

ODEON & UCI CINEMAS HOLDINGS LIMITED

Directors' report and financial statements
Registered number 06170611
31 December 2008

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DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2008.

Principal Activity

The principal activity of the Group is the operation of multiplex cinemas. The principal activity of the Company is that of a holding company.

Business Review

The Group is the largest operator of cinemas in the World outside the USA, with 200 cinemas in 7 countries of Europe as at year end. The principal territories of operation are UK, Spain, Italy and Germany. There are also cinemas in Portugal, Austria and Ireland.

During the year, 4 German cinemas previously trading under the Kinoplex brand were acquired from Hoyts and the group enjoyed the first full year's trading of the 10-cinema Cinestar chain in Italy, which was acquired in mid 2007. The existing portfolio of cinemas was also developed during the year, with the closure or disposal of five cinemas, two new openings in the UK, one in Italy and a number of refurbishments. The group also took on the management of five cinemas in the Storm chain in Ireland.

Main Market Attendance Growth 2008 v 2007

Global economic recession was a concern for many businesses in 2008, but the cinema sector has been resistant to the effects of recession in the past, and performance in 2008 was no exception. On an average basis, weighted by the attendance in each major territory, the Group's markets were down by approximately just 2% year on year. Indeed, this performance was despite the delay of the latest instalment in the "Harry Potter" series from 2008 to 2009. Regardless of economic conditions, national markets are influenced by the strength of film product (including local product) in any year. The German market was stronger in 2008 than 2007, the UK (in Attendance volume terms) was flat, Spain and Italy were weaker.

| | | 2008 | 2007 | Year-on-year growth |
|---------|-----------------------|-------|-------|---------------------|
| UK | Attendance (millions) | 162.5 | 162.4 | - |
| Spain | Attendance (millions) | 107.3 | 116.9 | (8%) |
| Germany | Attendance (millions) | 129.8 | 125.4 | 4% |
| Italy | Attendance (millions) | 98.5 | 102.5 | (4%) |

KPIs

The primary KPIs followed by the Group are Attendance and EBITDA*. Group Attendance was 5% lower in 2008 than in 2007, with 71.0m vs 75.1m guests, reflecting the lower markets overall and the fact that 2007 was a longer trading period. When adjusted to reflect the fact that 2007 was a longer trading period, Group Attendance was 2% lower in 2008 than in 2007.

EBITDA* before rent payable to the ODEON Property Group LLP ("Propco") was £72m (2007: £73m). The rent payable to Propco was £9m (2007: £4m). The Group also follows supplementary KPIs including revenue per customer, film hire costs, retail margins, staff and other costs. The Group delivered above-inflation increases in revenue per customer reflecting improvements in the customer offer and the quality of the estate, whilst maintaining good control over costs.

Financial Results

Group turnover for the year was up 6% at £548m (2007: £517m). EBITDA* before Propco rent was £72m in 2008, and would have been £68m in 2007 on a like-for-like period basis, an increase of 6%. The EBITDA* of £72m is prior to charging exceptional costs of £6m, one-off development costs of £3m, Propco rent of £9m and non-cash depreciation and amortisation of £55m. After these items, an operating loss was reported of £1m (2007: £8m loss). In the year, there was a further volume mix shift towards the Continental Europe markets, because of current and prior year acquisitions, which reduced the EBITDA* to Revenue ratio. The profitability of the newly acquired businesses continues to improve as synergies are realised.

* Earnings before interest, tax, depreciation, amortisation, and one-off items.

There were exceptional costs of £6m (2007: £33m) covering property-related provisions, the one-off integration of acquired businesses and one-off costs associated with ceasing unprofitable operations.

Interest costs in the profit and loss account were £53m in 2008 (2007: £68m). The 2007 charge included the £9m non-cash write-off of capitalised loan arrangement fees relating to the previous bank facilities.

The loss for the year of £53m (2007: £41m loss) was after non-cash charges of £55m (2007: £46m) depreciation and amortisation and £27m (2007: £35m) financing cost accrual on loan notes.

Investment and Net Debt

The Group continued to invest to grow future earnings and enhance the high quality of the existing estate.

Capital expenditure was £43m (2007: £31m): £13m was spent on capital maintenance of the estate, £16m on new sites for 2008 and future periods, £4m on information and ticketing systems that are improving customer relationship management earnings and £10m on refurbishments and other revenue-generating projects.

Investment in acquisitions and joint ventures was £2m (2007: £25m), net of cash acquired, and asset disposals generated £5m (2007: £3m). In 2007, £134m was also received for the sale and leaseback of 31 properties to related parties in the Propco group.

Working capital movement was favourable in the year because of the reversal of timing differences that arose in 2007.

Net debt excluding loan notes and finance leases was £240m (2007: £209m) at year end, with £22m of the increase resulting from Euro to Sterling exchange rate movements in the period.

Onerous Leases

A major review and update of the onerous lease provisions took place for the 2007 financial statements. The provisions were reviewed for the 2008 financial statements and it was concluded the underlying basis of provision remained appropriate.

Screen Advertising

During 2008 the Group made new arrangements for the supply of screen advertising in the cinemas in the UK, following an unattractive offer of revision to existing contract terms from Carlton Screen Advertising ("CSA"). A new 50:50 joint venture, Digital Cinema Media Limited ("DCM"), was formed with Cineworld Cinemas Ltd ("Cineworld") from the acquisition of assets of CSA, in order to take over the supply of screen advertising to ODEON, Cineworld and other cinema operators, altogether representing a market share of approximately 66%. The joint venture is now fully operational and has got off to a strong start, ahead of the acquisition plan.

Alternative arrangements for the supply of screen advertising have also been made in Spain, involving the supplier "Discine", in order to maximize the return for the Group.

Principal Risks and Risk Management

The principal risk to the business is lower attendance. There is some volatility year on year, depending on the film slate, which in turn depends on production from Hollywood and local content in each country. The risk to financial performance is mitigated by cost savings in film hire and staff, which reduce at lower attendances, and by controlling capital expenditure.

Many other sectors are considering the impact of the "credit squeeze" and global economic recession on their trading at the present time. Cinemas have generally fared well in times of recession, and the Group has seen this in most of its markets in 2008. When the public mood is gloomy and money is scarce, a trip to the cinema offers excellent value-for-money escapism. In 2008, the sector again lived up to its counter-cyclical reputation: in the UK market, cinema-going attendance remained steady on prior year at 162.5m, with box office revenues up 4% compared to 2007.

* Earnings before interest, tax, depreciation, amortisation, and one-off items.

Some commentators are concerned about the impact of the increasing penetration of home cinema equipment and online film downloads on cinema attendance. Similar concerns were expressed with the introduction of TV, Video Cassettes and DVDs. The directors believe that cinema continues to offer excellent value in the “going out” market and that there will be good demand for the cinema experience for the foreseeable future.

The principal financial risk to the Group is the movement of interest rates. Under the terms of the bank facility, the Group is required to maintain certain levels of debt and interest cover. To manage this risk, interest rates are swapped to fixed rate on between 50% and 100% of bank debt. Interest rates on the unfixed portion of the debt improved during 2008.

Future Prospects

The Group is continuing the roll-out of approximately 500 3D screens across its territories along with the introduction of digital projectors. The use of digital technology offers long-term print cost savings to the film distributors, an improved advertising platform, alternative content capability, such as live opera from the New York Opera House, and greater flexibility in programming.

The 2009 film slate currently looks promising with the multi-Oscar winning *Slumdog Millionaire*, *Ice Age 3D*, *Harry Potter 6*, *Monsters vs Aliens 3D*, *Bruno*, and *Angels and Demons*. All are expected to perform well, or have already done so at the time of writing.

The Group will continue to focus on improving the cinema portfolio, upgrading the estate to deliver higher revenue per customer and achieving further cost efficiencies. Further new and relocated cinemas are scheduled to open in the forthcoming year, exit plans are in place for lower-performing sites and there are further potential acquisitions.

Going Concern and Liquidity Management

The directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. With this in mind, the directors have formally considered and concluded that the preparation of financial statements on a going concern basis is appropriate. Further details are shown in the “Basis of preparation” section of Note 1 to the financial statements.

Board of Directors and Management of the Group

During 2007, ODEON and UCI Cinemas Holdings Ltd (“Holdings”), was put in place as a new holding company for the cinemas group. Following this change, at 31 December 2007 and 31 December 2008 the board of directors of Holdings consisted of Terra Firma representatives, members of the trading group’s executive management team and an independent non-executive director. The board of Holdings acts as an overseeing body, fulfils a corporate governance role and is consulted on key business decisions. The directors who held office during the year are set out below.

| | |
|------------|------------|
| A R Gavin | G M Edge |
| J P Mason | F S Duncan |
| L Levi | T L Wells |
| M J Kinski | |

Post Balance Sheet Events

During April 2009, loans totalling £20,000,000 were granted by the Company to subsidiaries of ODEON Property Group LLP (“Propco”). The subsidiaries are related parties, as described in Note 30. The purpose of the loans was to enable Propco to agree amendments to its bank loan facility agreement and to be in a stronger position going forward. Interest will accrue on the loans at LIBOR plus 2.375%. The funds to make the loans were provided by the immediate parent of the Company, Monterey Capital III Sarl, initially as an interest-free loan but to be converted to new equity capital during 2009.

Dividends

The directors do not recommend the payment of a dividend with respect to preference or ordinary shares. A dividend of £666,000 was paid during 2007 on the preference shares of ODEON and UCI Cinemas Group Limited.

