REGISTRAR OF COMPANIES

Anchor Bay Entertainment UK Limited

Annual report and audited financial statements

31 December 2010

Company Registration Number 4088359 (England and Wales)

Directors	G E Curtis C Lomax B Clark C P Albrecht
Secretary	J S Beabout
Registered office	6 Heddon Street London W1B 4BT
Registered number	4088359 (England and Wales)
Auditors	Buzzacott LLP 130 Wood Street London EC2V 6DL
Business address	6 Heddon Street London W1B 4BT
Bankers	Coutts & Co 440 Strand London WC2R 0QS

Contents

The directors present their report with the financial statements of the company for the year ended 31 December 2010

Principal activity

The principal activity of the company in the year under review was the acquisition of film rights through DVD, theatrical, television and other channels

Review of business and future developments

The profit and loss account is shown on page 6 of the financial statements

The calendar year 2010 saw a decline in consumer spending for home entertainment products, a fall in the physical volume of titles sold, continuing strong competition in acquiring suitable products at reasonable prices and the difficulty in selling DVDs into retailers Despite this, the company has been able to significantly increase, when compared to last year, its net revenues by 40% to £6 4 million (2009 - £4 5 million) This was largely the result of

- An increase in the number of titles released in 2010 compared to 2009
- Strong performance of the *10 Minute Solution* range
- Release of well-known stand-up comedians live show DVDs *Lee Mack Going Out Live* and *Al Murray Barrel of Fun Live*
- High quality of direct-to-DVD releases *The Stranger, Hunt to Kill* and *After Life*

The company continues to licence products locally and benefits from the production and acquisitions of its US related group companies

Dividends

The directors do not recommend payment of an ordinary dividend and the retained loss for the year is transferred from reserves

Financial instruments and risk management

The principal financial instruments of the company comprise bank balances, trade debtors, trade creditors and inter-company loans The main purpose of these instruments is to raise funds for the company's operation and to reduce financial costs from external party borrowings

The company's activities expose it to a number of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk

Financial instruments and risk management (continued)

Credit risk

The company's maximum exposure to credit risk in relation to financial assets is represented by bank balances, trade and other receivables The company has no significant concentration of credit risk except for loans to other companies within the group

Liquidity risk

The company's policy on liquidity risk is to ensure that sufficient cash is available to fund ongoing operations The company's ultimate controlling entity follows a policy of loaning money within the group to maximise liquidity benefits Loans to the company are not subject to interest and are not repayable at short notice The loan and cash balances are regularly reviewed to ensure the company has adequate funds to meet future working capital requirements

Interest rate risk

The company's borrowings do not attract interest, and therefore exposure to interest rate risk is limited

Foreign currency risk

The company's principal foreign currency exposure arises from transactions in foreign currencies The company does not have a formal hedging policy but monitors its exposure to these currencies

Directors

The directors in office during the year were as follows

G E Curtis	
C Lomax	
B Clark	
C J McGurk	(resigned 1 July 2010)
C P Albrecht	(appointed 1 January 2010)

Directors' responsibilities

The directors are responsible for preparing the directors' report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 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 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 adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

Each of the directors confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Signed on behalf of the board of directors

C Lomax
Director

Approved by the board on

Independent auditor's report to the shareholders of Anchor Bay Entertainment UK Limited

We have audited the financial statements of Anchor Bay Entertainment UK Limited for the year ended 31 December 2010, which comprise the profit and loss account, the balance sheet, the principal accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the statement of directors' responsibilities set out in the directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosure made on page 8 concerning the company's ability to continue as a going concern At 31 December 2010, the company had net liabilities of £4,734,736 and in the period from 1 January 2010 to 31 December 2010 incurred a loss after taxation of £697,691 These conditions indicate the existence of a material uncertainty which may cast doubt over the company's ability to continue as a going concern

In the opinion of the directors, the company will be able to secure continuing support to enable it to trade for the foreseeable future The financial statements do not include any adjustments that would result if sufficient funding was not obtained by the company

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Buzzacott LLP

Simon Wax, Senior statutory auditor
for and on behalf of Buzzacott LLP,
Statutory Auditor, Chartered Accountants
130 Wood Street
London
EC2V 6DL

16.9.11

Profit and loss account Year ended 31 December 2010

	Notes	**Year ended 31 December 2010 £**	Year ended 31 December 2009 £
Turnover	1	**6,390,381**	4,548,386
Cost of sales		**(3,298,606)**	(1,865,203)
Gross profit		**3,091,775**	2,683,183
Selling and distribution costs		**(2,821,463)**	(1,871,709)
Administrative expenses		**(970,918)**	(1,051,060)
Operating loss	2	**(700,606)**	(239,586)
Interest receivable and similar income		**2,915**	10,910
Loss on ordinary activities before taxation		**(697,691)**	(228,676)
Tax on loss on ordinary activities	5	—	—
Retained loss for the financial period		**(697,691)**	(228,676)

