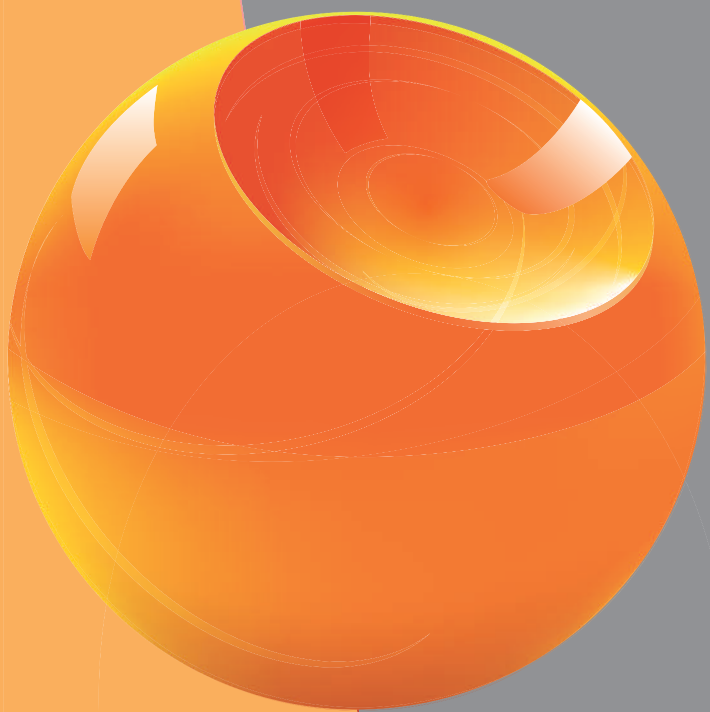
**Ludorum plc** is an AIM-listed media investment company. The Group is focused on creating or acquiring and subsequently exploiting the rights for children's entertainment properties through both conventional media and new media channels.

## Highlights

- Revenue generated in the year increased by £1.97 million to £2.14 million (2008: £0.17 million) Operating loss for the year fell by 29% to £1.69m (2008: £2.39m)
- Chuggington has now been licensed for broadcast in over 175 countries with significant ratings success in most initial broadcast markets including the UK, Germany, Australia, Canada and France.
- A multi-rights agreement was signed in April 2009 with Fuji Networks in Japan with satellite broadcast commencing in July 2009.
- Broadcast agreement reached with The Disney Channel in the USA in June 2009 with first broadcast on 18 January 2010.
- Over 125 consumer products and home entertainment licence agreements have been concluded throughout the world.
- Fifty-two 10 minute episodes completed; agreement entered into in February 2009 to produce a further 52 X 10 minute episodes which have been pre-sold to the BBC, Super RTL, TF1 and ABC Australia.
- Strong publishing and DVD sales have begun in the UK and Australia.



**Contents**

# Directors and Advisers

## Ludorum plc

Registered in England & Wales
Registered number: 5595899
Registered office: 2b River Court, 27 Brewhouse Lane, Putney Wharf, London, SW15 2JX

## Directors

Richard Rothkopf (Chairman)
Rob Lawes (Chief Executive Officer)
Charles Caminada (Chief Operating Officer)
David Maloney (Independent Non-Executive)

## Company Secretary

Malcolm Paget

## Nominated adviser and Brokers

Investec
2 Gresham Street
London
EC2V 7QP

## Bankers

Coutts & Co
440 Strand
London
WC2R 0QS

## Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

## Lawyers

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ
Olswang LLP
90 High Holborn
London
WC1V 6XX

# Chief Executive's Review

## Overview

Ludorum plc is an AIM-listed media investment company. The Group is focused on creating or acquiring and subsequently exploiting the rights for children's entertainment properties through both conventional media and new media channels.

Throughout 2009 the Group has continued to make substantial progress with securing broadcast in nearly all major markets worldwide. Building on the successful broadcast placement of Chuggington we have been active in concluding key home entertainment, consumer products, publishing and agency agreements to help to support and maximise the popularity of Chuggington.

This is the first year in which we see tangible financial results from our investment in Chuggington with revenues for the year increasing by £1.97 million to £2.14 million. We are greatly encouraged by Chuggington's early success. We will continue to develop and exploit the property throughout the world, and have confidence that our first property will create material long-term value for our shareholders.

## Chuggington

Chuggington is a computer generated series of 104 x 10 minute episodes, 52 shorter mini-episodes and a fully immersive interactive website. The website, 52 episodes and 26 mini-episodes are complete, and the others are currently in production. The series follows the adventures of Wilson, Brewster and Koko, all trainee engines and each with their own unique personality and learning style. The series is set in a world much like our own with cities, villages and diverse cultures and geography. Entertainment and enjoyment is at the heart of Chuggington, but embedded within each story are important educational and developmental messages centred on learning and social-emotional development. The series offers an extensive range of destinations to explore and adventures through which children and parents can benefit from the underlying value of positive life-learning lessons.

## Broadcast

We have concluded broadcast agreements with leading broadcasters in their respective territories for broadcast into 175 countries. During the year we concluded two significant agreements: one with Disney Channel in North America, where we created an American voiced version of Chuggington for broadcast in January 2010, and the second an agreement with Fuji Networks in Japan (their first western pre-school programming acquisition in more than 15 years) where satellite broadcast commenced in July 2009. In addition to major terrestrial broadcasters in key territories, we have also concluded agreements with Disney channels in Latin America, the Far East, Italy and Scandinavia.

Chuggington launched on the Cbeebies channel in the UK in January 2009 and has established a consistent status as one of the top rating shows on the channel. The series has also been launched in a number of key international markets and has also enjoyed strong ratings. The property is scheduled to launch in other key territories around the world during 2010.

## Consumer Products, Home Entertainment and Publishing

Learning Curve Brands, Inc ("Learning Curve"), a division of RC2 and a leading global toy manufacturer based in the US, has been granted the master toy licence for Chuggington on a worldwide basis. Learning Curve has developed a substantial line of new and innovative toys. Learning Curve has recently reported that their product lines have been well received at the Hong Kong, United Kingdom, Nuremberg and New York toy fairs that took place in early 2010. First products have started to roll-out in Spring 2010 and preliminary sales data in the UK, Australia and Germany has been very encouraging. Learning Curve contributes to the animated production costs and will participate in the net profits of the property.

In addition to the Learning Curve master toy licence, the Company has entered into a significant number of consumer products agreements with leading organisations, including Scholastic Publishing, Tomy, and VTech. For example, in the UK, there are now a total of 29 licence agreements in place covering a broad range of product categories including clothing, bedding, games and puzzles, bicycles, celebration cakes and greetings cards. Product under these arrangements will also start to roll-out in early 2010.

The Group has concluded a number of agreements with leading home entertainment partners in key territories. These include 2entertain (UK), Universal Pictures (Germany), TF1 Vision (France), Fuji Group (Japan), Roadshow (Australia) and Daewon in Korea. In the UK, Chuggington was the strongest performing "new entrant" into the pre-school market having the fourth best selling DVD in the pre-school genre for the year and all three DVD releases being in the top twenty of all titles released in 2009. As in the UK, DVDs in Australia also performed strongly.

Parragon are the master publisher of Chuggington books in several key markets including the UK, Australia, Germany, Scandinavia and Benelux and the Company is committed to producing a very broad range of high quality books across all categories. Parragon introduced 7 titles in the UK and Australia and enjoyed very strong sell through in both markets. In November 2009 the Company concluded a publishing agreement with Scholastic Inc for North American publishing rights. First titles will be released in autumn 2010.

## Production

The first series of 52 episodes was fully completed in January 2009. In February 2009 the Company entered into a new agreement with its production partner in Shanghai to produce a further 26 episodes which will be delivered in July 2010 and the Company has commissioned a further 26 episodes which will be delivered in summer 2011. The second series has been pre-sold to the BBC, Super RTL, TF1 and ABC Australia.

## Financial Review

Ludorum generated revenues of £2.14m for the full year (2008: £0.17m). The first six months of 2009 generated revenues of £0.94m and the second half of the year had revenues of £1.20m, a 28% increase over the prior six months. Broadcast revenues in the first six months were £0.8m and consumer products revenues were £0.14m. The second half of the year had broadcast revenues of £0.56m and consumer products revenues of £0.64m. Strong DVD and publishing royalties drove the second half increase in consumer products income.

Gross profit increased from £0.04m to £1.15m for the full year. The gross profit for the first six months of 2009 was £0.34m and the second half gross profit was £0.81m.

# Chief Executive's Review

Total administrative costs, excluding costs attributed to share schemes, were £2.43 million, a 21% increase of £0.42 million over the year to 31 December 2008. Staff costs increased by £0.26 million. Average staff numbers for the year increased from 10 in 2008 to 15 in 2009. Advertising and marketing expenditure increased by £0.1 million. An additional £0.28 million was incurred on professional fees and depreciation of office equipment increased by £0.21 million.

The operating loss for the full year fell by 29% to £1.69 million (2008: £2.39 million).

Capital expenditure on Chuggington during the year was £0.75 million, compared with £0.99 million in 2008. Series 1 of the programme was completed in early 2009 and, following a short interval, production commenced on Series 2 of the programme. Expenditure on property, plant and equipment increased to £0.081 million in 2009 compared with £0.016 million in 2008. This is mainly accounted for by the Company's change of premises.

In the year the Company utilised a £1.2 million fixed interest bank loan facility and started to repay back the loan towards the end of the year. Total repayment of the loan by the end of the year was £0.07 million. Additional cash was also raised by a placing of 324,000 ordinary shares at a price of £1.40 per share. The total amount raised by the placing was £0.45 million.