Ownership

Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II Fund, Terra Firma Capital Partners II LP-H, TFCP II Co-Investment 2 LP and TFCP II Co-Investment 2A LP (“Terra Firma”), has the ability to exercise a controlling influence over the Company and the Group through the holding of shares in a parent of the Company.

Terra Firma, through new holding companies, acquired the ODEON and UCI businesses from their respective vendors in late 2004.

Creditor Payment Policy

The Group does not follow any specific external code or standard on payments practice. Payments to suppliers are made in accordance with agreed terms. The Company itself had no trade creditors at 31 December 2008.

Employee involvement

Employment in the Group was 8,837 in 2008 and 8,703 in 2007 (average number of employees). Meetings are held on a regular basis with employees to review attendance, film slate, financial and operating performance. Information is cascaded from senior management teams to cinema teams. There is an annual cinema manager conference in all territories and more frequent regional meetings. There is opportunity at these meetings for managers to be questioned about matters which concern the employees.

Employment of disabled people

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Wherever possible the employment of members of staff who become disabled will be continued under normal terms and conditions and appropriate training and career development will be offered.

Community

The cinema is an important part of social life in local communities. Cinema managers maintain close contact with local community representatives, politicians and businesses. Cinemas are used as meeting places for purposes other than only films. Sub-brands have been developed which cater for special interest groups.

Health and Safety

The policy of the group is to endeavour at all times to achieve the highest standards of health, safety and welfare for its employees, customers and other visitors. To this end, clearly-defined policies, procedures, roles and responsibilities are in place, and supervision, instruction, information and appropriate training are provided. A full management system including monitoring of safety standards, independent audits and review of all key findings by senior management is in place. The system has been independently reviewed to ensure compliance with the relevant standards.

Environment

The group has taken steps to reduce its impact on the environment and is committed to continuing to do so. Efficiency savings have been made in gas and electricity consumption, and water consumption has been reduced through the introduction of more efficient toilets and flow reduction systems. Waste reduction is also a priority, in particular through the sourcing of more recyclable and environmentally-friendly products.

Political and Charitable Donations

During the year, the Group made donations of £nil (2007: £nil) to charities in the United Kingdom. No political donations were made during the current year or preceding period.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, KPMG LLP, have indicated their willingness to continue in office. Elective resolutions are currently in force to dispense with holding annual general meetings, the laying of accounts before the company in general meetings and the appointment of auditors annually. The auditors, KPMG LLP, will be deemed to have been reappointed 28 days after the day on which copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

By order of the board

J P Mason**Director**

54 Whitcomb Street

London

WC2H 7DN

22 May 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

KPMG LLP
1 St James' Square
Manchester
M2 6DS
United Kingdom

to the members of ODEON & UCI Cinemas Holdings Limited

We have audited the group and the parent company financial statements ("the financial statements") of ODEON and UCI Cinemas Holdings Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8.

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 whether 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 the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. 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 UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's 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.

KPMG LLP

Chartered Accountants
Registered Auditors

22 May 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

| | <i>Note</i> | 2008 £000 | 2007 £000 |
|--|-------------|---------------------|---------------------|
| Turnover: Group and share of joint ventures | | 563,087 | 517,272 |
| Less: share of joint ventures turnover | | (14,986) | (206) |
| Group turnover | 2,3 | 548,101 | 517,066 |
| Cost of sales | 3 | (181,726) | (176,756) |
| Gross profit | 3 | 366,375 | 340,310 |
| Net operating expenses | | (367,126) | (348,522) |
| Operating profit / (loss), analysed as: | | | |
| Before exceptional items | | 5,582 | 22,890 |
| Net operating expenses - exceptional costs | 3,6 | (6,333) | (32,863) |
| Net operating expenses - exceptional income | 3,6 | - | 1,761 |
| | 3 | (751) | (8,212) |
| Operating loss | 3 | (751) | (8,212) |
| Share of operating profit of joint ventures | | 253 | (250) |
| Operating loss including joint ventures | | (498) | (8,462) |
| (Loss)/profit on disposal of properties | 6 | (2,021) | 21,771 |
| (Loss) / profit on ordinary activities before interest and taxation | | (2,519) | 13,309 |
| Interest receivable from related parties | | 3,842 | 2,583 |
| Interest payable and similar charges | 8 | (56,239) | (71,468) |
| Other finance (costs) / income | 9 | (454) | 137 |
| Loss on ordinary activities before taxation | 3-9 | (55,370) | (55,439) |
| Taxation | 10 | 2,180 | 13,405 |
| Loss on ordinary activities after taxation and for the financial year | 24 | (53,190) | (42,034) |

Analysis of continuing operations, including acquisitions, and discontinued operations is set out in note 3.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2008

| | 2008 £000 | 2007 £000 |
|---|------------------------|------------------------|
| Loss for the financial year | (53,190) | (42,034) |
| Actuarial pension scheme (loss) / gain recognised (note 27) | (6,801) | 2,981 |
| Deferred tax on actuarial pension (loss) / gain | 1,904 | (1,215) |
| Foreign exchange differences | (34,793) | (9,042) |
| Total recognised losses | <u><u>(92,880)</u></u> | <u><u>(49,310)</u></u> |

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

CONSOLIDATED BALANCE SHEET

at 31 December 2008

| | Note | 2008 | | 2007 | |
|--|------|-----------|-----------|----------|-----------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Intangible assets | 12 | | 153,719 | | 150,445 |
| Tangible assets | 13 | | 379,035 | | 348,068 |
| Investments in joint ventures: | | | | | |
| Share of gross assets | 14 | 9,172 | | 692 | |
| Share of gross liabilities | 14 | (8,344) | | (692) | |
| Other costs | 14 | 698 | | - | |
| | | | 1,526 | | - |
| | | | 534,280 | | 498,513 |
| Current assets | | | | | |
| Stocks | 15 | 3,769 | | 2,672 | |
| Debtors within one year | 16 | 39,474 | | 34,814 | |
| Debtors due after more than one year | 17 | 60,876 | | 54,726 | |
| Cash at bank and in hand | | 58,541 | | 46,735 | |
| | | 162,660 | | 138,947 | |
| Creditors: amounts falling due within one year | 18 | (124,114) | | (94,598) | |
| Net current assets | | | 38,546 | | 44,349 |
| Total assets less current liabilities | | | 572,826 | | 542,862 |
| Creditors: amounts falling due after more than one year | 19 | | (623,076) | | (510,895) |
| Provisions for liabilities and charges | 21 | | (86,104) | | (79,089) |
| Net liabilities excluding pension liabilities | | | (136,354) | | (47,122) |
| Pension liability | 27 | | (4,045) | | (397) |
| Net liabilities including pension liabilities | | | (140,399) | | (47,519) |
| Capital and reserves | | | | | |
| Called up share capital | 23 | | 97,727 | | 97,727 |
| Profit and loss account | 24 | | (227,773) | | (134,893) |
| Other reserves | 32 | | (10,353) | | (10,353) |
| Total shareholders' deficit | 32 | | (140,399) | | (47,519) |

These financial statements were approved by the board of directors on 22 May 2009 and were signed on its behalf by:

J P Mason
Director

COMPANY BALANCE SHEET

at 31 December 2008

| | <i>Notes</i> | 2008 | | 2007 | |
|--|--------------|----------------|----------------|----------------|----------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Investments | 14 | | 97,407 | | 97,407 |
| Current assets | | | | | |
| Debtors due after more than one year | 17 | 243,397 | | 189,571 | |
| | | <u>243,397</u> | | <u>189,571</u> | |
| Net current assets | | | <u>243,397</u> | | <u>189,571</u> |
| Total assets less current liabilities | | | <u>340,804</u> | | <u>286,978</u> |
| Creditors: amounts falling due after more than one year | | | | | |
| | 19 | | (243,564) | | (189,990) |
| Net assets | | | <u>97,240</u> | | <u>96,988</u> |
| Capital and reserves | | | | | |
| Called up share capital | 23 | | 97,727 | | 97,727 |
| Profit and loss account | 24 | | (487) | | (739) |
| Total shareholders' funds/(deficit) | 32 | | <u>97,240</u> | | <u>96,988</u> |

These financial statements were approved by the board of directors on 22 May 2009 and were signed on its behalf by:

J P Mason
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

| | <i>Note</i> | 2008 £000 | 2007 £000 |
|--|-------------|---------------------|---------------------|
| Net cash inflow from operating activities | 25(a) | 56,462 | 21,516 |
| Returns on investments and servicing of finance | | ----- | ----- |
| Interest paid | | (25,877) | (21,303) |
| Net cash outflow from returns on investments and servicing of finance | | (25,877) | (21,303) |
| Taxation paid | | (112) | (742) |
| Capital expenditure and financial investment | | ----- | ----- |
| Purchase of tangible fixed assets | | (42,650) | (30,690) |
| Sale of tangible fixed assets | | 5,406 | 115,813 |
| Net cash (outflow) / inflow from capital expenditure and financial investment | | (37,244) | 85,123 |
| Acquisitions and disposals | | ----- | ----- |
| Purchase of subsidiaries and joint ventures | 31,14 | (1,994) | (24,571) |
| Net cash acquired with subsidiaries | 31 | 28 | 14 |
| Net cash outflow from acquisitions and disposals | | (1,966) | (24,557) |
| Equity dividends paid to shareholders | | - | (666) |
| Net cash (outflow)/ inflow before financing | | (8,737) | 59,371 |
| Financing | | ----- | ----- |
| Bank loans and overdrafts repaid | | (774) | (199,420) |
| Discounted loan notes repaid | | - | (110,246) |
| New bank loans drawn-down | | 16,625 | 250,923 |
| Bank loan arrangement fees paid | | (164) | (11,031) |
| Finance leases from related parties | | - | 21,464 |
| Other finance leases | | (701) | (376) |
| Net cash inflow / (outflow) from financing | | 14,986 | (48,686) |
| Increase in cash in the year | 25(b) | 6,249 | 10,685 |

NOTES

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. Upon acquisition, assets are included at fair value.

