

Megalomedia plc

22 July 2002

Announcement of Acquisition

Highlights

- Megalomedia plc ("Megalomedia" or the "Company") today announces that it has entered into agreements, subject inter alia to shareholder approval, to acquire Memory Lane Cakes Limited ("Memory Lane Cakes").
- The Board proposes to reposition the Company as a speciality foods business focused on niche markets.
- Memory Lane Cakes is a supplier of boxed ambient temperature cakes to most of the UK's major supermarket chains. Asda, Safeway, Sainsbury, Somerfield and Tesco are major customers, accounting for over 90 per cent. of sales in the 43 weeks to 27 April 2002.
- The consideration for the acquisition is £9.5 million to be satisfied by payment of £8.5 million in cash (including payments relating to the surrender of options over shares in Memory Lane Cakes) and the issue of 3,333,333 Ordinary Shares of 1p in the Company.
- Following completion of the acquisition, and subject to shareholder approval, the Company will change its name to Finsbury Food Group plc.
- The acquisition will constitute a reverse take over under the AIM rules and completion is subject to shareholder approval. Accordingly, the Company's Ordinary Shares have today been suspended from trading on AIM pending the posting of a Prospectus. It is anticipated that trading in the Company's Ordinary Shares will resume on Wednesday 24 July 2002.
- The Company will seek re-admission to trading on AIM of the Ordinary Shares and admission to trading on AIM of the new Ordinary Shares in the Company to be issued as part of the consideration for the acquisition.
- At the same time, the Company will be seeking admission to trading on AIM of the warrants to subscribe for Ordinary Shares in the Company, as described in the circular sent to shareholders on 23 May 2002.
- It is anticipated that a circular will be posted on Tuesday 23 July to UK shareholders and warrant holders providing further details of the acquisition and admission and re-admission to trading on AIM and containing notice of an Extraordinary General Meeting to be held on 16 August 2002 for shareholders to consider these proposals and a notice of Separate General Meeting of the warrant holders to consider amendments to the warrants to reflect the proposed change of Megalomedia's accounting reference date to 30 June.

For Further Information:

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Introduction

The Company today announces that it has entered into conditional agreements to acquire the entire issued and to be issued share capital of Memory Lane Cakes for £9.5 million (including payments of approximately £480,000 relating to the surrender and cancellation of options held over shares in Memory Lane Cakes) to be satisfied by payments, in aggregate, of £8.5 million in cash and by the issue, of 3,333,333 New Ordinary Shares. The Acquisition constitutes a Reverse Take-over and is conditional, inter alia, on shareholder approval. An EGM is being convened, inter alia, to consider the Acquisition. Following completion of the Acquisition, and subject to approval at the EGM, the Company will change its name to Finsbury Food Group plc.

The circular sent by the Company to Shareholders on 23 May 2002 advised that warrants would be issued to qualifying Shareholders and that the Board intended to make an application for the warrants to be admitted to trading on AIM at the same time as the Company made its next significant acquisition by way of a Reverse Take-over. The Warrants have recently been issued to qualifying Shareholders. Accordingly, an application is being made for the Warrants to be admitted to trading on AIM.

Background to and Reasons for the Acquisition

During the past year, the Company successfully completed the process of transforming itself into a "cash shell", having realised approximately £20 million from the disposal of its operating businesses and returned the bulk of the cash generated to shareholders. Since then, the Company has focused on identifying suitable cash generative businesses, with good management and strong growth prospects, as possible targets for acquisition by the Company.

At 31 March 2002, the remaining assets of the Group comprised cash balances of £3.7 million and an unsecured loan note receivable of £1.6 million offset by net liabilities of £0.1 million. The unsecured loan note bears interest at 5 per cent. per annum and is repayable on 7 December 2005 by Guidedraw Limited, the company used for the management buy-out of The FrameStore Limited and Computer Film Holdings Limited, former subsidiaries of the Company.

During the financial year ended 31 March 2002, the Group incurred a retained loss of £329,000 as a result of the loss on disposal of the last operating subsidiary. As announced on 17 May 2002, the Group generated an unaudited profit after tax for the second half of the year ended 31 March 2002 of £27,000, having reduced operating costs below the level of interest income. As part of the process of minimising expenditure, the Group's head office operation has been closed and the Group no longer has any employees. All administrative tasks have been outsourced to City Group P.L.C. who also act as the Group's Company Secretaries.

Your Board today announces that it proposes to reposition the Company as a speciality foods business focused on niche markets. This process will commence with the proposed Acquisition which, due to its nature and size, will be a Reverse Takeover and will require the Company to apply for re-admission to trading on AIM.

The Directors believe that the UK food sector is increasingly polarised between substantial manufacturers and a large number of smaller independent businesses, and believe that, in this environment, opportunities exist to acquire and develop profitable niche businesses. The Directors continue to review the sector with the Company's advisers and seek further suitable acquisitions.

Alongside delivering organic growth, the Directors' principal strategy is to acquire and develop food businesses which are servicing niche sectors and which have identified potential.

