

PHOENIX FILM PARTNERS LLP

REPORT AND FINANCIAL STATEMENTS

PERIOD ENDED 5 APRIL 2009



Limited Liability Partnership Number: OC339129

REPORT AND FINANCIAL STATEMENTS 2009

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**MEMBERS' REPORT**

Period ended 5 April 2009

The Members submit their annual report and the audited financial statements for the period ended 5 April 2009.

Phoenix Film Partners LLP ("the Partnership") was formed on 4 August 2008 and started trading on 30 September 2008.

**PRINCIPAL ACTIVITIES**

The Partnership is an integrated film business, undertaking both film co-marketing and production. Its objective is to focus the majority of its capital on worldwide co-marketing of films while also producing film projects for distribution through the studio network. The focus on co-marketing is intended to generate more predictable cash flows; by combining the two activities, Phoenix aims to generate reliable returns from co-marketing while exposing itself to potential "hit" profits from film production.

**REVIEW OF THE PERIOD**

The Designated Members who served during the period were Waterloo Film Partner 1 Limited and Waterloo Film Partner 2 Limited (both appointed 4 August 2008).

The Partnership was formed on 4 August 2008 and subsequently raised £1,364.9m to capitalise its business.

During the period the Partnership entered into contracts to produce three films on behalf of a major studio at a combined budget of £54.5m. These films will be theatrically released in subsequent financial years.

On 18 September 2008 the Partnership entered into a Film Services Agreement with Ingenious Media Services Limited ("IMSL"), under which IMSL was appointed to source and transact opportunities for the Partnership to co-market, distribute and promote feature films. During the period IMSL entered into three co-marketing deals on behalf of the Partnership at a commitment of £133.7m. All three films were theatrically released in the period.

Following completion of the deals to co-market three films and to produce a further three films, the Partnership was well placed to continue developing its integrated film business. Unfortunately, on 19th March 2009, HMRC issued draft legislation containing new restrictions on tax relief for interest paid by individuals on loans taken to invest in a trading partnership.

The majority of the Partnership's Members borrowed to fund their capital contributions. The interest relief allowable on the loans was of value to the Members in reducing the funding cost of their capital. Following the withdrawal of the interest relief the Operator reluctantly concluded that it was in the best interests of the Members to return capital to enable them to pay down borrowings. Accordingly, the Partnership requested the return of the majority of the funds paid to IMSL to perform its services under the Film Services Agreement and returned £1,203.6m to the Ordinary Members.

**MEMBERS' REPORT (Continued)**

Period ended 5 April 2009

**REVIEW OF THE PERIOD (Continued)**

The Operator does not believe that the Partnership has retained sufficient capital to continue with its original business strategy. Accordingly, the Partnership will continue to produce the three films detailed above but does not, at present, anticipate that it will undertake any further film projects.

**FUTURE DEVELOPMENTS**

It is anticipated that the films currently in production will be delivered to the Commissioning Distributor in future financial years. The Partnership is well placed to benefit from the future exploitation of these films by the Commissioning Distributor as its remuneration for the production of those films is calculated by reference to their gross sales receipts.

**POLICY REGARDING MEMBERS' DRAWINGS AND CAPITAL**

Designated Members are not entitled to drawings. In accordance with the Members' Agreement, Ordinary Members shall be entitled to make any drawings on account of profits to which they are entitled.

Members' capital is subscribed in accordance with the current Members' Agreement and retained by the Partnership until such time as the Members agree to repay that capital. There were no transfers of Members' capital to debt during the period.

The operating cash requirements of the Partnership shall be met out of the Members' initial contributions, no Ordinary Member shall be required to make any further funding available after his or her admission as a Member.

**AUDITORS**

During the period, Shipleys LLP were appointed as auditors.

This report was approved by the Members on 13/10/ 2009 and signed on their behalf by



**WATERLOO FILM PARTNER 1 LIMITED**

Designated Member



**WATERLOO FILM PARTNER 2 LIMITED**

Designated Member

Registered Office:  
15 Golden Square  
London W1F 9JG

## STATEMENT OF MEMBERS' RESPONSIBILITIES

The Members are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Legislation applicable to limited liability partnerships requires the Members to prepare Financial Statements for each Financial period. Under that law the Members have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Financial Statements are required by law to give a true and fair view of the state of affairs of the Partnership and of the profit or loss of the Partnership for that period. In preparing these Financial Statements, the Members are required to:

- select suitable accounting policies and 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 Partnership will continue in business.

