

COUSE

***Manga Entertainment
Limited***

***Annual report and audited financial
statements***

Year ended 31 December 2008



BUZZACOTT

Company Registration Number
2202664 (England and Wales)

<i>Directors</i>	B Clark G E Curtis R B Clasen C Lomax M N Debevoise
<i>Secretary</i>	J S Beabout
<i>Registered office</i>	6 Heddons Street London W1B 4BT
<i>Registered number</i>	2202664 (England and Wales)
<i>Auditors</i>	Buzzacott LLP 12 New Fetter Lane London EC4A 1AG
<i>Business Address</i>	6 Heddons Street London W1B 4BT
<i>Bankers</i>	Coutts & Co 440 Strand London WC2R 0QS

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The following page does not form
part of the statutory financial statements:

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Directors' report 31 December 2008

The directors present their report with the financial statements of the company for the year ended 31 December 2008.

Principal activity

The principal activity of the company continued to be that of the sale of video and DVD entertainment and merchandising and the licensing of video, theatrical, merchandising and television broadcasting rights.

Review of business and future developments

The profit and loss account is shown on page 6 of the financial statements.

In respect of the company's result for the year, the company has taken a conservative approach to the valuation of its films and royalty reserves, resulting in increases in these expenses during the year.

The financial year saw continuing challenges as a result of strong price and retailer competition, improvements in technology and additional supply chain pressures due to an industry shift from retail to wholesale supply. The company is continuing to monitor and mitigate these risks by focusing on its strong position in the niche film market of Japanese animation and taking on sales and distribution arrangements for similar products.

Financial instruments and risk management

The principal financial instruments of the company comprise bank balances, trade debtors, trade creditors and inter-company loans. The main purpose of these instruments is to raise funds for the company's operation and to reduce financial costs from external party borrowings.

The company's activities expose it to a number of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk.

Credit risk

The company's maximum exposure to credit risk in relation to financial assets is represented by bank balances, trade and other receivables. The company has no significant concentration of credit risk except for loans to other companies within the group.

Financial instruments and risk management (continued)

Liquidity risk

The company's policy on liquidity risk is to ensure that sufficient cash is available to fund ongoing operations. The company's ultimate controlling entity follows a policy of loaning money within the group to maximise liquidity benefits. Loans to the company are not subject to interest and are not repayable at short notice. The loan and cash balances are regularly reviewed to ensure the company has adequate funds to meet future working capital requirements.

Interest rate risk

The company's borrowings do not attract interest, and therefore exposure to interest rate risk is limited.

Foreign currency risk

The company's principal foreign currency exposure arises from transactions in foreign currencies, in particular, the inter-company loan balances. The company does not have a formal hedging policy but monitors its exposure to these currencies.

Dividends

The directors do not recommend payment of an ordinary dividend and the retained profit for the year is transferred to reserves.

Directors

The directors in office during the year were as follows:

G E Curtis	
R B Clasen	
C Lomax	
B Clark	
K Rice	(Resigned 30 June 2008)
M Debevoise	(Appointed 30 June 2008)

Directors' Report 31 December 2008

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors confirms that:

- ◆ so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- ◆ the director has taken all 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.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Signed on behalf of the board of directors:



Director

Approved by the board on: 30 October 2009

Independent auditors' report 31 December 2008

Independent auditors' report to the shareholders of Manga Entertainment Limited

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 8 to 10.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and independent auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all of the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report, and we consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Independent auditors' report 31 December 2008

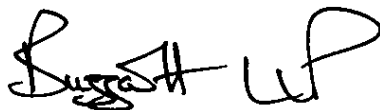
Basis of opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- ◆ the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- ◆ the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- ◆ the information given in the Directors' Report is consistent with the financial statements.



