

PHOENIX FILM PARTNERS LLP

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 5 APRIL 2010

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Limited Liability Partnership Number OC 339129

REPORT AND FINANCIAL STATEMENTS 2010

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MEMBERS' REPORT

Year ended 5 April 2010

The members present their annual report on the affairs of Phoenix Film Partners LLP (the "Partnership"), together with the financial statements and auditors' report, for the year ended 5 April 2010

The report has been prepared taking advantage of the small companies exemption in accordance with Section 415A of the Companies Act 2006

Principal activities

As an integrated film business, the Partnership initially undertook both film co-marketing and production. Its objective was to focus the majority of its capital on worldwide co-marketing of films while also producing film projects for distribution through the studio network. For the reasons outlined below, its focus has now changed. It has adopted a sophisticated selection policy to manage risks from the outset and has only produced films where there is a strong likelihood of distribution and where it is able to secure a participation in gross sales receipts arising from that distribution, thereby continuing to expose itself to potential "hit" profits from film production.

Business review and future outlook

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

The Partnership has previously entered into contracts to produce three films on behalf of a major studio at a combined budget of £54.5m. One film, "Percy Jackson & the Olympians: The Lightning Thief", was theatrically released on 12 February 2010. The remaining films are due for theatrical release in the subsequent financial year.

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 prior 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 prior 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.

The Operator does not believe that the Partnership has retained sufficient capital to continue with its original business strategy.

The Partnership 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.

MEMBERS' REPORT (Continued)

Year ended 5 April 2010

Going concern

After making enquiries, the members have a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in Note 1 of the financial statements.

Overseas branches

There are no overseas branches of the Partnership.

Policy regarding members' drawings and capital

Designated Members are not entitled to drawings. In accordance with the Members' Agreement, drawings shall be made at the discretion of the operator.

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 year.

The operating cash requirements of the Partnership shall be met out of the members' initial contributions. No member shall be required to make any further funding available after his or her admission as a member.

Designated Members

The Designated Members serving during the year were Waterloo Film Partner 1 Limited and Waterloo Film Partner 2 Limited.

Statement of members' responsibilities

Under the Members' Agreement the Partnership is obliged to produce financial statements on an annual basis. The Designated Members are responsible for the preparation of financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year.

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 year. In preparing these financial statements, the members are required to

- select suitable accounting policies and then apply them consistently, and
- make judgements and estimates that are reasonable and prudent.

MEMBERS' REPORT (Continued)

Year ended 5 April 2010

Statement of members' responsibilities (continued)

The members are responsible for keeping adequate 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 2006, as applicable to limited liability partnerships. They 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.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the Partnership operator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These responsibilities are exercised by the Designated Members on behalf of the Partnership.

Auditors

Shipleys LLP are deemed to be re-appointed under s487(2) of the Companies Act 2006 as modified by the Limited Liability Partnerships Regulations 2008.

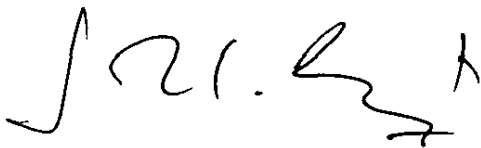
Disclosure of information to auditors

Each Designated Member at the date of approval of this report confirms that

- so far as each Designated Member is aware, there is no relevant audit information of which the Partnership's auditors are unaware, and
- each Designated Member has taken all the steps (such as making enquiries of other members and the auditors and any other steps required by the Designated Members' duty to exercise due care, skill and diligence) that he ought to have taken in his duty as Designated Member in order to make himself aware of any relevant audit information and to establish that the Partnership's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

This report was approved by the Designated Members on 10 June 2010 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

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

We have audited the financial statements of Phoenix Film Partners LLP for the year ending 5 April 2010 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 Partnership's members, as a body, in accordance with section 495 of the Companies Act 2006, modified by the Limited Liability Partnership Regulations 2008. Our audit work has been undertaken so that we might state to the 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

As explained more fully in the Members' Responsibilities Statement, the members 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the members, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

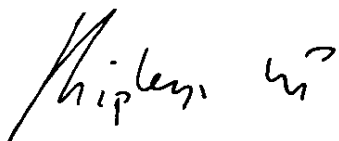
- give a true and fair view of the state of the Partnership's affairs as at 5 April 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006, as applicable to limited liability partnerships.