As at 31 December 2009 the Company had cash and cash equivalents, excluding bank overdrafts, of £0.17 million (2008: £0.05m) and borrowings of £1.18 million (2008: £0.19 million). In March 2010 the Group replaced Clydesdale Bank with Coutts & Co as its principal bankers. At the same time it secured a £0.50 million overdraft facility and entered into a long-term loan note of £1.50 million secured at 9% with Pennine AIM VCT PLC. Based on the forecast results of the Group and the above facilities, the Directors are comfortable that the Company and Group will be able to continue as a going concern for the foreseeable future.

## Outlook

We are committed to building Chuggington into an evergreen property. We believe we have made excellent progress in 2009 and have put in a place a formidable line up of broadcast and consumer product partners. The first quarter of 2010 has started very well and we anticipate that for the remainder of 2010 and beyond we will see significant growth as we look to build on the achievements made to date.

*Rob Lawes*
**Chief Executive Officer**

# Directors' Report

The Directors of the Company present their Report and the Audited Consolidated Financial Statements for the year ended 31 December 2009. The registered number of the Company is 5595899.

## Principal activities, business review and future developments

The Company and its subsidiaries ("the Group") continued the development of its animated children's television series, "Chuggington". The television series is being produced in partnership with RC2, a major US-based toy manufacturer. The Group and RC2 jointly finance the production of the series and RC2 has a back-end participation in the profits from the series.

The first series of 52 episodes was completed in the year and production of a second series commenced in the year.

Further details of the Group's principal activities, business review and of future developments are given in the Chief Executive's Review.

## Post balance sheet events

In March 2010 the Company obtained overdraft facilities of £500,000 from Coutts & Co. The overdraft is secured by a first charge over the Company's assets. In March 2010 the Company also issued £1.5m of loan notes. The loan notes are redeemable within five years. If the Company redeems the loan notes within two years the redemption will be £1.25 per £1 of loan notes. If the loan notes are redeemed after two years the loan notes are redeemable at par. The interest payable on the loan notes is the greater of 9% or 3% above LIBOR for the first three years. After three years, the interest rate is 15%. The loan notes are secured by a second charge over the Company's assets.

In March 2010 the Company also repaid the outstanding balance on its fixed interest loan from Clydesdale Bank. The Group also changed its bankers from Clydesdale Bank to Coutts & Co.

## Key performance indicators

The Group considers revenue to be its key performance indicator. Revenue in 2009 was £2.14 million compared with £0.17 million in 2008. The increase in revenue is explained by 2009 being the first full year when the Group recognised revenue on "Chuggington".

## Principal risks and uncertainties

The main risk areas for the Group are set out below:

*Control of programme costs:* There is a risk that the programme costs are not controlled in the production process. To minimise the risk, production costs are constantly monitored against a budget which may also be adjusted as required to give an up to date estimate of the costs to completion.

*Key creative talent:* The quality of the Group's programmes relies on retaining key creative talent. The risk is mitigated by ensuring that key talent is secured by contract and participates in the financial success of the work that they help to produce.

*Protecting intellectual property:* The Group aims to maximise the exploitation of its intellectual property. The Group relies on intellectual property laws to protect its intellectual property rights but it cannot guarantee that these rights will not be challenged or circumvented.

## Financial risk management

The Group manages financial risk in order to minimise the potential impact on the Group.

The main financial risk management policies are set out below:

***Liquidity risk:*** The Group manages liquidity risk by financing its activities through its cash resources. During the year, the Group continued to utilise overdraft facilities secured in 2008 and also drew down a £1.2 million loan facility. Repayment of the loan facility also commenced in December 2009.

***Foreign exchange risk:*** The Group incurs some of its programme expenditure in US dollars. The risk arising from a change in the rate of exchange between sterling and the US dollar is mitigated by the Group invoicing for some sales of licences in US dollars and by being reimbursed, by its development partner, in US dollars for some of the US dollar denominated programme costs that it incurs.

***Credit risk:*** The Group extends credit following an assessment of the financial viability of the counterparty. This assessment helps to mitigate the Group's exposure to credit risk. The Group also considers the financial condition of banks in which its cash is deposited.

***Price risk:*** Price risk arises principally in respect of programme production costs. A substantial proportion of production costs are subject to fixed price contracts, this helping to mitigate this risk.

***Capital risk:*** The Group manages its capital structure to ensure that it continues as a going concern, to provide returns to shareholders, to benefit other stakeholders and to maintain an optimum capital structure.

In April 2009, the Company also placed 324,000 ordinary shares at a price of £1.4 per share.

## Financial results and dividend

The Group's loss for the year attributable to shareholders was £1.71 million. In 2008 the Group's loss for the year attributable to shareholders was £2.37 million.

The Directors do not recommend the payment of a dividend. (2008: £nil).

## Directors

The Directors throughout the year and up to the date of the financial statements were Richard Rothkopf, Rob Lawes, Charles Caminada and David Maloney.

In accordance with the Company's articles of association, one third (or the number nearest to but not less than one third) of all Directors will be required to retire and submit themselves for re-election at the next Annual General Meeting of the Company.

## Directors' insurance

Qualifying third party indemnity insurance is in place to cover the Directors against liabilities arising in relation to the Company, as permitted by the Companies Act 2006.



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## Substantial shareholdings

As at 21 May 2010 beneficial interests amounting to 3%. or more of the issued ordinary share capital of the Company notified to the Company, in addition to those holdings notified by Directors, comprised:

| | *Shares* | *%* |
|---|---|---|
| D C Thomson & Co Ltd | 1,674,476 | 17.9 |
| Taube Hodson Stonex Partners Ltd | 925,871 | 9.9 |
| F&C Asset Management plc | 808,753 | 8.6 |

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Disclosure of information to auditors

For each of the persons who are Directors at the time when this report is approved, so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Employees

The Group recognises its responsibilities for the fair treatment of all its employees in accordance with national legislation applicable to the territories within which it operates. Having regard to their skills and abilities, the Group gives full and fair consideration to applications for employment received from disabled persons, and so far as particular disabilities permit, will give employees disabled during their period of employment continued employment in the same job or, if this is not practicable, a suitable alternative job. Equal opportunities for appropriate training, career development and promotion are available to all employees regardless of any physical disability or their gender, religion, race or nationality.



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## Employee involvement and consultation

The Directors attach great importance to the maintenance and development of employee involvement and training. At this early stage of the Group's development, with a small number of employees, the Directors ensure that the results for the half year and for the financial year are discussed with employees and that they are aware of Group developments. As the Group develops, the Directors will put in place appropriate procedures to ensure that this continues to be the case as the number of activities and employees increases.

## Social responsibility

The Group recognises the importance of social, environmental and ethical matters and the Directors endeavour to take into account the interests of all stakeholders, including investors, employees, customers, suppliers and business partners when operating the business.

## Health, safety and the environment

The Directors seek to minimise risk to the health and safety of the Group's employees and to the environment by effective management of the Group's activities. The Group does not operate in a business sector which causes significant pollution or other adverse environmental effects. The principal direct environmental impacts are the consumption of energy at its offices and the production of waste.

## Payments to suppliers

It is the Group's general policy to abide by the terms of payment agreed with its suppliers at the time of individual transactions and to ensure that suppliers are made aware of the terms of payment and abide by them. At 31 December 2009, the Group's creditors in respect of invoiced supplies represented 61 days' purchases (2008: 44 days).

## Charitable and political donations

The Group did not make any charitable or political donations during the year.

## Independent Auditors

During the year PricewaterhouseCoopers LLP were re-appointed as auditors to the Company and have expressed their willingness to continue in office. Accordingly, resolutions will be proposed at the Annual General Meeting of the Company to re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

By order of the board

*Malcolm Paget*
**Company Secretary**
**28 May 2010**

# Remuneration Report

## Introduction and compliance

This report has been prepared by the Remuneration Committee on behalf of the Board. A full remuneration report produced in accordance with the requirements of the Companies Act 2006 is not required for a company listed on AIM. A resolution inviting shareholders to approve the report will be put to the Annual General Meeting.

## Remuneration Committee

The Company has established a Remuneration Committee which is chaired by David Maloney, the independent Non-Executive Director. The other member of the Committee is Richard Rothkopf.

The function of the Remuneration Committee is set out in the Corporate Governance Report. The terms of reference of the Committee are available from the Company Secretary and are available on the Company's website.

## Remuneration policy

The remuneration policy is established by the Board on the recommendation of the Remuneration Committee. The policy for remuneration is that the package offered should be sufficient to attract, retain and motivate executive Directors and senior executives of the quality required, but not more than is necessary for this purpose. It is intended that variable pay should comprise a significant proportion of the total remuneration. Remuneration is reviewed annually.

## The remuneration package

The remuneration package comprises base salary and benefits, annual bonus, long term incentive arrangements and pension contribution. All senior employees of the Group (including executive Directors) are remunerated using the policy described below.

***Base salary and benefits:*** At this early stage of the Company's development, base salaries for executive Directors have been set at levels below market levels although the Committee's policy is that, as the Company progresses, base salary will take into account the performance of the individual and information from independent sources and consultants on market levels. An executive Director's base salary will be reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility.

The Executive Directors receive the benefit of private medical insurance.

***Annual bonuses:*** Bonus scheme arrangements are in place for senior members of staff, including Executive Directors. The intention is to link bonuses to Group performance. Bonuses are calculated based on personal and business performance.

***Share incentive arrangements:*** The Company has in place incentive arrangements which only reward participants if shareholder value is created, thereby aligning the interests of management with those of shareholders. In 2006 the Company established an Incentive Option Plan by which incentive options were granted to the Company's executive Directors and one other senior Group employee.

