce the results for RDF Media Group plc for the year ended 31 January 2007.

Group turnover increased by 67% to £99.3m (2006: £59.5m) and gross profit increased by 78% to £30.1m (2006: £16.9m).

This track record of profitable growth extends back many years. However during the last two years the group has more than doubled in size measured by group turnover, gross profit and operating profits (before goodwill amortisation, FRS 20 costs and, in 2006, flotation costs) and since floating on AIM in May 2005 RDF has delivered on its strategy to become a multi-genre, multi-territory creator and owner of audiovisual content.

During the year Group production companies delivered more than 100 original titles (2006: 45) commissioned by 19 broadcasters (2006: 11) around the world. The content division has grown organically and by acquisition. Three acquisitions were completed during the year taking RDF into comedy (Comedy Unit), children's (Foundation) and specialist entertainment (Presentable) for the first time.

The Group continues to benefit from having a fully integrated distribution capability. RDF Rights distributed programmes and formats to international broadcasters in most territories around the world and 57% (2006: 45%) of RDF Rights' revenue was generated from non-RDF produced programming. The top four programme brands now account for just 15% of revenue in this division (2006: 22%, 2005: 50%).

The markets in which we operate around the world continue to demonstrate strong demand for our content. Regulatory commitments in the UK to increase commissions from regional producers (outside London) are also creating opportunities for Group companies located in Scotland, Wales and the rest of England. Meanwhile the UK independent sector continues to thrive amidst competition between broadcasters for the best programme ideas.

The last 12 months have seen further consolidation and the emergence of a handful of larger independent groups (including RDF). The credibility of these companies (both in the UK and abroad) is building broadcaster confidence in the sector resulting in a virtuous circle whereby the more business the sector wins, the stronger it becomes and the better the talent it can attract and retain.

In the US the new executive management team installed early in the financial year is working hard to ensure that content originated in the UK is actively and efficiently promoted to US broadcasters alongside ideas developed locally in the US. We are encouraged both by their efforts and by the enthusiasm with which US broadcasters continue to greet TV concepts and formats that have successfully aired in other territories.

This reaction is echoed worldwide across all the territories with which we trade via the Group's international distribution business, RDF Rights. The market for the overseas exploitation of UK originated finished programmes and formats grew by more than 20%

in 2006 (*PACT*). RDF Rights also increased its share of that market by building an enlarged sales capacity, extending its range of programme genres and making more investments in content created by third party producers.

February 2007 saw the launch of RDF Digital. This new division has been established to target the opportunities to create audiovisual content for broadcast over broadband. RDF Digital also works closely with RDF Rights to explore the distribution of existing content over broadband and mobile platforms where the historic rights position allows. While this division is in an embryonic state in the current year and will require further budgeted investment, we are confident that opportunities exist to grow new revenues from these activities.

With the continued backing of all our stakeholders, employees and management teams, we believe RDF has laid important foundations for future growth and has positioned the company well to take advantage of the many opportunities that are emerging in the global televisual media market.

Results by Division

UK Production

The Group's UK Production division makes television shows that are commissioned and aired by UK terrestrial, satellite and cable broadcasters. Activities are carried out through a number of operating companies:

- Factual, factual entertainment and entertainment - *RDF Television/RDF Television West* (London and Bristol)
- Factual, features and drama - *IWC Media* (Glasgow and London)
- Drama - *Touchpaper Television* (London)
- Children's – *Foundation* – (Maidstone)
- Comedy – *Comedy Unit* – (Glasgow)
- Specialist entertainment - *Radar* (London) and *Presentable* (Cardiff).

Although each production company is run by its own dedicated management team, specific support services are provided centrally by the Group to enable the creative executives to maximise their effectiveness. Development of new ideas is carried out within each company; this effort is supported by a central Group development team reporting directly to RDF Chief Creative Officer, Stephen Lambert. Market intelligence is shared and relationships with the channel controllers and most senior commissioners are co-ordinated across Group when appropriate.

<i>Year ended</i>	<i>31 January 2007</i>	<i>31 January 2006</i>	<i>% change</i>
	£000	£000	
Revenue	62,909	31,910	+97.1%
Gross profit	16,250	7,617	+113.3%
<i>Gross margin</i>	<i>25.8%</i>	<i>23.9%</i>	

UK Production revenue, which includes turnover attributable to companies acquired during the year from the date of acquisition, increased by 97.1% to £62.9m (2006: £31.9m). Gross profit in this division grew by 113.3% year on year as the result of both organic growth and the inclusion of results from all acquired companies for the first time.

