

ONLINE RENTALS LIMITED
DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005



ONLINE RENTALS LIMITED
COMPANY INFORMATION

CHAIRMAN

T Hoegh

DIRECTORS

N Bhutani
M Livingstone
A Valkin

COMPANY SECRETARY

O Shapleski

REGISTERED OFFICE

60 Sloane Avenue
London
SW3 3DD

AUDITORS

Horwath Clark Whitehill, LLP
St. Bride's House
10 Salisbury Square
London EC4Y 8EH

ONLINE RENTALS LIMITED
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ONLINE RENTALS LIMITED
REPORT OF THE DIRECTORS
FOR THE PERIOD ENDED 30 JUNE 2005

The directors present their report and the financial statements for the period ended 30 June 2005.

PRINCIPAL ACTIVITIES

The principal activities of the company are the operation of an online DVD rental business.

RESULTS AND DIVIDEND

The results for the period are summarised in the profit and loss account on page 6. The directors do not recommend the payment of a dividend.

CURRENT & COMPARATIVE PERIOD

The current period results represent fifteen months ending 30 June 2005.

The prior period results represent twelve months ending 31 March 2004.

DIRECTORS

The directors who served during the period and their beneficial interests in the company's issued share capital were:

	Ordinary Shares of £0.001 each	
	1/4/04	30/6/05
T Høegh	-	-
M Livingstone	66,567	66,567
N Bhutani	-	-
A Valkin	-	-
P Gardner (resigned 8 October 2004)	-	-

As at 30 June 2005, M. Livingstone held 4,912 of £0.001 redeemable ordinary shares. No other directors held redeemable ordinary shares.

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 at the end of the year and of its profit or loss for the period. In preparing these 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 assume 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 or other irregularities.

AUDITORS

The auditors, Horwath Clark Whitehill LLP, will retire and offer themselves for re-appointment at the annual general meeting.

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The report was approved by the Board on 1/3/06 and signed on its behalf.

Director



**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ONLINE RENTALS LIMITED**

We have audited the financial statements of Online Rentals Limited for the period ended 30 June 2005 set out on pages 5 to 11. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and 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.

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

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 not 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 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 audit 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 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.

Unqualified opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2005 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Horwath Clark Whitehill
HORWATH CLARK WHITEHILL
Chartered Accountants and
Registered Auditors
113/06

ONLINE RENTALS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 JUNE 2005

	Notes	2005 £	2004 £
TURNOVER	1	7,728,688	1,261,094
Cost of sales		<u>(5,737,501)</u>	<u>(896,450)</u>
GROSS PROFIT		1,991,186	364,644
Administrative expenses		<u>(7,486,988)</u>	<u>(1,051,541)</u>
OPERATING LOSS	2	(5,495,802)	(686,897)
Interest receivable		4,108	4,440
Interest payable		<u>(511,546)</u>	<u>(5)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,003,240)	(682,462)
Taxation on loss on ordinary activities	4	<u>-</u>	<u>407</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(6,003,240)</u>	<u>(682,869)</u>

The profit and loss account contains all the gains and losses recognised in the year.
The loss for the year, which was derived from continuing activities, is the only movement in shareholders' funds.

The notes on pages 7 to 10
form part of these financial statements

ONLINE RENTALS LIMITED
BALANCE SHEET
FOR THE PERIOD ENDED 30 JUNE 2005

	Notes	2005	2004
		£	£
FIXED ASSETS			
Intangible assets	5	495,834	-
Tangible assets	6	<u>3,012,209</u>	<u>533,037</u>
		3,508,043	533,037
CURRENT ASSETS			
Stock	7	19,192	22,177
Debtors	8	344,930	266,110
Cash at bank and in hand		<u>200,000</u>	<u>168,132</u>
		564,122	456,419
CREDITORS: amounts falling due within one year	9	<u>(2,474,313)</u>	<u>(480,567)</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>(1,910,191)</u>	<u>(24,148)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,597,852	508,889
CREDITORS: amounts falling due after one year	10	<u>(8,225,324)</u>	<u>(1,200,000)</u>
NET LIABILITIES		<u>(6,627,472)</u>	<u>(691,111)</u>
CAPITAL AND RESERVES			
Share capital	11	973	790
Share Premium Account	12	66,696	-
Profit and loss account		<u>(6,695,141)</u>	<u>(691,901)</u>
SHAREHOLDERS' FUNDS		<u>(6,627,472)</u>	<u>(691,111)</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the Board on 1/3/06 and signed on its behalf.

Director



The notes on pages 7 to 11
form part of these financial statements

ONLINE RENTALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

1.2 Cash flow

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

1.3 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and discounts.

1.4 Intangible assets

Intangible fixed assets are stated at cost less amortisation. Intangible assets are amortised over the expected useful life of the asset. The useful economic life is two years.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets less their estimated residual value, over their expected useful lives on the following bases:

Plant & machinery	20% - 50% straight line
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DVD rental library & other stocks

The rental library is depreciated on a straight line basis over 36 months to a residual value of £1.60 for each DVD.

Other stock is valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

1.6 Pension costs

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

1.7 Going concern

The directors have reviewed the cash flow requirements of the company for the 12 months following the date of approval of these financial statements. On the basis of these forecasts the directors consider it appropriate to prepare the accounts on the going concern basis.