The Members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that the Financial Statements comply with the Companies Act 1985 as modified by the Limited Liability Partnerships Regulations 2001. The Members are also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Members are aware:

- there is no relevant audit information of which the Partnership's auditor is unaware; and
- the Members have taken all steps that they should have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHOENIX FILM PARTNERS LLP**

We have audited the Financial Statements of Phoenix Film Partners LLP for the period ending 5 April 2009 which comprise the Profit and Loss account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 9. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Limited Liability Partnership's Members, as a body, in accordance with section 235 of the Companies Act 1985 modified by the Limited Liability Partnership Regulations 2001. Our audit work has been undertaken so that we might state to the Limited Liability Partnership'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 Partnership and the Partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Members and Auditors**

The Members' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Members' Responsibilities.

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 as modified by the Limited Liability Partnerships Regulations 2001. We also report to you whether in our opinion the information given in the Members' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, the Limited Liability Partnership 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 Members' remuneration and other transactions is not disclosed.

We read the Members' 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 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 Members in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Limited Liability Partnership's circumstances, consistently applied and adequately disclosed.

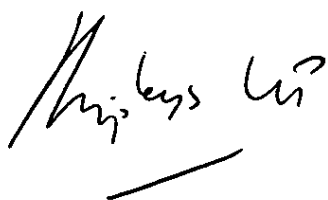
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHOENIX FILM PARTNERS LLP (Continued)**

**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 LLP's affairs as at 5 April 2009 and of its results for the period then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985 as modified by the Limited Liability Partnerships Regulations 2001; and
- the information given in the Members' Report is consistent with the Financial Statements.

A handwritten signature in black ink, appearing to read 'Shipleys LLP', with a horizontal line underneath.

**SHIPLEYS LLP**

Chartered Accountants and Registered Auditors  
10 Orange Street,  
Haymarket,  
London, WC2H 7DQ

Date: 13 / 10 / 2009

Limited Liability Partnership Number: OC339129

**PROFIT AND LOSS ACCOUNT**

Period ended 5 April 2009

|   | NOTES | Period ended 5<br>Apr 2009<br>£ '000s |
|---|-------|---------------------------------------|
| Turnover  | 1     | 179,108                               |
| Cost of sales   |       | (186,687)                             |
| <b>GROSS LOSS</b>   |       | <b>(7,579)</b>                        |
| Operating expenses  |       | (83)                                  |
| <b>OPERATING LOSS</b>   | 2     | <b>(7,662)</b>                        |
| <b>LOSS FOR THE PERIOD AVAILABLE FOR DIVISION AMONG THE MEMBERS</b> |       | <b>(7,662)</b>                        |

All results in the above financial period are derived from continuing operations.

There are no recognised gains or losses during the above financial period other than as stated in the profit and loss account above.



**PHOENIX FILM PARTNERS LLP**

**BALANCE SHEET**

At 5 April 2009

|   | NOTES | 2009<br>£ '000s |
|---|-------|-----------------|
| <b>CURRENT ASSETS</b>                                 |       |                 |
| Stock   | 4     | 1,493           |
| Debtors   | 5     | 120,831         |
| Cash at bank  |       | 7,906           |
|   |       | <hr/>           |
|   |       | 130,230         |
| <b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | 6     | (21,885)        |
|   |       | <hr/>           |
| <b>NET CURRENT ASSETS</b>                             |       | <b>108,345</b>  |
|   |       | <hr/>           |
| <b>NET ASSETS ATTRIBUTABLE TO MEMBERS</b>             |       | <b>108,345</b>  |
|   |       | <hr/>           |
| <b>REPRESENTED BY:</b>                                |       |                 |
| <b>TOTAL MEMBERS' INTERESTS</b>                       |       |                 |
| Members' capital accounts                             | 7     | 161,310         |
| Other reserves  | 7     | (52,965)        |
|   |       | <hr/>           |
| <b>TOTAL MEMBERS' INTERESTS</b>                       |       | <b>108,345</b>  |
|   |       | <hr/>           |
| <b>MEMORANDUM OF MEMBERS' TOTAL INTEREST</b>          |       |                 |
| Members' other interest                               | 7     | 108,345         |
|   |       | <hr/>           |
| <b>TOTAL MEMBERS' INTEREST</b>                        |       | <b>108,345</b>  |
|   |       | <hr/>           |

The Financial Statements were approved by the Designated Members on 13/10/2009.