Going concern and liquidity management

The financial statements are prepared on a going concern basis. The directors have formally considered and concluded that this remains appropriate. The facts set out below were relevant in arriving at this conclusion.

The business activities of the Group, and its future prospects, are described within the Directors' Report.

The Group has a committed bank facility, which was entered into in April 2007 and provides long-term funding that is contractually available to the Group provided the conditions of the facility agreement are met, including compliance with covenanted ratios. Projected covenant ratios indicate that no issues with compliance are anticipated in the next 12 months and beyond.

The term of the facility agreement is 7 years for the earliest debt tranche to be fully repaid, with other tranches having longer periods of availability. Mandatory part-repayments of the debt are scheduled and planned-for each year. The repayments due in the 12 months after the balance sheet date total approximately £2.3 million.

The group also has shareholder funding in place that is subordinated and therefore longer-term in nature than the bank debt.

The Group has a substantial cash balance available to meet working capital requirements, despite investment in the estate having taken place. Furthermore, there are approximately £55 million of committed unutilised bank facility funds available, including a substantial revolving credit facility that was undrawn at year-end and throughout the period up to signature of this report and financial statements.

Basis of consolidation

ODEON and UCI Cinemas Holdings Limited was incorporated on 19 March 2007. On 4 April 2007 a group restructure took place with the result that ODEON and UCI Cinemas Holdings Limited was introduced as a new holding company for the group. Merger accounting has been adopted as the basis of consolidation following this restructure. By adopting this accounting treatment the consolidated financial information included in these accounts has been shown as though the reconstruction had occurred prior to 1 January 2007.

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Under section 230 (4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The amount of the profit/(loss) dealt with in the company financial statements is disclosed in note 24 to these financial statements.

Turnover

Turnover represents amounts charged to customers for goods, services and property rental income, stated net of value added tax, which is recognised based on the date the goods and services are received and the period over which the rental income is earned.

Goodwill

Goodwill, being the difference between the costs of businesses acquired and the fair value of their separable net assets is included in the balance sheet as an intangible asset in accordance with FRS 10 "Goodwill and Intangible Assets" and is amortised over its useful economic life which the directors estimate to be 20 years.

Tangible fixed assets

Depreciation is provided on the cost or revaluation of tangible fixed assets on a straight line basis over their estimated useful lives as follows:

| | | |
|------------------------------|---|---|
| Land is not depreciated | | |
| Freehold buildings | - | 2% per annum |
| Long leasehold property | - | over the period of the lease to a maximum of 50 years |
| Short leasehold property | - | over the period of the lease |
| Plant, fixtures and fittings | - | 10 – 25% per annum |

Assets under construction (the construction and redevelopment of cinemas) are not depreciated as these assets are not available for use in the business.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the monthly average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Classification of financial instruments issued by the Group and Company

Following the adoption of FRS 25, preference shares issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Investments

Investments held as fixed assets are stated at cost less provisions for any impairment.

Asset Impairment

Intangible and tangible fixed assets are tested for impairment in accordance with FRS 11. An impairment loss is recognised to the extent that the carrying amount exceeds its recoverable amount.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leases

Rental costs under operating leases are charged to the profit and loss account over the period of the lease. Certain leases with related parties contain inflation-driven rental uplifts with pre-determined minimums: the amount payable in respect of these uplifts is charged to the profit and loss account as it arises. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Provision is made for lease commitments on certain leasehold properties based on the expected exposure. The amount provided is based either on the future rental obligations (discounted by 6.5%, based on property yields), net of anticipated operating profit from trading (discounted by 9.5%, based on cost of capital), or management's best estimate of the expected exposure. Provision is made for the remaining period of the leases identified, subject to a maximum of 25 years, after which the directors consider the impact of discounting upon the rental and trading projections renders them immaterial.

Pre-opening costs

Operating costs incurred before a new cinema is opened are written off to the profit and loss account as incurred.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Deep discounted bonds

Deep discounted bonds are held in the balance sheet at their issued amount less directly attributable issue costs plus the accrued finance charge which has arisen on them. The finance charge accrues at a constant rate over the term of the bonds.

Pensions

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

The group also operates two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group. The group has adopted FRS 17: Retirement Benefits.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Derivatives

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and other various items such as trade debtors, trade creditors etc. The main purpose of these financial instruments is to raise finance for the Group's operation.

The Group also enters into interest rate swaps to manage the interest rate risk arising from the Group's sources of finance. Amounts payable or receivable in respect of interest rate swap transactions are recognised on an accruals basis until settlement date and are treated as an adjustment to the interest expense over the period of the contract.

All derivatives are held for hedging purposes.

2 Turnover

All turnover derives wholly from the ownership and operation of cinemas.

An analysis of turnover by geographical market is set out below:

| | 2008 | | | 2007 | | |
|---------------------------------|--------------------|----------------------|----------------|--------------------|----------------------|----------------|
| | Continuing £000 | Discontinued £000 | Total £000 | Continuing £000 | Discontinued £000 | Total £000 |
| UK | 291,497 | - | 291,497 | 300,840 | 1,500 | 302,340 |
| Continental Europe & Ireland | 256,604 | - | 256,604 | 214,726 | - | 214,726 |
| Group turnover | 548,101 | - | 548,101 | 515,566 | 1,500 | 517,066 |

3 Analysis of continuing and discontinued operations

| | 2008 | | | 2007 | | |
|---|--------------------|----------------------|---------------|--------------------|----------------------|---------------|
| | Continuing £000 | Discontinued £000 | Total £000 | Continuing £000 | Discontinued £000 | Total £000 |
| Group turnover | 548,101 | - | 548,101 | 515,566 | 1,500 | 517,066 |
| Cost of sales | (181,726) | - | (181,726) | (175,592) | (1,164) | (176,756) |
| Gross profit | 366,375 | - | 366,375 | 339,974 | 336 | 340,310 |
| Net operating expenses | (367,126) | - | (367,126) | (346,422) | (2,100) | (348,522) |
| Group operating profit | (751) | - | (751) | (6,448) | (1,764) | (8,212) |
| Share of joint ventures' operating profit / (loss) | 253 | - | 253 | (250) | - | (250) |
| | (498) | - | (498) | (6,698) | (1,764) | (8,462) |

The total figures for continuing operations in 2008 include the following amounts relating to acquisitions: turnover £2,591,000 (2007: £11,144,000), cost of sales £997,000 (2007: £4,367,000) and net operating expenses £1,601,000 (2007: £6,624,000).

The directors have concluded that the profit and loss accounts of the acquisitions are not material to the group as a whole. Therefore, the disclosure of separate full profit and loss accounts for the acquisitions (defined in FRS 6) has not been made.

Net operating expenses in 2008 include exceptional costs of £6,333,000 (2007: £32,863,000) and exceptional income of £nil (2007: £1,761,000) which are explained in Note 6.

4 Remuneration of directors

| | 2008 | 2007 |
|--|--------------|--------------|
| | £000 | £000 |
| Directors' emoluments | 1,252 | 1,002 |
| Company contributions to money purchase pension schemes | 35 | 29 |
| | <u>1,287</u> | <u>1,031</u> |

The aggregate of emoluments of the highest paid director was £821,000 (2007: £796,000). No contributions to a Group pension scheme were made in relation to the highest paid director (2007: £nil).

| | Number of directors | |
|---|---------------------|------|
| | 2008 | 2007 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 2 | 2 |

5 Loss on ordinary activities before taxation

| | 2008 | 2007 |
|---|---------------|---------------|
| | £000 | £000 |
| <i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i> | | |
| Depreciation | | |
| - Owned assets | 43,018 | 36,361 |
| - Finance lease assets | 1,472 | 583 |
| Amortisation of intangible assets | 9 | 5 |
| Amortisation of goodwill | 10,452 | 8,577 |
| Amounts receivable by the auditors: | | |
| - Audit of Group financial statements pursuant to legislation | 69 | 52 |
| - Audit of the parent company financial statements pursuant to legislation | 8 | 11 |
| - Audit of financial statements of subsidiaries pursuant to legislation | 233 | 295 |
| - Other services relating to taxation | 105 | 61 |
| - All other services | - | 132 |
| Property rental income | (1,881) | (2,170) |
| Lease exit premiums | (1,018) | - |
| Rentals under operating leases – property | <u>85,003</u> | <u>78,178</u> |

6 Exceptional costs / profit and loss on disposal

Exceptional costs

The exceptional costs in the current year primarily represent one-off property-related costs and also one-off costs associated with integrating acquired businesses and ceasing unprofitable operations. The tax effect of the exceptional costs in aggregate was £nil.

The exceptional costs in the prior year primarily represent a change in the provision for lease commitments (£22,458,000) and other one-off property-related costs including exit from onerous lease terms (£7,080,000). Also included are one-off costs associated with integrating acquired businesses and ceasing unprofitable operations (£3,325,000). The tax effect of the exceptional costs in aggregate was a credit of £6,622,000.