In July 2009, the Company withdrew its Incentive Option Plan and all the participants in the Plan have renounced their interests in it. The Company has replaced the Incentive Option Plan with a Share Ownership Arrangement ("SOA"). Under the SOA the Company issued 936,000 ordinary shares to an Employee Benefit Trust ("EBT"). The shares held in the EBT are jointly owned by the EBT and the participants in the previous Incentive Option Plan. Participants hold the shares which are subject to the trust deed in the same proportion as their interest in the previous Incentive Option Plan. The participants include the executive Directors of the Company, a former Director of the Company and a senior employee of the Group. A participant's interest in the shares is not transferable, except on death.

Two thirds of a participant's shares subject to the trust deed vest from 1 May 2010 and the further one third vest from 1 May 2011. From the date of vesting a participant can exercise a put option to require the EBT to acquire all or a proportion of his entitlement. On exercising the put option the participant will receive the value of the increase in the share price since the SOA was established plus the lower of the value of the shares when the SOA was established and the value of the shares when the put option is exercised. The participant can be paid in either cash or shares.

*Pension:* Since the shares of the Company were admitted to trading on AIM on 3 April 2006, Rob Lawes and Charles Caminada have received a Company contribution at the rate of 15% of salary to their individual personal pension arrangements. In 2007, the Company ceased making payments to their nominated pension schemes but continues to accrue for the Directors' pension liabilities.

*Service contracts:* The Company's policy on Directors' service contracts is that, in line with the best practice provisions of the Code, they should be terminable by the Company on one year's notice, and Directors' contracts do not provide for predetermined compensation in the event of termination. Any payments made would be determined by reference to normal contractual principles with mitigation being applied as appropriate. The Non-Executive Director does not have a service contract but had a letter of appointment for an initial period of three years, which has been renewed by mutual agreement, for a further three year term. The terms of appointment do not contain any contractual provisions regarding a notice period or the right to receive compensation in the event of early termination.

*Details of the Directors' contracts and letters of appointment are as set out below:*

| *Executive Directors* | *Date of contract* | *Notice period* |
|---|---|---|
| Richard Rothkopf | 28 March 2006 | 12 months |
| Rob Lawes | 28 March 2006 | 12 months |
| Charles Caminada | 28 March 2006 | 12 months |
| *Non-Executive Director* | *Letter of appointment* | *End of period of appointment* |
| David Maloney | 3 April 2009 | 2 April 2012 |

## Non-Executive Director's fees

The Executive Directors are responsible for proposing the Non-Executive Director's fees. In proposing such fees they take account of similar fees paid to Non-Executive Directors in listed companies within the Group's listing sector and of similar size. Any decision on fee changes is taken by the Board as a whole. The Non-Executive Director does not take part in discussion on his remuneration. The Non-Executive Director does not receive benefits or pension contributions from the Group.

## Directors' remuneration

| | *Salary/fees* | *Benefits* | *Pension contributions* | *Total* |
|---|---|---|---|---|
| | *£* | *£* | *£* | *£* |
| **Executive Directors:** | | | | |
| Richard Rothkopf | 80,000 | – | – | 80,000 |
| Rob Lawes | 199,525 | 5,131 | 21,000 | 225,656 |
| Charles Caminada | 169,525 | 5,775 | 21,000 | 196,300 |
| **Non-Executive Director:** | | | | |
| David Maloney | 23,750 | – | – | 23,750 |
| | 472,800 | 10,906 | 42,000 | 525,706 |

In prior years, the Company has been accruing for unpaid salaries due to the executive Directors. In 2009 the executive Directors were paid their accrued entitlement which is included in the salaries above.

In 2007, the Company ceased making payments to the Directors' nominated pension schemes but continued to accrue for the pension entitlement of the Directors. The amount accrued for the Directors' pension liabilities at the end of the year was £107,412 (2008:£65,412).

## Directors' shareholdings

The Directors' beneficial interests, including interests of connected persons (within the meaning of Section 252 of the Companies Act 2006), in the Ordinary Shares of the Company at the end of the financial year are shown below. None of the Directors had any non-beneficial interest at any time in the financial year. None of the Directors who held office at the end of the financial year had any beneficial interest in the shares of other Group companies.

| | *Number of Ordinary Shares* | *Number of Ordinary Shares* |
|---|---|---|
| | *31 December 2008* | *31 December 2009* |
| Richard Rothkopf | 299,471 | 672,436 |
| Rob Lawes | 580,471 | 1,015,511 |
| Charles Caminada | 371,471 | 758,602 |
| David Maloney | 45,847 | 50,847 |

Since the year end Richard Rothkopf acquired a further 12,500 Ordinary Shares of the Company.

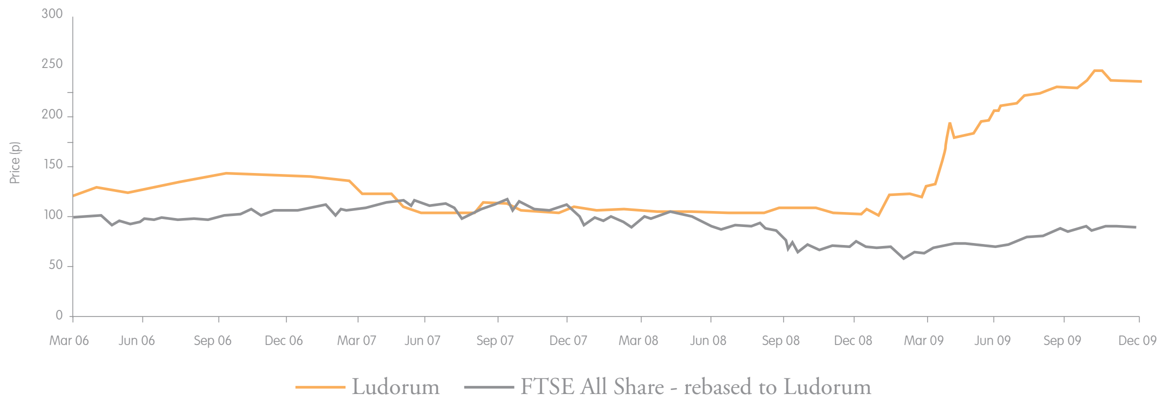
In addition, Rob Lawes and Charles Caminada each had an interest in 16,667 deferred shares. The deferred shares were issued as part of the capital re-organisation undertaken prior to the placing and admission to trading of Ordinary Shares on AIM in April 2006. The rights attaching to the deferred shares are so restricted as to render them virtually worthless.

The Directors also held the following share options, granted under the terms of the 2009 Share Ownership Arrangement.

| | *Shares allocated under Share Ownership Arrangement* |
|---|---|
| Richard Rothkopf | 211,536 |
| Rob Lawes | 365,040 |
| Charles Caminada | 286,416 |

## Total shareholder return (TSR)

The following graph shows the TSR of Ludorum plc compared with the TSR of the FTSE All Share Index for the period from 3 April 2006, when the Company was admitted to AIM, to 31 December 2009. The Directors consider that the FTSE All Share index is the most appropriate comparator index for the Company's shares.




This graph shows the value of £100 invested in the placing of shares of Ludorum plc on 3 April 2006 compared with £100 invested in the FTSE All Share Index.

This report was approved by the Board on 28 May 2010 and signed on its behalf by

*David Maloney*
**Chairman of the Remuneration Committee**

# Corporate Governance Report

## Introduction

The Board is accountable to the Company's shareholders for good governance and supports the principles of corporate governance contained in the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council (the 'Combined Code'), although full compliance with the Code is not required for an AIM listed company.

## The Board

The Board is responsible to shareholders for the effective and proper management and control of the Company and has a formal schedule of matters reserved for its decisions. Its primary roles are to determine and review Company strategy and policy, consider acquisitions and disposals, assess requests for major capital expenditure and give consideration to all other significant financial matters. This process is undertaken following discussions in conjunction with senior executive management who in turn are responsible for day to day conduct of the Group's operations and for reporting to the Board on the progress being made in meeting the objectives.

At 31 December 2009, the Board comprised four members. The names, roles and date of appointment of each of these Directors were as follows:

| *Director* | *Role* | *Date of appointment* |
|---|---|---|
| Richard Rothkopf | Executive Chairman | 16 March 2006 |
| Robert Lawes | Chief Executive Officer | 10 January 2006 |
| Charles Caminada | Chief Operating Officer | 10 January 2006 |
| David Maloney | Non-Executive Director | 28 March 2006 |

The Board considers that David Maloney, whom the Board has identified as the Senior Independent Director, is independent of management and free from any business relationships which could interfere with the exercise of his independent judgment. The Directors consider that it is appropriate for the Board, at this stage of the Company's development, to include only one Non-Executive Director. No individual or group of individuals dominates the Board's decision making and the Board expects to appoint additional independent Non-Executive Directors as the Company's business and operations develop.

The Board met four times during the year and each of the Directors attended every meeting that took place. Briefing papers and an agenda are provided for each Director, normally seven days in advance of each meeting. The Directors are able to seek further clarification and information on any matter from any other Director or employee of the Group whenever necessary. They have access to the advice and service of the Company Secretary and are able to obtain independent professional advice, at the Company's expense, if the need arises. A formal process of performance evaluation in relation to the Board has not yet been implemented.

In accordance with the Company's articles of association, one third (or the number nearest to but not less than one third) of all Directors will be required to retire and submit themselves for re-election at each Annual General Meeting of the Company. Robert Lawes and Charles Caminada will submit themselves for re-election this year. It is the policy of the Board that non-executive Directors are appointed for an initial term of three years, following which their appointment will be reviewed.

