Canal + Image UK Limited

Directors' report and financial statements

Registered number 02668459

31 December 2007

Contents

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Principal activity and review of the business

The principal activity of the company continued to be the licensing of film and television rights

The results for the year are shown on page 5 Revenues decreased 25 7% to 18m$ in the year *(2006 +71 4 % to $24m$)* reflecting the increase in domestic video exploitation thanks to Optimum Releasing agreement but a sharp decrease in bundling agreements that explained prior year performance The gross profit margin increased from 32 8% in 2006 to 33 2% in 2007

After taking into account a $0 3m foreign exchange loss (*2006* $2m foreign exchange gain), the operating profit for the year amounted to $3 7m (*2006* $7 5m)

The directors do not recommend a dividend for the year ended 31 December 2007 *(2006 $nil)*

Future developments

The directors aim to maintain the management policies which have resulted in the company's profitability in the current year

Directors and their interests

The directors, who served throughout the year and since year-end are as follows

S Legrand	
F Faux	(resigned 19 April 2007)
R Bessi	(appointed 19 April 2007)
F Sichler	(appointed 19 April 2007)

Political and charitable contributions

The company made no political contributions during the year (2006 $nil) Donations to UK charities amounted to $nil (2006 $nil)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each 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/ she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for re-appointment of KPMG LLP as auditors of the Company is to be prepared at the forthcoming Annual General Meeting

On behalf of the board

S Legrand
Director

23 June 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 company and to prevent and detect fraud and other irregularities

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Canal + Image UK Limited

We have audited the financial statements of Canal + Image UK Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 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 auditor's 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2

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 Directors' Report is consistent with the financial statements, if 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 the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it

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

Independent auditors' report to the members of Canal + Image UK Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 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

KPMG LLP

18 July 2008

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and Loss Account
for the year ended 31 December 2007

	Notes	2007	2006
		$	$
Turnover	1	**17, 505,118**	23,557,057
Cost of sales		**(11,688,191)**	(15,828,852)
Gross profit		**5,816,927**	7,728,205
Administrative expenses		**(2,134, 021)**	(260,363)
Operating profit		**3,682,906**	7,467,842
Other interest receivable and similar income	3	**2,227,758**	1,194,469
Interest payable and similar charges	4	**(169,055)**	(1,047)
Income from shares in subsidiary undertakings		**1,830,906**	1,952,192
Profit on ordinary activities before taxation	2	**7,572,515**	10,613,456
Tax on profit on ordinary activities	7	**(1,368,308)**	(2,484 ,342)
Profit on ordinary activities after taxation	15,16	6,204,207	8,129,114

The results shown above are derived from continuing activities

There were no recognised gains and losses in either the current or prior year except as shown above Consequently a statement of total recognised gains and losses has not been presented

The notes on pages 7 to 15 form part of these financial statements

Balance Sheet
at 31 December 2007

	Notes	2007		2006	
		$	$	$	$
Fixed assets					
Intangible assets	*8*		**473,307**		3,750,292
Tangible assets	*9*		**2,052,941**		1,078,041
Investments	*10*		**-**		-
			2,526,250		4,828,333
Current assets					
Debtors	*11*	**44,444,762**		39, 938 ,678	
Cash at bank and in hand		**578,739**		324 ,918	
		45,023,501		40 ,263 ,596	
Creditors · amounts falling due within one year	*12*	**(9,060,744)**		(17, 047 ,632)	
Net current assets			**35,962,757**		23, 215, 964
Total assets less current liabilities			**38,489,006**		28, 044 ,297
Creditors : amounts falling due after more than one year	*13*		**(14,155,619)**		(9,915,123)
Net assets			**24,333,387**		18,129,174
Capital and reserves					
Called up share capital	*14*		**146**		146
Share premium account	*15*		**26,499,854**		26,499,854
Profit and loss account	*15*		**(2,166,619)**		(8,370, 826)
Shareholders' funds	*16*		**24,333,381**		18,129,174

These financial statements were approved by the board of directors on 23 june 2008 and were signed on its behalf by

S Legrand
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 company's financial statements, except as noted below

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts as the company is included in the consolidated accounts of a larger group headed by Vivendi S A , a parent undertaking established under the law of a member state of the European Union These financial statements present information about the company as an individual undertaking and not about its group

Under Financial Reporting Standard ("FRS") 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of Vivendi S A which includes the company in its own published consolidated financial statements

