

**Sunshine Holdings 3 Limited**

**Directors' report and financial statements**

**for the year ended 31 July 2008**

**Registered number: 05359848**

## **Sunshine Holdings 3 Limited**

### **Directors' report**

#### **For the year ended 31 July 2008**

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 July 2008.

#### **Principal activities and review of business**

The principal activity of the Company and its subsidiaries (the 'Group') is the creation, production and exploitation of young children's properties across a wide range of outlets including television, video, publishing, licensing, merchandising and live events. This is likely to remain so for the foreseeable future.

The results for the Group show a pre-tax loss of \$16,138,000 (2007: \$41,809,000) after net interest payable of \$50,401,000 (2007: \$49,103,000). The Group's net debt of \$470,122,000 (2007: \$566,092,000) arose principally from the restructuring at the time of the acquisition of the Group by Sunshine Acquisition Limited, a subsidiary of the Company.

#### **Business environment**

The pre-school TV sector is competitive. There are a number of production companies operating in this space, and although the number of specialist kids' channels and demand for content is increasing, the key to launching and maintaining a successful long-term cross-media property such as those in which the Group specialises remains free-to-air (FTA) television. The rise of non-linear services, such as video on demand (VOD), offer potential alternative platforms, but remain fledgling in most markets and, as such, overall TV revenue remains modest.

The licensed consumer products market is a growth market as products with licensed characters sell better than unbranded products. As FTA broadcast of pre-school shows is a driver of retail placement of Consumer Products (CP), ancillary revenues are somewhat dependent on the Group's broadcast footprint in each territory. In terms of competition, although smaller than the Walt Disney Company and Viacom (which owns Nickelodeon), the Group is by far the largest and most international of the pre-school independents and in Thomas & Friends ('Thomas'), Bob the Builder ('Bob') and Barney owns three of the largest global pre-school properties.

The maturing home entertainment market has entered a softer period with the VHS format removed from retail. Looking forward, new formats, such as Blu-ray, are projected to support the packaged media side of the business. However, increased penetration of VOD, and new offerings such as digital downloading and PVR penetration all offer potential challenges to the traditional sell-through model on DVD.

#### **Principal risks and uncertainties**

As described above, broadcast is a driver of success for a business like the Group's and correspondingly loss of broadcast is a key risk. The Group owns three very strong global brands in Bob, Thomas and Barney which will achieve considerable recurring affiliation among successive generations of pre-schoolers driving continued television broadcast. The Group is also a partner in the US digital channel PBS Kids Sprout - the full benefit of this will be felt when Sprout reaches critical mass in terms of numbers of subscribers.

### **Sunshine Holdings 3 Limited**

The global CP market remains fragmented and competitive. There is a trend towards a few brands becoming dominant whilst others struggle to break through. The Group's position is strong in this regard, having three evergreen properties, but remains exposed to any of these becoming less successful. In addition, the Group has very strong positions in a number of geographic markets, including the US, so is not concentrated in one or two key markets. Much of the Group's CP business is in Toys.

A key risk in the CP business relates to licensed product quality and safety. The Group licenses its characters to various third party manufacturers across multiple CP categories. In the summer of 2007, the Thomas master toy licensee experienced a significant product recall wherein approximately 2 million units of certain Thomas train products were recalled after a sample of the products failed to meet safety standards. The recall negatively affected the Group's profits and, at least temporarily, damaged the Thomas brand. In June 2008, the Group reached a \$15 million cash settlement with the licensee in connection with the financial losses suffered as a result of the recall and also agreed an early termination of the license.

The principal risks and uncertainties for the home entertainment business include: a maturing market which puts pressure on growth and prices; any consolidation among the retail base; and new brands entering the pre-school video market. However, the Group's strong brands offer significant mitigation against this risk.

### **Strategy**

The TV distribution strategy is multi-faceted and based on;

- \* the continued development of guaranteed broadcast platforms internationally. In November 2007, the Group signed an agreement with Chello Zone, a Liberty Global company, to launch pre-school channels around the world.
- \* international concentration on getting key brands on air in new markets on FTA television.
- \* the pursuit of co-production and deals for the future production slate.

The objective for global CP is to maximise revenues in all CP segments, both territorially and within channel. The key areas of focus are: further building retail alliances; building a broader relationship with broadcasters; and creating new revenue streams from new media platforms as technologies develop. In addition, the Company is leveraging the strength of the current brands to improve licensee terms. The reach and scale of the Group's infrastructure make it an obvious partner for other pre-school brands and the Group is actively seeking out other characters and brands to add to the existing business.

### **Future outlook**

As described above, the continued success of Thomas, Bob and Barney is key to the future of the Group. The main factors affecting that future are described above. The directors currently know of no further issues that would prevent the Group's continued success.