## Chairman and Chief Executive Officer

The Board's policy is that the roles of Chairman of the Board and Chief Executive Officer of the Company should be separate. The division of responsibilities of the Chairman and the Chief Executive Officer is set out in writing and has been approved by the Board. The Board considers that the respective roles and responsibilities are clearly understood by both individuals and by the Board as a whole.



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## Committees of the Board

The Board has two standing committees, Remuneration and Audit, the members of each being Richard Rothkopf and David Maloney. The duties of the Committees are set out in formal terms of reference. These are available from the Company Secretary. The Company Secretary acts as Secretary of each of the Committees.

## Remuneration Committee

The Remuneration Committee is chaired by David Maloney. The function of the Committee is to establish and review the terms and conditions of employment of the Executive Directors, and to make recommendations to the Board on the overall framework and broad policy for the remuneration of the Company's Directors and other senior executives within the Group.

## Audit Committee

The Audit Committee is chaired by David Maloney, who has held senior financial positions in a number of service sector companies, including Chief Financial Officer for Le Meridien Hotels & Resorts and Chief Financial Officer for Thomson Travel Group plc as well as 12 years working with Avis Europe plc latterly as group Finance Director. Accordingly, the Board considers that he brings recent and relevant financial experience to his role as chairman of the Committee. The Committee met once in 2009. Both members of the Committee attended this meeting, along with other members of the Board and senior representatives of the external auditors. The Committee has the right to invite any other employees to attend meetings where this is considered appropriate.

The Committee is responsible for the development, implementation and monitoring of the Company's policy on external audit and for overseeing the objectivity and effectiveness of the external auditors. The Committee recommends the appointment and re-appointment of the Company's external auditors and considers the scope and the cost effectiveness of their work.

The Committee has approved the audit and non-audit services which have been provided by PricewaterhouseCoopers LLP during the year under review. The Committee is satisfied that PricewaterhouseCoopers LLP have retained objectivity and independence during the year.

PricewaterhouseCoopers LLP have been the Group's auditors since it listed on AIM. The Audit Committee considers that the relationship with the auditors is working well and remain satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. There are no contractual obligations restricting the Company's choice of external Auditor.

The Committee monitors and reviews the effectiveness of the Group's internal control systems, accounting policies and practices, risk management procedures and compliance controls as well as the integrity of the Company's financial statements.

## Internal control and risk management

***Philosophy and policy:*** The objective of the Directors and senior management is to safeguard and increase the value of the business and assets of the Group. Achievement of this objective requires the development of policies and appropriate internal controls to ensure the Group's resources are managed properly and any risks are identified.

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and cannot provide absolute assurance against material misstatement or loss. The Board has delegated responsibility for reviewing the suitability of practices and procedures to the Audit Committee.



18024LUDORUM.indd 15 18024 29/05/10 Proof 5 28/05/2010 12:43

The Company's senior management is responsible for the suitability of current systems and the Audit Committee ensures the effectiveness and efficiency of the processes implemented by senior management. This includes discussions with senior management of the Group. These findings are in turn discussed by the full Board which is responsible for addressing any weaknesses identified. The Board is committed to satisfying the internal control guidance for Directors set out in the ICAEW Turnbull Report. Further, the Board is aware of the major risks facing the Company and the steps taken by the Company where possible to mitigate such risks.

*Controlling risk:* The Group has policies which address a number of key business risks. Senior management assume responsibility for managing risk in the businesses. Where appropriate, external advisers are appointed in order to support this process.

## Accountability and audit

The Statement of Directors' responsibilities in relation to the consolidated and Company financial statements is set out in the Directors' Report.

## Going concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Internal financial controls

The Company has a system for regular monitoring and reporting of financial performance and assessing the efficiency of the Group's systems of internal controls appropriate to its stage of development. A detailed budget is prepared by management and thereafter is reviewed and formally adopted by the Board. The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are also held involving senior management, at which the Company's overall performance is assessed. The results of these reviews are in turn reported to and discussed by the Audit Committee and the Board.

The Audit Committee has considered whether there is a requirement for an internal audit function and based on the simplicity of the Company's current operations and its early stage of development, the Committee is satisfied that an internal audit function is not presently required. This matter will be kept under regular review.

The Board confirms that it has reviewed the effectiveness of the system of internal controls for the period ended 31 December 2009.

## Communications with shareholders

Principally via the Executive Directors, the Company seeks to build on a mutual understanding of objectives with its institutional shareholders through regular meetings and presentations following announcements of annual and interim results. Institutional shareholders will be given the opportunity to meet with a new Non-Executive Director on request. The views of key analysts and shareholders are communicated back to the Board directly by individual Directors and via the Company's broker, ensuring all members of the Board develop an understanding of the views of major shareholders. Corporate information is also available on the Company's website, www.ludorum.com.

## Constructive use of the Annual General Meeting

The Board welcomes the attendance of shareholders at the Annual General Meeting at which the Directors will be present to take questions on the Company's businesses and strategy.

By order of the board

*Malcolm Paget*
**Company Secretary**
**28 May 2010**

# Independent Auditors' Report
## to the Members of Ludorum plc

We have audited the Group and Company financial statements (the "financial statements") of Ludorum plc for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, 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 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## 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 Company's affairs as at 31 December 2009 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

*Ian Wishart (Senior Statutory Auditor)*

*for and on behalf of PricewaterhouseCooopers LLP*

**Chartered Accountants and Statutory Auditors**

**London**

**28 May 2010**

## *Consolidated statement of comprehensive income for the year ended 31 December 2009*

| | *Notes* | *For the year ended 31 December 2009 £000* | *For the year ended 31 December 2008 £000* |
|---|---|---|---|
| Revenue | 2 | 2,142 | 170 |
| Cost of sales | | (988) | (131) |
| **Gross profit** | | 1,154 | 39 |
| Costs attributable to Share Schemes | | (414) | (422) |
| Other administrative expenses | | (2,425) | (2,004) |
| Total administrative expenses | | (2,839) | (2,426) |
| **Operating loss** | | (1,685) | (2,387) |
| Finance costs – bank interest | | (21) | (8) |
| Finance income – bank interest | | – | 29 |
| **Net finance (cost)/income** | | (21) | 21 |
| Loss before taxation | | (1,706) | (2,366) |
| Taxation | 6 | (6) | (5) |
| Loss for the year | 3 | (1,712) | (2,371) |
| Other comprehensive (loss)/income: | | | |
| Foreign exchange differences | | (3) | 8 |
| Total comprehensive loss for the year | | (1,715) | (2,363) |
| Loss per share (basic and diluted) | 7 | (19.7p) | (29.3p) |

# Consolidated Financial Statements

| *Balance sheets as at 31 December 2009* | | *Group* | | *Company* | |
|---|---|---|---|---|---|
| | *Notes* | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investment in subsidiaries | 8 | – | – | 1,562 | 1,271 |
| Property, plant and equipment | 9 | 66 | 14 | 47 | 2 |
| Intangible assets | 10 | 1,998 | 1,477 | 1,998 | 1,477 |
| | | 2,064 | 1,491 | 3,607 | 2,750 |
| **Current assets** | | | | | |
| Trade and other receivables | 11 | 2,121 | 720 | 1,405 | 492 |
| Cash and cash equivalents | 12 | 169 | 46 | 148 | 34 |
| | | 2,290 | 766 | 1,553 | 526 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Income tax payable | 13 | (9) | (3) | – | – |
| Trade and other payables | 13 | (5,026) | (2,035) | (4,802) | (1,271) |
| Borrowings | 14 | (1,183) | (186) | (1,183) | (186) |
| | | (6,218) | (2,224) | (5,985) | (1,457) |
| Net current (liabilities) / assets | | (3,928) | (1,458) | (4,432) | (931) |
| **Non-current liabilities** | | | | | |
| Share ownership liability | 16 | (524) | – | (524) | – |
| Provisions for liabilities and charges | 15 | – | (104) | – | (104) |
| Net (liabilities)/assets | | (2,388) | (71) | (1,349) | 1,715 |
| **Shareholders' equity attributable to owners of the parent** | | | | | |
| Ordinary shares | 16 | 84 | 81 | 94 | 81 |
| Deferred shares | 16 | 50 | 50 | 50 | 50 |
| Share premium | 17 | 7,885 | 7,435 | 7,885 | 7,435 |
| Share-based payments reserve | 18 | 30 | 1,085 | 30 | 1,085 |
| Foreign currency translation | 19 | 5 | 8 | – | – |
| Retained losses | 20 | (10,442) | (8,730) | (9,408) | (6,936) |
| Total shareholders' (deficit)/equity | | (2,388) | (71) | (1,349) | 1,715 |

The notes on pages 24 to 40 are an integral part of these consolidated and Parent Company financial statements.