ONLINE RENTALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005

2. OPERATING LOSS

The operating loss is stated after charging:

	2005 £	2004 £
Depreciation of		
- dvd rental library	581,534	80,247
- tangible fixed assets owned by the company	117,672	20,776
Auditors' remuneration	8,000	3,590
Pension costs	11,833	12,807
	<u>817,554</u>	<u>117,420</u>

3. DIRECTORS' REMUNERATION

	£	£
	2005	2004
Aggregate emoluments	<u>246,533</u>	-

One director accrued retirement benefits under a money purchase pension scheme

4. TAXATION

	£	£
	2005	2004
Interest on late payment of tax	-	407
Tax on loss on ordinary activities	-	-

5. TANGIBLE FIXED ASSETS

	Plant & equipment £	DVD Library £	Total
Cost			
Opening balance	149,265	484,795	634,060
Additions	488,937	3,576,121	4,065,058
Disposals	(37,235)	(865,544)	(902,779)
Closing balance	<u>600,967</u>	<u>3,195,372</u>	<u>3,796,339</u>
Depreciation			
Opening balance	20,776	80,247	101,023
Charge for the year	117,672	581,534	699,206
Elimination or Disposal	(3,605)	(12,494)	(16,099)
Closing balance	<u>134,843</u>	<u>649,287</u>	<u>784,130</u>
Net book value			
At 30 June 2005	<u>466,124</u>	<u>2,546,085</u>	<u>3,012,209</u>
At 31 March 2004	<u>128,489</u>	<u>394,718</u>	<u>533,037</u>

ONLINE RENTALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005

6. INTANGIBLE FIXED ASSETS

	£
Cost	
Additions	<u>700,000</u>
Amortisation	
Charge for the year	<u>204,166</u>
Net book value	
At 30 June 2005	<u>495,834</u>
At 31 March 2004	<u>-</u>

7. STOCK

	2005	2004
Other stock	<u>19,192</u>	<u>21,177</u>

8. DEBTORS

	2005	2004
	£	£
Due within one year		
Trade debtors	239,647	87,380
Prepayments and accrued income	67,646	36,677
Other debtors	37,637	142,053
	<u>344,930</u>	<u>266,110</u>

9. CREDITORS DUE WITHIN ONE YEAR

	2005	2004
	£	£
Amounts falling due within one year		
Bank loans and overdraft	222,374	-
Trade creditors and accruals	2,077,294	417,646
Other taxes and social security costs	174,645	24,627
Other creditors	-	38,294
	<u>2,474,313</u>	<u>480,567</u>

ONLINE RENTALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005

10. CREDITORS DUE AFTER ONE YEAR

	2005 £	2004 £
Amounts falling due after more than one year		
Loan from fellow subsidiary	<u>8,225,324</u>	<u>1,200,000</u>

The loan is repayable within 5 years and is secured by a charge over the fixed and floating assets of Online Rentals Limited.

11. SHARE CAPITAL

	2005 £	2004 £
Authorised:		
918,557 Ordinary Shares of £0.001 each	919	790
54,033 Redeemable Ordinary Shares of £0.001 each	<u>54</u>	<u>-</u>
Issued and fully paid		
918,557 Ordinary Shares of £0.001 each	919	790
54,033 Redeemable Ordinary Shares of £0.001 each	<u>54</u>	<u>-</u>

During the year the company issued 54,033 redeemable ordinary shares and 138,932 ordinary shares. Shares were issued to provide additional working capital.

Redeemable shares

The redeemable ordinary shares rank pari pasu with the ordinary shares except that they are non-voting as long as they are held by the employee.

The shares are redeemable if the holder ceases to be an employee of the company.

The shares are transferable only with the consent of Arts Alliance Media (BVI) Limited.

The shares convert to normal ordinary shares upon a change of controlling party.

No premium is payable upon conversion.

The redeemable ordinary shares were issued to provide management incentives.

12. SHARE PREMIUM ACCOUNT

	2005 £	2004 £
Share Premium Account	<u>66,696</u>	<u>-</u>

ONLINE RENTALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005

13. COMMITMENTS

Commitments to operating lease payments within one year were as follows:

	2005 £	2004 £
Leases of premises which expire:		
Within one year	-	-
In the second to fifth years	71,819	128,782
Over five years	-	-
	<u>71,819</u>	<u>128,782</u>

14. RELATED PARTY TRANSACTIONS

During the period, the company paid commission in the amount of £75,600 (2004 £2,115) to City Screens Limited, a company in which Thomas Hoegh has an interest in. As at the balance sheet date, the company owes City Screen Limited an amount of £23,112 (2004 £Nil).

The company also received services in the amount of £301,270 (2004 £192,516) from Arts Alliance Media Limited, a fellow subsidiary and paid expenses on behalf of Online Rentals Limited in the sum of £42,720 (2004 £33,536). As at the balance sheet date, the company owes an amount of £60,794 (2004 £118,632).

The company also received services in the amount of £34,785 (2004 £92) from Hoegh Capital Partners Advisors Limited, a company in which Thomas Hoegh has an interest in. At the balance sheet date, the company owed an amount of £30,158 (2004 £92).

15. CONTROLLING PARTY

The ultimate parent company is Arts Alliance Media (BVI) Limited, a company incorporated in the British Virgin Islands.