RDF Television, the largest company within the Group's Content division, delivered an increase in gross profit of 45% in the period under review driven by increased production activity in London, the opening of a Bristol production office and margin improvements. The year saw the delivery of a broad range of new titles to UK broadcasters including *The Secret Millionaire* (Channel 4) which recently won the prestigious Rose D'Or award for best reality series, *Dickinson's Real Deal*, (ITV1) and *Oz and James's Big Wine Adventure* (BBC2), all of which have been reordered for another series.

Core existing titles *Scrapheap Challenge*, *Wife Swap*, *Shipwrecked* (Channel 4), *Ladette to Lady* (ITV), *Anthea Turner: Perfect Housewife* (BBC3) and *How To Be a Property Developer* (Five) all contributed to the year under review and have been reordered for the current year. Upcoming RDF Television series include a major observational series for BBC1 with extraordinary access to the royal household and two new daytime series, one for BBC1 the other for ITV1.

IWC Media ("IWC"), which was acquired in December 2005, contributed a full year to Group results for the first time in the year ending 31 January 2007. IWC, the leading independent producer in Scotland, is actively building a multi-genre production business from a Glasgow base. *Relocation Relocation* (Channel 4) continued to rate extremely well as did sister series *Location Location Location* (Channel 4) which aired its ninth series during the year. Notable IWC programmes during the year include two award-winning programmes *Stephen Fry: The Secret Life of a Manic Depressive* (BBC2) and *The Root of All Evil?* (Channel 4).

IWC's drama business had a strong year; its three part drama serial *Fallen Angel* for ITV1 was produced during the year and was broadcast this spring attracting an impressive peak audience of 6.7 million. Upcoming IWC series include *Mountain with Griff Rhy Jones* (BBC1), *Coltrane's Incredible Britain* (ITV1) and a feature length version of *Room with a View*, an Andrew Davies adaptation of the Forster classic, to be shown on ITV1 later this year.

A year of intensive development by Touchpaper has led to several new commissions, most notably *Homeboys*, a drama series of six one hour programmes for ITV1 set in the dog-eat-dog world of South London estate agents and *City Of Vice*, a period drama of five one hour episodes following London's first policemen as they investigate the eighteenth century crimes of prostitutes, pimps, gamblers and villains. *Singlehanded*, a two hour drama serial for Irish broadcaster RTÉ, was produced during the year and has been reordered.

The new creative team at Radar quickly established itself during the year under review and produced a ten hour entertainment series for Sky One, *Christian O'Connell's Sunday Service*, and an eight half-hour cookery series, *Cooking It*, for Channel 4. In partnership with RDF Television, Radar has recently had a new Saturday night entertainment programme commissioned by ITV1.

Presentable, a Cardiff based entertainment and factual producer, was acquired in April 2006. The company is best known as a producer of poker programming and during the ten months between acquisition and the end of the year under review it has won several major commissions for new and returning poker series including *The Great British Poker Tour* (ITV4), *PartyPoker.com Late Night Poker Ace* (Channel 4), *The William Hill Poker Grand Prix Series II* (Sky Sports) and *888.com Poker Nations Cup* (Channel 4). In addition to its strong poker hand, Presentable has agreed a two year programme supply

deal with the Welsh language S4C and continues to enjoy strong relationships with both BBC Wales and ITV Wales.

Foundation, a children's programming specialist, was acquired by the Group in August 2006 and is now working closely with Nigel Pickard, RDF's Director of Children's & Family Programmes. Since joining the Group, Foundation has secured several new commissions for CBeebies, the UK's biggest pre-school channel including *Mister Maker* and *Big Barn Farm*. CBBC has recently ordered *Escape from Adventure Island* and a sixth series of *The Basil Brush Show*.

The Comedy Unit, a Glasgow based comedy company, was also acquired by the Group in August 2006. New commissions secured since joining the Group include *Legit*, a potentially returning six half-hour sitcom for BBC Scotland, a reorder of *Offside* also for BBC Scotland, and a reorder of *Still Game*, a successful comedy series for BBC2.

Across the UK Production division our broadcast commissioning relationships have continued to grow – reflecting and extending the range and variety of programming we now make. Group companies earned revenues of £12.4m (2006: £6.8m) in commissions for the BBC and £9.0m (2006: £4.7m) for ITV. Although Channel Four remains an important and consistently growing customer for the Group, successful diversification in the year led to a fall in the percentage of revenues earned on commissions to 39% of total UK Production revenue (2006: 48%).