The financial statements were authorised for issue by the Board of Directors and signed on its behalf by:

*Rob Lawes*
**Chief Executive Officer**
**28 May 2010**



18024LUDORUM.indd 20 18024 29/05/10 Proof 5 28/05/2010 12:43

## *Statement of changes in equity*

| *Group 2009* | *Share capital £000* | *Share Premium £000* | *Accumulated losses £000* | *Share-based payments reserve £000* | *Foreign currency translation £000* | *Total equity deficit £000* |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 131 | 7,435 | (8,730) | 1,085 | 8 | (71) |
| **Comprehensive income:** | | | | | | |
| Loss for the year | – | – | (1,712) | – | – | (1,712) |
| **Other comprehensive income:** | | | | | | |
| Foreign exchange differences | – | – | – | – | (3) | (3) |
| Total comprehensive income | – | – | (1,712) | – | (3) | (1,715) |
| **Transactions with owners:** | | | | | | |
| Credit relating to | | | | | | |
| Share-based payments reserve | – | – | – | 30 | – | 30 |
| Transfer to share ownership liability | – | – | – | (1,085) | – | (1,085) |
| New shares issued | 3 | 450 | – | – | – | 453 |
| Total transactions with owners | 3 | 450 | – | (1,055) | – | (602) |
| At 31 December 2009 | 134 | 7,885 | (10,442) | 30 | 5 | (2,388) |

| *2008* | *Share capital £000* | *Share Premium £000* | *Accumulated losses £000* | *Share-based payments reserve £000* | *Foreign currency translation £000* | *Total equity deficit £000* |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 131 | 7,435 | (6,359) | 700 | – | 1,907 |
| **Comprehensive income:** | | | | | | |
| Loss for the year | – | – | (2,371) | – | – | (2,371) |
| **Other comprehensive income:** | | | | | | |
| Foreign exchange differences | – | – | – | – | 8 | 8 |
| Total comprehensive income | – | – | (2,371) | – | 8 | (2,363) |
| **Transactions with owners:** | | | | | | |
| Credit relating to | | | | | | |
| Share-based payments reserve | – | – | – | 385 | – | 385 |
| Total transactions with owners | – | – | – | 385 | – | 385 |
| At 31 December 2008 | 131 | 7,435 | (8,730) | 1,085 | 8 | (71) |

*Statement of changes in equity*

| *Company 2009* | *Share capital £000* | *Share Premium £000* | *Accumulated losses £000* | *Share-based payments reserve £000* | *Foreign currency translation £000* | *Total equity deficit £000* |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 131 | 7,435 | (6,936) | 1,085 | – | 1,715 |
| **Comprehensive income:** | | | | | | |
| Loss for the year | – | – | (2,472) | – | – | (2,472) |
| Total comprehensive income | – | – | (2,472) | – | – | (2,472) |
| **Transactions with owners:** | | | | | | |
| Credit relating to | | | | | | |
| Share-based payments reserve | – | – | – | 30 | – | 30 |
| Transfer to share ownership liability | – | – | – | (1,085) | – | (1,085) |
| New shares issued | 13 | 450 | – | – | – | 463 |
| Total transactions with owners | 13 | 450 | – | (1,055) | – | (592) |
| At 31 December 2009 | 144 | 7,885 | (9,408) | 30 | – | (1,349) |

| *2008* | *Share capital £000* | *Share Premium £000* | *Accumulated losses £000* | *Share-based payments reserve £000* | *Foreign currency translation £000* | *Total equity deficit £000* |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 131 | 7,435 | (4,742) | 700 | – | 3,524 |
| **Comprehensive income:** | | | | | | |
| Loss for the year | – | – | (2,194) | – | – | (2,194) |
| Total comprehensive income | – | – | (2,194) | – | – | (2,194) |
| **Transactions with owners:** | | | | | | |
| Credit relating to | | | | | | |
| Share-based payments reserve | – | – | – | 385 | – | 385 |
| Total transactions with owners | – | – | – | 385 | – | 385 |
| At 31 December 2008 | 131 | 7,435 | (6,936) | 1,085 | – | 1,715 |



18024LUDORUM.indd 22 18024 29/05/10 Proof 5 28/05/2010 12:43

| *Cash flow statements for the year ended 31 December 2009* | | *Group* | | *Company* | |
|---|---|---|---|---|---|
| | *Notes* | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| **Cash flows from operating activities** | | | | | |
| Cash used in operations | 21 | (478) | (867) | (217) | (1,406) |
| Interest received | | – | 29 | – | 29 |
| Interest paid | | (21) | (8) | (21) | (7) |
| Net cash used in operating activities | | (499) | (846) | (238) | (1,384) |
| **Cash flows from investing activities** | | | | | |
| Investment in subsidiaries | | – | – | (291) | – |
| Repayment of long term loan to subsidiaries | | – | | – | 539 |
| Purchase of property, plant and equipment | | (81) | (16) | (70) | (1) |
| Investment in intangible assets | | (747) | (990) | (747) | (990) |
| Net cash used in investing activities | | (828) | (1,006) | (1,108) | (452) |
| **Cash flows from financing activities** | | | | | |
| Net proceeds from issue of share capital | | 453 | – | 463 | – |
| Proceeds from bank loan | | 1,200 | – | 1,200 | – |
| Repayment of bank loan | | (73) | – | (73) | – |
| Net cash generated from financing activities | | 1,580 | – | 1,590 | – |
| Net increase/(decrease) in cash and cash equivalents | | 253 | (1,852) | 244 | (1,836) |
| Cash and cash equivalents at 1 January 2009 | | (140) | 1,712 | (152) | 1,684 |
| Cash and cash equivalents at 31 December 2009 | 12 | 113 | (140) | 92 | (152) |



18024LUDORUM.indd 23 18024 29/05/10 Proof 5 28/05/2010 12:43

## 1. Accounting policies

Ludorum plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is 2b River Court, 27 Brewhouse Lane, Putney Wharf, London, SW15 2JX. The Company's registered number is 5595899.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the whole period presented.

***Basis of preparation:*** These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis and under the historical cost convention. A summary of the more important group accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. The Directors consider that the key areas of judgement are the estimation of the fair value of options granted under share-based payment arrangements as well as the carrying value of intangible assets (in respect of which no impairment issues have been identified to date).

***Adoption of standards effective 2009:*** The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those financial statements, except that the following standards and amendments to existing standards, which are effective from 1 January 2009, have been adopted by the Group:

IAS 1 (Revised) 'Presentation of financial statements': The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Under the revised standard, entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present one Consolidated Statement of Comprehensive Income. Comparatives for 2008 have been represented accordingly.

IAS 23 (Revised) 'Borrowing costs': This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. Borrowing costs which meet this definition have therefore been capitalised with effect from 1 January 2009. As a consequence of adopting the standard, £15,000 of loan interest has been capitalised and included in the value of intangible asset additions in the year. This is at a rate equivalent to the extent to which finance costs in funding obtained has been utilised in developing the intangible.

IFRS 8 'Operating segments': This standard replaces IAS 14, 'Segment reporting'. It requires a 'management approach' to be adopted, under which segment information is presented on the same basis as for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, which has been identified as being the Board of Directors, the primary executive body responsible for all strategic decisions. As set out in Note 2, the Group has only one operating segment, the development and exploitation of its rights in Chuggington. Comparatives for 2008 have been represented accordingly.

IFRS 2 (Amendment), 'Share-based payments'. The amendment to the standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of share-based payments are not vesting conditions. The amended standard also specifies that all cancellations, whether by the entity or other parties, should have the same accounting treatment. The adoption of this standard has had no effect on the Group's financial statements.



18024LUDORUM.indd 24 18024 29/05/10 Proof 5 28/05/2010 12:43

IFRS 7 (amendment), 'Financial instruments: disclosures'. The amendment requires enhanced disclosures in respect of fair value measurement and liquidity risk. The amended standard gives rise to additional disclosures and has no impact on earnings.

There have been a number of minor amendments to IAS 1, 'Presentation of financial statements', IAS 16, 'Property, plant and equipment', IAS 19, 'Employee benefits', IAS 27, 'Consolidated and separate financial statements', IAS 36, 'Impairment of assets', IAS 38, 'Intangible assets', IAS 39, 'Financial instruments: Recognition and measurement' which are part of the IASB's annual improvement project published in May 2008, none of which are considered to have a significant impact on the Group.

*Standards, amendments and interpretations that are effective in 2009 but not relevant to the Group's operations:*

The following standards, amendments and interpretations are mandatory for the first time in 2009 but are not relevant to the Group's operations:

- IAS 23 (amendment), 'Borrowing costs'.
- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 32 (amendment), 'Financial instruments – Presentation'.
- IFRS 1 (amendment), 'First-time adoption of IFRS'.

In addition, there have been a number of minor amendments to IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 20, 'Government grants and assistance', IAS 28, 'Investments in Associates', IAS 29, 'Financial reporting in hyperinflationary economies' and IAS 40, 'Investment property' which are part of the IASB's annual improvement project published in May 2008, none of which are considered relevant to the Group.

*Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group:*

The following new standards and interpretations to existing standards have been published and are mandatory in 2010 and beyond but have not been early adopted by the Group:

IAS 27 (revised), 'Consolidated and separate financial statements'. Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control, and these transactions will no longer result in goodwill or gains and losses being recognised. The standard also specifies the accounting treatment to be applied when control over a subsidiary is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) from 1 January 2010 and the effect is not considered to be significant.

IAS 24 (revised), 'Related party disclosures'. Includes a revised definition of what constitutes a related party and will be applied by the Group from 1 January 2011 and the effect is not considered to be significant.

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). This revision will impact the way future acquisitions are reported. The Group will apply IFRS 3 (revised) from 1 January 2010 but as it applies only to future acquisitions, the effect is not considered significant at this time.

IFRS 9, 'Financial instruments – classification and measurement'. IFRS 9 is effective from 1 January 2013 subject to EU endorsement and introduces new requirements for classifying and measuring financial assets. Its effect is not considered to be significant.

There are a number of minor amendments to IFRS 2, 'Share-based payment', IFRS 5, 'Non-current assets held for sale and discontinued operations', IFRS 8, 'Operating segments', IAS 1, 'Presentation of financial statements', IAS 7, 'Statement of cash flows', IAS 17, 'Leases', IAS 36, 'Impairment of assets', IAS 38, 'Intangible assets', and IAS 39, 'Financial instruments – Recognition and measurement' which are part of the IASB's annual improvements project published in April 2009. These amendments are not expected to have a significant effect on the Group.