Exceptional income

The exceptional income in the prior year represented the favourable outcome of a property-related litigation claim, provision for which existed at the prior year balance sheet date (£1,761,000). The tax effect of the exceptional income was a charge of £nil.

Profit and loss on disposal

The profit on disposal of properties represents the difference between the proceeds due (net of disposal costs) and the net book value of the assets sold.

In the current year, a number of freehold and leasehold property interests were sold to third parties. The loss on disposal associated with these sales was £2,021,000.

In the prior year, a number of freehold and leasehold property interests were sold to and leased back from related parties (Note 30). The profit on disposal associated with these sales was £20,624,000. There were also a small number of other site disposals in the group in the prior year.

7 Staff numbers and costs

The average number of persons employed by the group (including directors) during the period was as follows:

| | Number of employees | |
|------------------|---------------------|--------------|
| | 2008 | 2007 |
| Administration | 360 | 282 |
| Cinema and other | 8,477 | 8,421 |
| | <u>8,837</u> | <u>8,703</u> |

The aggregate payroll costs of these persons were as follows:

| | 2008 | 2007 |
|-------------------------------|---------------|---------------|
| | £000 | £000 |
| Wages and salaries | 88,265 | 83,356 |
| Social security costs | 10,261 | 10,130 |
| Pension costs – regular costs | 1,255 | 1,199 |
| | <u>99,781</u> | <u>94,685</u> |

8 Interest payable and similar charges

| | 2008 £000 | 2007 £000 |
|--|---------------|---------------|
| Interest payable on bank loan | 21,481 | 18,423 |
| Loan notes | 26,779 | 34,706 |
| Amortisation of issue costs (on bank loans only) | 1,616 | 1,630 |
| Write-off of unamortised issue costs (previous facility) | - | 9,066 |
| Unwinding of discount on provisions | 2,665 | 1,665 |
| Other financing costs | 3,590 | 5,978 |
| Share of joint ventures | 108 | - |
| | <u>56,239</u> | <u>71,468</u> |

Other financing costs includes, inter alia, guarantee facility fees, commitment fees, bank charges, and loan note redemption fees, together with finance charges payable in respect of finance leases.

9 Other finance cost / (income)

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Returns on pension scheme investments (Note 27) | (2,638) | (2,437) |
| Interest on pension scheme liabilities (Note 27) | 2,429 | 2,272 |
| Other finance charges | 663 | 28 |
| | <u>454</u> | <u>(137)</u> |

10 Taxation

| Analysis of charge in year | 2008 | | 2007 | |
|--|---------|----------------|----------|-----------------|
| | £000 | £000 | £000 | £000 |
| UK corporation tax | | | | |
| Current tax on income for the year | 101 | | 54 | |
| Overseas tax | | | | |
| Current tax on income for the year | (506) | | 1,533 | |
| Current tax on income for the year | | (405) | | 1,587 |
| Share of joint ventures' current tax | | 56 | | - |
| Total current tax | | <u>(349)</u> | | <u>1,587</u> |
| Deferred tax (see note 21) | | | | |
| Origination/reversal of timing differences | (1,831) | | (14,992) | |
| Share of joint ventures' deferred tax | | - | | - |
| Total deferred tax | | <u>(1,831)</u> | | <u>(14,992)</u> |
| Tax on loss on ordinary activities | | <u>(2,180)</u> | | <u>(13,405)</u> |

Factors affecting the tax charge for the current year

The current tax credit for the year is lower (2007: higher) than the standard rate of corporation tax in the UK 28.5% (2007: 30%). The differences are explained below.

| | 2008 £000 | 2007 £000 |
|--|---------------------|---------------------|
| Current tax reconciliation | | |
| Loss on ordinary activities before tax | (55,370) | (55,439) |
| Current tax at 28.5% (2007: 30%) | <u>(15,780)</u> | <u>(16,632)</u> |
| Effects of: | | |
| Expenses not deductible for tax purposes | 12,416 | 13,802 |
| Non tax effected expenses | 620 | 3,562 |
| Capital allowances for period less than depreciation | 582 | 1,976 |
| Other timing differences | (1,201) | 854 |
| Losses not utilised | 4,094 | 696 |
| Provision for local taxes | 391 | 364 |
| Overseas rate differences | (214) | (1) |
| Capital gains less than/ (greater than) book value | (207) | (3,098) |
| Group relief surrender for no consideration | - | - |
| Adjustments in respect of prior years | (1,050) | 64 |
| Total current tax (credit) / charge (see above) | <u><u>(349)</u></u> | <u><u>1,587</u></u> |

11 Dividends

The aggregate amount of dividends comprises:

| | 2008 £000 | 2007 £000 |
|----------------------------------|--------------|--------------|
| Dividends in respect of the year | - | 666 |
| | <u>-</u> | <u>666</u> |

The aggregate amount of dividends proposed and recognised as liabilities as at the year end is £nil (2007: £nil).

12 Intangible assets

| | Goodwill £000 | Other £000 | Total £000 |
|---|------------------|---------------|----------------|
| Cost | | | |
| At beginning of year | 175,536 | 43 | 175,579 |
| Acquisitions in the year (see Note 31) | - | - | - |
| Acquisitions in prior periods (see Note 31) | (252) | - | (252) |
| Additions | - | 23 | 23 |
| Fully amortised | - | (38) | (38) |
| Exchange differences | 15,588 | 10 | 15,598 |
| At end of year | <u>190,872</u> | <u>38</u> | <u>190,910</u> |
| Amortisation | | | |
| At beginning of year | 25,097 | 37 | 25,134 |
| Charge for the year | 10,452 | 9 | 10,461 |
| Fully amortised | - | (38) | (38) |
| Exchange differences | 1,628 | 6 | 1,634 |
| At end of year | <u>37,177</u> | <u>14</u> | <u>37,191</u> |
| Net book value | | | |
| At 31 December 2008 | <u>153,695</u> | <u>24</u> | <u>153,719</u> |
| At 31 December 2007 | <u>150,439</u> | <u>6</u> | <u>150,445</u> |

Goodwill is held at amortised cost.

Impairment reviews have been performed in respect of the acquisitions made in the current and prior years. The recoverable amount has been assessed in accordance with FRS 10.

In accordance with FRS 11, a review was performed to establish whether or not there were any indications of impairment to the carrying amount of goodwill. The review concluded that there were no such indications.

13 Tangible fixed assets

| Group | Land and buildings £000 | Plant, fixtures and fittings £000 | Assets under construction £000 | Total £000 |
|--|----------------------------|--------------------------------------|-----------------------------------|----------------|
| Cost | | | | |
| At beginning of year | 291,873 | 138,750 | 7,716 | 438,339 |
| Acquisition in the current year (see Note 31a) | 733 | 264 | - | 997 |
| Acquisition in the prior year (see Note 31b) | - | 2,291 | - | 2,291 |
| Additions | 3,623 | 16,334 | 22,470 | 42,427 |
| Reclassifications | 6,482 | 20,988 | (27,470) | - |
| Disposals | (10,150) | (4,632) | - | (14,782) |
| Exchange differences | 27,683 | 25,101 | 293 | 53,077 |
| At end of year | <u>320,244</u> | <u>199,096</u> | <u>3,009</u> | <u>522,349</u> |
| Depreciation | | | | |
| At beginning of year | 38,295 | 51,976 | - | 90,271 |
| Charge for the year | 13,734 | 30,756 | - | 44,490 |
| On disposals | (3,414) | (3,941) | - | (7,355) |
| Exchange differences | 4,499 | 11,409 | - | 15,908 |
| At end of year | <u>53,114</u> | <u>90,200</u> | <u>-</u> | <u>143,314</u> |
| Net book value | | | | |
| At 31 December 2008 | <u>267,130</u> | <u>108,896</u> | <u>3,009</u> | <u>379,035</u> |
| At 31 December 2007 | <u>253,578</u> | <u>86,774</u> | <u>7,716</u> | <u>348,068</u> |

The net book value of land and buildings costs comprises:

| | 2008 £000 | 2007 £000 |
|-----------------|----------------|----------------|
| Freehold | 20,772 | 28,121 |
| Long leasehold | 24,685 | 24,559 |
| Short leasehold | 221,673 | 200,898 |
| | <u>267,130</u> | <u>253,578</u> |

The net book value attributable to assets held under finance leases is £17,289,000 (2007: £15,869,000).

In accordance with FRS 11, a review was performed to establish whether or not there were any indications of impairment to the carrying amount of tangible fixed assets. The review concluded that there were no such indications.

Company

The company did not hold any tangible fixed assets in the current or prior year.

14 Fixed asset investments

| Group | Goodwill | Interests in joint ventures | Loans | Total |
|---|-----------------|------------------------------------|--------------|--------------|
| Joint ventures | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At beginning of year | - | 250 | - | 250 |
| Additions | 698 | 210 | 529 | 1,437 |
| At end of year | 698 | 460 | 529 | 1,687 |
| Share of post acquisition reserves | | | | |
| At beginning of year | - | (250) | - | (250) |
| Retained profits | - | 89 | - | 89 |
| At end of year | - | (161) | - | (161) |
| Net book value | | | | |
| At 31 December 2008 | 698 | 299 | 529 | 1,526 |
| At 31 December 2007 | - | - | - | - |

| Company | Investments in group undertakings |
|-----------------------|--|
| | £000 |
| At beginning of year | 97,407 |
| Additions in the year | - |
| At end of year | 97,407 |

The only direct subsidiary of the Company is ODEON and UCI Cinemas Group Limited.