US Production

The Group's US production activities are carried out by RDF USA Inc. which makes television shows for US network and cable broadcasters.

<i>Year ended</i>	<i>31 January 2007</i>	<i>31 January 2006</i>	<i>% change</i>
	£000	£000	
Turnover	15,670	11,535	+35.8%
Gross profit	2,603	1,979	+31.5%
<i>Gross margin</i>	<i>16.6%</i>	<i>17.2%</i>	

The recruitment of the RDF USA executive team under CEO Chris Coelen is now complete. This core LA based team is responsible for the Group's US activities including the operation of RDF Rights' stateside operation, Pangea Management.

RDF's presence in New York, where the company has a production office (responsible for, amongst other shows, *Wife Swap*) has been bolstered by the hiring of Charles Tremayne, a senior creative executive formerly with Granada in the US.

Wife Swap, originally a UK format, remains a significant commission for the Group in the US and was reordered for a third season during the year. It has since been picked up by ABC, a major network broadcaster in the US, for a fourth prime-time season and continues to perform consistently well in the ratings. Significantly, once the fourth season has been delivered, it is expected that the critical mass of shows in existence will open up opportunities in the secondary and syndication markets in the US.

Also contributing to results during the year under review was a re-make of another UK format, *Ian Wright's Unfit Kids*, which is due to air on ABC in June 2007 re-made as *Shaquille O'Neal's Big Fat Challenge*. The new US management team also managed to

place their first originated show, *The Coreys: Return of The Lost Boys*, an eight part series for A&E.

After a year of establishing the foundations for future growth (during which significant organic growth was also achieved) the board is confident about the prospects for business in the US.

RDF Rights

RDF's agency business, RDF Rights is the division through which the Group exploits intellectual property arising from television and associated content. Exploitation is carried out on behalf of both RDF group companies as well as third party clients. In the US, RDF Rights activities are conducted through Pangea Management, part of RDF USA.

RDF Rights' activities include the sale of finished programmes and formats as well as the brokering of deals for DVDs, publishing, merchandising and new media. (Last year, RDF's share of net profits from the exploitation of content owned and/or produced by RDF Television was also booked to this division. This is now reported separately, see "IP Income" below. The comparative has also been restated.)

<i>Year ended</i>	<i>31 January 2007</i>	<i>31 January 2006</i>	<i>% change</i>
	£000	£000	
Turnover	20,719	16,068	+28.9%
Gross profit	5,346	4,170	+28.2%
<i>Gross margin</i>	<i>25.8%</i>	<i>25.9%</i>	

RDF Rights has posted another strong performance in a highly competitive market and was recently voted by its peers (in trade newspaper *Broadcast*) as the best independent distributor in the UK.

We are now exploiting not only content created by RDF group companies, but the content produced by more than 80 other independent UK producers and a further 40 other content creators from around the world. RDF Rights' active catalogue now exceeds 4,000 hours of programming (2006: 3,000) about 70% of which is non-RDF content.

During the period, we have invested in growing the sales team to extend the range of genres represented beyond factual and entertainment and into drama, children's and comedy. As a result, RDF Rights has established itself as a full service agency for rights exploitation in all the key programme genres.

We are also extending our activities into the broadband market to extract full value from the television programme rights we control and have established RDF Digital (within the division) to initiate new broadband and mobile propositions driven by our creative skills as programme-makers. RDF Digital has made a promising start and is already engaged on a number of projects that have clear actual and potential revenues. With the on-going fragmentation of advertising revenues in the commercial television sector combined with the increasing take-up of broadband across the UK, we are confident that our investment in this area is timely.

Intellectual Property (“IP”)

IP income represents net profits earned from exploiting the secondary value of programmes wholly or partially owned by the group.

<i>Year ended</i>	<i>31 January 2007</i> £000	<i>31 January 2006</i> £000	<i>% change</i>
Gross profit	5,865	3,172	+84.9%

We announced in May 2006 that in the interest of greater clarity, we would begin to report IP income (now reported in this division) separately from the distribution and agency fees which remain in the Rights division. As RDF Rights continues to increase the number of third party clients and hours that it represents, reporting the Group’s commission income from distribution alongside the net proceeds from the sale of content owned by the Group has become less logical.

We are pleased to announce that the profits associated with the sale of RDF’s own intellectual property have grown by more than 84% in the period. Group strategy is focused on creating content that has a secondary commercial value. We anticipate that this secondary income will continue to increase in line with the growth of the Group, assisted by RDF’s in-house distribution capabilities and international production presence.

