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Anchor Bay Entertainment UK Limited

Annual report and audited financial statements

31 December 2008

BUZZACOTT

Company Registration Number
4088359 (England and Wales)

Directors	G E Curtis R B Clasen C Lomax B Clark C J McGurk
Secretary	J S Beabout
Registered office	6 Heddon Street London W1B 4BT
Registered number	4088359 (England and Wales)
Auditors	Buzzacott LLP 12 New Fetter Lane London EC4A 1AG
Business address	6 Heddon Street London W1B 4BT
Bankers	Coutts & Co 440 Strand London WC2R 0QS

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The directors present their report with the financial statements of the company for the year ended 31 December 2008.

Principal activity

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

Review of business and future developments

The profit and loss account is shown on page 7 of the financial statements.

In respect of the company's result for the period, the company has again taken a conservative approach to the valuation of its films, stock levels and royalty reserves, resulting in an increase in these expenses during the year.

The financial year 2008 has seen continuing challenges as a result of strong price and retailer competition, improvements in technology and additional supply chain pressures due to an industry shift from retail to wholesale supply. The company is monitoring and mitigating these risks by focusing on its niche film market as well as diversifying its existing horror film portfolio to include other genres such as comedy, television and fitness.

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.

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, in particular, the inter-company loan balances. 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:

	Date appointed	*Date resigned*
G E Curtis		
R B Clasen		
C Lomax		
B Clark		
K Rice		30 June 2008
C J McGurk	30 June 2008	

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements 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 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; 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.

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

Directors' responsibilities (continued)

- the director has taken all 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 s234ZA of the Companies Act 1985.

Signed on behalf of the board of directors:

C Lomax
Director

Approved by the board on: 30 October 2009

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

We have audited the financial statements on pages 7 to 17 which have been prepared, under the historical cost convention, and in accordance with the accounting policies set out on pages 9 to 11.

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 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 (United Kingdom Generally Accepted Accounting Practice).

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 information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all of 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 we 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 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 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.

Basis of opinion (continued)
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.

Opinion
In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2008 and of its loss 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.

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 9 concerning the company's ability to continue as a going concern. At 31 December 2008, the company had net liabilities of £3,808,369 and in the period from 1 January 2008 to 31 December 2008 incurred a loss after taxation of £1,519,943. 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 continue trading for the foreseeable future. The financial statements do not include any adjustments that would result if sufficient funding was not obtained by the company.

Buzzacott LLP

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

30 October 2009

Profit and loss account Year ended 31 December 2008

	Notes	*Year ended 31 December 2008 £*	Year ended 31 December 2007 £
Turnover	1	*3,748,255*	5,231,631
Cost of sales		*(2,286,111)*	(4,148,332)
Gross profit		*1,462,144*	1,083,299
Selling and distribution costs		*(1,270,165)*	(1,050,269)
Administrative expenses		*(1,148,270)*	(994,552)
Other operating income		—	289,431
Exceptional item	3	*(600,000)*	—
Operating loss	2	*(1,556,291)*	(672,091)
Interest receivable		*36,348*	64,033
Loss on ordinary activities before taxation		*(1,519,943)*	(608,058)
Taxation credit on loss on ordinary activities	6	—	815
Retained loss for the financial period		*(1,519,943)*	(607,243)

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.

Balance sheet 31 December 2008

	Notes	*2008* *£*	*2008* *£*	2007 £	2007 £
Fixed assets					
Tangible assets	7		*316,633*		396,269
			316,633		396,269
Current assets					
Stocks	9	*418,228*		354,438	
Debtors	10	*1,806,398*		2,749,432	
Cash at bank and in hand		*1,183,016*		2,180,330	
		3,407,642		5,284,200	
Creditors: amounts falling due within one year	11	*(1,364,206)*		(4,335,934)	
Net current assets			*2,043,436*		948,266
Total assets less current liabilities			*2,360,069*		1,344,535
Creditors: amounts falling due after more than one year	12		*(6,079,736)*		(3,395,440)
Provision for liabilities					
Other provisions	13		*(88,702)*		(237,521)
			(3,808,369)		(2,288,426)
Capital and reserves					
Called up share capital	15		*100*		100
Profit and loss account	16		*(3,808,469)*		(2,288,526)
Shareholder's (deficit)	17		*(3,808,369)*		(2,288,426)

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

Director

Approved on: 30 October 2009

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 applicable United Kingdom Accounting Standards.

Going concern
At 31 December 2008, the company had net liabilities of £ 3,808,369. 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
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

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. 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.

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 financial statements.

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 four months return policy on sales. The company has therefore provided for sales returns based on an average of previous returns experience.

Group financial statements

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 small group. The company has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group financial statements.

Pensions

The pension cost charge in respect of personal pension schemes is comprised of the contributions payable for the year.

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 2008 £	Year ended 31 December 2007 £
UK	*3,748,255*	5,217,631
Other EU countries	*—*	14,000
	3,748,255	5,231,631

2 *Operating loss*

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
This is stated after charging:		
Depreciation of tangible fixed assets	*388,133*	544,980
Audit fees	*25,500*	24,500
Other fees relating to taxation	*1,550*	1,550
Operating lease charges:		
Land and buildings	*99,453*	80,873
Foreign exchange loss	*131,207*	15,119

3 *Exceptional items*

This relates to a bad debt from a customer who went into liquidation.