As the company is a wholly owned subsidiary of Vivendi S A , the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Vivendi S A , within which this company is included, can be obtained from the address given in note 18

Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) in the normal course of business Turnover from direct sales of licenses to customers is recognised on the later of delivery of rights or the start of the license period Turnover from sales through distributors is recognised upon notification of amounts receivable

The directors have not disclosed the segmental analysis of turnover on the grounds that it would be seriously prejudicial against the interests of the company

Intangible fixed assets

The cost of acquiring film licensing rights is capitalised and amortised on a straight - line basis over their expected useful economic life not exceeding 20 years The amortisation charge is expensed as a cost of sale

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives, as follows

Film masters	5 years
Plant and machinery	5 - 10 years
Fixtures and fittings	10 years

Investments

Fixed asset investments are shown at cost less provisions for permanent diminution in value

Notes (continued)

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit 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

Deferred taxation 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

In 2007 it was announced that the corporation tax rate would be reduced from 30% to 28% with effect from 1 April 2008 This has been substantially enacted at the balance sheet date Recognised deferred tax assets are calculated at the rate at which they are expected to be utilised Therefore the deferred tax asset is calculated at 28%

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease period

Foreign currency

These financial statements are prepared in US dollars which is the functional currency of the company

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account

Pension

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of an independently administered fund The amount charged to the profit and loss account represents contributions payable to the scheme in respect of the accounting period

2 Profit on ordinary activities before taxation

	2007	2006
	$	$
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Amortisation, depreciation and amounts written off		
Intangible fixed assets	**3,293,282**	3,478,141
Tangible fixed assets	**749,696**	575,723
Operating lease rentals	**442,530**	459,944
Auditors'remuneration		
- audit fees	**12,423**	58,374
Foreign exchange loss/ (gain)	**252,501**	(2,100,779)

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent undertaking

Notes (continued)

3 Other interest receivable and similar income

	2007	2006
	$	$
Interest receivable from group companies	2,224,107	1,193,048
Interest receivable from bank deposits	3,651	1,421
	2,227,758	1,194,469

4 Interest payable and similar charges

	2007	2006
	$	$
Interest payable to group undertakings	168,016	-
Interest payable on loans	1,039	1,047
	169,055	1,047

5 Staff costs

Employee costs during the year comprised	2007	2006
	$	$
Wages and salaries	328,659	301,922
Social security costs	47,143	31, 876
Other pension costs	14,471	20,632
One-off bonus	35,990	-
Compensation for loss of office	110,767	-
	537,030	354 ,430

The average weekly number of persons employed by the company (including directors) during the year, analysed by category was as follows

	2007	2006
	Number	Number
Sales	1	1
Administration	4	5
	5	6

6 Remuneration of directors

Directors' remuneration is borne by another group company Directors' emoluments for the year were $nil (2006 $nil) No directors serving during the year were members of the pension scheme

Notes (continued)

7 Tax on profit on ordinary activities

(a) Analysis of tax (charge)/credit in the year

	2007	2006
	$	$
Current tax on income for the year		
UK corporation tax charge	(1,427,575)	(1,410,952)
Adjustments in respect of prior years	82,229	7,246
Total current tax (note7b)	(1,345,346)	(1,403,706)
Deferred tax		
Timing differences, origination and reversal	(16,196)	(1,191,664)
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	-	64,727
Adjustments in respect of prior years	-	46,301
Effect of reduction on the corporation tax rate from 30% to 28%	(6,766)	-
Total deferred tax credit/(charge) (note 7c)	(22,962)	(1,080,636)
Tax on profit on ordinary activities	(1,368,308)	(2,484,342)

The current tax charge for the period is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

b) Factors affecting the tax credit/(charge) for the current year	2007	2 006
	$	$
Profit on ordinary activities before tax	7,572,515	10 ,613 ,456
Tax assessed on the profit on ordinary activities for the year at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	(2,271,754)	(3 ,184, 037)
Effects of		
Expenses not deductible for tax purposes	(12,942)	(4,237)
Non taxable UK dividend income	549,272	585,658
Capital Allowances in excess of depreciation	16,196	21,540
Other short term timing differences	-	121,913
Utilisation of tax losses	-	1,048,211
Adjustments in respect of prior periods	82,229	7,246
Group relief received not paid for	291,653	-
Current tax credit/(charge) for the year	(1,345,346)	(1,403,706)