Financial Overview

Taxation

The effective rate of taxation is 33.5% in the year under review and is principally affected by the goodwill amortisation of £1.1m which is not allowable for tax purposes and the FRS20 charge on which a deferred tax asset has been recognised. Unlike 2006, where the Group benefited from tax relief arising from the exercise of options on flotation, in the year under review few options have been exercised.

Earnings per share

The Group’s issued share capital at 31 January 2007 was 38,769,872 (2006: 35,581,007). The Group has made a number of acquisitions during the year of other production companies using its own shares as partial consideration. As with the exercise of share options, the issue of these shares in future will have a dilutive effect on RDF issued share capital.

However, after taking account of dilutive options and consideration shares to be issued and then adjusting for the amortisation of goodwill, FRS 20 charge, flotation costs and the flotation related share option tax credit (2006 only), adjusted fully diluted earnings per share increased by 27% to 16.9p (2006: 13.3p).

Goodwill amortisation

Goodwill arising from the acquisition of Presentable, Foundation and Comedy Unit has been capitalised on the balance sheet during the year and represents the excess of the

fair value attributed to investments in businesses and their subsidiaries over the fair value of the underlying net assets at the date of their acquisition.

Positive goodwill is written off over 20 years and will be subject to impairment reviews while negative goodwill is written off in line with the underlying assets. The charge to the profit and loss account for the year ending 31 January 2007 is £1.1m (2006: £146k).

Exceptional items

The costs incurred on flotation during the year ended 31 January 2006 of £1.3m are shown separately from ongoing operational costs in that year. There were no exceptional items in the year under review.

Interest payable, funding and liquidity

The costs incurred in producing a television programme are usually funded by the commissioning broadcaster. However, in some circumstances it is necessary to begin incurring costs before contracted payments have been made in order to meet delivery and transmission dates.

As a Group we have continued to demonstrate strong conversion from operating profit to cash over the longer term but in the short term cash flows on productions can sometimes be negative initially. This is funded by Group banking facilities.

To facilitate the acquisitions a £15m revolving credit facility was arranged with Barclays Bank in December 2005 which continues to provide the Group with enhanced flexibility and the ability to fund further acquisitions and investments. Cash at the end of the year was £6.8m (2006: £8.4m) and net debt was £0.2m (2006: net cash £2.6m).

Active management of Group cash balances ensured that net interest charge to the profit and loss account was £125,000 or approximately 2% of the average drawn credit facility during the year.

The level of Group gearing is under constant review. The Board believes that, should it be required to facilitate further acquisitions, a higher level of net debt could be comfortably serviced from RDF's positive operating cash flow.

Shareholders equity

The number of ordinary shares in issue at the year end was 38,769,872 (2006: 35,581,007). Called up share capital increased to £387,699 (2006: £355,810) and premium on issue of shares increased to £12.3m (2006: £6.2m). Retained earnings increased in the year to £4.8m (2006: £4.3m). Total shareholders equity at 31 January 2007 is £25.2m (2006: £14.6m).

Dividends

The directors are proposing a dividend for the year of 3.0p per share (2005: 1.9p), which is in line with our stated policy of paying a dividend of 25% of normalised after tax profits.

If approved by the Annual General Meeting the final dividend will be paid to shareholders during July 2007.

Minority interests

The minority interest in the profit and loss account reflects the Group's majority share of Radar Productions Limited. Over the course of the year, the Group's share of the ownership in Radar decreased from 80.0% to 60.9%.

International Financial Reporting Standards ("IFRS")

The Group is required to adopt IFRS in the year ending 31 January 2008. Accordingly the first set of statements to be issued under IFRS will be the interim results for the six month period ending 31 July 2007.

In order to prepare for conversion to IFRS, we have established a Group wide working party to examine the standards and assess the impact upon the Group's financial statements. It is our intention to adopt IFRS at Group level only.

Our initial interpretation of the standards has led us to believe that, other than the substantive changes to the presentation of the primary statements and accompanying notes under IAS1 and IAS14, there will be only a minimal difference between the numbers reported under UK GAAP and IFRS. The principal differences will be under IFRS3: Business Combinations, IAS12: Deferred Tax and under IAS37 we are required to accrue for holiday pay.

Outlook

RDF has become a diversified, multi-genre and multi-national TV production and distribution group. This has been achieved through the acquisition of other production companies and by the consistent delivery of organic growth across all divisions.

