

ODEON & UCI CINEMAS HOLDINGS LIMITED

Directors' report and financial statements
Registered number 06170611
31 December 2007

CONTENTS

Directors' Report	3
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	7
Independent auditors' report to the members of Odeon & UCI Cinemas Holdings Limited	8
Consolidated profit and loss account	10
Consolidated statement of total recognised gains and losses	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated cash flow statement	14
Notes	15

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2007.

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 193 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.

The development of the cinema portfolio continued during the year with the acquisition of the 10-cinema Cinestar chain in Italy and with the first full year trading of the 2006 acquisitions of 3 cinemas from Europlex in Italy and 5 cinemas from AMC in Spain and Portugal. The existing portfolio of cinemas was also developed during the year, with the closure or disposal of 2 cinemas in the UK and 2 in Spain, a new opening in the UK and a number of refurbishments.

Main Market Attendance Growth 2007 v 2006

Markets in UK and Italy were stronger in 2007, but Germany and Spain were weaker. National markets are influenced by the strength of local product in any year. On an average basis, weighted by the attendance in each territory, the Group's markets were close to flat year on year.

		2007	2006	Year-on-year growth
UK	Gross Box Office Revenue £m	899.0	840.6	7%
Spain	Attendance (millions)	114.8	122.4	(6%)
Germany	Attendance (millions)	125.5	136.9	(8%)
Italy	Attendance (millions)	102.5	92.1	11%

KPIs

The primary KPIs followed by the Group are Attendance and EBITDA. Group Attendance was 5% higher in 2007 than in 2006, with 75m guests, reflecting growth from acquisitions.

EBITDA* before exceptional items was £68m (2006: £65m), a 5% improvement on 2006. 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

Revenue for the year was up 8% at £517m (2006: £479m), and operating profit before exceptional items was £23m (2006: £19m). After exceptional items an operating loss was reported of £8m (2006: £19m profit). EBITDA* before exceptional items was up 4% in 2007 compared to 2006. In the year, because of current and prior year acquisitions, there was a volume mix shift towards the Continental Europe markets, which reduced the EBITDA* to Revenue ratio. The profitability of the newly acquired businesses will continue to improve as synergies are realised.

There were exceptional costs of £33m relating to lease restructuring, lease provisions at loss-making cinemas, 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 £69m in 2007 (2006: £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 £42m (2006: £38m loss) was after non-cash charges of £46m (2006: £46m) depreciation and amortisation and £35m (2006: £42m) financing cost accrual on loan notes.

* Earnings before interest, tax, depreciation, amortisation, and exceptional items.

Investment

Capital expenditure was £31m (2006: £19m): £14m was spent on maintaining the high quality of the estate, £4m on upgrading seats and cooling to provide an improved customer experience, £3m on new sites, £7m on upgrading retail and lobby facilities and £3m on information and ticketing systems.

New businesses were acquired for £25m (2006: £28m), net of cash acquired and asset disposals generated £3m. In addition £134m was received for the sale and leaseback of 31 freehold properties to related parties in the Odeon Property Group LLP. Working capital movement was adverse in the year because there were five quarterly rental payments in the UK in the year because of the timing of year end dates. Net debt excluding loan notes and finance leases was £209m (2006: £164m) at year end.

Refinancing

A refinancing exercise was completed during the year, in two parts. Firstly, the bank debt facility was replaced with a new facility, which includes capex and acquisition facilities to support further investment and growth. Secondly, 31 UK properties were sold to and leased back from a new group, Odeon Property Group LLP ("Propco"), which is a related party (see Note 30). Part of the proceeds of the refinancing, and sale and leaseback were used to redeem £110m of 16% loan notes. The remaining loan notes were converted to or replaced with 11% notes.

Onerous Leases

The Group inherited from previous owners a number of onerous rental lease contracts, in particular in Germany. During the year, six leases (with a common landlord) were restructured, to reduce rent and release substantial bank guarantees, in exchange for a premium payment, in order that the cinemas will contribute positively to earnings going forward ("the LBB deal").

The onerous lease provisions were updated, following the LBB deal, a number of other smaller deals and a review of results in general, which led to an exceptional charge to p/l in the year of £22m (Note 6).

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, by controlling capex.

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. Foreign exchange exposure is managed by an approximate matching of Euro-denominated earnings and liabilities. In 2007, 27% of EBITDA* and 31% of year-end debt were Euro-denominated.

Future Prospects

The 2008 film slate includes sequels in proven franchises such as James Bond, Harry Potter, Indiana Jones and The Chronicles of Narnia supplemented by strong local content in Continental Europe, in particular in Germany. 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. A number of new cinemas are scheduled to open in 2008, exit plans are in place for lower-performing sites and there are further potential acquisitions.

Revenue growth is also expected from: alternative uses for cinema, improving online contact with customers and other improvements to the in-cinema experience. The Group remains the leader in the development of digital projection capability outside the USA.

* Earnings before interest, tax, depreciation, amortisation, and exceptional items.

