CANAL + IMAGE UK LIMITED

Registered Number: 02668459

Report and Financial Statements

Year ended 31 December 2004

Canal +Image UK Limited

Registered No. 2668459

DIRECTORS
S. Legrand
S. Migraine

AUDITORS
Ernst & Young LLP
1 More London Place
London
SE1 2AF

SOLICITORS
Coudert Brothers

REGISTERED OFFICE
60 Cannon Street
London
EC4N 6JP

Directors' report

The directors present their report and financial statements for the year ended 31 December 2004.

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. The directors consider that the results for the year are satisfactory.

The directors do not recommend a dividend (2003: $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
S Migraine

The directors who held office at 31 December 2004 had no interest in shares of the company that require disclosure under the Companies Act 1985.

Auditors

Arthur Andersen resigned as auditor to the company on 29 July 2002, and Ernst & Young LLP were appointed in their place. A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board

S Legrand
Director

Date September 7th, 2006

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 of the company 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; 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.

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

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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

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 United Kingdom law and 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, except that the scope of our work was limited as explained below. 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.

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. However, the evidence available to us was limited because there were insufficient records available in support of accruals for royalty payments amounting to $11,243,529 (2003: $10,151,859). There were no other satisfactory audit procedures that we could adopt to confirm that accruals for royalty payments were properly recorded. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning accruals for royalty payments, in our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to accruals for royalty payments:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

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

- we were unable to determine whether proper accounting records had been maintained.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

12 September 2006

Profit and loss account

For the year ended 31 December 2004

	Notes	2004 $	Restated 2003 $
Turnover		11,900,760	8,048,445
Cost of sales		(8,378,612)	(3,636,792)
Gross profit		3,522,148	4,411,653
Other operating expenses	3	(1,858,628)	(2,263,178)
Operating profit		1,663,520	2,148,475
Interest receivable	4	412,969	408,862
Interest payable	5	(76,959)	(279,376)
Profit/(loss) on ordinary activities before taxation		1,999,530	2,277,961
Tax on profit/(loss)on ordinary activities	7	(655,975)	532,023
Profit/(loss) for the financial year	17	1,343,555	2,809,984

Turnover and operating profit relate to continuing activities.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

There are no recognised gains or losses in the current or the previous financial year other than the profit reported above.

Canal + Image UK Limited

Balance sheet

At 31 December 2004

	Notes	2004 $	Restated 2003 $
Fixed assets			
Intangible assets	8	10,341,983	13,257,953
Tangible assets	9	1,017,846	1,556,746
Investments	10	-	-
		11,359,829	14,814,699
Current assets			
Debtors	11	25,690,489	13,908,750
Cash at bank and in hand		85,169	424,298
		25,775,658	14,333,048
Creditors: amounts falling due within one year	12	(22,281,925)	(16,235,792)
Creditors: amounts falling due after more than one year	13	(6,613,086)	(6,015,033)
Net current liabilities		(3,119,353)	(7,917,778)
Total assets less current liabilities		8,240,476	6,896,921
Provisions for liabilities and charges	14	(391,908)	(391,908)
Net assets		**7,848,567**	**6,505,013**
Capital and reserves			
Called up share capital	15	146	146
Share premium account	16	26,499,854	26,499,854
Profit and loss account	16	(18,651,433)	(19,994,987)
Equity shareholders' funds	17	**7,848,567**	**6,505,013**

S Legrand
Director

- 7 SEP 2006

Notes to the financial statements
At 31 December 2004

1 Accounting policies
The financial statements have been prepared under the historical cost convention and in accordance with UK accounting standards.
In preparing the financial statements for the current year, the company has adopted FRS 18, "Accounting Policies". Adoption of this standard has not required any revisions to the financial statements in either the current or prior periods.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of another company which prepares consolidated financial statements which are publicly available.

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.

Intangible fixed assets
The cost of acquiring film licensing rights is capitalised and amortised on a straight - line basis over their expected useful 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 at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, 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 impairment.

Taxation
Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate which it is estimated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Notes to the financial statements

At 31 December 2004

1 Accounting policies (continued)

Operating leases

Rentals payable under operating leases are charged on a straight-line basis over each lease term.

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 in US dollars at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the balance sheet date. All differences are taken to the profit and loss account.

Pension

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2 Changes in accounting policy and presentation

a) Comparative figures have been restated as a result of a change in accounting policy. Turnover from direct sales of licenses to customers is now recognised once contractual terms have been agreed, and on the later of technical acceptance by the customer of the delivered rights or the start of the license period. Previously, turnover was recognised as amounts invoiced under the contract became due for payment. The new policy was adopted to achieve a fairer presentation of the company's results and financial position.