Despite the challenges presented by the fragmentation of audiences and advertising spend in television broadcasting the Board is confident that, as a creator and owner of popular televisual content, RDF will continue to develop in the years to come.

The Board remains confident about the year ahead.

David Frank
Chief Executive

RDF MEDIA GROUP PLC

PRELIMINARY ANNOUNCEMENT OF RESULTS YEAR ENDED 31 JANUARY 2007

SUMMARISED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Continuing operations	Acquisitions	Total year ended	Total year ended
	Note	2007 £'000s	2007 £'000s	2007 £'000s	2006 £'000s
Turnover: Group and share of associated undertakings				99,298	62,313
Less: share of associated undertakings' turnover				-	(2,800)
Group turnover	1	91,766	7,532	99,298	59,513
Cost of sales		(64,839)	(4,395)	(69,234)	(42,575)
Gross profit		<u>26,927</u>	<u>3,137</u>	30,064	16,938
Administrative expenses		(19,607)	(1,228)	(20,835)	(11,516)
FRS 20 share-based payment		(922)		(922)	(201)
Amortisation of goodwill		(1,121)		(1,121)	(146)
Flotation costs		-	-	-	(1,328)
Total administration expenses		<u>(21,650)</u>	<u>(1,228)</u>	<u>(22,878)</u>	<u>(13,191)</u>
Operating profit		<u>5,277</u>	<u>1,909</u>	7,186	3,747
Share of operating profits of associated undertakings				-	138
Net interest				(125)	80
Profit on ordinary activities before taxation				7,061	3,965
Tax on profit on ordinary activities				(2,372)	341
Profit on ordinary activities after taxation				4,689	4,306
Minority Interest				96	(11)
Retained profit for the financial year				4,785	4,295
Earnings per share	2				
- basic				12.8p	13.8p
- diluted				11.8p	13.0p

SUMMARISED CONSOLIDATED BALANCE SHEET

	2007	2006
	£'000s	(restated) £'000s
Fixed assets		
Intangible assets	33,611	14,514
Tangible assets	1,841	1,589
Investments	169	165
	35,621	16,268
Current assets		
Stocks	13,598	9,270
Debtors	26,847	20,578
Cash at bank and in hand	6,761	8,411
	47,206	38,259
Creditors: amounts falling due within one year	(43,915)	(33,090)
Net current assets	3,291	5,169
Total assets less current liabilities	38,912	21,437
Creditors: amounts falling due after more than one year	(13,250)	(6,830)
	25,662	14,607
Capital and reserves		
Called up share capital	388	356
Share premium account	3,779	3,652
Merger reserve	8,537	2,566
Profit and loss account	13,032	8,011
Equity shareholders' funds	25,736	14,585
Equity minority interests	(74)	22
Total capital employed	25,662	14,607

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	Note	2007 £'000s	2006 £'000s
Net cash inflow from operating activities	3	5,277	2,294
Returns on investments and servicing of finance		(126)	80
Taxation		(1,110)	(431)
Capital expenditure and financial investment		(1,397)	(1,039)
Acquisitions		(4,897)	(3,570)
Equity dividends paid		(685)	(1,500)
Financing		1,288	7,167
(Decrease)/Increase in cash	4	<u>(1,650)</u>	<u>3,001</u>

OTHER PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007	2006
	£'000s	£'000s
Profit for the financial year attributable to shareholders	4,785	4,157
Share of profit of associated undertakings	-	138
Currency translation differences on foreign currency net investments	(201)	141
Total recognised gains and losses for the year	<u>4,584</u>	<u>4,436</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007	2006
	£'000s	£'000s
Profit for the financial year	4,785	4,295
Equity dividend paid	(685)	(1,500)
	<u>4,100</u>	<u>2,795</u>
FRS 20 share based payment	1,122	-
Exchange differences	(201)	141
	<u>5,021</u>	<u>2,936</u>
Shares issued	32	356
Premium on shares issued	6,098	4,268
Net increase in shareholders' funds	<u>11,151</u>	<u>7,560</u>
Shareholders' funds at 1 February 2006	<u>14,585</u>	<u>7,025</u>
Shareholders' funds at 31 January 2007	<u><u>25,736</u></u>	<u><u>14,585</u></u>

NOTES TO THE PRELIMINARY STATEMENTS

1 BASIS OF PREPARATION

The preliminary announcement has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The principal accounting policies of the group are set out in the group's 2007 annual report and financial statements. The policies have remained unchanged from the previous year apart from the adoption of FRS 20 "Share Based Payments". This change is described in more detail below.