Post Balance Sheet Events

During 2008 the Group will make new arrangements for the supply of screen advertising in the cinemas in the UK, following an unattractive offer to revision to existing contract terms from Carlton Screen Advertising ("CSA").

A 50:50 joint venture between the Group and Cineworld Cinemas Ltd ("Cineworld"), called Digital Cinema Media Limited ("DCM") has been formed. At the date of approval of these accounts, negotiations were at an advanced stage for DCM to purchase certain assets from CSA in order to take over the supply of screen advertising to Odeon, Cineworld and potentially to other cinema operators. The operation of DCM and the deal with CSA remained subject to regulatory clearance.

Dividends

A dividend of £666,000 was paid during the year on the preference shares.

The directors do not recommend the payment of a dividend with respect to ordinary shares.

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 & UCI businesses from their respective vendors in late 2004.

Board Composition and Management of the Group

During the year, ODEON & 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 the board of directors of Holdings consisted of Terra Firma representatives, members of the trading group's executive management team and an independent nonexecutive director. The board of Holdings acts as an overseeing body, fulfils a corporate governance role and is consulted on key business decisions.

Board of Directors

The directors who held office during the year are set out below.

A R Gavin (appointed 19 March 2007)

J P Mason (appointed 19 March 2007)

L Levi (appointed 5 April 2007)

M J Kinski (appointed 5 April 2007)

G M Edge (appointed 2 May 2007)

F S Duncan (appointed 17 September 2007)

T L Wells (appointed 17 September 2007)

Employee involvement

Employment in the Group increased from 8,674 in 2006 to 9,473 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.

Steps were taken during the year to improve the involvement of employees in the performance of the Group by extending a bonus scheme in which payments are linked to financial performance. Certain groups of employees are also incentivised by means of personal objectives designed to improve the performance of the business.

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, for example in the UK: Newbies for Parents and Babies and Silver Screen for Retired Guests.

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 2007.

Political and Charitable Donations

During the year, the Group made donations of £nil (2006: £1,527) 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

21 May 2008

Lee House

90 Great Bridgewater Street

Manchester M1 5JW

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 period.

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

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 & UCI Cinemas Holdings Limited for the year ended 31 December 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement 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 5.

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.

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

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 2007 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
21 May 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	2,3	517,066	479,314
Cost of sales	3	(176,756)	(169,900)
Gross profit	3	340,310	309,414
Net operating expenses		(348,772)	(290,266)
Operating (loss) / profit, analysed as:			
Before exceptional items		22,640	18,917
Net operating expenses - exceptional costs	3,6	(32,863)	(5,862)
Net operating expenses - exceptional income	3,6	1,761	6,093
	3	(8,462)	19,148
Operating (loss) / profit	3	(8,462)	19,148
Profit on disposal of properties	6	21,771	17,749
Profit on ordinary activities before interest and taxation		13,309	36,897
Interest receivable from related parties		2,583	-
Interest payable and similar charges	8	(71,468)	(67,721)
Other finance income / (costs)	9	137	(71)
Loss on ordinary activities before taxation	3-9	(55,439)	(30,895)
Taxation	10	13,405	(6,987)
Loss on ordinary activities after taxation and for the financial year	24	(42,034)	(37,882)

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 2007

	2007 £000	2006 £000
Loss for the financial year	(42,034)	(37,882)
Actuarial pension scheme gain recognised (note 27)	2,981	3,367
Deferred tax on pension gain	(1,215)	-
Foreign exchange differences	(9,042)	1,900
Total recognised gains and losses	<u>(49,310)</u>	<u>(32,615)</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

for the year ended 31 December 2007

	Note	2007		2006	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	12		150,445		141,527
Tangible assets	13		348,068		467,534
			<u>498,513</u>		<u>609,061</u>
Current assets					
Stocks	15	2,672		4,165	
Debtors within one year	16	34,814		19,670	
Debtors due after more than one year	17	54,726		8,402	
Cash at bank and in hand		46,735		34,955	
		<u>138,947</u>		<u>67,192</u>	
Creditors: amounts falling due within one year	18	<u>(94,598)</u>		<u>(82,726)</u>	
Net current assets / (liabilities)			<u>44,349</u>		<u>(15,534)</u>
Total assets less current liabilities			<u>542,862</u>		<u>593,527</u>
Creditors: amounts falling due after more than one year	19		(510,895)		(497,532)
Provisions for liabilities and charges	21		<u>(79,089)</u>		<u>(86,439)</u>
Net (liabilities) / assets excluding pension liabilities			<u>(47,122)</u>		<u>9,556</u>
Pension liability	27		<u>(397)</u>		<u>(10,847)</u>
Net liabilities including pension liabilities			<u>(47,519)</u>		<u>(1,291)</u>
Capital and reserves					
Called up share capital	23		97,727		83,626
Profit and loss account	24		(134,893)		(84,917)
Other reserves	32		(10,353)		
Total shareholders' deficit	32		<u>(47,519)</u>		<u>(1,291)</u>

These financial statements were approved by the board of directors on 21 May 2008 and were signed on its behalf by:

J P Mason
Director

COMPANY BALANCE SHEET

at 31 December 2007

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

These financial statements were approved by the board of directors on 21 May 2008 and were signed on its behalf by:

J P Mason
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Net cash inflow from operating activities	25(a)	21,516	44,112
Returns on investments and servicing of finance			
Interest paid		(21,303)	(26,332)
Net cash outflow from returns on investments and servicing of finance		(21,303)	(26,332)
Taxation (paid)/received		(742)	(1,099)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(30,690)	(18,783)
Sale of tangible fixed assets		115,813	137,432
Net cash inflow from capital expenditure and financial investment		85,123	118,649
Acquisitions and disposals			
Purchase of subsidiaries	31	(24,571)	(30,416)
Net cash acquired with subsidiaries	31	14	2,857
Net cash inflow/(outflow) from acquisitions and disposals		(24,557)	(27,559)
Equity dividends paid to shareholders		(666)	-
Net cash (outflow)/ inflow before financing		59,371	107,771
Financing			
Bank loans and overdrafts repaid		(199,420)	(138,836)
Discounted loan notes (repaid)/issued		(110,246)	-
New bank loans drawn-down		250,923	-
Bank loan arrangement fees paid		(11,031)	-
Finance leases from related parties		21,464	-
Other finance leases		(376)	-
Net cash outflow from financing		(48,686)	(138,836)
Increase/(decrease) in cash in the year	25(b)	10,685	(31,065)

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.

The financial statements are prepared on a going concern basis.

Basis of consolidation

ODEON & UCI Cinemas Holdings Limited was incorporated on 19 March 2007. On 4 April 2007 a group restructure took place with the result that ODEON & 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 prior year comparatives included in these accounts relate to ODEON & UCI Cinemas Group Limited.

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2007. The acquisition method of accounting has been adopted for acquisitions made during the year. 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.

The equity method of accounting has been adopted for joint ventures.

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.

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 on the next page:

	2007			2006		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
UK	300,840	1,500	302,340	292,913	2,366	295,279
Continental Europe & Ireland	214,726	-	214,726	174,906	9,129	184,035
Total turnover	515,566	1,500	517,066	467,819	11,495	479,314

3 Analysis of continuing and discontinued operations

	2007			2006		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Group turnover	515,566	1,500	517,066	467,819	11,495	479,314
Cost of sales	(175,592)	(1,164)	(176,756)	(165,782)	(4,118)	(169,900)
Gross profit	339,974	336	340,310	302,037	7,377	309,414
Net operating expenses	(346,672)	(2,100)	(348,772)	(285,672)	(4,594)	(290,266)
Group operating profit	(6,698)	(1,764)	(8,462)	16,365	2,783	19,148

The total figures for continuing operations in 2007 include the following amounts relating to acquisitions: turnover £11,144,000 (2006:£16,894,000), cost of sales £4,367,000 (2006: £6,816,000) and net operating expenses £6,624,000 (2006: £8,564,000).

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 2007 include exceptional costs of £32,863,000 (2006: £5,862,000) and exceptional income of £1,761,000 (2006:£ 6,093,000) which are explained in Note 6.

4 Directors' emoluments

	2007 £000	2006 £000
Directors' emoluments (including contributions to personal pensions)	1,055	686

5 Loss on ordinary activities before taxation

	2007 £000	2006 £000
<i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation		
- Owned assets	36,361	37,680
- Finance lease assets	583	957
Amortisation of intangible assets	5	35
Amortisation of goodwill	8,577	7,731
Amounts receivable by the auditors:		
- Audit of Group financial statements pursuant to legislation	52	50
- Audit of the parent company financial statements pursuant to legislation	11	11
- Audit of financial statements of subsidiaries pursuant to legislation	295	240
- Other services relating to taxation	61	138
- All other services	132	80
Property rental income	(2,170)	(2,028)
Rentals under operating leases – property	<u>78,178</u>	<u>68,654</u>

6 Exceptional costs / profit and loss on disposal

Exceptional costs

The exceptional costs in the current 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 in the UK, Spain and Italy and ceasing unprofitable operations (£3,325,000). The tax effect of the exceptional costs in aggregate was a benefit of £6,622,000.

The exceptional costs in the prior year primarily represented the one-off costs associated with integrating acquired businesses in the UK and Spain (£4,147,000). They also included provision for expected property-related costs associated with conditions existing at the balance sheet date (£1,715,000). The tax effect of the prior year exceptional costs in aggregate was a benefit of £1,404,000.

Exceptional income

The exceptional income in the current 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. The exceptional income in the prior year represented the benefit of one-off lease renegotiations (£6,093,000), and arose from a partial release of provisions. The tax effect of the prior year exceptional income was a charge of £455,000.

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 and leased back from related parties (Note 30). The profit on disposal associated with these sales was £20,624,000.

In the prior year, six UK cinema sites were disposed of following consultation with the Office of Fair Trading. An element of the prior year profit on disposal related to the sale of the Ireland business, which operated three cinema sites.