Buzzacott LLP
Chartered Accountants and Registered Auditors
12 New Fetter Lane
London
EC4A 1AG

30 October 2009

Profit and loss account Year ended 31 December 2008

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Turnover	1	2,459,364	2,240,599
Cost of sales		(1,215,004)	(1,469,168)
Gross profit		1,244,360	771,431
Distribution costs		(346,142)	(322,090)
Administrative expenses		(264,144)	(528,796)
Exceptional item – impairment of investment		(200,000)	—
Operating profit/(loss)	2	434,074	(79,455)
Other interest receivable and similar income		28,107	63,149
Profit/(loss) on ordinary activities before taxation		462,181	(16,306)
Tax on profit/(loss) on ordinary activities	4	(6,134)	(14,546)
Profit/(loss) on ordinary activities after taxation	14	456,047	(30,852)

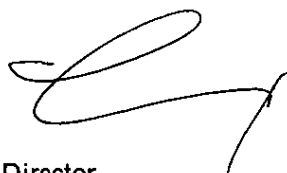
All of the company's activities are derived from continuing operations during the above two periods.

There is no difference between the results stated above and their historical cost equivalents.

Balance sheet 31 December 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Tangible assets	5		164,888		157,493
Investments	6		—		200,000
			<u>164,888</u>		<u>357,493</u>
Current assets					
Stocks	7	132,165		150,419	
Debtors – receivable in more than one year	8	2,466,572		—	
Debtors – receivable in less than one year	8	533,017		813,960	
Cash at bank and in hand		<u>334,445</u>		<u>1,269,675</u>	
		3,466,199		2,234,054	
Creditors: amounts falling due within one year	9	<u>(627,940)</u>		<u>(433,547)</u>	
Net current assets			<u>2,838,259</u>		<u>1,800,507</u>
Total assets less current liabilities			<u>3,003,147</u>		<u>2,158,000</u>
Creditors: amounts falling due after more than one year	10		<u>(2,648,728)</u>		<u>(2,283,756)</u>
Provision for liabilities	11		<u>(49,134)</u>		<u>(25,006)</u>
			<u>305,285</u>		<u>(150,762)</u>
Capital and reserves					
Called up share capital	13		3,043,696		3,043,696
Profit and loss account	14		<u>(5,314,447)</u>		<u>(5,770,494)</u>
Non-equity interests:					
Called up share capital	13		<u>2,576,036</u>		<u>2,576,036</u>
Shareholder's funds/(deficit)	15		<u>305,285</u>		<u>(150,762)</u>

Approved on behalf of the board of directors and authorised for issue by:



Director

Approved on: 30 October 2009

Manga Entertainment Limited
Company number: 2202664 (England and Wales)

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom Accounting Standards.

Going concern

The directors have received assurances from Starz Media, LLC and Manga Entertainment LLC that they will not demand repayment of amounts owed to them at the time of approval of these financial statements for a period of at least 12 months from the date of signing these financial statements or until the company is in a position to make such repayments. Starz Media Group, LLC has confirmed that it will provide continuing financial support to the company sufficient to allow it to continue trading for the foreseeable future.

On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

However, should this support be withdrawn or future funding not be available, the going concern basis used in preparing the company's financial statements may be invalid and adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise. The financial statements do not include any adjustment to the company's assets or liabilities that might be necessary should this basis not continue to be appropriate.

Cash flow

The financial statements do not include a cash flow statement because the company is a wholly owned subsidiary and the consolidated financial statements of its ultimate parent undertaking, in which the company is included, are publicly available. It is therefore exempt from the requirement to prepare such a statement under Financial Reporting Standard 1 'Cash flow statements'.

Turnover

Turnover consists of sales of goods, theatrical income, film sales and film sales commission, at invoiced value excluding VAT and discounts. Turnover is recognised as earned when and to the extent that the company obtains the right to consideration in exchange for goods and services. Full value is taken for contracted sales when all conditions have been met.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated over 4 years on a reducing balance basis.

Investments

Fixed asset investments are stated at cost less provision for permanent diminution in value. Investments are tested for impairment at each reporting period to ensure the carrying value does not exceed its recoverable amount.

Stocks

Stocks of raw materials and finished goods are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. Stock values are computed using the first in, first out method. Costs included are those incurred in bringing the product to its present location and condition, including purchase price and other directly attributable costs less trade discounts and subsidies.

