

**Anchor Bay
Entertainment
(UK) Limited**

Annual Report and Accounts

Period from 1 May 2003
to 31 July 2004



Company Registration Number
4088359 (England and Wales)

Directors	M Berger S Brown D W Mauro
Secretary	S Brown
Registered office	6 Heddton Street London W1B 4BT
Registered number	4088359 (England and Wales)
Auditors	Buzzacott 12 New Fetter Lane London EC4A 1AG
Business address	6 Heddton Street London W1B 4BT
Bankers	Coutts & Co 440 Strand London WC2R 0QS

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Directors' report 31 July 2004

The directors present their report with the accounts of the company for the period from 1 May 2003 to 31 July 2004.

Principal activity

The principal activity of the company in the period under review was the acquisition and exploitation of film rights through DVD and video products.

Review of business and future developments

A summary of the results of the period's trading is given on page 5 of the accounts.

The results for the period and the financial position at the period end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

The company is part of the Anchor Bay Entertainment Group (USA). On 3 December 2003, the company's ultimate parent undertaking, Handleman Company (USA), sold Anchor Bay Entertainment Group (USA) to IDT Entertainment (USA).

Dividends

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

Directors

The directors in office during the period were as follows:

S Nadelberg (resigned 1 May 2003)
W I Robinson (resigned 27 July 2003)
P Cline (resigned 11 December 2003)
M Berger (appointed 11 December 2003)
S Brown (appointed 11 December 2003)
D W Mauro (appointed 1 March 2004)

The directors did not have any interest in the share capital of the company or in any group company incorporated in Great Britain at 31 July 2004 at that date or on the date of their appointment.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which 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 those accounts, the directors are required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;

Directors' report 31 July 2004

Directors' responsibilities (continued)

- ♦ follow applicable accounting standards, subject to any material departures disclosed and explained in the accounts;
- ♦ prepare the accounts 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 accounts 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.

Auditors

The auditors, Buzzacott, will be proposed for re-appointment in accordance with Section 386 of the Companies Act 1985.

Signed by order of the directors:



Secretary

Approved by the directors on: 24/05/05

Independent auditors' report to the shareholders of Anchor Bay Entertainment (UK) Limited

We have audited the accounts on pages 5 to 14 which have been prepared, under the historical cost convention, and in accordance with the accounting policies set out on pages 7 and 8.

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 on pages 1 and 2, the company's directors are responsible for the preparation of accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 not consistent with the accounts, 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 transactions with the company 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 opinion

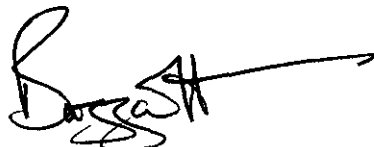
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Independent auditors' report 31 July 2004

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 July 2004 and of its profit for the period from 1 May 2003 to 31 July 2004 and have been properly prepared in accordance with the Companies Act 1985.



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

31 July 2005

Profit and loss account Period from 1 May 2003 to 31 July 2004

	Notes	15 months to 31 July 2004 £	Year ended 30 April 2003 £
Turnover	1	6,528,956	4,224,480
Cost of sales		(3,724,974)	(2,230,717)
Gross profit		2,803,982	1,993,763
Selling and distribution costs		(1,378,703)	(967,103)
Administrative expenses		(773,366)	(529,261)
Operating profit	2	651,913	497,399
Interest receivable		23,320	6,818
Interest payable		(18,751)	(44,362)
Profit on ordinary activities before taxation		656,482	459,855
Taxation	4	(210,000)	(130,627)
Retained profit for the financial period		446,482	329,228
Retained Profit at 1 May 2003		594,638	265,410
Retained Profit at 31 July 2004		1,041,120	594,638

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

The company has no recognised gains and losses other than those shown above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the periods stated above, and their historical cost equivalents.