There were also a small number of other site disposals in the group in both the current and 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	
	2007	2006
Administration	282	309
Cinema and other	9,191	8,365
	<u>9,473</u>	<u>8,674</u>

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£000	£000
Wages and salaries	83,356	76,720
Social security costs	10,130	8,893
Pension costs – regular costs	1,199	1,436
	<u>94,685</u>	<u>87,049</u>

8 Interest payable and similar charges

	2007	2006
	£000	£000
Interest payable on bank loan	18,423	19,280
Loan notes	34,706	41,991
Amortisation of issue costs (on bank loans only)	1,630	1,936
Write-off of unamortised issue costs (previous facility)	9,066	-
Unwinding of discount on provisions	1,665	512
Other financing costs	5,978	4,002
	<u>71,468</u>	<u>67,721</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 (income) / cost

	2007	2006
	£000	£000
Returns on pension scheme investments (Note 27)	(2,437)	(2,113)
Interest on pension scheme liabilities (Note 27)	2,272	2,184
Other finance charges	28	-
	<u>(137)</u>	<u>71</u>

10 Taxation

Analysis of charge in year	2007		2006	
	£000	£000	£000	£000
UK corporation tax				
Current tax on income for the year	54		(1,466)	
Overseas tax				
Current tax on income for the year	1,533		15	
Total current tax		1,587		(1,451)
Deferred tax (see note 21)				
Origination/reversal of timing differences	(14,992)		8,438	
Total deferred tax		(14,992)		8,438
Tax on loss on ordinary activities		(13,405)		6,987

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2006: higher) than the standard rate of corporation tax in the UK 30%, (2006: 30%). The differences are explained below.

	2007	2006
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	(55,439)	(30,895)
Current tax at 30% (2006: 30%)	(16,632)	(9,268)
Effects of:		
Expenses not deductible for tax purposes	13,802	8,030
Non tax effected expenses	3,562	-
Capital allowances for period less than/ (greater than) depreciation	1,976	(5,421)
Other timing differences	854	(2,530)
Losses not utilised	696	1,271
Provision for local taxes	364	-
Overseas rate differences	(1)	1,304
Capital gains less than/ (greater than) book value	(3,098)	4,376
Taxable debt waiver	-	2,188
Group relief surrender for no consideration	-	519
Adjustments in respect of prior years	64	(1,920)
Total current tax charge / (credit) (see above)	1,587	(1,451)

11 Dividends

The aggregate amount of dividends comprises:

	2007 £000	2006 £000
Dividends in respect of the year	666	-
	<u>666</u>	<u>-</u>

The aggregate amount of dividends proposed and recognised as liabilities as at the year end is £nil (2006: £nil).

12 Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At beginning of year	157,802	60	157,862
Acquisitions in the year (see Note 31)	3,299	-	3,299
Acquisitions in prior periods (see Note 31)	11,443	-	11,443
Disposal	-	(23)	(23)
Exchange differences	2,992	6	2,998
At end of year	<u>175,536</u>	<u>43</u>	<u>175,579</u>
Amortisation			
At beginning of year	16,298	37	16,335
Charge for the year	8,577	5	8,582
Disposal	-	(6)	(6)
Exchange differences	222	1	223
At end of year	<u>25,097</u>	<u>37</u>	<u>25,134</u>
Net book value			
At 31 December 2007	<u>150,439</u>	<u>6</u>	<u>150,445</u>
At 31 December 2006	<u>141,504</u>	<u>23</u>	<u>141,527</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.

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	422,812	117,327	6,203	546,342
Acquisition in the current year (see note 31a)	15,427	4,750	-	20,177
Acquisition in the prior year (see note 31b)	(8,399)	(2,734)	-	(11,133)
Additions	1,356	24,192	6,129	31,677
Reclassifications	(389)	5,077	(4,688)	-
Disposals	(144,531)	(14,294)	-	(158,825)
Exchange differences	5,597	4,432	72	10,101
At end of year	<u>291,873</u>	<u>138,750</u>	<u>7,716</u>	<u>438,339</u>
Depreciation				
At beginning of year	39,661	39,147	-	78,808
Charge for the year	15,610	21,334	-	36,944
On disposals	(17,663)	(10,041)	-	(27,704)
Exchange differences	687	1,536	-	2,223
At end of year	<u>38,295</u>	<u>51,976</u>	<u>-</u>	<u>90,271</u>
Net book value				
At 31 December 2007	<u>253,578</u>	<u>86,774</u>	<u>7,716</u>	<u>348,068</u>
At 31 December 2006	<u>383,151</u>	<u>78,180</u>	<u>6,203</u>	<u>467,534</u>

The net book value of land and buildings costs comprises:

	2007 £000	2006 £000
Freehold	28,121	88,526
Long leasehold	24,559	89,415
Short leasehold	200,898	205,210
	<u>253,578</u>	<u>383,151</u>

The net book value attributable to assets held under finance leases is £15,869,000 (2006: £5,250,000).

Company

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

14 Fixed asset investments

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

The only direct subsidiary of the Company is ODEON & 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 & 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
Compania de Iniciativas 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
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

Group

The Group's investment in Odeon and Sky Filmworks Ltd is accounted for using the equity method. The balance at 31 December 2007 was £nil (2006: £nil), representing a £250,000 initial investment and a £250,000 share of accumulated losses.