A provision is made against the cost of obsolete and slow moving items reflecting historic sales as a basis for future stock level requirements.

Pensions

The pension cost charge in respect of personal pension schemes is comprised of the contributions payable for the period.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. All differences are taken to profit and loss account.

Principal accounting policies 31 December 2008

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemption provided by section 248 of the Companies Act 1985 from preparing group financial statements.

Provision for sales returns

The company operates a four months return policy on sales. The company therefore provides for sales returns based on an average of previous returns experience.

Royalty reserves

Royalty reserves included in prepayments consist of amounts paid by the company in advance of royalties due on film titles.

Royalty reserves are not recoverable if sales do not achieve the required level and therefore a provision for non recoverability is made based on projected future sales.

Notes to the financial statements 31 December 2008

1 Turnover

Turnover and the result before taxation arose solely from the company's principal activity carried out in the United Kingdom.

2 Operating profit

	<i>Year ended 31 December 2008 £</i>	<i>Year ended 31 December 2007 £</i>
Operating profit/(loss) is stated after charging/(crediting):		
Depreciation of tangible fixed assets	161,173	276,833
Loss/(profit) on foreign exchange transactions	47,915	(16,529)
Auditors' remuneration: - for audit services	26,050	24,150
- for taxation services	2,600	5,250
- for other services	1,550	2,750

3 Staff costs

Staff costs were as follows:

	<i>Year ended 31 December 2008 £</i>	<i>Year ended 31 December 2007 £</i>
Wages and salaries	171,391	159,095
Social security costs	18,493	16,210
Pension contributions	8,570	6,744
	<u>198,454</u>	<u>182,049</u>

No directors' remuneration was paid during the year ended 31 December 2008 (2007: £ nil).

The average monthly number of employees during the year was as follows:

	<i>Year ended 31 December 2008 £</i>	<i>Year ended 31 December 2007 £</i>
Office staff	4	4
Sales staff	1	1
	<u>5</u>	<u>5</u>

4 Taxation

The tax charge on ordinary activities for the period was as follows:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Current tax		
UK corporation tax	6,134	—
Adjustment in respect of prior period	—	14,546
Current tax charge	6,134	14,546
The tax assessed for the period differs from the standard rate of comparison tax of 28.5% (2007 – 30%). The differences are explained below:		
Profit/(loss) on ordinary activities before taxation	462,181	(16,306)
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.5% (2007 – 30%)	131,722	(4,892)
Effects of:		
Non deductible expenses	57,913	985
Other timing differences	(1,872)	—
(Utilisation of)/increase in tax losses	(181,629)	3,907
Other tax adjustments, including adjustments in respect of prior period	—	14,546
	6,134	14,546

At 31 December 2008, deferred tax assets of approximately £ 780,000 (2007 - £ 1,000,000) in respect of tax losses have not been recognised by the company as the directors consider there is not sufficient evidence that this asset will be recoverable in the foreseeable future.

Notes to the financial statements 31 December 2008

5 Tangible fixed assets

	<i>Master film costs</i> £
<i>Cost</i>	
At 1 January 2008	619,644
Additions	168,568
At 31 December 2008	<u>788,212</u>
<i>Accumulated depreciation</i>	
At 1 January 2008	462,151
Charge for the year	161,173
At 31 December 2008	<u>623,324</u>
<i>Net book value</i>	
At 31 December 2008	<u>164,888</u>
At 31 December 2007	<u>157,493</u>

6 Fixed asset investments

	<i>Shares in group undertakings</i> £
<i>Cost</i>	
At 1 January 2008 & at 31 December 2008	200,000
<i>Impairment</i>	
At 1 January 2008	—
During the year	200,000
At 31 December 2008	<u>200,000</u>
<i>Net book value</i>	
At 31 December 2008	—
At 31 December 2007	<u>200,000</u>

Holdings of more than 20%:

The company owns the entire share capital of the following company:

<i>Company</i>	<i>Principal Activity</i>	<i>Country of registration or incorporation</i>	<i>Shares held</i>	
			<i>Class</i>	<i>%</i>
<i>Subsidiary undertakings</i>				
Manga Entertainment LLC	Video distributors	USA	Ordinary	100

The aggregate amount of capital and reserves was £ 9,608,310 and the result of this undertaking for the year ended 31 December 2008 was a loss of £ 15,374,227 (unaudited).