*Basis of consolidation:* The consolidated financial statements include the results of the Company and subsidiaries controlled by the Company drawn up to 31 December 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Company.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*Foreign currency translation:* Functional and presentational currency: items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in sterling, which is the Company's functional and presentation currency.

Transactions and balances: foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

Group companies: The results and financial position of Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at average exchange rates for the period.

All resulting exchange differences are recognised in the foreign currency translation reserve. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity.

The principal overseas currency for the Group is the US dollar. The average rate for the year for the US dollar against sterling was 1.5665 (2008: 1.8528). The rate at 31 December 2009 for the US dollar against sterling was 1.6148 (2008: 1.4376).

*Investment in subsidiaries:* Investments in subsidiaries are stated at cost less any provision for impairment.

*Property, plant and equipment:* Property, plant and equipment is recorded at purchase cost less depreciation and, where appropriate, provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated so as to write off the cost of the assets, less their estimated residual values, over their estimated useful life on a straight line basis. Property, plant and equipment principally comprise office equipment which has an estimated useful life of three years.

*Intangible assets:* Intangible assets are recorded at purchase cost less accumulated amortisation. Direct programme costs are capitalised up to the date of the first release of the programme. A charge is made to write down the cost of completed programmes from first broadcast, on a straight line basis, over the estimated useful life of seven years. This charge is included in cost of sales in the Statement of Comprehensive Income.

The carrying value of intangible assets is subject to an impairment review, which is the responsibility of the Directors, where there are indicators that impairment may exist. An impairment loss is calculated by reference to the expected future revenues of the underlying property, taking into account the cost of sales, from which the discounted value of future cash flows relating to the intangible asset is determined (using a pre-tax discount rate) and compared to the carrying value. Any impairment charge is included in the Statement of Comprehensive Income as part of cost of sales.

*Trade receivables:* Trade receivables are recognised, initially, at fair value, and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

*Cash and cash equivalents:* Cash and cash equivalents comprise cash balances held in current (checking) or deposit accounts with maturities of three months or less with recognised UK and US banks and bank overdrafts (included in trade and other payables).

*Current tax and deferred tax:* Current tax is recognised on profits at the weighted average rate of UK corporation tax applicable to small companies of 21% (2008: 20.75%).

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses , to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of the deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

*Trade payables:* Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

*Borrowings:* Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest method. Borrowing costs are capitalised in the cost of an asset when these costs can be attributed to the cost of investing in the asset.

*Provisions:* Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions relate to the anticipated national insurance contribution that would arise on the exercise of incentive options granted under the 2006 Incentive Option Plan.

*Operating leases: P*ayments relating to operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the lease term. Initial rent deposits are shown as a receivable in the balance sheet.

*Share-based payments:* All share-based payment arrangements are recognised in the financial statements. The fair values of Directors' and employees services which are rewarded using share-based payment arrangements are determined by reference to the fair value of the instrument granted to the Director or employee. This fair value is estimated at the date of the grant of the instrument.

Equity-settled share-based payments are recognised as an expense in the Statement of Comprehensive Income, with a corresponding credit to the share-based payments reserve.

Cash-settled share-based payments are recognised as an expense in the Statement of Comprehensive Income, with a corresponding credit to the share ownership liability account, included in current or non-current liabilities.

Where the Director or employee has the choice as to whether to settle in equity or cash, the arrangement is accounted for as a cash-settled share-based payment and recognised accordingly.

*Share capital:* Share capital is determined using the nominal value of shares that have been issued. Called up share capital consists of ordinary shares with a nominal value of 1 pence each and deferred shares with a nominal value of 99 pence each. The rights of the deferred shares to receive dividends or participate in the distribution of capital upon the winding up of the Company are so limited as to render the deferred shares of negligible value.

The share premium account includes any premium received above the nominal value of shares on the initial issuing of a share. Any transaction costs associated with the issuing of shares are deducted from the share premium account.

*Pension costs:* The Group's contribution to employees' defined-contribution pension schemes are charged to the Statement of Comprehensive Income on the basis of the contributions payable during the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments at the year end.

*Segmental reporting:* The Group's operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors which has been identified, as a body, as the chief operating decision maker ("CODM"). As set out in Note 2, the Group has only one operating segment, the development and exploitation of its rights in Chuggington.

*Revenue recognition:* Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax and after eliminating sales within the Group.

The Group derives its revenue from the exploitation of rights in its programming. Revenue from the sale of broadcast rights is recognised in full on the commencement of the broadcast licence period in the relevant territory. Advances from the sale of home entertainment, consumer product and publishing licences are recognised on a straight-line basis over the length of the licence period. Any royalties which are subsequently payable to the Group by licensees are recognised as they arise.



18024LUDORUM.indd 27 18024 29/05/10 Proof 5 28/05/2010 12:43

## 2. Segmental reporting

The Group currently has one operating segment, the development and exploitation of its rights in Chuggington. Further information about revenue derived from the Group's product lines is set out below. Management information used by the Chief Operating Decision Maker (CODM) is in a format similar to the Consolidated Statement of Comprehensive Income and Consolidated Balance Sheet.

The CODM is considered to be the board of directors.

| *Revenue by product line* | *2009 £000* | *2008 £000* |
|---|---|---|
| Television | 1,359 | 155 |
| Home Entertainment | 227 | 11 |
| Consumer products | 406 | 4 |
| Publishing | 112 | – |
| Other | 38 | – |
| | 2,142 | 170 |

| *Geographical analysis of revenue by location of customer* | *2009 £000* | *2008 £000* |
|---|---|---|
| UK | 454 | 170 |
| Europe, Middle East & Africa | 1,047 | – |
| Asia | 249 | – |
| Australasia | 222 | – |
| Americas | 170 | – |
| | 2,142 | 170 |

All material assets are located in the UK.

## 3. Loss for the year

| *The following items have been included in arriving at the loss for the year:* | *2009 £000* | *2008 £000* |
|---|---|---|
| Staff costs (see Note 5) | 1,519 | 1,260 |
| Depreciation of property, plant and equipment | 29 | 8 |
| Amortisation of intangible assets | 226 | 49 |
| Foreign exchange losses | 27 | 102 |
| Operating lease rentals | 72 | 70 |

## 4. Auditors' remuneration

| | 2009 £000 | 2008 £000 |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Company's auditor for the audit of parent Company and consolidated financial statements | 62 | 50 |
| Fees payable to the Company's auditor for the audit of subsidiary companies | 2 | 2 |
| **Non-audit services** | | |
| Tax services | 26 | 23 |
| | 90 | 75 |

## 5. Employees and Directors

| *Staff costs for the Group during the year* | 2009 £000 | 2008 £000 |
|---|---|---|
| Wages and salaries | 928 | 713 |
| Social security costs | 95 | 63 |
| Other pension costs | 82 | 62 |
| | 1,105 | 838 |
| Costs attributable to Share Schemes | 414 | 422 |
| Total staff costs | 1,519 | 1,260 |
| *Average number of people employed (including executive Directors)* | | |
| Management and administration | 7 | 5 |
| Sales | 4 | 2 |
| Creative and IT | 4 | 3 |
| | 15 | 10 |

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Aggregate Directors' emoluments | 526 | 400 |
| Emoluments of highest paid Director | 226 | 165 |
| Pension contributions of highest paid Director (included in emoluments above) | 21 | 21 |
| Number of shares held by the Employee Benefit Trust for the benefit of the highest paid Director | 365,040 | – |
| Number of incentive options granted under the 2006 Incentive Option Plan to highest paid Director | – | 280 |

The Board of Directors are considered to be the only key management.

## 6. Taxation

| | 2009 £000 | 2008 £000 |
|---|---|---|
| **Current tax** | | |
| UK taxation | – | – |
| Overseas taxation | 6 | 5 |
| Total current tax expense | 6 | 5 |
| Deferred taxation | – | – |
| Total income tax expense | 6 | 5 |

The tax assessed for the year differs from the UK Small Companies tax rate in the UK. The difference is explained below:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Loss before taxation | (1,706) | (2,366) |
| Loss before taxation multiplied by the weighted–average rate of UK corporation tax applicable to small companies of 21% (2008: 20.75%) | (358) | (491) |
| **Effects of:** | | |
| Overseas taxation | 6 | 5 |
| Expenses not deductible for tax purposes | 5 | 20 |
| Losses available to carry forward and other timing differences | 353 | 471 |
| | 6 | 5 |

The un-provided deferred tax asset at 31 December 2009 is estimated to be £1,890,000 (2008: £1,369,000) and is in respect of trading losses incurred and other timing differences.

## 7. Loss per share

Basic earnings per share ("EPS") is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Because basic EPS results in a loss per share, the diluted EPS is calculated using the undilutive weighted average number of shares.

| *Basic and diluted EPS* | *Loss attributable to ordinary shareholders £000* | *Weighted average number of shares* | *Per-share amount (pence)* |
|---|---|---|---|
| **2009** | | | |
| Loss per share | (1,712) | 8,706,001 | (19.7)p |
| **2008** | | | |
| Loss per share | (2,371) | 8,100,001 | (29.3)p |

## 8. Investment in subsidiaries

| *Company* | *2009 £000* | *2008 £000* |
|---|---|---|
| At 1 January | 1,271 | 1,810 |
| Additions | 291 | – |
| Repayments | – | (539) |
| At 31 December | 1,562 | 1,271 |

Additions relate to additional funding provided to subsidiaries on long-term loans treated as part of the net investment in that subsidiary.