The principal undertakings in which the Company had a direct or indirect interest at the year end are shown below. The investments include both ordinary and preference shares.

| Name | Country of incorporation | % interest | Nature of business |
|--|--------------------------|------------|---|
| ODEON and UCI Cinemas Group Limited | Great Britain | 100% owned | Holding Company |
| Cicero Holdings Limited | Great Britain | 100% owned | Holding Company |
| Cicero Investments Limited | Great Britain | 100% owned | Holding Company |
| Cicero Acquisitions Limited | Great Britain | 100% owned | Holding Company |
| ODEON Cinemas Limited | Great Britain | 100% owned | Operation of cinemas |
| ABC Cinemas Limited | Great Britain | 100% owned | Operation of cinemas |
| Bookit Limited | Great Britain | 100% owned | Credit card and debit card transaction processing |
| Lucius Holdings Limited | Great Britain | 100% owned | Holding Company |
| Lucius Investments Limited | Great Britain | 100% owned | Holding Company |
| United Cinemas International Acquisitions Limited | Great Britain | 100% owned | Holding Company |
| United Cinemas International Multiplex BV | Netherlands | 100% owned | Holding Company |
| United Cinemas International (UK) Limited | Great Britain | 100% owned | Operation of cinemas |
| ODEON and Sky Filmworks Ltd | Great Britain | 50% owned | Film distribution |
| Digital Cinema Media Limited | Great Britain | 50% owned | Screen advertising |
| Compania de Iniciatives y Espectaculos SA (Cinesa) | Spain | 100% owned | Operation of cinemas |
| Cineparque y Espectaculos SA | Spain | 100% owned | Operation of cinemas |
| Multicines y Espectaculos SAU | Spain | 100% owned | Operation of cinemas |
| Cinema International Corporation Lda | Portugal | 100% owned | Operation of cinemas |
| United Cinemas International Multiplex GmbH | Germany | 100% owned | Operation of cinemas |
| Kino Friedrichshain Betriebsgesellschaft GmbH | Germany | 100% owned | Operation of cinemas |
| Kino Gera Betriebsgesellschaft GmbH | Germany | 100% owned | Operation of cinemas |
| Kino Lausitzpark Betriebsgesellschaft GmbH | Germany | 100% owned | Operation of cinemas |
| UCI Kinoplex GmbH | Germany | 100% owned | Operation of cinemas |
| United Cinemas International Multiplex GesembH | Austria | 100% owned | Operation of cinemas |
| UCI Italia SPA | Italy | 100% owned | Operation of cinemas |
| UCI Bicocca SRL | Italy | 100% owned | Operation of cinemas |
| Multiplex Nord SRL | Italy | 100% owned | Operation of cinemas |
| UCI Sud SRL | Italy | 100% owned | Operation of cinemas |
| UCI Centro SRL | Italy | 100% owned | Operation of cinemas |
| UCI Nord Est SRL | Italy | 100% owned | Operation of cinemas |

15 Stocks

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Goods for resale | 3,769 | 2,672 | - | - |

16 Debtors amounts falling due within one year

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|--------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Trade debtors | 19,015 | 14,536 | - | - |
| Other debtors | 4,740 | 2,680 | - | - |
| Prepayments and accrued income | 15,719 | 17,598 | - | - |
| | <u>39,474</u> | <u>34,814</u> | <u>-</u> | <u>-</u> |

17 Debtors amounts falling due after one year

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|---------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Other debtors | 10,320 | 8,011 | - | - |
| Loan notes | - | - | 243,397 | 189,571 |
| Deferred tax | - | - | - | - |
| Amounts owed by related parties | 50,556 | 46,715 | - | - |
| | <u>60,876</u> | <u>54,726</u> | <u>243,397</u> | <u>189,571</u> |

The loan notes are unsecured, and are receivable from group undertakings.

18 Creditors: amounts falling due within one year

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| Bank loans and overdrafts | 2,246 | 744 | - | - |
| Trade creditors | 27,192 | 21,293 | - | - |
| Finance leases | 2,971 | 2,517 | - | - |
| Other creditors including taxation and social security | 25,048 | 23,886 | - | - |
| Corporation tax | 1,376 | 1,091 | - | - |
| Accruals and deferred income | 65,281 | 45,067 | - | - |
| | <u>124,114</u> | <u>94,598</u> | <u>-</u> | <u>-</u> |

Interest was payable on the bank loan at LIBOR or EURIBOR plus a margin of between 1.75% and 2.88% (2007: between 1.75% and 3.25%) plus costs of between nil and 0.01%. Bank loans and overdrafts due within one year are stated net of £nil (2007:£30,000) of unamortised issue costs.

19 Creditors: amounts falling due after more than one year

| | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|---------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Bank loans and overdrafts | 288,203 | 245,301 | - | - |
| Finance leases | 31,784 | 30,060 | - | - |
| Loan notes | 301,596 | 232,971 | 243,007 | 189,480 |
| Other creditors and accruals | 936 | 2,053 | - | - |
| Amounts owed to related parties | 557 | 510 | 557 | 510 |
| | <u>623,076</u> | <u>510,895</u> | <u>243,564</u> | <u>189,990</u> |

Interest was payable on the bank loans at LIBOR or EURIBOR plus a margin of between 1.75% and 2.88% (2007: between 1.75% and 3.25%) plus costs of between nil and 0.01%. Bank loans and overdrafts due after more than one year are stated net of £8,396,000 (2007: £9,818,000) of unamortised issue costs.

The bank loans are secured by the assets of the business and its subsidiaries. The bank loans are repayable in stages, with the first loan tranche due for full repayment by 2 April 2014 and the final loan tranche due for full repayment by 2 April 2016.

The aggregate amount of loan notes issued to a related party included in creditors falling due after more than one year is £301,596,000 (2007: £232,971,000). This is the net book value based on the aggregate issued amounts of £246,599,000 (2007: £211,623,000) plus interest accrued of £54,997,000 (2007: £21,348,000). Further details are set out below:

The following loan notes, including accrued interest, issued by the ODEON and UCI Cinemas Group Limited to a parent company, Monterey Capital III Sarl during 2005, remained outstanding at 31 December 2007:

Par value £11.2m

Issued for £11.2m

Interest rate 16.4%; amended to 11.0% in August 2007

Book value at 31 December 2008 was £18.0m

Par value €26.2m

Issued for €26.2m

Interest rate 16.1%; amended to 11.0% in August 2007

Book value at 31 December 2008 was €41.9m

The following loan notes, including accrued interest, issued by ODEON and UCI Cinemas Holdings Limited to its immediate parent, Monterey Capital III Sarl during 2007, remained outstanding at 31 December 2008. These loan notes replaced loan notes of equivalent value previously held by a related party (Note 30).

Par value £98.2m

Issued for £98.2m

Interest rate 10.875%

Book value at 31 December 2008 was £113.6m

Par value €115.5m

Issued for €115.5m

Interest rate 10.875%

Book value at 31 December 2008 was €133.7m

The maturity profile of the Group's bank and other borrowings (excluding preference shares) at 31 December was as follows:

| Group | 2008 £000 | 2007 £000 |
|-----------------------------|--------------|--------------|
| Within 1 year, or on demand | 5,217 | 3,292 |
| Within one to two years | 4,138 | 5,160 |
| Within two to five years | 18,838 | 25,217 |
| Over five years | 607,003 | 488,282 |
| | <hr/> | <hr/> |
| | 635,196 | 521,951 |
| Un-amortised issue costs | (8,396) | (9,848) |
| | <hr/> | <hr/> |
| | 626,800 | 512,103 |
| | <hr/> <hr/> | <hr/> <hr/> |

Finance leases

Future minimum payments under finance leases are as follows:

| Group | 2008 £000 | 2007 £000 |
|--------------------------|--------------|--------------|
| Within 1 year | 2,971 | 2,517 |
| Within one to five years | 9,610 | 10,635 |
| Over five years | 22,174 | 19,425 |
| | <hr/> | <hr/> |
| Total gross payments | 34,755 | 32,577 |
| | <hr/> <hr/> | <hr/> <hr/> |

20 Derivatives and other financial instruments

Short term debtors and creditors are excluded from the disclosures relating to derivatives and other financial instruments. There is no material difference between the fair value of financial assets and liabilities and the carrying value in the balance sheet.

Financial assets

Financial assets comprise cash at bank and in hand and are held in Sterling and Euro. Interest is earned on cash at bank at floating interest rates linked to short term bank deposit rates.

Financial liabilities

The Group borrows in the desired currencies at both fixed and floating rates of interest. For bank borrowings interest rate hedging contracts (swaps) are used to generate the desired interest profile to manage the Group's exposure to interest rate fluctuations. The Group's policy is to maintain fixed interest rates, by means of hedging contracts, covering between 50% and 100% of the senior bank debt drawn. At the year end approximately 63% of the Group's bank borrowings were at fixed rates after taking into account interest rate swaps. For Sterling denominated loans the fixed rate was 6.07% plus a margin ranging from 2.00% to 2.88% and for Euro denominated loans a fixed rate of 4.63% plus a margin of 2.25% to 2.88%.

The interest on loan notes is fixed at a rate of 10.875%.