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

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 as applicable to limited liability partnerships 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
- we have not received all the information and explanations we require for our audit, or
- the members were not entitled to take advantage of the small companies exemption in preparing the Members' Report



Stephen Joberns (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
10 Orange Street, Haymarket, London WC2H 7DQ

Date 10 June 2010

PROFIT AND LOSS ACCOUNT

Year ended 5 April 2010

	NOTES	2010 £ '000s	2009 £ '000s
Turnover	1	625	179,108
Cost of sales		(663)	(186,687)
GROSS LOSS		(38)	(7,579)
Operating expenses	2	-	(83)
OPERATING LOSS	2	(38)	(7,662)
LOSS FOR THE FINANCIAL YEAR BEFORE MEMBERS' REMUNERATION AND PROFIT SHARE	7	(38)	(7,662)
ACCUMULATED LOSS FOR THE FINANCIAL YEAR AVAILABLE FOR DISCRETIONARY DIVISION AMONG MEMBERS	7	(38)	(7,662)

All results are derived from continuing operations

There are no recognised gains or losses during the financial year other than as stated in the Profit and Loss Account above, and accordingly no separate statement of total recognised gains and losses is presented

The accompanying Notes are an integral part of this Profit and Loss Account

PHOENIX FILM PARTNERS LLP

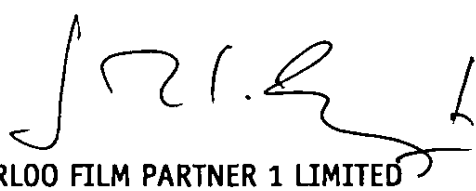
BALANCE SHEET

At 5 April 2010

	NOTES	2010 £ '000s	2009 £ '000s
CURRENT ASSETS			
Stock	1 & 3	830	1,493
Debtors	4	107,561	120,831
Cash at bank		9	7,906
		108,400	130,230
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	5	(93)	(21,885)
		108,307	108,345
NET ASSETS		108,307	108,345
MEMBERS' INTERESTS			
Members' capital accounts	7	161,310	161,310
Other reserves	7	(53,003)	(52,965)
TOTAL MEMBERS' INTERESTS	7	108,307	108,345

The accompanying Notes are an integral part of this Balance Sheet

The financial statements on pages 6 to 13 of Phoenix Film Partners LLP, registered number OC339129, were approved by the Designated Members and authorised for issue on 10 June 2010 and signed on their behalf by



WATERLOO FILM PARTNER 1 LIMITED

Designated Member



WATERLOO FILM PARTNER 2 LIMITED

Designated Member

CASH FLOW STATEMENT

Year ended 5 April 2010

	NOTES	2010 £ '000s	2009 £ '000s
Net cash (outflow)/inflow from operating activities	A	(21,783)	12,614
Members' drawings		-	(45,303)
<hr/>			
Net cash outflow before use of liquid resources and financing		(21,783)	(32,689)
Transactions with members			
Contribution by members	B	13,886	40,595
<hr/>			
(Decrease)/increase in cash and cash equivalents in the year	C	(7,897)	7,906

The accompanying Notes are an integral part of this Cash Flow Statement

NOTES TO THE CASH FLOW STATEMENT

Year ended 5 April 2010

	2010 £ '000s	2009 £ '000s	
A. Reconciliation of operating loss to net cash (outflow)/inflow from operating activities			
Operating loss	(38)	(7,662)	
Decrease/(increase) in stock	663	(1,493)	
Increase in debtors	(616)	(116)	
(Decrease)/increase in creditors	(21,792)	21,885	
Net cash (outflow)/inflow from operating activities	(21,783)	12,614	
B Transactions with members			
Capital introduced by members	-	1,364,925	
Capital repaid to members	-	(1,203,615)	
Decrease/(increase) in debtors	13,886	(120,715)	
Net cash inflow from transactions with members	13,886	40,595	
C. Analysis of net funds			
	At 6 April 2009 £ '000s	Cash flow £ '000s	At 5 April 2010 £ '000s
Cash at bank	7,906	(7,897)	9
D. Reconciliation of net cash flow to movement in net funds			
	2010 £ '000s	2009 £ '000s	
(Decrease)/increase in cash in the year	(7,897)	7,906	
Movement in net funds resulting from cash flows	(7,897)	7,906	
Net funds at start of year	7,906	-	
Net funds at end of year	9	7,906	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 5 April 2010