Notes to the financial statements 31 December 2008

7 Stocks

	2008 £	2007 £
Finished goods	102,002	114,582
Raw materials	30,163	35,837
	<u>132,165</u>	<u>150,419</u>

8 Debtors

	2008 £	2007 £
<i>Amounts receivable in more than one year</i>		
Amounts owed by group undertakings	2,466,572	—
	<u>2,466,572</u>	<u>—</u>
<i>Amounts receivable within one year</i>		
Trade debtors	47,808	126,451
Prepayments and accrued income	450,055	29,061
Amounts owed by group undertakings	—	645,299
Other debtors	35,154	13,149
	<u>533,017</u>	<u>813,960</u>

9 Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	66,057	124,138
Accruals and deferred income	561,883	309,409
	<u>627,940</u>	<u>433,547</u>

10 Creditors: amounts falling due after more than one year

	2008 £	2007 £
Amounts owed to group undertakings	2,648,728	2,283,756

Amounts due to group undertakings are unsecured, interest free and not repayable within 12 months from the date of signing of the financial statements.

11 Provision for liabilities

	2008 £	2007 £
Other provisions	49,134	25,006

12 Pension costs

The company made payments to employees' personal pension schemes. The assets of these schemes are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions paid by the company and amounted to £ 8,570 (2007 - £ 6,744).

13 Share capital

<i>Authorised</i>	2008 £	2007 £
3,307,906 Ordinary shares of £1 each	3,307,906	3,307,906
2,755,016 Deferred shares of £1 each	2,755,016	2,755,016
	<u>6,062,922</u>	<u>6,062,922</u>
<i>Allotted, called up and fully paid</i>	2008 £	2007 £
3,043,696 Ordinary shares of £1 each	3,043,696	3,043,696
2,576,036 Deferred shares of £1 each	2,576,036	2,576,036
	<u>5,619,732</u>	<u>5,619,732</u>

The deferred shares do not carry the right to any dividend or distribution and are not redeemable.

They carry no votes at the general meetings of the company. At any separate general meeting of the holders of the deferred shares on any show of hands any shareholder present in person shall have a vote, and on a poll every such holder present in person or by proxy shall have one vote for each deferred share of which they are the holder.

On a winding up of the company, the deferred shareholders have a right to receive £ 1 per share, but only after the holders of the ordinary shares have received the nominal amount paid up on their shares plus a further £ 10 million on aggregate.

14 Statements of movements on profit and loss account

	<i>Profit and loss account £</i>
Balance at 31 December 2007	<i>(5,770,494)</i>
Profit for the period	<i>456,047</i>
Balance at 31 December 2008	<i>(5,314,447)</i>

15 Reconciliation of movements in shareholder's funds

	<i>2008 £</i>	<i>2007 £</i>
Profit/(loss) for the financial period	<i>456,047</i>	<i>(30,852)</i>
Opening shareholder's (deficit)	<i>(150,762)</i>	<i>(119,910)</i>
Closing shareholder's funds/(deficit)	<i>305,285</i>	<i>(150,762)</i>

16 Control

The largest and smallest group in which the results of the company are consolidated is that headed by Liberty Media Corporation, a company incorporated in the United States of America. The consolidated accounts, which are available to the public, may be requested from Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, CO 80112, USA.

The immediate parent undertaking is Starz Media, LLC. The ultimate parent undertaking is Liberty Media Corporation, a company registered in the USA.

The directors do not believe there was a controlling party in either of the two periods.

17 Related party transactions

The financial statements do not include disclosure of transactions between the company and entities that are part of the Liberty Media Corporation Group. This is because as a subsidiary whose shares are more than 90% controlled within the group the company is exempt from the requirement to disclose such transactions under Financial Reporting Standard 8 "Related Party Disclosures".