Balance sheet 31 July 2004

	Notes	31 July		30 April	
		2004 £	2004 £	2003 £	2003 £
Fixed assets					
Intangible assets	5		174,103		232,140
Tangible assets	6		932,193		625,295
Investments	7		—		—
			<u>1,106,296</u>		<u>857,435</u>
Current assets					
Stocks	8	509,393		312,457	
Debtors	9	3,849,946		1,860,802	
Cash at bank and in hand		149,995		278,843	
		<u>4,509,334</u>		<u>2,452,102</u>	
Creditors: amounts falling due within one year	10	(1,394,221)		(1,272,693)	
Net current assets			<u>3,115,113</u>		<u>1,179,409</u>
Total assets less current liabilities			<u>4,221,409</u>		<u>2,036,844</u>
Creditors: amounts falling due after more than one year	11		(3,128,189)		(1,371,106)
Provision for liabilities and charges					
Other provisions	12		(52,000)		(71,000)
			<u>1,041,220</u>		<u>594,738</u>
Capital and reserves					
Equity interests:					
Called up share capital	13		100		100
Profit and loss account			1,041,120		594,638
Shareholders' funds	14		<u>1,041,220</u>		<u>594,738</u>

Signed on behalf of the board of directors by:



Director

Approved by the board on: 24/05/05

Principal accounting policies 31 July 2004

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow

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

Turnover

Turnover consists of sales of goods at invoiced value excluding VAT and discounts.

Intangible assets

Goodwill arising as a result of the acquisition of subsidiaries and their businesses is capitalised in the balance sheet and amortised on a straight line basis over its useful economic life of 7 years.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

- | | |
|---------------------|--|
| ◆ Office equipment | 33% on cost |
| ◆ Master film costs | Over the period for which the rights are held. The cost is matched against the income earned from these rights and no charge is made until the film is released. |

Leased assets

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged on a straight-line basis over the lease term.

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. Cost is computed using the first in, first out method.

Principal accounting policies 31 July 2004

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

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 accounts.

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.

Provision for sales returns

The company operates a six months' return policy on sales. The company has therefore provided for sales returns based on an average of previous returns' experience.

Group accounts

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 medium-sized group. The company has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group accounts.

Pensions

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

Notes to the accounts 31 July 2004

1 Turnover

Turnover and the result before taxation arise solely from the company's principal activity carried out in the UK.

2 Operating profit

	2004 £	2003 £
This is stated after charging:		
Depreciation of tangible fixed assets	423,295	198,048
Amortisation of goodwill	58,037	92,860
Operating lease charges		
· Land and buildings	43,224	40,965
Auditors' remuneration	12,000	8,680

No director received any remuneration in the period (2003 - £nil).

3 Staff costs

Staff costs were as follows:

	2004 £	2003 £
Wages and salaries	412,851	282,124
Social security costs	49,944	25,352
Pension contributions	13,009	—
	475,804	307,476

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

Management and administrative staff	6	5
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4 Taxation

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

	2004 £	2003 £
Current tax:		
Corporation tax at 30% (2003 - 30%)	210,000	130,627

Notes to the accounts 31 July 2004

4 Taxation (continued)

The tax assessed for the period is higher (2003 – lower) than the standard rate of corporation tax of 30%. The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	656,482	459,855
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 – 30%)	196,945	137,957
Effects of:		
Expenses not deductible	23,825	31,708
Difference between capital allowances for the period and depreciation	2,208	1,934
Movement in provisions	(12,505)	(7,308)
Group relief received	—	(33,664)
Other adjustments	(473)	—
Current tax charge for period	210,000	130,627

5 Intangible assets

	Goodwill £
Cost	
At 1 May 2003 and 31 July 2004	325,000
Amortisation	
At 1 May 2003	92,860
Charge for period	58,037
At 31 July 2004	150,897
Net book values	
At 31 July 2004	174,103
At 30 April 2003	232,140

6 Tangible fixed assets

	Office equipment £	Master film costs £	Total £
Cost			
At 1 May 2003	33,964	826,268	860,232
Additions	21,494	708,818	730,312
Disposals	(390)	—	(390)
At 31 July 2004	55,068	1,535,086	1,590,154
Depreciation			
At 1 May 2003	14,114	220,823	234,937
Charge for period	20,003	403,292	423,295
Disposals	(271)	—	(271)
At 31 July 2004	33,846	624,115	657,961
Net book values			
At 31 July 2004	21,222	910,971	932,193
At 30 April 2003	19,850	605,445	625,295

Notes to the accounts 31 July 2004

7 Investments

Details of investments as at 31 July 2004 were as follows:

Company	Country of registration	Class of shares held	Percentage holding	Principal activity	Net liabilities at 31 July 2004	Loss for the period
Subsidiary undertakings: Digital Entertainment Limited	England and Wales	Ordinary	100%	Acquisition and exploitation of film rights	(18,458)	(414)

On 1 September 2002, the subsidiary's trade was transferred to Anchor Bay Entertainment (UK) Limited. As a result, the cost of the investment in subsidiary undertaking has been transferred to intangible fixed assets.