**WATERLOO FILM PARTNER 1 LIMITED**  
Designated Member

**WATERLOO FILM PARTNER 2 LIMITED**  
Designated Member

**CASH FLOW STATEMENT**

Period ended 5 April 2009

|   | NOTES | 2009<br>£ '000s |
|---|-------|-----------------|
| Net cash inflow from operating activities                     | 1     | 12,614          |
| Members' drawings   |       | (45,303)        |
| Net cash outflow before use of liquid resources and financing |       | (32,689)        |
| Transactions with Members                                     |       |                 |
| Contribution by Members                                       | 2     | 40,595          |
| Net cash inflow from transactions with Members                |       | 40,595          |
| Increase in cash in the period                                | 3     | 7,906           |

**NOTES TO THE CASH FLOW STATEMENT**

Period ended 5 April 2009

2009  
£ '000s

**1. Reconciliation of operating loss to net cash inflow from operating activities**

|                       |         |
|-----------------------|---------|
| Operating loss        | (7,662) |
| Increase in stock     | (1,493) |
| Increase in debtors   | (116)   |
| Increase in creditors | 21,885  |

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|  |               |
|--|---------------|
| <b>Net cash inflow from operating activities</b> | <b>12,614</b> |
|--|---------------|

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**2. Transactions with Members**

|                               |             |
|-------------------------------|-------------|
| Capital introduced by Members | 1,364,925   |
| Capital repaid to Members     | (1,203,615) |
| Increase in debtors           | (120,715)   |

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|   |               |
|---|---------------|
| <b>Net cash inflow from transactions with Members</b> | <b>40,595</b> |
|---|---------------|

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**3. Analysis of net funds**

|                     | At 4 August 2008<br>£ '000s | Cash flow<br>£ '000s | At 5 April 2009<br>£ '000s |
|---------------------|-----------------------------|----------------------|----------------------------|
| <b>Cash at bank</b> | -                           | 7,906                | 7,906                      |

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**4. Reconciliation of net cash flow to movement in net funds**

2009  
£ '000s

|                                |       |
|--------------------------------|-------|
| Increase in cash in the period | 7,906 |
|--------------------------------|-------|

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|  |              |
|--|--------------|
| <b>Movement in net funds resulting from cash flows</b> | <b>7,906</b> |
|--|--------------|

|                              |   |
|------------------------------|---|
| Net funds at start of period | - |
|------------------------------|---|

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|                                   |              |
|-----------------------------------|--------------|
| <b>Net funds at end of period</b> | <b>7,906</b> |
|-----------------------------------|--------------|

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**NOTES TO THE FINANCIAL STATEMENTS**

Period ended 5 April 2009

**1. ACCOUNTING POLICIES**

The Partnership is incorporated in the United Kingdom as a Limited Liability Partnership under the Limited Liability Partnerships Regulations 2001.

The Financial Statements have been prepared under the historical cost convention in accordance with applicable accounting standards. These accounts are prepared in accordance with the Limited Liability Partnerships Regulations 2001 and Statement of Recommended Practice 'Accounting by Limited Liability Partnerships 2006'. The particular accounting policies adopted are described below:

**Turnover**

Turnover derives from the integrated film business and is stated net of value added tax.

**Taxation**

No current or deferred taxation is provided in these accounts as the liability for taxation falls on the Members.

**Stock**

Stock and work in progress, other than long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises contractual expenditure in respect of the films being produced on behalf of the Commissioning Distributor. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

**Long-Term Contracts**

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover. Provision is made for the full amount of foreseeable losses on contracts.

**Foreign Currencies**

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

**Joint Arrangement Not an Entity ('JANE')**

The Partnership entered into a Film Services Agreement with Ingenious Media Services Limited to source and undertake various film-related activities on its behalf. The Partnership maintains a right of approval over any such transactions entered into on its behalf and also over the uses of such funds advanced until such opportunities arise.

In the view of the Members the above arrangement constitutes a JANE, as defined by FRS 9, *Associates and Joint Ventures*. Accordingly, all transactions entered into by Ingenious Media Services Limited under the Film Services Agreement are recorded in the Partnership's accounts to correctly reflect the substance of those transactions.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Period ended 5 April 2009

**2. OPERATING LOSS**

|  |                 |
|--|-----------------|
| The operating loss is stated after charging: | 2009<br>£ '000s |
| Auditors' remuneration for audit services    | 22              |

**3. INFORMATION RELATING TO MEMBERS**

No Members received remuneration from the Partnership during the period.

The average number of Members in the period was 232. The average allocation of loss was £33,026 and the largest allocation of loss to any single Member was £52,354,241.