15 Stocks

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Goods for resale	<u>2,672</u>	<u>4,165</u>	<u>-</u>	<u>-</u>

16 Debtors amounts falling due within one year

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Trade debtors	14,536	9,466	-	-
Other debtors	2,680	6,441	-	2
Prepayments and accrued income	17,598	3,763	-	-
Amounts owed by group undertaking	-	-	-	9,481
	<u>34,814</u>	<u>19,670</u>	<u>-</u>	<u>9,483</u>

17 Debtors amounts falling due after one year

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Other debtors	8,011	8,358	-	-
Loan notes	-	-	189,571	278,053
Deferred tax	-	44	-	-
Amounts owed by related parties	46,715	-	-	-
	<u>54,726</u>	<u>8,402</u>	<u>189,571</u>	<u>278,053</u>

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

18 Creditors: amounts falling due within one year

	Group 2007	Group 2006	Company 2007	Company 2006
	£000	£000	£000	£000
Bank loans and overdrafts	744	9	-	-
Trade creditors	21,293	21,211	-	-
Finance leases	2,517	800	-	-
Other creditors including taxation and social security	23,886	16,578	-	-
Corporation tax	1,091	153	-	-
Accruals and deferred income	45,067	43,975	-	70
	<u>94,598</u>	<u>82,726</u>	<u>-</u>	<u>70</u>

Interest was payable on the bank loan at LIBOR or EURIBOR plus a margin of between 1.75% and 3.25% (2006: 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 £30,000 (2006:£1,332,000) of unamortised issue costs.

19 Creditors: amounts falling due after more than one year

	Group 2007	Group 2006	Company 2007	Company 2006
	£000	£000	£000	£000
Bank loans and overdrafts	245,301	189,828	-	-
Finance leases	30,060	3,544	-	-
Loan notes	232,971	299,553	189,480	299,553
Other creditors and accruals	2,053	4,607	-	-
Amounts owed to related parties	510	-	510	-
	<u>510,895</u>	<u>497,532</u>	<u>189,990</u>	<u>299,553</u>

Interest was payable on the bank loans at LIBOR or EURIBOR plus a margin of between 1.75% and 3.25% (2006: 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 £9,818,000 (2006: £7,993,000) of unamortised issue costs.

The bank loans are secured by the assets of the business and its subsidiaries. On 4 April 2007, a refinancing of the group bank facilities took place and the security therefore related to the new facilities from that date. The repayment terms of the new facilities are more favourable than those of the facilities existing at 31 December 2006. 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 £232,971,000 (2006: £299,553,000). This is the net book value based on the aggregate issued amounts of £211,623,000 (2006: £221,842,000) plus interest accrued of £21,348,000 (2006: £77,711,000). Further details are set out overleaf:

The following loan notes, including accrued interest, issued by the ODEON & 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 2007 was £16.2m

Par value €26.2m

Issued for €26.2m

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

Book value at 31 December 2007 was €37.8m.

The following loan notes, including accrued interest, issued by ODEON & UCI Cinemas Holdings Limited to its immediate parent, Monterey Capital III Sarl during 2007, remained outstanding at 31 December 2007. 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 2007 was £102.5m

Par value €115.5m

Issued for €115.5m

Interest rate 10.875%

Book value at 31 December 2007 was €120.6m

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

Group	2007 £000	2006 £000
Within 1 year, or on demand	3,292	2,141
Within one to two years	5,160	1,615
Within two to five years	25,217	13,620
Over five years	488,282	485,683
	521,951	503,059
Un-amortised issue costs	(9,848)	(9,325)
	512,103	493,734

Finance leases

Future minimum payments under finance leases are as follows:

Group	2007 £000	2006 £000
Within 1 year	2,517	800
Within one to five years	10,635	450
Over five years	19,425	3,094
Total gross payments	<u>32,577</u>	<u>4,344</u>

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 upon refinancing in April 2007. At the year end approximately 67% 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 2007 the total bank facilities included a £45,000,000 revolving credit facility. Of this facility, £40,600,000 remained unutilised at the balance sheet date. The maturity date of the revolving credit facility is April 2012.

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	15,646	70,793	86,439
Arising on acquisitions (Note 31)	-	603	603
Utilised	-	(20,939)	(20,939)
Unwinding of discount on provision	-	1,665	1,665
(Credited)/ Charged to the profit and loss account	(14,992)	21,526	6,534
Other	1,137	-	1,137
Exchange differences	165	3,330	3,495
On pension (Note 27)	155	-	155
At the end of year	2,111	76,978	79,089

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%), net of anticipated operating profit from trading (discounted by 9.5%), 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 2007	Group 2006	Company 2007	Company 2006
	£000	£000	£000	£000
Accelerated capital allowances	3,120	15,302	-	-
Other timing differences	(1,009)	344	-	-
Un-utilised losses	-	(44)	-	-
	<u>2,111</u>	<u>15,602</u>	<u>-</u>	<u>-</u>

Of the balance of £2,111,000 (2006: £15,602,000) an amount of £2,111,000 (2006: £15,646,000) is shown in Provisions for liabilities and charges (Note 21) and an amount of £nil (2006: £44,000) is shown in Debtors amounts falling due after one year (Note 17) as a deferred tax asset.

