

To Home Entertainment Shareholders

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Dear Shareholder,

I met some of the directors of Home Entertainment last week, including Michael Riding, the senior Non-Executive Director, and the Managing Director, Anthony Skitt. They were giving a presentation to a number of analysts on the same day which I received, and was able to ask questions (without of course covering the details of current trading as there was no concurrent trading statement although there was a "strategic update" announcement on the 8th May from which some of the information below is taken). The company's share price seemed to perk up somewhat after the presentation to analysts.

The TV channel has been closed, and the Chairman's son who used to run that operation has been made redundant. Total losses of up to £1.35 million as a result are mentioned in the company's announcement.

The new web site (Choices Direct), which was planned for launch before Christmas but has still not yet been launched, seems to be a significant problem. The directors still expect this to go ahead as planned but the total project is now estimated to cost £2.9 million (a large sum for any web site development project) and it is clearly a large and complex IT system. Testing is still not complete.

The retail stores are under new management and have revised merchandise and marketing. Because of the changed focus, some sites are likely to be disposed of and new ones acquired. As it is still rather early to say whether the new approach will be successful, there is no certainty that these changes will return this division to profitability, and margins are still clearly under some pressure.

The acquisition of the stocks and assets of the Andromeda business from the receiver looks like it could be a good deal and some aspects of the former business have been rapidly integrated.

Central overhead costs and have been substantially reduced with head office staff reduced by 83 and annualised cost savings of £1.9 million achieved.

The plan appears to include further development of the distribution activities which seem to be more consistently profitable, as are the "Choices Local" operations. It is still somewhat unclear where the company is currently making profits or losses, or is likely to make them in future, broken down by market segments.

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The company is also planning to change its name to ChoicesUK, which is its main trading name now.

Swedish investor Peter Gyllenhammar and his associated interests have continued to purchase shares in the company and now hold 18.7% in total. He has met the directors but has not apparently clarified his future intentions.

In summary, the company's directors do now seem to be taking decisive action to resolve some of the historic problems in this business, so it may be best to wait and see what the results of their actions are. But there are obviously still some significant business issues remaining. I have also been assured that Mr Muspratt (now non-executive Chairman but still a substantial shareholder of course) has stepped down from executive involvement in the company.

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If you have any questions or comments on the above, please contact me via phone, email or letter.

Note as always I would encourage you to become a member of UKSA if you have not already joined as that helps to support our many altruistic activities such as this campaign. Membership information is present on our web site at: www.uksa.org.uk/Membership.htm or call 0870-70-60-600 for an information pack and application form.

Yours sincerely

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P.S. This letter is not intended to contain investment advice and you should consult an independent financial advisor, stockbroker or other advisor before trading shares in the company.