**4. STOCK**

2009  
£ '000s

|                  |       |
|------------------|-------|
| Work in progress | 1,493 |
|------------------|-------|

**5. DEBTORS**

2009  
£ '000s

|                              |         |
|------------------------------|---------|
| VAT recoverable              | 9       |
| Other debtors                | 107     |
| Unpaid capital contributions | 120,715 |
|                              | 120,831 |

**6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

2009  
£ '000s

|                 |        |
|-----------------|--------|
| Trade creditors | 71     |
| Other creditors | 21,792 |
| Accruals        | 22     |
|                 | 21,885 |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Period ended 5 April 2009

**7. RECONCILIATION OF MOVEMENT IN MEMBERS' INTERESTS**

|  | Members'<br>capital | Other<br>reserves | Total<br>Members'<br>other<br>interests | Loans and<br>other debts<br>due to<br>Members | Total<br>Members'<br>interests |
|--|---------------------|-------------------|---|---|--------------------------------|
|  | £ '000s             | £ '000s           | £ '000s                                 | £ '000s                                       | £ '000s                        |
| <b>Balance at 4 August 2008</b>                                    | -                   | -                 | -                                       | -   | -                              |
| Loss for the financial period available for division among Members | -                   | (7,662)           | (7,662)                                 | -   | (7,662)                        |
| Members' interests after loss for the period                       | -                   | (7,662)           | (7,662)                                 | -   | (7,662)                        |
| Capital introduced by Members                                      | 1,364,925           | -                 | 1,364,925                               | -   | 1,364,925                      |
| Capital repaid to Members  | (1,203,615)         | -                 | (1,203,615)                             | -   | (1,203,615)                    |
| Members' drawings  | -                   | (45,303)          | (45,303)                                | -   | (45,303)                       |
| <b>Members' interests at 5 April 2009</b>                          | <b>161,310</b>      | <b>(52,965)</b>   | <b>108,345</b>                          | <b>-</b>                                      | <b>108,345</b>                 |

In the event of a winding up the Partnership's creditors are paid from any surplus assets prior to their distribution to the Members.

**8. RELATED PARTY DISCLOSURES**

Phoenix Film Partners Limited (the Corporate Member), Ingenious Media Investments Limited, Ingenious Media Services Limited, Ingenious Distribution Services Limited, Waterloo Film Partner 1 Limited and Waterloo Film Partner 2 Limited (the Designated Members) are all wholly-owned subsidiaries of Ingenious Media Limited which is itself a wholly-owned subsidiary of Ingenious Media Holdings plc. Ingenious Media Holdings plc was under the control of P. A. McKenna in the period.

J. L. Boyton and D. M. Reid are Members of the Partnership and are directors of the above companies. P. A. McKenna is a Member of the Partnership and was a director of the above companies during the period with the exception of the Designated Members. P. A. McKenna, J. L. Boyton, D. M. Reid are also directors and beneficial shareholders of Ingenious Media Holdings plc. G. J. Arkell and P. M. Shawyer, Members of the Partnership, are also directors and beneficial shareholders of Ingenious Media Holdings plc. M. E. A. McKenna, spouse of P. A. McKenna, is also a Member of the Partnership.

During the period the Corporate Member made an investment of £161.3m into the Partnership. As at the period end capital of £120.7m remains unpaid.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Period ended 5 April 2009

**8. RELATED PARTY DISCLOSURES (Continued)**

The Partnership entered into a Film Services Agreement with Ingenious Media Services Limited in the period. During the period Ingenious Media Services Limited entered into three co-marketing deals on behalf of the Partnership at a commitment of £133.7m. Fees of £36,109 were charged by Ingenious Media Services Limited during the period.

Furthermore, Ingenious Media Services Limited agreed to pay a minimum return on the total advanced film services funds of £1,203.6m and during the period £45.4m was paid to the Partnership in satisfaction of this obligation. At the period end a balance of £22,900 remained owing from Ingenious Media Services Limited.

Pursuant to certain arrangements entered into in relation to the co-marketing deals, Ingenious Distribution Services Limited assumed the relevant studio's financial obligation to Ingenious Media Services Limited under the co-marketing deals. Prior to the period end, all obligations under this agreement were duly fulfilled and discharged to the value of £137.0m.

Ingenious Media Investments Limited in its capacity as Operator to the Partnership charged fees of £61,422 during the period, all of which was outstanding at the period end.

**9. CONTROLLING PARTY**

In the opinion of the Members there is no controlling party.