The potential amounts of deferred tax asset not provided are:

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Accelerated capital allowances	816	(1,583)	-	-
Other timing differences	(14,773)	(16,891)	-	-
Un-utilised losses	(62,933)	(74,073)	-	-
	<u>(76,890)</u>	<u>(92,547)</u>	<u>-</u>	<u>-</u>

23 Called up share capital

(a) ODEON & UCI Cinemas Group Limited	2006
Authorised	£000
9,947 (2006: 9,947) A Ordinary shares of £1 each	10
1,328 (2006: 1,328) B Ordinary shares of £1 each	1
10,000 (2006: 10,000) Ordinary shares of €1 each	7
40,012,500 (2006: 40,012,500) preference shares of £1 each	40,013
71,990,000 (2006: 71,990,000) preference shares of €1 each	48,462
	<u>88,493</u>
Allotted, called up and fully paid	
9,947 (2006: 9,947) A Ordinary shares of £1 each	10
1,328 (2006: 1,328) B Ordinary shares of £1 each	1
10,000 (2006: 10,000) Ordinary shares of €1 each	7
35,691,227 (2006: 35,691,227) preference shares of £1 each	35,691
71,180,747 (2006: 71,180,747) preference shares of €1 each	47,917
	<u>83,626</u>

On the 19 March 2007, ODEON & UCI Cinemas Holdings Limited was incorporated with an initial share capital of £500. The company subsequently acquired ODEON & UCI Cinemas Group Limited from Monterey Capital III Sarl for a consideration of £96,923,000, which was left outstanding on intercompany account. The intercompany loan was subsequently settled through the issue of share capital, to bring the total issued to £97,727,000 (Note 23b).

(b) ODEON & UCI Cinemas Holdings Limited	2007
<i>Authorised</i>	£000
97,727,423 A Ordinary shares of £1 each	97,727
	<u>97,727</u>
<i>Allotted, called up and fully paid</i>	
97,727,423 A Ordinary shares of £1 each	97,727
	<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	(84,917)
Loss for the year	(42,034)
Actuarial pension scheme gain recognised (Note 27)	2,981
Deferred tax on pension gain	(1,215)
Exchange differences	(9,042)
Dividends	(666)
	<u>(134,893)</u>
At the end of year	<u>(134,893)</u>

Company	Profit and loss account
	£000
At beginning of the year	-
Loss for the year	(740)
Exchange differences	1
Dividends	-
	<u>(739)</u>
At the end of year	<u>(739)</u>

25 Notes to cash flow statement

(a) Net cash flow from operating activities

	2007 £000	2006 £000
Operating (loss)/profit	(8,462)	19,148
Depreciation	36,944	38,637
Amortisation of goodwill and intangibles	8,582	7,766
Decrease/ (Increase) in stock	1,610	(155)
(Increase)/ Decrease in debtors	(13,426)	8,452
Decrease in provisions	(6,745)	(22,477)
Increase/ (Decrease) in creditors	3,013	(7,259)
Net cash inflow from operating activities	21,516	44,112

(b) Net debt

	Balance at 31 December 2006 £000	Cashflow £000	Other non-cash movement £000	Exchange £000	Balance at 31 December 2007 £000
Net cash:					
Cash at bank and in hand	34,955	10,685	-	1,095	46,735
Debt:					
Debt falling due within one year	(9)	(735)	-	-	(744)
Debt falling due after more than one year	(489,381)	70,509	(46,419)	(13,491)	(478,782)
Finance leases	(4,344)	(28,124)	130	(239)	(32,577)
Net debt	(458,779)	52,335	(46,289)	(12,635)	(465,368)

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

	2007 £000	2006 £000
Increase/ (decrease) in net cash in the period	10,685	(31,065)
Cash (inflow)/ outflow from increase in debt	41,650	138,836
Debt acquired with subsidiaries	-	(3,422)
Non cash movement	(46,289)	(43,927)
Translation difference	(12,635)	1,848
Movement in net debt in the year	(6,589)	62,270
Net debt at end of previous period	(458,779)	(521,049)
Net debt at end of year	(465,368)	(458,779)

26 Financial commitments

Group	2007 £000	2006 £000
Capital commitments		
Contracted for but not provided	4,152	-

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 2007 £000	Land and Buildings 2006 £000
Operating lease which expire:		
Within one year	107	1,090
In two to five years	4,822	3,199
Over five years	92,212	76,497
	<u>97,141</u>	<u>80,786</u>

The Company had no capital or operating lease commitments at 31 December 2007 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 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 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 2007 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 2007 by a qualified independent actuary.