Board of Directors

The Board will remain as currently constituted except as described below.

Following the change in the Company's business operations, Alastair Barclay will leave the Board at Completion.

The Directors intend to appoint a Group Chief Executive and a Group Finance Director to the Board following the Acquisition. The Directors propose that Shareholders appoint Edward Beale to the Board to replace Alastair Barclay as non-executive finance director. Edward is a Chartered Accountant and is the Chief Executive of City Group P.L.C., our Company Secretary.

The Company intends to continue to comply with best practice guidelines on corporate governance as appropriate to the size and status of the Company.

Information on Memory Lane Cakes

Memory Lane Cakes is a supplier of boxed ambient cakes to most of the UK's major supermarket chains. Ambient cakes are baked cakes that have not been frozen and are generally retailed at room temperature.

Asda, Safeway, Sainsbury, Somerfield and Tesco are major customers, accounting for over 90 per cent. of sales in the 43 weeks to 27 April 2002.

The business began in the mid 1950s at Maes-y-Coed, Cardiff. It grew to encompass at various times additional sites and products, passing through several changes in ownership, until it was acquired by the current owners in 1997.

Over the last few years, the business of Memory Lane Cakes has been restructured, reducing the number of product lines and focusing production on one site. Since the completion of this restructuring, Memory Lane Cakes has concentrated on its areas of strength being value added whole cakes, novelty cakes, celebration cakes, chocolate enrobed small cakes and muffins.

The Board intends that the current management team of Memory Lane Cakes will stay with the business following the Acquisition and will provide continuity and stability as the Directors seek to develop Finsbury Food Group. The senior members of the management team of Memory Lane Cakes are:

David Brooks ACMA - Managing Director

David is a Chartered Management Accountant and has been the Managing Director of Memory Lane Cakes for the last three years. Prior to that he served as Commercial Director of Memory Lane Cakes for two years. He has been instrumental in the turnaround of Memory Lane Cakes through the focus on core competencies, the establishment of strong trading relationships with customers and the development and motivation of employees. Previously, David worked at Brake Bros plc, joining in 1989 as a cost accountant for a single site and leaving as Divisional Finance Director.

Philip Batchelor BA (Hons) - Sales and Marketing Director

Philip has been the sales and marketing director of Memory Lane Cakes for over 4 years. He began his career at Northern Foods in 1989 and spent 5 years in various commercial roles in its Meat Group. In 1994, he moved to BG Foods, a privately owned supplier of chilled and frozen desserts. Whilst at BG Foods, he was promoted to Business Controller with responsibility for sales to the major multiple retailers.

David Moreton - New Product Development Director

David gained experience with J Lyons in product development and Northern Foods as Bakery Manager. He worked at Warburtons for eight years as a General Manager in the Retail Division. He joined the Memory Lane Cakes business in 1984 where, apart from a year

working at Park Cakes ending in 1996, he has since worked. David served on the European Development Committee of Grand Metropolitan during its ownership of the business of Memory Lane Cakes.

A summary of the turnover, operating profit and net assets of Memory Lane Cakes is provided below:

	53 Weeks ended 3 July 1999 £000	52 Weeks ended 1 July 2000 £000	52 Weeks ended 30 June 2001 £000	43 Weeks ended 27 April 2002 £000
Turnover	39,448	34,238	31,373	29,605
Operating Profit	840	242	1,381	1,195
Net Assets	6,335	4,667	5,677	6,377

The turnover and profitability of Memory Lane Cakes were adversely affected by the rationalisation of the product lines and the ensuing closure of a production site in the year ended 1 July 2000.

Principal Terms of the Acquisition

Pursuant to the Share Purchase Agreements and Option Agreements dated 19 July 2002, the Company has conditionally agreed to acquire the entire issued and to be issued share capital of Memory Lane Cakes and to make payments relating to the surrender and cancellation of options held over shares in Memory Lane Cakes. The total consideration is £9.5 million (including approximately £480,000 relating to the surrendered options), to be satisfied by payments, in aggregate, of £8.5 million in cash and by the issue of 3,333,333 New Ordinary Shares. Part of the cash consideration will come from the Company's own resources and the balance will be provided under a proposed new £6.5 million borrowing facility from Royal Bank of Scotland plc, the terms of which are being negotiated.

The Acquisition is conditional upon:

- * approval by Shareholders at the EGM;
- * provision of a proposed new borrowing facility to fund, in part, the Acquisition; and
- * the release of a charge relating to Memory Lane Cakes' Cardiff property.

Current Trading and Prospects

All Group operating expenses since 31 March 2002, excluding the one-off professional costs associated with the Warrant issue and the consideration for the cancellation of Megalomedia share options, have been covered by interest income earned on the Group's cash deposits.

Memory Lane Cakes' turnover continues at the level experienced over the last few months and there has been no significant change to its cost structure. The Directors do not anticipate any major alterations in Memory Lane Cakes' business strategy or in its implementation following Completion.