All of the company's activities in the current and preceding periods are derived from continuing operations

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 results stated above and their historical cost equivalents

The notes on pages 8 to 15 form part of the audited financial statements

Balance sheet 31 December 2010

	Notes	2010 £	2010 £	2009 £	2009 £
Fixed assets					
Tangible assets	6		**493,241**		311,771
			493,241		311,771
Current assets					
Stocks	7	**317,798**		243,279	
Debtors	8	**5,312,044**		4,339,259	
Cash at bank and in hand		**1,312,426**		593,658	
		6,942,268		5,176,196	
Creditors amounts falling due within one year	9	**(2,933,820)**		(2,268,610)	
Net current assets			**4,008,448**		2,907,586
Total assets less current liabilities			**4,501,689**		3,219,357
Creditors amounts falling due after more than one year	10		**(8,605,878)**		(7,001,239)
Provision for liabilities					
Other provisions	11		**(630,547)**		(255,163)
			(4,734,736)		(4,037,045)
Capital and reserves					
Called up share capital	13		**100**		100
Profit and loss account	14		**(4,734,836)**		(4,037,145)
Shareholder's (deficit)	15		**(4,734,736)**		(4,037,045)

The notes on pages 8 to 15 form part of the audited financial statements

Approved on behalf of the board of directors and authorised for issue by

C Lomax
Director

Approved on· 16/9/11

Anchor Bay Entertainment UK Limited
Company Registration Number: 4088359 (England and Wales)

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards

Going concern

At 31 December 2010, the company had net liabilities of £4,734,736 (2009 - £4,037,045) The directors have received assurances from Starz Media, LLC that it will continue to support the company by not recalling amounts due to it until such time that the company is in a position to effect payment and will provide further sums if required to allow the company to continue trading for the foreseeable future

On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis

However, should this support be withdrawn or future funding not be available, the going concern basis used in preparing the company's financial statements may be invalid and adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise The financial statements do not include any adjustment to the company's assets or liabilities that might be necessary should this basis not continue to be appropriate

Cash flow

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

Turnover

Turnover consists of sales of goods, theatrical income, film sales and film sales commission at invoiced value excluding VAT and discounts Turnover is recognised as earned when and to the extent that the company obtains right to consideration in exchange for goods and services Full value is taken for contracted sales when all conditions have been met

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at the following rates in order to write off each asset over its estimated useful life

♦ Office equipment	33% per annum on cost
♦ Master film costs	Over 4 years reducing balance

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 Stock values are computed using the first in, first out method Costs included are those incurred in bringing the product to its present location and condition, including purchase price and other directly attributable costs less trade discounts and subsidies

The estimation technique used for the calculation of provisions against cost for obsolete and slow moving items uses historic sales as a basis for future stock level requirements

Royalty reserves

Royalty reserves included in prepayments consist of amounts paid by the company in advance of royalties due on film titles Royalty reserves are not recoverable if sales do not achieve the required level and therefore a provision is made based on projected future sales

Pensions

The pension cost charge in respect of defined contribution personal pension schemes is comprised of the contributions payable for the period

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 ıs provıded ın full on tımıng dıfferences whıch result ın an oblıgatıon at the balance sheet date to pay more tax, or a rıght to pay less tax, at a future date, at rates expected to apply when they crystallıse based on current tax rates and law Tımıng dıfferences arıse from the ınclusıon of ıtems of ıncome and expendıture ın taxatıon computatıons ın perıods dıfferent from those ın whıch they are ıncluded ın the financıal statements

Deferred tax assets are recognısed to the extent that ıt ıs regarded as more lıkely than not that they wıll be recovered Deferred tax assets and lıabılıtıes are not dıscounted

Provision for sales returns

The company operates a four months return polıcy on sales The company has therefore provıded for sales returns based on an average of prevıous returns experıence

1 Turnover

Turnover and the result before taxation arise solely from the company's principal activity A geographical analysis of turnover is as follows

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
UK	**6,386,269**	4,548,386
Other EU countries	**4,112**	—
	6,390,381	4,548,386

2 Operating loss

Operating loss is stated after charging

		Year ended 31 December 2010 £	Year ended 31 December 2009 £
Depreciation of tangible fixed assets		**396,625**	266,341
Auditor's remuneration	for audit services	**20,000**	20,500
	for taxation services	**2,660**	2,660
	for other services	**7,050**	6,550
Operating lease charges			
Land and buildings		**77,569**	79,687
Foreign exchange (gain)/loss		**(16,256)**	29,649

3 Staff costs

Staff costs were as follows

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Wages and salaries	**598,762**	614,186
Social security costs	**69,717**	56,731
Pension contributions	**24,804**	24,057
	693,283	694,974