*The following subsidiaries are directly owned by Ludorum plc:*

| *Subsidiary* | *Country of incorporation* | *Type of shares* | *Holding* | *Principal activities* |
|---|---|---|---|---|
| Ludorum Inc | USA | Ordinary | 100% | Service company |
| Ludorum Enterprises Limited | England & Wales | Ordinary | 100% | Rights exploitation |

## 9. Property, plant and equipment

| | *Group Office equipment £000* | *Company Office equipment £000* |
|---|---|---|
| **Cost** | | |
| At 1 January 2008 | 14 | 11 |
| Additions | 16 | 1 |
| At 31 December 2008 | 30 | 12 |
| Additions | 81 | 70 |
| At 31 December 2009 | 111 | 82 |
| **Accumulated depreciation** | | |
| At 1 January 2008 | 8 | 6 |
| Charge for the year | 8 | 4 |
| At 31 December 2008 | 16 | 10 |
| Charge for the year | 29 | 25 |
| At 31 December 2009 | 45 | 35 |
| **Net book value** | | |
| At 1 January 2008 | 6 | 5 |
| At 31 December 2008 | 14 | 2 |
| At 31 December 2009 | 66 | 47 |

The Company considers at each reporting date whether there is any indication of impairment of its assets. In the event that impairment is identified, the carrying amount of the assets is written down immediately to its estimated recoverable amount.

## 10. Intangible assets

| | *Group & Company* |
|---|---|
| | *Capitalised costs £000* |
| **Cost** | |
| At 1 January 2008 | 536 |
| Additions | 990 |
| At 31 December 2008 | 1,526 |
| Additions | 747 |
| At 31 December 2009 | 2,273 |
| **Accumulated amortisation** | |
| At 1 January 2008 | – |
| Charge for the year | 49 |
| At 31 December 2008 | 49 |
| Charge for the year | 226 |
| At 31 December 2009 | 275 |
| **Net book value** | |
| At 1 January 2008 | 536 |
| At 31 December 2008 | 1,477 |
| At 31 December 2009 | 1,998 |

The remaining amortisation period for capitalised costs is 5.75 years (on average). Included in the above is £15,000 of capitalised borrowing costs (2008: £nil).

## 11. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| **Amounts falling due within one year** | | | | |
| Trade receivables | 583 | 139 | – | – |
| Prepayments and accrued income | 1,061 | 173 | 944 | 173 |
| French TVA recoverable | – | 69 | – | – |
| Other receivables | 477 | 339 | 461 | 319 |
| At 31 December | 2,121 | 720 | 1,405 | 492 |

The carrying value of trade and other receivables is considered to be equal to the fair value, owing to the short-term nature of these items.

## 12. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| **Cash and cash equivalents** | | | | |
| Cash at bank and in hand | 161 | 37 | 148 | 34 |
| Short-term bank deposits | 8 | 9 | – | – |
| At 31 December | 169 | 46 | 148 | 34 |

Short-term bank deposits are invested with banks and earn interest at prevailing short-term deposit rates. The fair value of cash and cash deposits is the same as the carrying value, owing to the short-term nature of these items.

*Cash and cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:*

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| Cash and cash equivalents | 169 | 46 | 148 | 34 |
| Bank overdraft included in trade and other payables | (56) | (186) | (56) | (186) |
| At 31 December | 113 | (140) | 92 | (152) |



18024LUDORUM.indd 33 18024 29/05/10 Proof 5 28/05/2010 12:43

## 13. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| Trade payables | 527 | 649 | 510 | 627 |
| Payable to subsidiary company | – | – | – | 7 |
| Overseas tax payable | 9 | 3 | – | – |
| Social security and other taxes | 43 | 54 | 17 | 44 |
| Deferred income | 2,193 | 833 | 2,193 | 141 |
| Accruals | 197 | 239 | 205 | 228 |
| Unpaid Directors' remuneration | – | 141 | – | 141 |
| Share ownership liability | 1,049 | – | 1,049 | – |
| Other payables | 1,017 | 119 | 828 | 83 |
| At 31 December | 5,035 | 2,038 | 4,802 | 1,271 |

The carrying value of trade and other payables is considered to be equal to the fair value, owing to the short-term nature of these items.

## 14. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| Bank overdraft | 56 | 186 | 56 | 186 |
| Fixed interest loan | 1,127 | – | 1,127 | – |
| | 1,183 | 186 | 1,183 | 186 |
| **Undrawn borrowing facilities** | | | | |
| Bank overdraft | 244 | 114 | 244 | 114 |
| Fixed interest loan | – | 1,200 | – | 1,200 |
| | 244 | 1,314 | 244 | 1,314 |

The variable rate and fixed rate (5.4%) facilities are secured by a fixed and floating charge on the assets of the Company. The Company believes that the interest rate risk arising from the variable interest rate facility will have a negligible effect on the Group's assets.

See also Note 27 on Post Balance Sheet Events.



18024LUDORUM.indd 34 18024 29/05/10 Proof 5 28/05/2010 12:43

## 15. Provisions for liabilities and charges

| | Group | Company |
|---|---|---|
| | *2009* *£000* | *2009* *£000* |
| At 1 January | 104 | 104 |
| Charged to the Statement of Comprehensive Income | – | – |
| Released | (104) | (104) |
| At 31 December | – | – |

Provision has been made for the anticipated employer's National Insurance contribution that would arise on the exercise of incentive options granted under the 2006 Incentive Option Plan. The provision in respect of employer's National Insurance contribution was released in 2009 following the withdrawal of the Incentive Option Plan and the adoption of the Share Ownership Arrangement.

## 16. Share capital

| *Group and Company* | *2009* *Number* | *2008* *Number* | *2009* *£000* | *2008* *£000* |
|---|---|---|---|---|
| **Issued and fully-paid** | | | | |
| Ordinary shares of 1 pence each | 9,360,001 | 8,100,001 | 94 | 81 |
| Deferred shares of 99 pence each | 50,001 | 50,001 | 50 | 50 |
| Total shares issued – Company | 9,410,002 | 8,150,002 | 144 | 131 |
| Less shares held in EBT | (936,000) | – | (10) | – |
| At 31 December – Group | 8,474,002 | 8,150,002 | 134 | 131 |

In April 2009 the Company placed 324,000 ordinary shares at a price of £1.40 per share. In July 2009 the Company issued 936,000 ordinary shares to an Employee Benefit Trust at a price of 1 pence each.

The shares held in the EBT are treated in the same way as treasury shares on consolidation and deducted from the issued share capital. In the Parent Company these shares are shown as issued share capital.

*Share options:* In 2006 the Company established an Incentive Option Plan by which incentive options were granted to the Company's executive Directors and one other senior Group employee.

In July 2009, the Company withdrew the Incentive Option Plan (amounting to 1,000 options) and all the participants in the Plan have renounced their interests in it. The Company has replaced the Incentive Option Plan with a Share Ownership Arrangement ("SOA") whereby the Company issued 936,000 ordinary shares to an Employee Benefit Trust ("EBT"). The shares are jointly owned by the EBT and the participants in the previous Incentive Option Plan. Participants hold the shares in the same proportion as their interest in the previous Incentive Option Plan.

Two thirds of a participant's shares subject to the trust deed vest from 1 May 2010 and the further one third vest from 1 May 2011. From the date of vesting a participant can exercise a put option to require the EBT to acquire all or a proportion of his entitlement. On exercising the put option the participant will receive the value of the increase in the share price since the SOA was established plus the lower of the value of the shares when the SOA was established and the value of the shares when the put option is exercised.

The fair value of the awards under the SOA has been estimated, at the award date, at £2.12 per share by using a Monte Carlo simulation.

This fair value represents the weighted average of two Monte Carlo simulations for the fair value of the participants' interests that vest in May 2010 and May 2011. The main assumptions made in these two simulations are set out below.

| | *Vesting May 2010* | *Vesting May 2011* |
|---|---|---|
| Weighted average share price | 2.10 | 2.10 |
| Expected volatility | 20.84% | 8.29% |
| Option life | 10 months | 22 months |
| Expected dividends | nil | nil |
| Risk free interest rate | 0.72% | 0.82% |

There is no pre-determined exercise price in respect of the participants' interest. It is assumed that participants will exercise their interest in full as soon as they vest. Expected volatilities are based on average Company share price volatility for periods equal to the assumed option life.

The SOA gives participants the option of taking their benefit in either equity or cash. Accordingly the SOA has been accounted for as a cash-settled share-based arrangement so that the fair value of the share-based payments are recognised as an expense in the Statement of Comprehensive Income, with a corresponding credit to the shared-based payments liability account. Amounts of the share-based payments liability which is payable within one year is included in trade and other payables. Amounts of the share-based payments liability which is payable over one year is included in non-current liabilities.

In February 2009 the Company implemented a share option scheme for the benefit of Group employees, other than Directors. The options can be exercised after three years and lapse, if not exercised, after ten years. In February 2009 the Company issued share options in respect of 94,000 ordinary shares at an exercise price of £1.015. In November 2009 the Company issued share options in respect of a further 52,500 ordinary shares at an exercise price of £2.40. During the year share options in respect of 20,000 ordinary shares lapsed on the departure of members of staff. At the year-end share options in respect of 126,500 ordinary shares remained outstanding.

The fair value of the share options has been estimated, at the appropriate award dates by using the Black-Scholes formula at £1 and £2.40.