The major financial assumptions used by the actuaries were:

	2007		2006		2005	
	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	3.8	3.8
Rate of increase in pensions in payment and deferred pensioners						
-pre 6.4.1997 accrual	2.7	2.1	2.5	1.9	2.8	2.0
-post 6.4.1997 accrual	3.2	3.2	2.8	2.8	2.8	2.8
Discount rate applied to scheme liabilities	5.8	5.8	5.1	5.1	4.8	4.8
Inflation assumption	3.2	3.2	2.8	2.8	2.8	2.8

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 26.4% (Optima 2 Plan) and 24.5% (ABC Plan) of pensionable salaries. In addition, the Company made special deficit reduction contributions of £3,050,000 (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 %	2007			Long-term rate of return expected per annum %	2006			Long term rate of return expected per annum %	2005		
		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	8	8,862	18,817	27,679	8.5	7,400	15,885	23,285	8.1	7,077	13,575	20,652
Bonds	4.5-5	3,111	2,371	5,482	4.5-5.0	2,415	1,682	4,097	4.0	8,101	1,409	9,510
Gilts	4.5	8,292	-	8,292	4.5	6,446	-	6,446	-	-	-	-
Other	6	185	130	315	5.25	62	150	212	3.8	373	175	548
Total		20,450	21,318	41,768		16,323	17,717	34,040		15,551	15,159	30,710

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:

	2007			2006			2005		
	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	20,450	21,318	41,768	16,323	17,717	34,040	15,551	15,159	30,710
Present value of scheme liabilities	(19,929)	(22,391)	(42,320)	(21,060)	(23,827)	(44,887)	(21,764)	(23,882)	(45,646)
Surplus/(deficit) in the scheme pension liability	521	(1,073)	(552)	(4,737)	(6,110)	(10,847)	(6,213)	(8,723)	(14,936)
Related deferred tax assets	(145)	300	155	-	-	-	-	-	-
Net pension surplus/(liability)	376	(773)	(397)	(4,737)	(6,110)	(10,847)	(6,213)	(8,723)	(14,936)

Upon recommendation from the actuaries, the Group has agreed to make additional annual contributions of £500,000 until 12 January 2018 to the ABC Plan, and additional annual contributions of £600,000 for the next ten years 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	2007			2006		
	ABC Plan £000	Optima 2 Plan £000	Total £000	ABC Plan £000	Optima 2 Plan £000	Total £000
Deficit in scheme at the beginning of the year	(4,737)	(6,110)	(10,847)	(6,213)	(8,723)	(14,936)
Current service cost	(197)	(566)	(763)	(268)	(632)	(900)
Contributions paid	3,790	4,122	7,912	628	1,065	1,693
Other finance income/ (cost)	3	162	165	(109)	38	(71)
Actuarial gain	1,662	1,319	2,981	1,225	2,142	3,367
Deferred tax	(145)	300	155	-	-	-
Surplus/(deficit) in the scheme at end of year	376	(773)	(397)	(4,737)	(6,110)	(10,847)

Analysis of amounts included in other finance income/costs

	ABC Plan £000	2007 Optima 2 Plan £000	Total £000	ABC Plan £000	2006 Optima 2 Plan £000	Total £000
Expected return on pension scheme assets	1,058	1,379	2,437	919	1,194	2,113
Interest on pension scheme liabilities	(1,055)	(1,217)	(2,272)	(1,028)	(1,156)	(2,184)
	<u>3</u>	<u>162</u>	<u>165</u>	<u>(109)</u>	<u>38</u>	<u>(71)</u>

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

	ABC Plan £000	2007 Optima 2 Plan £000	Total £000	ABC Plan £000	2006 Optima 2 Plan £000	Total £000
Actual return less expected return on pension scheme assets	56	(1,373)	(1,317)	(99)	535	436
Experience gains/(losses) arising on the scheme liabilities	25	(711)	(686)	156	(16)	140
Change in actuarial assumptions	1,581	3,403	4,984	1,168	1,623	2,791
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>1,662</u>	<u>1,319</u>	<u>2,981</u>	<u>1,225</u>	<u>2,142</u>	<u>3,367</u>

History of experience gains and losses

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

	Optima 2 Plan		
	2007	2006	2005
	£000	£000	£000
Difference between the expected and actual return on scheme assets:			
Amount (£000s)	(1,373)	535	1,797
Percentage of year end scheme assets	(6.4%)	3.0%	11.9%
Experience gains and losses on scheme liabilities:			
Amount (£000s)	(711)	(16)	(137)
Percentage of year end present value of scheme liabilities	(3.2%)	(0.1%)	(0.6%)
Total amount recognised in statement of total recognised gains and losses:			
Amount (£000s)	1,319	2,142	(1,287)
Percentage of year end present value of scheme liabilities	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 2007 of £55,000 (2006: £90,000). As at 31 December 2007 there were £nil (2006: £8,000) outstanding contributions to be made to the Optima 1 Pension Plan.

The pension charge in respect of the UCI Stakeholder Pension Scheme is equal to the contributions payable during the year ended 31 December 2007 of £338,000 (2006: £311,000). As at 31 December 2007 there were £32,000 (2006: £23,000) outstanding contributions to be made to the UCI Stakeholder Pension Scheme.