1. ACCOUNTING POLICIES

The Partnership is incorporated in England and Wales as a limited liability partnership under the Limited Liability Partnerships Act 2000

These financial statements are prepared under the historical cost convention, in accordance with applicable United Kingdom Accounting Standards in compliance with the Statement of Recommended Practice on Accounting for Limited Liability Partnerships. The particular accounting policies adopted, which have been applied consistently throughout the current and preceding year, are described below

Turnover

Turnover derives from one class of business, the co-marketing and production of films and participation in distribution receipts arising from sales of those films by the commissioning distributors, and is stated net of Value Added Tax

Turnover is recognised at the fair value of the right to consideration and is not recognised until there is certainty over the right to that consideration

Taxation

No current or deferred taxation is provided in these financial statements as the liability for taxation falls on the Individual 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 distributors. 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

Going concern

The Partnership is in a net asset position and the members believe that the Partnership will be able to maintain positive cash flows for the foreseeable future. As a result the going concern basis of accounting has been adopted

NOTES TO THE FINANCIAL STATEMENTS

Year ended 5 April 2010

1. ACCOUNTING POLICIES (Continued)

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 financial statements to correctly reflect the substance of those transactions.

2. OPERATING LOSS

	2010 £ '000s	2009 £ '000s
The operating loss is stated after charging		
Auditors' remuneration for audit services	-	22

Audit fees payable to the Partnership's auditors are £13,500 (2009 - £22,000). Fees payable to the Partnership's auditors for non-audit services are £Nil (2009 - £Nil). Audit fees in the current year will be borne by the Partnership operator.

3. STOCK	2010 £ '000s	2009 £ '000s
Work in progress	830	1,493

4. DEBTORS	2010 £ '000s	2009 £ '000s
VAT recoverable	-	9
Other debtors	732	107
Unpaid capital contributions	106,829	120,715
	107,561	120,831

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

Year ended 5 April 2010

5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2010	2009
	£ '000s	£ '000s
Trade creditors	71	71
Other creditors	22	21,792
Accruals	-	22
	93	21,885

6. INFORMATION RELATING TO MEMBERS

No members received any salaried remuneration from the Partnership during the year (2009 £Nil)

The average number of members during the year was 232 (2009 232) The average allocation of loss was therefore £164 (2009 £33,026) The maximum loss allocated to a member was £23,155 (2009 £1,455,507)

7. RECONCILIATION OF MOVEMENT IN MEMBERS' INTERESTS

	Members' capital	Other reserves	Total members' other interests	Loans and other debts due to members	Total members' interests
	£ '000s	£ '000s	£ '000s	£ '000s	£ '000s
Balance at 6 April 2009	161,310	(52,965)	108,345	-	108,345
Loss for the financial year available for discretionary division among members	-	(38)	(38)	-	(38)
Members' interests at 5 April 2010	161,310	(53,003)	108,307	-	108,307

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 5 April 2010

8. RELATED PARTY DISCLOSURES

P A McKenna, J L Boyton and D M Reid, who are all members of the Partnership, were also directors of Phoenix Film Partners Limited (the Corporate Member), Ingenious Media Investments Limited (the Partnership operator), Ingenious Media Services Limited and Ingenious Distribution Services Limited during the year. J L Boyton and D M Reid were also directors of Waterloo Film Partner 1 Limited and Waterloo Film Partner 2 Limited (the Designated Members) during the year.

All of the above-named companies are wholly-owned subsidiaries of Ingenious Media Limited, which is itself a wholly-owned subsidiary of Ingenious Media Holdings plc, the ultimate parent company of the Ingenious Media group. The Ingenious Media group is under the control of P A McKenna.

P A McKenna, J L Boyton and 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 prior period the Corporate Member made an investment of £161.3m into the Partnership. As at the year end capital of £106.8m remains unpaid.

Ingenious Media Investments Limited continued in its capacity as operator to the Partnership and charged no fees during the year (2009: £61,422). £61,422 remained owing to Ingenious Media Investments Limited at the year end.

Ingenious Media Services Limited owed the Partnership £20,694 at the year end (2009: £106,363).

The Corporate Member owed the Partnership £83,463 at the year end (2009: £83,463).

9. CONTROLLING PARTY

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