8 Stocks

	2004 £	2003 £
Finished goods	509,393	312,457

9 Debtors

	2004 £	2003 £
Trade debtors	1,037,860	831,039
Amounts owed by group undertakings – Digital Entertainment Limited	27,691	27,691
Other debtors	230,428	25,025
Prepayments and accrued income	2,553,967	977,047
	3,849,946	1,860,802

Amounts owed by group undertakings of £27,691 (2003 – £27,691) are due after more than one year.

Notes to the accounts 31 July 2004

10 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	758,893	477,912
Amounts owed to group undertakings	307,861	424,525
Social security and other taxes	12,228	31,854
Taxation	—	130,627
Other creditors	—	17,449
Accruals	315,239	190,326
	1,394,221	1,272,693

11 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Amounts owed to group undertakings	3,128,189	1,371,106

The amounts owed to group undertakings have no repayable date and bear interest of 4% payable quarterly in arrears.

12 Other provisions

	2004 £	2003 £
At 1 May 2003	71,000	73,000
Movement in the period	(19,000)	(2,000)
At 31 July 2004	52,000	71,000

Other provisions represent an estimate of the value future returns as the majority of sales are made on a sale or return basis.

13 Share capital

	Authorised		Allotted, called up and fully paid	
	2004 £	2003 £	2004 £	2003 £
100 Ordinary shares of £1 each	100	100	100	100

Notes to the accounts 31 July 2004

10 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	758,893	477,912
Amounts owed to group undertakings	307,861	424,525
Social security and other taxes	12,228	31,854
Taxation	—	130,627
Other creditors	—	17,449
Accruals	315,239	190,326
	1,394,221	1,272,693

11 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Amounts owed to group undertakings	3,128,189	1,371,106

The amounts owed to group undertakings have no repayable date and bear interest of 4% payable quarterly in arrears.

12 Other provisions

	2004 £	2003 £
At 1 May 2003	71,000	73,000
Movement in the period	(19,000)	(2,000)
At 31 July 2004	52,000	71,000

Other provisions represent an estimate of the value future returns as the majority of sales are made on a sale or return basis.

13 Share capital

	Authorised		Allotted, called up and fully paid	
	2004 £	2003 £	2004 £	2003 £
100 Ordinary shares of £1 each	100	100	100	100

Notes to the accounts 31 July 2004

14 Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Equity Funds		
Profit for the financial period after taxation	446,482	329,228
Opening shareholders' funds at 1 May 2003	594,738	265,510
Closing shareholders' funds at 31 July 2004	1,041,220	594,738

15 Leasing commitments

Operating leases

At 31 July 2004 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2004 £	2003 £
Operating leases which expire:		
Within two to five years	30,020	40,965

16 Pension costs

The company makes 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 £13,009 (2003 - £nil).

17 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No. 8 "Related Party Disclosures" from the requirement to make disclosures concerning inter company transactions.

During the period, the company paid rent and administration costs of £94,639 (2003 - £105,382) to Equator Group plc.

W I Robinson, a director of the company for the period to 27 July 2003, was a director and a shareholder of Equator Group plc.

18 Ultimate parent undertaking and control

For the year ended 30 April 2003 and the period from 1 May 2003 to 2 December 2003, the company was a wholly owned subsidiary of Northcoast Entertainment Inc, a company registered in the USA, and the ultimate parent undertaking was Handleman Company a company registered in the USA and quoted on the New York Stock Exchange.

18 Ultimate parent undertaking and control (continued)

For the period from 3 December 2003 to 31 July 2004, the company was a wholly owned subsidiary of Anchor Bay Entertainment Group (USA) and the ultimate parent undertaking was IDT Entertainment (USA), a company registered in USA and quoted on the New York Stock Exchange.

The largest group in which the results of the company are consolidated is that headed by IDT Entertainment (USA). The consolidated accounts, which are available to the public, may be obtained from IDT Entertainment (USA), 520 Broad Street, Newark, New Jersey 07102.