4 *Staff costs*

Staff costs were as follows:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Wages and salaries	*520,128*	569,734
Social security costs	*55,898*	60,943
Pension contributions	*19,115*	23,935
	595,141	654,612

4 *Staff costs* (continued)

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

	Year ended 31 December 2008	Year ended 31 December 2007
Office staff	*7*	8
Sales staff	*1*	1

5 *Directors' remuneration*

Emoluments paid to directors during the year for management services amounted to £ 186,018 (2007: £ 158,453). The company made payments on behalf of one (2007: one) director to a nominated pension scheme.

6 *Taxation*

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

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Current tax:		
Corporation tax credit at 28.5% (2007 – 30%)	—	—
Over provision in prior years	—	815
	—	815

The tax assessed for the period differs from the standard rate of corporation tax of 30%. The differences are explained below:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
(Loss) on ordinary activities before tax	*(1,519,943)*	(608,058)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	*(433,184)*	(182,417)
Effects of:		
Expenses not deductible	*4,525*	4,012
Difference between capital allowances for the period and depreciation	*1,780*	5,526
Movement in provisions	—	(3,699)
Movement in losses available for relief against future profits	*426,161*	175,694
Other adjustments	*718*	884
Under/(over) provision in respect of prior years	—	(815)
Current tax charge/(credit) for year	—	(815)

7 *Tangible fixed assets*

	Master film costs £	Office equipment £	*Total £*
Cost			
At 1 January 2008	3,492,346	117,542	*3,609,888*
Additions	302,985	5,511	*308,496*
At 31 December 2008	3,795,331	123,053	*3,918,384*
Depreciation			
At 1 January 2008	3,112,428	101,191	*3,213,619*
Charge for year	374,253	13,879	*388,132*
At 31 December 2008	3,486,681	115,070	*3,601,751*
Net book values			
At 31 December 2008	308,650	7,983	*316,633*
At 31 December 2007	379,918	16,351	*396,269*

8 *Investments in subsidiaries*

The company owns the entire share capital of the following dormant company:

Company	*Country of registration or incorporation*	*Shares held Class*	*%*
Subsidiary undertakings			
Digital Entertainment Limited	United Kingdom	Ordinary	100

The aggregate amount of capital and reserves was £ 18,453 (2007:£ 18,453) and the results of this undertakings for the last relevant financial period was £ nil (2007: £ nil).

9 *Stocks*

	2008 £	2007 £
Raw material/work in progress	*60,584*	69,165
Finished goods	*357,644*	285,273
	418,228	354,438

10 *Debtors*

	2008 *£*	2007 £
Trade debtors	*1,346,322*	2,183,928
Amounts owed by group undertakings	—	17,841
Other debtors	*32,701*	27,020
Prepayments and accrued income	*427,375*	520,643
	1,806,398	2,749,432

Amounts owed by group undertakings of £ nil (2007 - £ 17,841) are due after more than one year.

11 *Creditors: amounts falling due within one year*

	2008 *£*	2007 £
Trade creditors	*325,319*	770,824
Amounts owed to group undertakings	—	2,128,723
Social security and other taxes	*180,340*	304,185
Accruals	*858,547*	1,132,202
	1,364,206	4,335,934

12 *Creditors: amounts falling due after more than one year*

	2008 *£*	2007 £
Amounts owed to group undertakings	*6,079,736*	3,395,440

The amounts owed to group undertakings do not accrue interest.

13 *Provision for liabilities*

Other Provision	*2008* *£*	2007 £
At 1 January 2008	*237,521*	109,385
Movement in the period	*(148,819)*	128,136
At 31 December 2008	*88,702*	237,521

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.

14 *Deferred tax*

Deferred tax (asset)/liability unprovided	Unprovided *2008* *£*	2007 £
Trading losses	*(1,304,675)*	(934,028)
Short term timing differences	*718*	849
Accelerated capital allowances	*(19,141)*	(22,214)
	(1,323,098)	(955,393)

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

15 *Share capital*

	Authorised		Allotted, called up and fully paid	
	2008 *£*	2007 £	*2008* *£*	2007 £
100 Ordinary shares of £1 each	*1,000*	1,000	*100*	100

16 *Profit and loss account*

	2008 *£*	2007 £
Accumulated loss at start of period	*(2,288,526)*	(1,681,283)
Loss for the financial year	*(1,519,943)*	(607,243)
Accumulated loss at end of period	*(3,808,469)*	(2,288,526)

17 *Reconciliation of movements in shareholder's deficit*

	2008 *£*	2007 £
Loss for the financial year after taxation	*(1,519,943)*	(607,243)
Opening shareholder's deficit at 1 January 2008	*(2,288,426)*	(1,681,183)
Closing shareholder's deficit at 31 December 2008	*(3,808,369)*	(2,288,426)

18 Leasing commitments

Operating leases

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2008	2007
	£	£
Operating leases which expire:		
Within one year	*52,667*	—
Within two to five years	—	79,000

19 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 £ 19,115 (2007 - £ 23,935).

20 Capital commitments

At 31 December 2008 the company was committed to costs relating to masters totalling £ nil (2007 - £ 24,965).

21 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 more than 90% controlled within the group the company is exempt from the requirement to disclose such transactions under Financial Reporting Standard 8 " Related Party Disclosures".

22 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.