Information on the Warrants and Issue of New Ordinary Shares on Exercise of the Warrants

The Company recently issued to Shareholders (other than some overseas shareholders) the Warrants to subscribe for new Ordinary Shares on the basis of one Warrant for every three Ordinary Shares held.

5,707,894 Warrants were issued for no consideration to qualifying Shareholders on the register of members of the Company on 27 May 2002. Under the Warrant Instrument, each Warrant entitles the holder to subscribe for one Ordinary Share at a price of 30 pence per

Ordinary Share. The Warrants are exercisable 28 days after despatch of the statutory accounts and the interim report of Megalomeia for each of the years 2002 to 2007 inclusive provided that no Warrants may be exercised prior to the Company acquiring a new business by way of Reverse Take-over. Assuming the Warrants are exercised in full the Company will issue 5,707,894 new Ordinary Shares.

Application is being made to admit the Warrants to trading on AIM. It is anticipated that dealings will commence in the Warrants on 19 August 2002.

It is proposed that the Warrant Instrument will be amended to reflect the proposed change of financial year end to 30 June. A Separate General Meeting of Warrant Holders will be held to approve the changes to the Warrant Instrument.

Adviser warrants and subscription for Ordinary Shares

Following Completion the Company will issue 209,410 warrants to Durlacher, the Company's Nominated Adviser and Broker, and 650,000 warrants to Midicorp Corporate Finance Limited. These warrants being issued to advisers will be on different terms to the Warrants. Under the terms of its agreement with Midicorp Corporate Finance Limited, the Company has agreed to issue, following Completion, to Pieter Totte, a director of Midicorp Corporate Finance Limited (or an associate) 166,666 New Ordinary Shares at a price of 30 pence per share.

Dividend Policy following Completion

The Directors intend to follow a progressive dividend policy and hope to be in a position to recommend payment of a dividend to Shareholders following completion of the 15 month accounting period ending on 30 June 2003.

Change of Financial Year End

The Directors intend to change the Group's accounting reference date to 30 June following Completion to coincide with that of Memory Lane Cakes.

Admission to trading on AIM, Dealings and CREST

Application is being made for the New Ordinary Shares to be admitted, and for the Existing Ordinary Shares to be re-admitted, to trading on AIM following approval by shareholders of the Acquisition and for the Warrants to be admitted to trading on AIM. It is anticipated that trading will commence on 19 August 2002.

The Company has made an application to CRESTCo for the Warrants to be admitted to the CREST system and holders of Ordinary Shares are already able to hold their shares in certificated or uncertificated form.

Change of Auditor, Nominated Adviser and Broker

The Directors propose to change the Group's auditors following Completion to Horwath Clark Whitehill in order to capitalise on the knowledge of the business that Horwath Clark Whitehill has gained whilst acting as Reporting Accountants in respect of the Acquisition.

On 28 June 2002 the Directors appointed Durlacher to act as Nominated Adviser and Broker to the Company.

Extraordinary General Meeting and Separate General Meeting of Warrant Holders

At the EGM, resolutions will be proposed as follows:

- (i) to approve, by ordinary resolution, the Acquisition for the purpose of Part One rule 13 of the AIM Rules;

and, conditional on completion of the Acquisition:

- (ii) to appoint, by ordinary resolution, Edward Beale as a director of the Company;
- (iii) to appoint, by ordinary resolution, Horwath Clark Whitehill as auditors of the Company;
- (iv) to authorise, by ordinary resolution, the Directors to set Horwath Clark Whitehill's remuneration; and
- (v) to change, by special resolution, the name of the Company to Finsbury Food Group plc.

At the Separate General Meeting, a resolution will be proposed to amend, by extraordinary resolution of holders of Warrants, the Warrant Instrument to reflect the proposed change on Completion of the Company's accounting reference date to 30 June.

Recommendations

The Board considers that the Acquisition is in the best interests of the Company and its shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the resolutions to be proposed at the EGM in respect of all their Ordinary Shares. The Directors intend to vote in favour of the resolutions in respect of their beneficial holdings totalling 58,375 Ordinary Shares, representing approximately 0.34 per cent. of the Existing Ordinary Shares. Lonfin Investments Limited and Landau Enterprises Inc. have irrevocably undertaken to vote in favour of the resolutions to be proposed at the EGM in respect of their shareholdings of 9,098,774 Ordinary Shares representing 53.13 per cent of the Existing Ordinary Shares.

The Board also unanimously recommends that Warrant Holders vote in favour of the resolution to be proposed at the Separate General Meeting in respect of all their Warrants. The Directors intend to vote in favour of the resolution to be proposed at the Separate General Meeting in respect of their beneficial holdings of Warrants totalling 19,457 Warrants, representing approximately 0.34 per cent. of the Warrants. Lonfin Investments Limited and Landau Enterprises Inc. have irrevocably undertaken to vote in favour of the resolution to be proposed at the Separate General Meeting in respect of their holdings of, in aggregate, 3,032,924 Warrants, representing 53.13 per cent. of the Warrants.

Yours faithfully

Lord Saatchi
Chairman