(c) Deferred taxation

The movement in the deferred tax asset in the year was as follows

	2007	2006
	$	$
At 1 January	117,682	1,198,318
Credited/(charged) to the profit and loss account (note 7a)	(22,961)	(1,080,636)
At 31 December (note 11)	94,721	117,682
Analysis of deferred tax asset		
Excess of depreciation over capital allowances	45,346	64,781
Other short term timing differences	49,375	52,901
	94,721	117,682

Notes (continued)

8 Intangible fixed assets

	$
Cost	
1 January 2007	60,786,759
Additions	16,297
31 December 2007	60,803,056
Amortisation	
1 January 2007	57,036,467
Charge for the year	3,293,282
31 December 2007	60,329,749
Net book value	
31 December 2007	473,307
31 December 2006	3,750,292

9 Tangible fixed assets

	Film masters $	Plant and machinery	Fixture & fittings	Total $
Cost				
1 January 2007	6,646,092	79,654	10,920	6,736,666
Additions	1,724,597	-	-	1,724,597
31 December 2007	**8,370,689**	**79,654**	**10,920**	**8,461,263**
Depreciation				
1 January 2007	5,568,051	79,654	10,920	5,658,625
Charge for the year	749,696	-	-	749,696
31 December 2007	**6,317,747**	**79,654**	**10,920**	**6,408,322**
Net book value				
31 December 2007	**2,052,941**	-	-	**2,052,941**
31 December 2006	1,078,041	-	-	1,078,041

Notes *(continued)*

10 Fixed asset investments

	Share in group undertakings
Cost	**$**
At beginning and end of year	**253,362**
Amounts written off at beginning and end of year	**(253,362)**
Net book value at beginning and end of year	**-**

The principal companies in which the company's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Springscreen Entertainment Inc	USA	Dormant	Ordinary 100%

11 Debtors: amounts falling due within one year

	2007	2006
	$	**$**
Trade debtors	**842,059**	222,628
Amounts owed by other group undertakings	**40,654,306**	37,071,456
Other debtors	**715,659**	311,118
Deferred tax asset (note 7c)	**94,721**	117,682
Prepayments and accrued income	**2,138,017**	2,215,794
	44,444,762	39,938,678

Notes *(continued)*

12 Creditors amounts falling due within one year

	2007	2006
	$	$
Bank loans and overdraft	**198,686**	26,459
Trade creditors	**2,056,333**	2,389,323
Amounts owed to subsidiary undertakings	**253,362**	2,084,268
Amounts owed to other group undertakings	**758,302**	7,278
Taxation and social security	**689,947**	1,316,422
Accruals for royalty payments	**1,452,721**	5,818,637
Accruals and deferred income	**3,651,393**	5,405,245
	9,060,744	17,047,632

13 Creditors: amounts falling due after more than one year

	2007	2006
	$	$
Accruals for royalty payments	**14,155,620**	9,915,123

14 Called up share capital

	2007	2006
Authorised	$	$
100 ordinary shares £1 each	**180**	180
Alloted, called up and fully paid		
87 ordinary shares of £1 each	**146**	146

15 Share premium and reserves

	Share premium account	Profit and loss account
	$	$
At 1 January 2007	26,499,854	(8,370,826)
Retained profit for the year	-	6,204,207
At 31 December 2007	26,499,854	(2,166,619)

Notes *(continued)*

16 Reconciliation of movement in shareholders' funds

	2007	2006
	$	$
Retained profit for the year	6,204,207	8,129,114
Net addition to shareholders' funds	6,204,207	8,129,114
Opening shareholders' fund	18,129,174	10 000,060
Closing shareholders' funds	24,333,381	18,129,174

17 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

Lease commitments	Land & buildings 2007	2006	Other 2007	2006
	$	$	$	$
Operating leases which expire				
- within 2 to 5 years	391,369	391,369	51,162	68,576

18 Parent undertaking and controlling party

The company's immediate parent undertaking is Studio Canal Image S A , incorporated in France Studio Canal Image S A does not prepare consolidated financial statements

The ultimate parent company and controlling party is Vivendi S A , a company incorporated in France

The largest group of which the company is a member and for which consolidated financial statements are drawn up is that headed by Vivendi S A These consolidated financial statements are available at 42 Avenue Friedland, 75380 Paris, Cedex 08, France