The Feature Film Company Limited

Directors' report and financial statements

Registered number 2643266

31 March 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

Principal activity and business review

The principal activity of the company is the provision of film, video and other media distribution and promotion services and sales on behalf of third parties and its own account.

Results and dividends

The loss for the period was £334,148 *(2005: loss £346,790).*

No dividends were paid or proposed during the year *(2005: £nil).*

The board considers the company's key performance indicator is profit before tax as above.

Directors and directors' interests

The directors of the company who served during the period were as follows:

J Schmidt
G Webb

The interests of the directors in ContentFilm plc, the ultimate parent company, are disclosed in the financial statements of that company. G Webb had the following interests in the share capital of the ultimate parent company, ContentFilm plc:

	31 March 2006		31 March 2005	
	Ordinary shares of 1p each	**Share options**	Ordinary shares of 5p each	Share options
		(i)		(i)
G Webb	**915,250**	**1,000,000**	-	35,000

(i) ContentFilm plc 2004 Approved Share Option Plan

None of the directors had any beneficial interest in the share capital of the company at any time during the year.

Auditors

Grant Thornton UK LLP offer themselves for re-appointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the board

G Webb
Secretary

19 Heddon Street
London
W1B 4BG

25 January 2007

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

In so far as the Directors are aware;

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Grant Thornton

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE FEATURE FILM COMPANY LIMITED

We have audited the financial statements of The Feature Film Company Limited for the year ended 31 March 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.
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 directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. 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, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit 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 judgments 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.

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 March 2006 and of the loss 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 for the year ended 31 March 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Grant Thornton UK LLP

LONDON

25 January 2007

Profit and loss account
for the year ended 31 March 2006

	Note	2006 £	2005 £
Turnover	2	**168,986**	449,949
Cost of sales		**(87,661)**	(296,844)
Gross profit/(loss)		**81,325**	153,105
Administrative expenses		**(415,418)**	(499,895)
Operating loss	3	**(334,093)**	(346,790)
Interest payable	6	**(55)**	-
Loss on ordinary activities before taxation		**(334,148)**	(346,790)
Tax on (loss)/profit on ordinary activities	7	**-**	-
Loss on ordinary activities after taxation		**(334,148)**	(346,790)
Profit and loss account brought forward		**(553,664)**	(206,874)
Profit and loss account carried forward		**(887,812)**	(553,664)

Turnover and results reported above all relate to continuing operations.

Statement of total recognised gains and losses
for the year ended 31 March 2006

There were no recognised gains or losses during either period other than the results reported above.

Balance sheet
at 31 March 2006

	Notes	2006 £	2005 £
Current assets			
Stock	8	-	22,207
Debtors	9	1,967	179,889
Cash at bank and in hand		153	20,291
		2,120	222,387
Creditors: *amounts falling due within one year*	10	(888,932)	(775,051)
Net liabilities		(886,812)	(552,664)
Capital and reserves			
Called up share capital	11	1,000	1,000
Profit and loss account		(887,812)	(553,664)
Equity shareholders' deficit	12	(886,812)	(552,664)

These financial statements were approved by the board of directors on 25 January 2007 and were signed on its behalf by:

G Webb
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and on the going concern basis which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by ContentFilm plc, the company's ultimate holding undertaking. ContentFilm plc has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Stocks

Stocks are stated at the lower of costs and net realisable value. In determining the cost of film and television project inventory, cost is taken as direct costs incurred for the production of or the acquisition of sales rights for film and television projects less any foreseeable losses. Where the Company acts fundamentally in the management of an individual film production, attributable overhead is also included in the cost of film inventory. Interest on any loans taken out to fund specific production costs is capitalised until the date of completion. Film and television project inventory is appraised at each balance sheet date on a project by project basis and is amortised over a maximum amortisation period of ten years. In respect of the maximum amortisation period of ten years and the resultant carrying value at each balance sheet date due regard is given to the requirement for current assets to be held at the lower cost and net realisable value. Net realisable value is calculated on a project by project basis having regard to the present value of estimated sales less further costs of completion and unrecoupable sales expenses.

Film and Video promotion and distribution expenditure

Promotion and distribution expenditure is carried forward as work in progress to the extent that the expenditure is fully recoverable against future revenue from that release.