3 Staff costs (continued)

The average monthly number of employees during the year was as follows

	Year ended 31 December 2010	Year ended 31 December 2009
Office staff	**8**	8
Sales staff	**1**	1
	9	9

4 Directors' remuneration

Remuneration paid to directors during the year for management services amounted to £205,298 (2009 £191,402) The company made payments on behalf of one (2009 one) director to a nominated pension scheme

5 Taxation

The tax credit on the loss on ordinary activities for the period was as follows

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Current tax		
Corporation tax charge at 28% (2009 – 28%)	**—**	—
	—	—

The tax assessed for the period differs from the standard rate of corporation tax of 28% The differences are explained below

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
(Loss) on ordinary activities before tax	**(697,691)**	(228,676)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	**(195,353)**	(64,029)
Effects of		
Expenses not deductible for tax purposes	**3,054**	3,919
Difference between capital allowances for the period and depreciation	**(3,588)**	(3,532)
Unrelieved tax losses and other deductions	**195,803**	63,642
Qualifying charitable donations not utilised	**84**	—
Current tax charge for year	**—**	—

6 Tangible fixed assets

	Master film costs £	Office equipment £	**Total £**
Cost			
At 1 January 2010	4,056,810	15,533	**4,072,343**
Additions	578,095	—	**578,095**
At 31 December 2010	4,634,905	15,533	**4,650,438**
Accumulated depreciation			
At 1 January 2010	3,747,622	12,950	**3,760,572**
Charge for year	394,413	2,212	**396,625**
At 31 December 2010	4,142,035	15,162	**4,157,197**
Net book value			
At 31 December 2010	492,870	371	**493,241**
At 31 December 2009	309,188	2,583	**311,771**

7 Stocks

	2010 £	2009 £
Raw material/work in progress	—	35,226
Finished goods	**317,798**	208,053
	317,798	243,279

8 Debtors

	2010 £	2009 £
Trade debtors	**3,928,836**	2,671,250
Prepayments and accrued income	**1,360,002**	1,485,681
Other debtors	**23,206**	182,328
	5,312,044	4,339,259

9 Creditors: amounts falling due within one year

	2010 £	2009 £
Trade creditors	**1,279,048**	639,795
Social security and other taxes	**310,973**	253,008
Accruals and deferred income	**1,343,799**	1,375,807
	2,933,820	2,268,610

10 Creditors: amounts falling due after more than one year

	2010 £	2009 £
Amounts owed to group undertakings	**8,605,878**	7,001,239

Amounts due to group undertakings are unsecured, interest free and not payable within 12 months from the date of approval of the financial statements

11 Provision for liabilities

Other provisions	2010 £	2009 £
At 1 January 2010	**255,163**	88,702
Movement in the period	**375,384**	166,461
At 31 December 2010	**630,547**	255,163

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

12 Deferred tax

	Unprovided	
Deferred tax asset unprovided	2010 £	2009 £
Trading losses	**(1,536,590)**	(1,009,071)
Accelerated capital allowances	**(16,066)**	(14,741)
	(1,552,656)	(1,023,812)

The directors have not provided for deferred tax due to uncertainty over future trading profits

13 Share capital

Allotted, called up and fully paid	2010 £	2009 £
100 Ordinary shares of £1 each	**100**	100

14 Statement of movements on profit and loss account

	2010 £	2009 £
Accumulated loss at start of period	**(4,037,145)**	(3,808,469)
Loss for the financial year	**(697,691)**	(228,676)
Accumulated loss at end of period	**(4,734,836)**	(4,037,145)

15 Reconciliation of movements in shareholder's deficit

	2010 £	2009 £
Loss for the financial year after taxation	**(697,691)**	(228,676)
Opening shareholder's deficit at 1 January 2010	**(4,037,045)**	(3,808,369)
Closing shareholder's deficit at 31 December 2010	**(4,734,736)**	(4,037,045)

16 Leasing commitments

Operating leases

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2010 £	2009 £
Operating leases which expire		
Within one year	**39,500**	39,500

17 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 £24,804 (2009 - £24,057)

18 Related party transactions

The financial statements do not include disclosure of transactions between the company and entities that are part of the Liberty Media Corporation Group This is because as a subsidiary whose shares are 100% controlled within the group the company is exempt from the requirement to disclose such transactions under Financial Reporting Standard 8 "Related Party Disclosures"

19 Ultimate parent undertaking and control

The immediate parent undertaking in the two years under review is Starz UK Holdings Limited The ultimate parent undertaking is Liberty Media Corporation, a company registered in the USA

The largest and smallest group in which the results of the company are consolidated is that headed by Liberty Media Corporation The consolidated accounts, which are available to the public, may be requested from 12300 Liberty Boulevard, Englewood, CO 80112, USA

The directors do not believe there was a controlling party in either of the two periods