Impact on the year ended 31 December 2003

The impact of the change in policy on the comparative figures for the year ended 31 December 2003 is shown below:

	Profit and loss reserves at 1 January 2003	Turnover	Operating profit	Profit for the financial year
	$	$	$	$
As previously reported	(19,201,746)	7 915,160	2,445,101	3,106,610
Change in accounting policy	(793,241)	133,285	(296,626)	(296,626)
As restated	**(19,994,987)**	**8,048,445**	**2,148,475**	**2,809,984**

Impact on the year ended 31 December 2004

The impact of the above change in accounting policy on the results for the year ended 31 December 2004 has been to reduce turnover by $2,016,944, reduce operating profit by $1,418,185, and reduce profit for the financial year by $788,792.

Notes to the financial statements (continued)
At 31 December 2004

b) In order to give a fairer presentation of the financial statements, the comparative figures have been adjusted such that royalties payable are now classified as accruals, within creditors falling due within one year. Previously they were reported within provisions. The amount reported in the 2003 financial statements within provisions was $10,159,859.

3 Operating profit

This is stated after charging / (crediting)	2004	2003
	$	$
Amortisation, depreciation and amounts written off:		
Intangible fixed assets	3,380,586	3,375,962
Tangible fixed assets	684,923	844,004
Operating lease rentals	333,988	356,297
Auditors' remuneration:		
- audit fees	56,358	50,927
- other services	-	-
Foreign exchange (loss) / gain	20,876	(487,777)
Exceptional cost of sales	-	(3,137,000)

4 Interest receivable

	2004	2003
	$	$
Interest receivable from group companies	409,410	407,487
Interest receivable from bank deposits	3,559	1,375
	412,969	408,862

5 Interest payable

	2004	2003
	$	$
Interest payable to group companies	76,231	278,667
Interest payable from bank deposits and loans	729	709
	76,959	279,376

Notes to the financial statements (continued)

At 31 December 2004

6 Staff costs

Employee costs during the year amounted to:	2004	2003
	$	$
Wages and salaries	244,998	251,111
Social security costs	26,225	44,966
Other pension costs	16,702	14,926
	287,925	311,003

Aggregate directors' emoluments were $nil. No directors serving during the year were members of the pension scheme.

The average weekly number of persons employed by the group during the year was as follows:

	2004	2003
	Number	Number
Sales	1	1
Administration	5	5
	6	6

7 Tax on profit / (loss) on ordinary activities

	2004	2003
	$	$
Current year corporation tax charge	123,891	122,658
Prior year adjustments	26,583	5,319
Deferred taxation : current year charge / (credit)	505,501	(660,000)
	655,975	**(532,023)**

Notes to the financial statements (continued)

At 31 December 2004

7 Tax on profit / (loss) on ordinary activities (continued)

Reconciliation of current taxation charge for the period	2004	2003
	$	$
Profit / (loss) on ordinary activities before tax	1,999,530	2,277,961
Tax charge on profit / (loss) at UK rate of 30%	599,859	683,388
Effects of :		
Expenses not deductible for tax purposes	4,699	7,354
Depreciation in excess of Capital Allowances	1,964	(35,906)
Other short term timing differences	22,870	(15,443)
Utilisation of tax losses	(505,501)	(516,735)
Prior period adjustments	26,582	5,319
Current tax charge / (credit) for the year	**150,473**	**127,977**

8 Intangible fixed assets – Film licensing rights

Cost	$
1 January 2004	60,016,455
Additions	464,616
31 December 2004	60,481,071
Amortisation	
1 January 2004	46,758,502
Charge	3,380,586
31 December 2004	50,139,088
Net book value	
31 December 2004	10,341,983
31 December 2003	13,257,953

Notes to the financial statements (continued)
At 31 December 2004

9 Tangible fixed assets

	Film masters	Plant and machinery	Fixtures and fittings	Total
	$	$	$	$
Cost				
1 January 2004	5,204,038	84,744	10,920	5,299,702
Additions	146,023			146,023
31 December 2004	5,350,061	84,744	10,920	5,445,725
Depreciation				
1 January 2004	3,654,584	77,774	10,598	3,742,956
Charge	678,378	6,223	322	684,923
31 December 2004	4,332,962	83,997	10,920	4,427,879
Net book value				
31 December 2004	1,017,099	747	0	1,017,846
31 December 2003	1,549,454	6,970	322	1,556,746

The film masters assets have been provided as a guarantee to the company's bankers as part of a group bank overdraft facility.