As at 31 December 2008 the total bank facilities included a £45,000,000 revolving credit facility. Of this facility, £37,856,000 remained unutilised at the balance sheet date. The maturity date of the revolving credit facility is April 2014.

There are no unrecognised gains or losses relating to interest rate swaps.

21 Provisions for liabilities and charges

| | Deferred tax | Lease provisions & other | Total |
|---|-----------------|--------------------------------|---------------|
| | £000 | £000 | £000 |
| At the beginning of the year | 2,111 | 76,978 | 79,089 |
| Arising on acquisitions (Note 31) | 240 | - | 240 |
| Utilised | - | (8,873) | (8,873) |
| Unwinding of discount on provision | - | 2,665 | 2,665 |
| (Credited) / Charged to the profit and loss account | (1,831) | 4,750 | 2,919 |
| Exchange differences | (33) | 10,584 | 10,551 |
| On pension (Note 27, 32) | (487) | - | (487) |
| At the end of year | <u>-</u> | <u>86,104</u> | <u>86,104</u> |

Provision has been made for lease commitments on certain leasehold properties based on the expected exposure. The amount provided is based either on the future rental obligations (discounted by 6.5%, based on property yields), net of anticipated operating profit from trading (discounted by 9.5%, based on cost of capital), or management's best estimate of the expected exposure. Provision has been made for the remaining period of the leases identified, subject to a maximum of 25 years, after which the directors consider the impact of discounting upon the rental and trading projections renders them immaterial.

22 Deferred tax

The amounts of deferred tax liability provided are:

| | Group 2008 | Group 2007 | Company 2008 | Company 2007 |
|--------------------------------|---------------|---------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | - | 3,120 | - | - |
| Other timing differences | - | (1,009) | - | - |
| Un-utilised losses | - | - | - | - |
| | <u>-</u> | <u>2,111</u> | <u>-</u> | <u>-</u> |

The potential amounts of deferred tax asset not provided are:

| | Group 2008 | Group 2007 | Company 2008 | Company 2007 |
|--------------------------------|------------------|-----------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | (5,352) | 816 | - | - |
| Other timing differences | (10,157) | (14,773) | - | - |
| Un-utilised losses | (87,279) | (62,933) | - | - |
| | <u>(102,788)</u> | <u>(76,890)</u> | <u>-</u> | <u>-</u> |

23 Called up share capital

| | 2008 | 2007 |
|--|---------------|---------------|
| | £000 | £000 |
| <i>Authorised</i> | | |
| 97,727,423 (2007: 97,727,423) A Ordinary shares of £1 each | <u>97,727</u> | <u>97,727</u> |
| <i>Allotted, called up and fully paid</i> | | |
| 97,727,423 (2007: 97,727,423) A Ordinary shares of £1 each | <u>97,727</u> | <u>97,727</u> |

Voting rights

The A Ordinary shares shall confer on each holder thereof the right to receive notice and to attend, speak and vote at all general meetings of the Company.

24 Reserves

| Group | Profit and loss account |
|--|--------------------------------|
| | £000 |
| At beginning of the year | (134,893) |
| Loss for the year | (53,190) |
| Actuarial pension scheme gain recognised (Note 27) | (6,801) |
| Deferred tax on pension gain | 1,904 |
| Exchange differences | (34,793) |
| Dividends | - |
| At the end of year | <u>(227,773)</u> |
| | <u> </u> |
| Company | Profit and loss account |
| | £000 |
| At beginning of the year | (739) |
| Profit for the year | 213 |
| Exchange differences | 39 |
| Dividends | - |
| At the end of year | <u>(487)</u> |
| | <u> </u> |

25 Notes to cash flow statement

(a) Net cash flow from operating activities

| | 2008 £000 | 2007 £000 |
|--|---------------|---------------|
| Operating loss | (751) | (8,462) |
| Depreciation | 44,490 | 36,944 |
| Amortisation of goodwill and intangibles | 10,461 | 8,582 |
| (Increase) / Decrease in stock | (1,042) | 1,610 |
| Increase in debtors | (6,957) | (13,426) |
| Decrease in provisions | (6,313) | (6,745) |
| Increase in creditors | 16,574 | 3,013 |
| Net cash inflow from operating activities | 56,462 | 21,516 |

(b) Net debt

| | Balance at 31 December 2007 £000 | Cashflow £000 | Other non-cash movements £000 | Exchange £000 | Balance at 31 December 2008 £000 |
|---|---|------------------|--|------------------|---|
| Net cash: | | | | | |
| Cash at bank and in hand | 46,735 | 6,249 | | 5,557 | 58,541 |
| Debt: | | | | | |
| Debt falling due within one year | (744) | (1,502) | - | - | (2,246) |
| Debt falling due after more than one year | (478,782) | (14,184) | (28,394) | (68,996) | (590,356) |
| Finance leases | (32,577) | 701 | (1,544) | (1,335) | (34,755) |
| Net debt | (465,368) | (8,736) | (29,938) | (64,774) | (568,816) |

Non-cash movements are primarily discount accrued on the loan notes and the write off of unamortised issue costs.

(c) Reconciliation of net cash flow to movement in net debt

| | 2008 £000 | 2007 £000 |
|---|------------------|------------------|
| Increase in net cash in the period | 6,249 | 10,685 |
| Cash inflow from increase in debt | (14,985) | 41,650 |
| Non cash movement | (29,938) | (46,289) |
| Translation difference | (64,774) | (12,635) |
| Movement in net debt in the year | (103,448) | (6,589) |
| Net debt at end of previous period | (465,368) | (458,779) |
| Net debt at end of year | (568,816) | (465,368) |

26 Financial commitments

| Group | 2008 £000 | 2007 £000 |
|---------------------------------|---------------|--------------|
| Capital commitments | | |
| Contracted for but not provided | <u>15,887</u> | <u>4,152</u> |

Operating commitments

At 31 December the Group was committed to making the following payments during the next year in respect of operating leases:

| Group | Land and Buildings 2008 £000 | Land and Buildings 2007 £000 |
|-------------------------------|---------------------------------------|---------------------------------------|
| Operating lease which expire: | | |
| Within one year | 1,002 | 107 |
| In two to five years | 7,713 | 4,822 |
| Over five years | 104,137 | 92,212 |
| | <u>112,852</u> | <u>97,141</u> |

The Company had no capital or operating lease commitments at 31 December 2008 or at the preceding year end.

27 Pension schemes

The Group operates or participates in two defined benefit schemes (the ABC Cinemas Limited Pension Scheme (the "ABC plan") and the Optima 2 Pension Scheme (the "Optima 2 Plan")) and two defined contribution schemes (the Optima 1 Pension Plan and the ODEON DC Stakeholder Pension Scheme, formerly the UCI Stakeholder Pension Scheme). Assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefit schemes

Both the ABC plan and the Optima 2 plan are closed to new members. The Optima 2 plan is closed to future accrual from 1 January 2009. The latest full actuarial valuation for the ABC plan was carried out at 30 April 2006 and was updated for FRS 17 purposes to 31 December 2008 by a qualified independent actuary. The latest full actuarial valuation for the Optima 2 plan was carried out at 31 December 2006 and was updated for FRS 17 purposes to 31 December 2008 by a qualified independent actuary.

The major financial assumptions used by the actuaries were:

| | 2008 | | 2007 | | 2006 | |
|---|------------|-----------------|------------|-----------------|------------|-----------------|
| | ABC Plan % | Optima 2 Plan % | ABC Plan % | Optima 2 Plan % | ABC Plan % | Optima 2 Plan % |
| Rate of increase in salaries | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Rate of increase in pensions in payment and deferred pensioners | | | | | | |
| -pre 6.4.1997 accrual | 2.3 | 2.0 | 2.7 | 2.1 | 2.5 | 1.9 |
| -post 6.4.1997 accrual | 2.8 | 2.8 | 3.2 | 3.2 | 2.8 | 2.8 |
| Discount rate applied to scheme liabilities | 6.0 | 6.0 | 5.8 | 5.8 | 5.1 | 5.1 |
| Inflation assumption | 2.9 | 2.9 | 3.2 | 3.2 | 2.8 | 2.8 |

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 21.2 years if they are male and for a further 23.2 years if they are female.

For a member who retires in 2018 at age 65 the assumptions are that they will live on average for a further 22.3 years after retirement if they are male and for a further 24.0 years after retirement if they are female.

The pension cost relating to the defined benefit schemes is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. Under the project unit method the current service cost will increase as members of this scheme approach retirement. As both the Optima 2 Plan and ABC Plan are closed to new members, it is expected that the current service cost will increase as a percentage of earnings for those employees who participate in the plans, provided that the assumptions underlying the valuation are borne out in practice. For the year, contributions were made to the pension scheme at a rate of 12.7% (Optima 2 Plan) and 24.5% (ABC Plan) of pensionable salaries. In addition, the Company made special deficit reduction contributions of £716,000 (Optima 2 Plan) and £702,000 (ABC Plan). These rates are subject to review at future actuarial valuations.