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standard:

FRS 20 Share Based Payments

The Group's share option scheme provides for an exercise price equal to the market price of the Group's shares at the date of grant. The vesting period ranges from the date of grant to up to three years, and is most typically two years. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, if an employee leaves the Group before their options vest, the options are forfeited at the date of leaving.

A charge has been made in the year of £922k (2006: £201k) to reflect the fair value to the Group of issuing employee share options. This charge has been calculated using the Black-Scholes model to apply a fair value to the options issued and spread that charge evenly over the vesting period (typically 2 years from issue).

2 EARNINGS PER SHARE

Basic

The basic earnings per share calculations are based on a profit on ordinary activities after taxation and minority interests of £4,784,520 (2006: £4,295,000). This profit on ordinary activities after taxation is then divided by the weighted average number of shares in issue which is 37,376,806 (2006: 31,236,346).

Diluted

The diluted earnings per share calculation is based on the basic earnings per share calculation above except that the weighted average number of shares includes:

- all dilutive options granted by the balance sheet date as if those options had been exercised on the first day of the accounting period or the date of the grant, if later, giving a weighted average of 40,431,246 (2006: 33,039,387), and
- the weighted average number of shares agreed to be issued as consideration under earn-out agreements.

The table below sets out the adjustments in respect of diluted potential ordinary shares:

	2007	2006
	Number of shares	Number of shares
Weighted average number of shares used in basic earnings per share calculation	37,376,806	31,236,346
Dilutive share options and shares	3,054,440	1,803,041
Weighted average number of shares used in diluted earnings per share calculation	40,431,246	33,039,387

The adjusted earnings per share calculation has been made to allow shareholders to gain a better understanding of the trading performance of the Group. It is based on the diluted earnings per share calculation above except that profits are adjusted for goodwill amortisation, FRS 20 share based payment charge, share option tax credit and the after tax effect of exceptional items as follows:

	2007	2006
	£'000s	£'000s
Profit on ordinary activities after taxation attributable to shareholders	4,785	4,295
Goodwill amortisation	1,121	146
FRS 20 share based payment	922	201
Tax normalisation	-	(1,570)
Operating exceptional items after tax	-	1,328
Adjusted profit on ordinary activities after taxation	6,828	4,400

	2007	2006
Basic Earnings per Share	12.8p	13.8p
Effect of Amortisation of Goodwill	3.0p	0.5p
Effect of FRS 20 share-based payment	2.5p	-
Effect of tax normalisation	-	(5.0p)
Exceptional Flotation Cost	-	4.2p
Adjusted Basic Earnings per Share	18.3p	13.5p
Diluted Earnings per Share	11.8p	13.0p
Effect of Amortisation of Goodwill	2.8p	0.4p
Effect of FRS 20 share-based payment	2.3p	0.6p
Effect of tax normalisation	-	(4.7p)
Exceptional Flotation Cost	-	4.0p
Adjusted Diluted Earnings per Share	16.9p	13.3p

3 NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007	2006
	£'000s	£'000s
Operating profit	7,186	3,747
Depreciation	1,262	975
Amortisation of goodwill on investment	1,121	146
FRS 20 share-based payment charge	922	201
Increase in stocks and work in progress	(4,321)	(2,293)
Increase in debtors	(5,825)	(4,295)
Increase in creditors	5,119	3,562
Decrease in amounts due from group undertakings	14	128
Decrease in provisions	-	(18)
Exchange differences	(201)	141
Net cash inflow from operating activities	5,277	2,294

4 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	2007	2006
	£'000s	£'000s
(Decrease)/increase in cash in the year	(1,650)	3,001
Cash inflow from financing	(1,204)	(5,212)
Cash outflow from finance leases	46	112
Change in net funds resulting from cash flows	(2,808)	(2,099)
Effect of foreign exchange changes	-	-
Movement in net funds in the year	(2,808)	(2,099)
Net funds at 1 February 2006	2,569	4,668
Net (debt) / funds at 31 January 2007	(239)	2,569

5 DIVIDENDS

The Board proposes to pay a dividend of 3 pence per share (2006: 1.9 pence). The dividend will be paid during July 2007 to shareholders on the share register on 1 June 2007.

6 PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The summarised consolidated balance sheet at 31 January 2007 and the summarised consolidated profit and loss account, summarised consolidated cash flow statement and associated notes for the year then ended have been extracted from the Group's 2007 financial statements.

Those financial statements have not yet been delivered to the registrar of companies, nor have the auditors reported on them.