10 Fixed asset investments

	2004	2003
a) Principal investments	$	$
Subsidiary undertakings, at cost:	-	-

	Country of incorporation	Principal activity and country of operation	Percentage of ordinary share capital held
Canal + Rights Limited	UK	Film distribution (UK)	100%
Canal + Image Video Limited	UK	Dormant (UK)	100%
Springscreen Entertainment Inc	USA	Dormant (USA)	100%

Notes to the financial statements (continued)
At 31 December 2004

10 Fixed asset investments (continued)

b) Investment in subsidiary undertakings

	2004	2003
	$	$
Cost		
Beginning and end of year	12,444,873	9,993,721
Amounts written off		
Beginning and end of year	(12,444,873)	(9,993,721)
Net book value at 31 December 2004	-	-

The increase in investment is related to the increase of capital of Canal + Image Video limited allotted to Canal + *Image UK and paid by capitalising debt. As the company is dormant, the shares are immediately written-off.*

11 Debtors: amounts falling due within one year

	2004	Restated 2003
	$	$
Trade debtors	1,061,184	1,495,376
Amounts owed by other group undertakings	17,062,743	8,193,262
Other debtors	153,974	734,542
Deferred tax asset	154,499	660,000
Prepayments and accrued income	7,258,089	2,825,570
	25,690,489	13,908,750

12 Creditors: amounts falling due within one year

	2004	Restated 2003
Bank overdraft	322,421	22,277
Trade creditors	618,667	513,483
Amounts owed to subsidiary undertakings	4,505,330	4,507,265
Amounts owed to other group undertakings	41,505	301,019
Other creditors including taxation and social security	171,888	211,777
Accruals for royalty payments	4,630,442	4,136,826
Other accruals and deferred income	11,991,671	6,543,146
	22,281,925	16,235,792

Notes to the financial statements (continued)

At 31 December 2004

13 Creditors: amounts falling due after more than one year

	2004	2003
	$	$
Accruals for royalty payments	6,613,086	6,015,033

14 Provisions for liabilities and charges

	Restated Legal costs
	$
At 1 January and 31 December 2004	391,908

Provisions relate to the expected costs of various legal actions, the timing of which is not readily determinable.

Deferred taxation

Future tax relief not taken up in the financial statements should be available on the following:

	2004			2003		
	Provided	Not provided	TOTAL	Provided	Not provided	TOTAL
	$	$	$	$	$	$
Excess of depreciation over capital allowances		383,143	383,143	-	376,598	376,598
Losses	514,996	3,736,693	4,251,689	2,200,000	4,231,588	6,431,588
Other short term timing differences		1,132,168	1,132,168		722,908	722,908
TOTAL	514,996	5,252,004	5,767,000	2,200,000-	5,331,094	7,531,094

A deferred tax asset has not been recognised in respect of timing differences relating to depreciation in excess of capital allowances, revenue losses and other short term timing differences as there is insufficient evidence that the asset will be recovered in the foreseeable future. The amount of the asset not recognised is $114,943 (2003 : $112,979) in respect of depreciation in excess of capital allowances, $1,121,008 (2003: $1,269,476) in respect of revenue losses and $339,651,(2003 : $216,872) in respect of other short term timing differences. The asset would be recovered if the company made suitable taxable profits in the future.

Notes to the financial statements (continued)
At 31 December 2004

15 Called up share capital

	2004	2003
	$	$
Authorised		
100 ordinary shares of £1 each	180	180
Allotted, called up and fully paid		
87 ordinary shares of £1 each	146	146

16 Reserves

	Share premium account	Restated Profit and loss account	Restated Total
	$	$	$
At 1 January 2004	26,499,854	(19,994,987)	6,504,867
Profit for the year	-	1,343,555	1,343,555
At 31 December 2004	26,499,854	(18,651,433)	7,848,421

17 Reconciliation of movement in shareholders' funds

	2004	Restated 2003
	$	$
Profit for the year	1,343,555	2,809,984
Opening shareholders' funds	6,505,013	3,695,029
Closing shareholders' funds	7,848,567	6,505,013

Notes to the financial statements (continued)
At 31 December 2004

18 Financial commitments

Lease commitments

The minimum annual rentals under foregoing leases are as follows:

	Land and Building		Other	
	2004	2003	2004	2003
	$	$	$	$
Operating leases which expire:				
- within 2 to 5 years	302,163	330,934	31,825	25,363

19 Related party transactions

As the company is a wholly-owned subsidiary of Vivendi Universal S.A., it has taken advantage of the exemption under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities within the group headed by Studio Canal S.A .

20 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 Universal 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 Universal S.A. These consolidated financial statements are available at 42 Avenue Friedland, 75 380 Paris, Cedex 08, France.