Income recognition

Non-refundable licensing agreement advances, guarantees and subsequent royalties are accounted for on a receivable basis. Income from the sale of a share in intellectual property rights is recognised on a receivable basis when the sale becomes unconditional.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Cash flow statement

A cash flow statement has not been prepared because the company is a wholly owned subsidiary of ContentFilm plc and the financial statements of that company contain a consolidated cash flow statement dealing with the cash flows of its group.

Notes *(continued)*

1 Accounting policies *(continued)*

Related party disclosures

Under Financial Reporting Standard 8, the company is exempt from the disclosure of transactions with other group undertakings on the grounds that it is a wholly owned subsidiary of ContentFilm plc and its results are included in the consolidated financial statements of that company.

2 Turnover

Turnover, which excludes value added tax, represents fees generated for distribution and promotional services earned and is principally derived in the UK.

3 Loss on ordinary activities before taxation

	2006	2005
	£	£
Foreign exchange (loss)/gain	**166**	(24)

Audit fees are borne by a fellow group company.

4 Staff numbers and costs

The average number of persons (including directors) employed by the company during the year was 1 *(2005: 3)*.

Staff costs have been borne by a fellow subsidiary undertaking.

5 Directors' Emoluments

None of the directors received any remuneration from the company during the year *(2005: nil)*.

6 Net interest payable

	2006	2005
	£	£
Bank interest (payable)/ receivable	**(55)**	-

Notes *(continued)*

7 Tax on profit on ordinary activities

	2006	2005
	£	£
UK current tax:		
Corporation tax on the results for the period	-	-
Adjustments in respect of prior years	-	-
Total current tax (credit)/charge	-	-

Factors affecting the tax charge for the current period

The current tax credit for the period is lower *(2005: lower)* than the standard rate of corporation tax in the UK (30%) *(2005: 30%)*. The differences are explained below:

	2006	2005
	£	£
Current tax reconciliation		
(Loss)/Profit on ordinary activities before tax	**(334,148)**	(346,790)
Current tax charge at 30% *(2005: 30%)*	**(100,245)**	(104,037)
Effects of:		
Expenses not deductible for tax purposes	**40,945**	47,511
Capital allowances for the period in excess of depreciation	**(142)**	-
Tax losses carried forward	**59,441**	56,526
Total current tax charge (see above)	-	-

Factors affecting future tax charges

There are unutilised tax losses within the company of £843,000 *(2005: £645,000)* carried forward for relief against future suitable taxable profits and for which no deferred tax asset has been recognised on the grounds of prudence.

8 Stocks

	2006	2005
	£	£
Film inventory	-	22,207

Notes *(continued)*

9 Debtors

	2006	2005
	£	£
Trade debtors	1,967	77,131
Other debtors	-	102,758
	1,967	179,889

10 Creditors: amounts falling due within one year

	2006	2005
	£	£
Trade creditors	1,393	87,050
Other taxation	7,688	8,676
Accruals	19,061	26,175
Other creditors	59	-
Amounts owed to group undertakings	860,731	653,150
	888,932	775,051

11 Share capital

	2006	2005
	£	£
Authorised, allotted, called up and fully paid:		
1,000 ordinary shares of £1 each	1,000	1,000

12 Reconciliation of movement in shareholders' deficit

	2006	2005
	£	£
Retained loss for the financial year	(334,148)	(346,790)
Shareholders' deficit brought forward	(552,664)	(205,874)
Shareholders' deficit carried forward	(886,812)	(552,664)

13 Capital commitments

There were no capital commitments at 31 March 2006 *(2005: £nil)*.

Notes *(continued)*

14 Ultimate parent company

The company is controlled by ContentFilm plc, the ultimate parent company, which is also the ultimate controlling party. The only group in which the results of the company are consolidated is ContentFilm plc. The consolidated accounts of this company are available to the public and may be obtained from the company's registered address, 19-21 Heddon Street, W1B 4BG.

15 JP Morgan Chase Guarantee

In relation to a Credit and Guarantee Agreement (the Agreement) dated March 26 2004, between JP Morgan Chase Bank, the Company's parent company ContentFilm plc, and a related company ContentFilm Inc., the Company has provided a guarantee to JP Morgan Chase Bank in relation to the repayment of all amounts owing under the Agreement. Further JP Morgan Chase Bank have a security interest over the assets of the Company and its shares. The balance of the bank facility in ContentFilm plc as at 31 March 2006 was £8.5m *(2005: £5.5m).*