Scheme assets/liabilities

The assets in the scheme and the expected rates of return were:

| | Long term rate of return expected per annum % | 2008 | | | Long-term rate of return expected per annum % | 2007 | | | Long term rate of return expected per annum % | 2006 | | |
|--------------|---|--------------------------|-------------------------------|---------------|---|--------------------------|-------------------------------|---------------|---|--------------------------|-------------------------------|---------------|
| | | Fair Value-ABC Plan £000 | Fair Value-Optima 2 Plan £000 | Total £000 | | Fair Value-ABC Plan £000 | Fair Value-Optima 2 Plan £000 | Total £000 | | Fair Value-ABC Plan £000 | Fair Value-Optima 2 Plan £000 | Total £000 |
| Equities | 7.75 | 6,022 | 14,614 | 20,636 | 8 | 8,862 | 18,817 | 27,679 | 8.5 | 7,400 | 15,885 | 23,285 |
| Bonds | 5.5 | 3,018 | - | 3,018 | 4.5-5 | 3,111 | 2,371 | 5,482 | 4.5-5.0 | 2,415 | 1,682 | 4,097 |
| Gilts | 4.0 | 9,250 | 2,371 | 11,621 | 4.5 | 8,292 | - | 8,292 | 4.5 | 6,446 | - | 6,446 |
| Other | 2.5 | 215 | 79 | 294 | 6 | 185 | 130 | 315 | 5.25 | 62 | 150 | 212 |
| Total | | 18,505 | 17,064 | 35,569 | | 20,450 | 21,318 | 41,768 | | 16,323 | 17,717 | 34,040 |

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

| | 2008 | | | 2007 | | | 2006 | | |
|--|------------------|-----------------------|---------------|------------------|-----------------------|---------------|------------------|-----------------------|---------------|
| | ABC Plan £000 | Optima 2 Plan £000 | Total £000 | ABC Plan £000 | Optima 2 Plan £000 | Total £000 | ABC Plan £000 | Optima 2 Plan £000 | Total £000 |
| Total fair value of assets | 18,505 | 17,064 | 35,569 | 20,450 | 21,318 | 41,768 | 16,323 | 17,717 | 34,040 |
| Present value of scheme liabilities | (19,099) | (22,087) | (41,186) | (19,929) | (22,391) | (42,320) | (21,060) | (23,827) | (44,887) |
| (Deficit)/surplus in the scheme- pension liability | (594) | (5,023) | (5,617) | 521 | (1,073) | (552) | (4,737) | (6,110) | (10,847) |
| Related deferred tax assets | 166 | 1,406 | 1,572 | (145) | 300 | 155 | - | - | - |
| Net pension (liability)/surplus | (428) | (3,617) | (4,045) | 376 | (773) | (397) | (4,737) | (6,110) | (10,847) |

Changes to the present value of the defined benefit obligation during the year

| | 2008 | | | 2007 | | |
|--------------------------------------|------------------|-----------------------|---------------|------------------|-----------------------|---------------|
| | ABC Plan £000 | Optima 2 Plan £000 | Total £000 | ABC Plan £000 | Optima 2 Plan £000 | Total £000 |
| Opening defined benefit obligation | 19,929 | 22,391 | 42,320 | 21,060 | 23,827 | 44,887 |
| Current service cost | 152 | 381 | 533 | 197 | 566 | 763 |
| Interest cost | 1,130 | 1,299 | 2,429 | 1,055 | 1,217 | 2,272 |
| Contributions by scheme participants | 59 | 235 | 294 | 75 | 254 | 329 |
| Actuarial gain on scheme liabilities | (1,218) | (1,579) | (2,797) | (1,607) | (2,691) | (4,298) |
| Net benefits paid out | (953) | (640) | (1,593) | (851) | (782) | (1,633) |
| Past service cost | - | - | - | - | - | - |
| Closing defined benefit obligation | 19,099 | 22,087 | 41,186 | 19,929 | 22,391 | 42,320 |

Changes to the fair value of scheme assets during the year

| | ABC Plan £000 | 2008 Optima 2 Plan £000 | Total £000 | ABC Plan £000 | 2007 Optima 2 Plan £000 | Total £000 |
|--|---------------------|----------------------------------|---------------|---------------------|----------------------------------|---------------|
| Opening fair value of scheme assets | 20,450 | 21,318 | 41,768 | 16,323 | 17,717 | 34,040 |
| Expected return on scheme assets | 1,250 | 1,388 | 2,638 | 1,058 | 1,379 | 2,437 |
| Actuarial gain/(loss) on scheme assets | (3,247) | (6,352) | (9,599) | 56 | (1,373) | (1,317) |
| Contributions by the employer | 945 | 1,115 | 2,060 | 3,790 | 4,122 | 7,912 |
| Contributions by scheme participants | 59 | 235 | 294 | 75 | 254 | 329 |
| Net benefits paid out | (952) | (640) | (1,592) | (852) | (781) | (1,633) |
| Closing fair value of scheme assets | 18,505 | 17,064 | 35,569 | 20,450 | 21,318 | 41,768 |

Upon recommendation from the actuaries, ODEON & UCI Cinemas Holdings Limited has agreed to make additional annual contributions of £702,000 until 30 April 2016 to the ABC Plan, and additional annual contributions of £728,000 until 30 April 2012 to the Optima 2 Plan to reduce the deficit on the scheme.

The movement in the deficit on the schemes is shown below:

Movement in deficit during the year

| | ABC Plan £000 | 2008 Optima 2 Plan £000 | Total £000 | ABC Plan £000 | 2007 Optima 2 Plan £000 | Total £000 |
|--|---------------------|----------------------------------|---------------|---------------------|----------------------------------|---------------|
| Surplus/(deficit) in scheme at the beginning of the year | 376 | (773) | (397) | (4,737) | (6,110) | (10,847) |
| Current service cost | (152) | (381) | (533) | (197) | (566) | (763) |
| Contributions paid | 945 | 1,115 | 2,060 | 3,790 | 4,122 | 7,912 |
| Other finance income | 120 | 89 | 209 | 3 | 162 | 165 |
| Actuarial (loss)/gain | (2,028) | (4,773) | (6,801) | 1,662 | 1,319 | 2,981 |
| Deferred tax | 311 | 1,106 | 1,417 | (145) | 300 | 155 |
| (Deficit)/surplus in the scheme at end of year | (428) | (3,617) | (4,045) | 376 | (773) | (397) |

Analysis of amount charged to operating profit

| | ABC Plan £000 | 2008 Optima 2 Plan £000 | Total £000 | ABC Plan £000 | 2007 Optima 2 Plan £000 | Total £000 |
|---|---------------------|----------------------------------|---------------|---------------------|----------------------------------|---------------|
| Current service cost and total operating charge | 152 | 381 | 533 | 197 | 566 | 763 |

Analysis of amounts included in other finance income/costs

| | ABC Plan £000 | 2008 Optima 2 Plan £000 | Total £000 | ABC Plan £000 | 2007 Optima 2 Plan £000 | Total £000 |
|--|---------------------|----------------------------------|---------------|---------------------|----------------------------------|---------------|
| Expected return on pension scheme assets | 1,250 | 1,388 | 2,638 | 1,058 | 1,379 | 2,437 |
| Interest on pension scheme liabilities | (1,130) | (1,299) | (2,429) | (1,055) | (1,217) | (2,272) |
| | <u>120</u> | <u>89</u> | <u>209</u> | <u>3</u> | <u>162</u> | <u>165</u> |

Analysis of amount recognised in statement of total recognised gains and losses

| | ABC Plan £000 | 2008 Optima 2 Plan £000 | Total £000 | ABC Plan £000 | 2007 Optima 2 Plan £000 | Total £000 |
|--|---------------------|----------------------------------|----------------|---------------------|----------------------------------|---------------|
| Actual return less expected return on pension scheme assets | (3,247) | (6,352) | (9,599) | 56 | (1,373) | (1,317) |
| Experience gains/(losses) arising on the scheme liabilities | (9) | 7 | (2) | 25 | (711) | (686) |
| Change in actuarial assumptions | 1,228 | 1,572 | 2,800 | 1,581 | 3,403 | 4,984 |
| Actuarial (loss)/gain recognised in statement of total recognised gains and losses | <u>(2,028)</u> | <u>(4,773)</u> | <u>(6,801)</u> | <u>1,662</u> | <u>1,319</u> | <u>2,981</u> |

History of experience gains and losses

| | 2008 £000 | 2007 £000 | ABC Plan | |
|--|--------------|--------------|--------------|--------------|
| | | | 2006 £000 | 2005 £000 |
| Difference between the expected and actual return on scheme assets: | | | | |
| Amount (£000s) | (3,247) | 56 | (99) | 1,317 |
| Percentage of year end scheme assets | (17.5%) | 0.3% | (0.6%) | 8.5% |
| Experience gains and losses on scheme liabilities: | | | | |
| Amount (£000s) | (9) | 25 | 153 | 260 |
| Percentage of year end present value of scheme liabilities | (0.1%) | 0.1% | 0.7% | 1.2% |
| Total amount recognised in statement of total recognised gains and losses: | | | | |
| Amount (£000s) | (2,028) | 1,662 | 1,225 | 549 |
| Percentage of year end present value of scheme liabilities | (10.6%) | 8.3% | 5.8% | 2.5% |

| | 2008 £000 | 2007 £000 | Optima 2 Plan | |
|--|--------------|--------------|---------------|--------------|
| | | | 2006 £000 | 2005 £000 |
| Difference between the expected and actual return on scheme assets: | | | | |
| Amount (£000s) | (6,352) | (1,373) | 535 | 1,797 |
| Percentage of year end scheme assets | (37.2%) | (6.4%) | 3.0% | 11.9% |
| Experience gains and losses on scheme liabilities: | | | | |
| Amount (£000s) | 7 | (711) | (16) | (137) |
| Percentage of year end present value of scheme liabilities | 0.0% | (3.2%) | (0.1%) | (0.6%) |
| Total amount recognised in statement of total recognised gains and losses: | | | | |
| Amount (£000s) | (4,773) | 1,319 | 2,142 | (1,287) |
| Percentage of year end present value of scheme liabilities | (21.6%) | 5.9% | 9.0% | (5.4%) |

Defined contribution schemes

The pension charge in respect of the Optima 1 Pension Plan is equal to the contributions payable during the year ended 31 December 2008 of £nil (2007: £55,000). As at 31 December 2008 there were £nil (2007: £nil) outstanding contributions to be made to the Optima 1 Pension Plan.