28 Contingent liabilities

At 31 December 2007 certain group companies acted as guarantors under the terms of a £386m (2006: £358m) facility made available by a syndicate of banks led by Barclays Capital and Mizuho Corporate Bank on 2 April 2007. Of the facility, £44m (2006: £114m) relates to rental guarantees.

29 Ultimate parent undertaking and controlling party

The directors regard TFCP Holdings Limited (formerly known as Terra Firma Capital Partners 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 (2006: £249,462,000) were held by Terra Firma at 31 December 2007 following redemption and replacement with other loan notes by the Company in August 2007. Discount accrued of £20,839,000 (2006: £34,949,000) 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 2007, and the directors therefore consider it to be a related party. Unsecured loan notes, including interest accrued, of £189,480,000 (2006: £nil) were held by Monterey at 31 December 2007. These notes were issued by the Company to Monterey in August 2007. Interest of £7,831,000 (2006: £nil) in relation to these notes was charged during the year.

In addition, unsecured loan notes, including interest accrued, of £43,491,000 (2006: £50,091,000) were held by Monterey at 31 December 2007 in relation to ODEON & 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 £6,021,000 (2006: £7,042,000) 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 2007 was £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 £2,583,000.

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

31 Acquisitions

(a) Current year acquisitions

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

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
Intangible assets	17,811	-	(17,811)	-
Tangible fixed assets	4,750	15,427	-	20,177
Stock	117	-	-	117
Debtors	1,371	-	-	1,371
Cash	14	-	-	14
Creditors	(556)	-	-	(556)
Provisions	(2,859)	(603)	2,859	(603)
Net assets acquired	20,648	14,824	(14,952)	20,520
Goodwill at cost (Note 12)				3,299
				23,819
Satisfied by:				
Cash				23,312
Acquisition costs				507
				23,819

The fair values contain provisional amounts, which will be finalised in the 2008 financial statements when the detailed acquisition investigation has been completed. Fair value and accounting policy adjustments represent:

1. Provision for lease commitments
2. Write off of internally generated goodwill to bring the treatment in line with Group accounting policy.
3. Valuation of tangible fixed assets.

31 Acquisitions (continued)**(b) Fair values on acquisition**

In May 2006, the group acquired the AMC businesses in Spain and Portugal. In December 2006, the group acquired three businesses previously operating under the Europlex brand in Italy. During 2006, the group also acquired a single cinema business previously operating under the VUE brand in the UK.

	Estimated fair value at 31 December 2006 £000	Adjustments £000	Revised fair value £000
Tangible fixed assets	23,707	(11,133)	12,574
Stock	171	-	171
Debtors	3,307	-	3,307
Cash	2,857	-	2,857
Creditors	(7,231)	-	(7,231)
Net assets acquired	<u>22,811</u>	<u>(11,133)</u>	<u>11,678</u>
Goodwill at cost as at 31 December 2006			8,476
Goodwill revision (Note 12)			11,443
			<u>31,597</u>
Satisfied by:			
Cash	29,758	442	30,200
Deferred consideration	885	(442)	443
Acquisition costs	644	310	954
	<u>31,287</u>	<u>310</u>	<u>31,597</u>

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	-	-	-	(42,034)	(42,034)
Pension movement	-	-	-	2,981	2,981
Deferred tax on pension gain	-	-	-	(1,215)	(1,215)
Dividends	-	-	-	(666)	(666)
Foreign exchange differences	-	-	-	(9,042)	(9,042)
Preference shares redeemed	-	-	(83,608)	-	(83,608)
Shares issued	97,709	-	-	-	97,709
Arising on merger	-	(10,353)	-	-	(10,353)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net increase/ (decrease) in shareholders' funds	97,709	(10,353)	(83,608)	(49,976)	(46,228)
Shareholders' deficit as at 31 December 2006	18	-	83,608	(84,917)	(1,291)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Shareholders' deficit as at 31 December 2007	<u>97,727</u>	<u>(10,353)</u>	<u>-</u>	<u>(134,893)</u>	<u>(47,519)</u>

Company	Ordinary share capital £000	Profit and loss account £000	Total £000
Shares issued	97,727	-	97,727
Loss for the year	-	(740)	(740)
Dividends	-	-	-
Foreign exchange differences	-	1	1
	<hr/>	<hr/>	<hr/>
Net increase in shareholders' funds	97,727	(739)	96,988
Shareholders' funds as at 31 December 2006	-	-	-
	<hr/>	<hr/>	<hr/>
Shareholders' funds as at 31 December 2007	<u>97,727</u>	<u>(739)</u>	<u>96,988</u>

33 Post balance sheet events

During 2008 the Group will make 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 50:50 joint venture between the Group and Cineworld Cinemas Ltd ("Cineworld"), to be called Digital Cinema Media Limited ("DCM") has been formed. At the date of approval of these accounts, negotiations were at an advanced stage for DCM to purchase certain assets from CSA in order to take over the supply of screen advertising to Odeon, Cineworld and potentially to other cinema operators. The operation of DCM and the deal with CSA remained subject to regulatory clearance.