The key assumptions for the valuation of the February and November issue of share options are set out below.

| | *February 2009 grant* | *November 2009 grant* |
|---|---|---|
| Weighted average share price | £1.015 | £2.40 |
| Exercise price | £1.015 | £2.40 |
| Expected volatility (standard deviation) | 13.97 | 38.76 |
| Option life | 3 years | 3 years |
| Expected dividends | nil | nil |
| Risk free interest rate | 0.5% | 0.5% |

Expected volatility is based on the standard deviation of the daily share price from 1 April 2006 (the date that the Company was admitted to AIM) to the date of the grant on the options.

The share option scheme gives beneficiaries the right to take their benefit in equity only. Accordingly the share option scheme has been accounted for as an equity-settled share-based arrangement so that the fair value of the share-based payments are recognised as an expense in the Statement of Comprehensive Income, with a corresponding credit to the shared-based payments reserve.

## 17. Share premium account

| Group and Company | 2009 £000 | 2008 £000 |
|---|---|---|
| At 1 January | 7,435 | 7,435 |
| Premium on shares issued during the year | 450 | – |
| At 31 December | 7,885 | 7,435 |

## 18. Share-based payments reserve

| Group and Company | 2009 £000 | 2008 £000 |
|---|---|---|
| At 1 January | 1,085 | 700 |
| Charge relating to the share-based payments | 30 | 385 |
| Transfer to share ownership liability | (1,085) | – |
| At 31 December | 30 | 1,085 |

## 19. Foreign currency translation

| Group | 2009 £000 | 2008 £000 |
|---|---|---|
| At 1 January | 8 | – |
| Translation differences arising | (3) | 8 |
| At 31 December | 5 | 8 |

## 20. Accumulated losses

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 £000 | 2008 £000 | 2009 £000 | 2008 £000 |
| At 1 January | (8,730) | (6,359) | (6,936) | (4,742) |
| Loss for the year | (1,712) | (2,371) | (2,472) | (2,194) |
| At 31 December | (10,442) | (8,730) | (9,408) | (6,9360 |

## 21. Cash Flow from operating activities

| | Group | | Company | |
|---|---|---|---|---|
| | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| Loss before taxation | (1,712) | (2,371) | (2,472) | (2,194) |
| Adjustments for: | | | | |
| Finance costs payable | 21 | 8 | 21 | 7 |
| Finance income receivable | – | (29) | – | (29) |
| Depreciation of property, plant and equipment | 29 | 8 | 25 | 4 |
| Amortisation of intangible assets | 226 | 49 | 226 | 49 |
| Charge relating to share-based payments | 518 | 385 | 518 | 385 |
| (Decrease)/increase in provisions | (104) | 37 | (104) | 37 |
| Change in working capital: | | | | |
| Increase in trade and other receivables | (1,401) | (173) | (913) | (182) |
| Increase in trade payables | 1,939 | 1,219 | 2,482 | 517 |
| Cash used in operations | (478) | (867) | 217 | (1,406) |

## 22. Operating lease commitments

| *Group and Company* | *2009 £000* | *2008 £000* |
|---|---|---|
| **Commitments under non-cancellable operating leases expiring** | | |
| No later than 1 year | 75 | 6 |
| Later than 1 year and no later than 5 years | 199 | – |
| | 274 | 6 |

## 23. Related parties

During the year, Ludorum Inc, a group company, rented an office from a company controlled by a Director of the Company, Richard Rothkopf. The rent paid during the year was £4,000 (2008: £11,000).

Included in trade and other payables at the year end is £7,000 payable to a subsidiary. A further £nil in respect of unpaid remuneration is owed to Directors of the Company (2008: £124,908). A further £nil has been included in trade and other payables in respect of the employer's National Insurance payable on this remuneration (2008: £10,240). At the year end £107,400 had been accrued in respect of pension contributions for directors (2008: £65,400).

## 24. Commitments

In 2007 the Company entered into an agreement with a toy manufacturer under the terms of which the toy manufacturer agreed to fund 50% of the production cost of the Company's animated series "Chuggington" in return for which it has a global master toy licence and the right to participate in the net profit of the property. The agreed budget for the production of the first series of 52 episodes was $6.3 million (£3.9 million). Production of the first 52 episodes was completed in early 2009. The Company and the toy manufacturer have now agreed to jointly fund, on the same terms as the first series, the production of a second series of 26 episodes of Chuggington. The budget for the second series is $3.5 million (£2.2 million). It is expected that all the episodes in the second series will be completed by mid 2010.

In 2007, the Company entered into an agreement with Shanghai, Motion Magic Digital Entertainment Inc ("Motion Magic") under the terms which Motion Magic provided animation and editing services for the production of Chuggington. Under the terms of the agreement, Motion Magic was to deliver 52 episodes for which the Company was committed to pay a total of RMB 18.9 million (£1.38 million) in instalments over the period of production. The Company fully discharged its obligation under this agreement to Motion Magic in 2009. As at 31 December 2008 RMB 5.1 million (£519,000) remained outstanding.

In 2009, the Company entered into a further agreement with Motion Magic under the terms of which Motion Magic is to provide animation and editing services for the production of a second series of 26 episodes of Chuggington. The Company is committed to pay between RMB 10.3 million and RMB 10.9 million (between £910,000 and £960,000.) As at the end of the year, the Company had paid RMB 1 million (£92,000).

Under the terms of the agreement with the toy manufacturer described above, 50% of the amount paid and payable to Motion Magic has been or will be refunded to the Company by the toy manufacturer.

## 25. Financial instruments

***Financial instruments by category:*** Trade and other receivables (excluding prepayments) as shown in note 11 and cash and cash equivalents as shown in note 12 are categorised as loans and other receivables under IFRS 7. Borrowings as shown in note 14 and trade and other payables (excluding statutory liabilities) as shown in note 13 are categorised as other liabilities at amortised cost. The fair value of all financial instruments is deemed to be the same as historic cost.

***Liquidity risk:*** The Group manages liquidity risk by financing its activities through its cash resources. During the year the Group began to draw down a fixed interest loan facility. In accordance with the terms of the loan agreement, the Group began repaying the fixed interest loan towards the end of the year. In addition, the Company raised £453,600 by means of a placing of its ordinary shares in April 2009.

***Foreign currency risk:*** The Group incurs some of its capitalised programme costs and other operating expenses in US dollars. The Group's obligations to Motion Magic are denominated in renminbi but are settled in US dollars at the exchange rate at the date of the invoice. The Group also invoices for some its broadcast and licence fees in US dollars and Euros.

US dollar and Euro denominated financial instruments at each year end are as follows:

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | *2009 £000* | *2008 £000* | *2009 £000* | *2008 £000* |
| Euro payables | 56 | 38 | 37 | 30 |
| US dollar payables | 250 | 473 | 180 | 431 |
| US dollar overdraft | – | 9 | – | 9 |
| | 306 | 520 | 217 | 470 |
| Euro receivables | 378 | 120 | – | – |
| US dollar receivables | 157 | 256 | 41 | 186 |
| US dollar bank balances | 169 | 43 | 148 | 30 |
| | 704 | 419 | 189 | 216 |

A 10% increase or decrease in the value of the US dollar against sterling at the end of the year would have a negligible effect on the Group's reported loss for the year.

*Credit risk:* Credit risk arises on trade receivables and short term bank deposits.

The Group does not hold any collateral as security in respect of its receivables therefore the maximum exposure to credit risk is the trade and other receivables and cash and cash equivalent balances on the balance sheet. The credit quality of financial assets that are neither past due nor impaired has been assessed by reference to historical counterparty default rates. Based on past experience and the Group's limited trading history, there is no experience of significant level of defaults, therefore financial assets are expected to be recovered in full. Cash and cash equivalents are held at a major financial institution with a credit rating of AA from Standard and Poor's. No financial assets have been pledged as collateral for liabilities.

During the year the Group wrote off trade receivables of £3,716. There are no trade receivables which are past due at the balance sheet date. No provision for bad debts has been made in these financial statements in respect of trade receivables as the Directors are satisfied that no such provision is necessary having regard to the credit worthiness of the relevant counterparties.

*Price risk:* Price risk principally arises in respect of programme production costs. A substantial proportion of programme production costs are subject to fixed price contracts.

*Capital risk:* The Group defines capital as shareholders' equity as shown on the balance sheet. The Group's shareholders' deficit at 31 December 2009 was £2.388 million (2008: £0.071 million). The Group was not subject to any externally imposed capital requirements. The Group manages its capital to ensure that the Group can continue as a going concern, to provide returns to shareholders, to benefit other stakeholders and to maintain an optimum capital structure. The Company raised £453,000 by means of a placing of its ordinary shares in April 2009.

## 26. Company loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company's Statement of Comprehensive Income" has not been included in these financial statements. The Company's loss for the year amounted to £2,472,000 (2008: £2,194,000).

## 27. Post balance sheet events

In March 2010 the Company obtained overdraft facilities of £500,000 from Coutts & Co. The overdraft is secured by a first charge over the Company's assets (including the Company's intellectual property). In March 2010 the Company also issued £1.5m of loan notes to Pennine AIM VCT PLC. The loan notes are redeemable within five years. If the Company redeems the loan notes within two years the redemption will be £1.25 per £1 of loan notes (less interest paid prior to redemption). If the loan notes are redeemed after two years the loan notes are redeemable at par. The interest payable on the loan notes is the greater of 9% or 3% above LIBOR for the first three years. After three years, the interest rate is 15%. The loan notes are secured by a second charge over the Company's assets (and a charge over the assets of Ludorum Enterprises Limited, a wholly owned subsidiary of the Company).

In March 2010 the Company also repaid the outstanding balance on its fixed interest loan from Clydesdale Bank. The Group also changed its bankers from Clydesdale Bank to Coutts & Co.