The pension charge in respect of the ODEON DC Stakeholder Pension Scheme is equal to the contributions payable during the year ended 31 December 2008 of £318,000 (2007: £338,000). As at 31 December 2008 there were £nil (2007: £32,000) outstanding contributions to be made to the UCI Stakeholder Pension Scheme.

28 Contingent liabilities

At 31 December 2008 certain group companies acted as guarantors under the terms of a £396m (2007: £386m) facility made available by a syndicate of banks led by Barclays Capital and Mizuho Corporate Bank. Of the facility, £53m (2007: £44m) relates to rental guarantees.

29 Ultimate parent undertaking and controlling party

The directors regard TFCP Holdings Limited, a company registered in Guernsey, as the ultimate controlling party and the ultimate parent entity.

30 Related parties

The Company has taken advantage of the exemption granted by FRS 8, Related Party Disclosures, not to disclose transactions with Group entities where 90% of the voting rights are controlled within the group.

Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II Fund, Terra Firma Capital Partners II LP-H, TFCP II Co-Investment 2 LP and TFCP II Co-Investment 2A LP ("Terra Firma"), has the ability to exercise a controlling influence over the Company through the holding of shares in a parent of the Company. The directors therefore consider it to be a related party. Unsecured discounted loan notes of £nil (2007: £nil) were held by Terra Firma at 31 December 2008 following redemption and replacement with other loan notes by the Company in August 2007. Discount accrued of £nil (2007: £20,839,000) in relation to these notes was charged during the year.

Monterey Capital III Sarl ("Monterey"), a company registered in Luxembourg, was the immediate parent of the Company at 31 December 2008, and the directors therefore consider it to be a related party. Unsecured loan notes, including interest accrued, of £243,007,000 (2007: £189,480,000) were held by Monterey at 31 December 2008. These notes were issued by the Company to Monterey in August 2007. Interest of £21,634,000 (2007: £7,831,000) in relation to these notes was charged during the year.

In addition, unsecured loan notes, including interest accrued, of £58,589,000 (2007: £43,491,000) were held by Monterey at 31 December 2008 in relation to ODEON and UCI Cinemas Group Limited, a subsidiary of the Company. These notes were partly redeemed and replaced with other loan notes in August 2007. Interest of £5,098,000 (2007: £6,021,000) in relation to these notes was charged during the year.

During April 2007, certain group companies entered into sale and leaseback arrangements in relation to freehold and leasehold properties. Terra Firma has the ability to exercise a controlling influence over the companies with which the sale and leaseback transactions took place through the holding of shares. The directors therefore consider them to be related parties. The companies to which the freehold and leasehold properties were sold (the "Propcos") are listed below:

| | | |
|-------------------------------|----------------------------|------------------------------------|
| ODEON Banbury Ltd | ODEON Gerrards Cross Ltd | ODEON Richmond Hill Street Ltd |
| ODEON Barnet Ltd | ODEON Harrogate Ltd | ODEON Richmond Red Lion Street Ltd |
| ODEON Beckenham Ltd | ODEON Hastings Ltd | ODEON Streatham Ltd |
| ODEON Birmingham Ltd | ODEON Holloway Ltd | ODEON Swiss Cottage Ltd |
| ODEON Bournemouth (ABC) Ltd | ODEON Huddersfield Ltd | ODEON Tamworth Ltd |
| ODEON Bournemouth (ODEON) Ltd | ODEON Lee Valley Ltd | ODEON Taunton Ltd |
| ODEON Canterbury Ltd | ODEON Leicester Square Ltd | ODEON Telford Ltd |
| ODEON Chelmsford Ltd | ODEON Muswell Hill Ltd | ODEON Warrington Ltd |
| ODEON Derby Ltd | ODEON Preston Ltd | ODEON Weston-super-Mare Ltd |
| ODEON Dudley Ltd | ODEON Putney Ltd | ODEON Worcester Ltd |
| ODEON Esher Ltd | | |

The total consideration for the properties sold, excluding VAT, was £178,750,000. The consideration was partly settled during May 2007. The aggregate remaining balance due from the Propcos at 31 December 2008 was £50,556,000 (2007: £46,715,000) (Note 17), including interest. The balance attracts interest at LIBOR plus a margin of 2.375%. Interest accrued during the year was £3,842,000 (2007: £2,583,000).

The relevant trading companies with the group entered into lease contracts with the Propcos. The amount payable from the group to the Propcos during the year was £10,548,000 (2007: £5,170,000). The terms of the leases are between 25 and 30 years.

31 Acquisitions

(a) Current year acquisitions

In September 2008, the group acquired four cinemas previously operating under the Kinoplex brand in Germany. The consideration and provisional fair value to ODEON & UCI Cinemas Holdings Ltd is shown below:

| | Book value of assets acquired £000 | Fair value adjustments £000 | Accounting policy adjustments £000 | Provisional fair value £000 |
|----------------------------|--|-----------------------------------|---|-----------------------------------|
| Tangible fixed assets | 997 | - | - | 997 |
| Stock | 55 | - | - | 55 |
| Debtors | 56 | - | - | 56 |
| Cash | 28 | - | - | 28 |
| Creditors | (1,042) | - | - | (1,042) |
| Net assets acquired | 94 | - | - | 94 |
| Goodwill at cost (Note 12) | | | | - |
| | | | | 94 |
| Satisfied by: | | | | |
| Cash | | | | 94 |
| Acquisition costs | | | | - |
| | | | | 94 |

The fair values contain provisional amounts, which will be finalised in the 2009 financial statements when the detailed acquisition investigation has been completed.

(b) Fair values on acquisition

In July 2007, the group acquired the Cinestar business in Italy.

| | Estimated fair value at 31 December 2007 £000 | Adjustments £000 | Revised fair value £000 |
|---|---|---------------------|-------------------------------|
| Tangible fixed assets | 20,177 | 2,291 | 22,468 |
| Stock | 117 | - | 117 |
| Debtors | 1,371 | (235) | 1,136 |
| Cash | 14 | - | 14 |
| Creditors | (556) | (1,544) | (2,100) |
| Provisions | (603) | (240) | (843) |
| Net assets acquired | <u>20,520</u> | <u>272</u> | <u>20,792</u> |
| Goodwill at cost as at 31 December 2007 | | | 3,299 |
| Goodwill revision (Note 12) | | | (252) |
| | | | <u>23,839</u> |
| Satisfied by: | | | |
| Cash | 23,312 | - | 23,312 |
| Deferred consideration | - | - | - |
| Acquisition costs | 507 | 20 | 527 |
| | <u>23,819</u> | <u>20</u> | <u>23,839</u> |

Adjustments represent:

1. Fixed assets held under finance leases.
2. Bad debt provision.

During the year, the group paid the final instalment (£443,000) of the deferred consideration due on the December 2006 acquisition of three businesses previously operating under the Europlex brand in Italy.

32 Reconciliation of movement in shareholders' (deficit)/funds

| Group | Ordinary share capital £000 | Other reserves £000 | Preference share capital £000 | Profit and loss account £000 | Total £000 |
|---|--------------------------------|------------------------|----------------------------------|---------------------------------|---------------|
| Loss for the year | - | - | - | (53,190) | (53,190) |
| Pension movement | - | - | - | (6,801) | (6,801) |
| Deferred tax on pension loss | - | - | - | 1,904 | 1,904 |
| Dividends | - | - | - | - | - |
| Foreign exchange differences | - | - | - | (34,793) | (34,793) |
| Net increase/ (decrease) in shareholders' funds | - | - | - | (92,880) | (92,880) |
| Shareholders' deficit as at 31 December 2007 | 97,727 | (10,353) | - | (134,893) | (47,519) |
| Shareholders' deficit as at 31 December 2008 | 97,727 | (10,353) | - | (227,773) | (140,399) |

| Company | Ordinary share capital £000 | Profit and loss account £000 | Total £000 |
|--|--------------------------------|---------------------------------|---------------|
| Profit for the year | - | 213 | 213 |
| Dividends | - | - | - |
| Foreign exchange differences | - | 39 | 39 |
| Net increase in shareholders' funds | - | 252 | 252 |
| Shareholders' funds as at 31 December 2007 | 97,727 | (739) | 96,988 |
| Shareholders' funds as at 31 December 2008 | 97,727 | (487) | 97,240 |

33 Post balance sheet events

During April 2009, loans totalling £20,000,000 were granted by the Company to subsidiaries of ODEON Property Group LLP ("Propco"). The subsidiaries are related parties, as described in Note 30. The purpose of the loans was to enable Propco to agree amendments to its bank loan facility agreement and to be in a stronger position going forward. Interest will accrue on the loans at LIBOR plus 2.375%. The funds to make the loans were provided by the immediate parent of the Company, Monterey Capital III Sarl, initially as an interest-free loan but to be converted to new equity capital during 2009.