### **Sunshine Holdings 3 Limited**

#### **Walker Report**

On 20 November 2007 David Walker published his 'Guidelines for Disclosure and Transparency in Private equity' (the Walker Report) which recommends that portfolio companies of private equity firms, amongst other things, make certain enhanced disclosures in their financial statements.

HIT Entertainment is a portfolio company as defined by the Walker Report and the board has agreed to adopt all of the recommendations in the report. Funds advised and managed by Apax Partners have a controlling interest in HIT Entertainment. M Brockman, P Fitzsimons and J Reses are Directors of the company and exercise oversight on behalf of Apax Partners. Details on the composition of the board and the business and financial review are included in this Directors Report.

#### **Directors and their interests**

The directors of the Company during the year and to the date of signing the financial statements:

M Brockman

P Fitzsimons

G Dyke

J Reses

B Steinberg (resigned 6 March 2008)

J Weight

J Dunn

#### **Employee Equity Scheme**

An employee equity scheme exists within the Group wherein certain employees have invested in a limited partnership which owns ordinary shares in a holding company of the Group.

#### **Results and dividends**

The consolidated profit and loss account set out on page 9 shows a loss for the year of \$15,768,000 (2007: loss of \$31,170,000).

The directors do not propose a dividend for the year (2007: \$nil).

#### **Share capital**

As at the date of this report, 305,965,001 ordinary shares of £1 each are issued and fully paid.

#### **Subsequent events**

On 15 September 2008, HIT Entertainment sold its interest in Children's Radio (UK) Limited to Folder Media Limited.

The shares were sold for £1, the level to which the investment had been written down to in the year.

In October 2008, the Group announced a reorganisation which creates a focus on global brand management. To date, there has not been a significant amount of redundancies resulting from the recent reorganisation.

Bridgefilms Limited, in which Gullane Entertainment Limited owns a 50% share, was put into members' voluntary liquidation on 13 November 2008.

#### **Research and development**

The Group is involved with development activities in relation to its toy division. During the year ended 31 July 2008, \$4,723,000 (2007: \$4,612,000) was capitalised as development costs in the Group's accounts.

#### **Related parties**

Entities within the Group have related party transactions with entities outside the Group but who share the same ultimate parent company and with its joint ventures and associated undertakings. For further details regarding the transactions, see note 36.

#### **Creditor payment policy**

The Group does not have a standard code for dealing specifically with the payment of creditors. The Group is generally contracted to settle royalty accruals within 30-60 days of the royalty quarter dates. With respect to other creditors, the Group seeks to agree the terms of payment with the supplier and then pay in accordance with the agreed terms. Discounts offered by vendors are taken when, based on the time value of money, it is advantageous to the Group.

## **Sunshine Holdings 3 Limited**

### **Financial risk management**

The Group is exposed to risks associated with foreign currencies, interest rates and credit exposure.

#### *Foreign currency risk*

The Group is exposed to foreign exchange risk in respect to its operations in the US, and to a lesser extent, net assets denominated in foreign currencies. See note 23 for a more detailed analysis.

#### *Interest rate and liquidity risk*

The Group manages its available funds through a revolving credit facility. The Group is exposed to interest rate fluctuations on its bank borrowings and finance lease creditors which incur floating interest rates based on appropriate LIBOR. A portion of the bank borrowings are hedged with interest rate swaps. Details of the revolving credit facility, the bank borrowings and the interest rate swaps can be found in notes 23 and 24.

#### *Credit risk*

The Group's policy is to provide for any trade or other creditor balance whose collection is deemed doubtful. The Group is exposed to credit risk of its trade and other debtors to the extent they are not specifically provided for as doubtful accounts.

### **Corporate responsibility**

The Group is one of the leading owners and licensors of young children's entertainment properties in the world and its characters hold special positions in the minds of its young audience and their families. The Board recognises the responsibilities this brings and is keenly aware that, in the way it does business, the Group should uphold the virtues its properties display. The Board therefore pays close attention to social, environmental, and ethical ("SEE") matters and closely monitors all risks, including SEE risks, which may have an adverse impact on the Group's reputation and value. In this context, the principal issues for the Group are:

- \* that the television programmes, home entertainment products, publishing titles and stage shows featuring the Group's properties continue to convey the highest entertainment and educational values to their target audiences;
- \* that products produced directly or under licence are of a standard and safety commensurate with the Group's position as a supplier of quality children's entertainment and are produced in factories displaying appropriate labour, environmental and social practices;
- \* to provide a safe and healthy working environment that is conducive to the recruitment and retention of the widest possible range of talented staff;
- \* to improve its environmental performance so as to increase its operational efficiency and reduce its environmental impact;
- \* to develop strong relationships in our chosen communities by using the Company's unique properties to benefit society.

### **Employees**

The Group places considerable importance on informing employees of matters of concern to them and issues affecting the Group's operational and financial performance. The principal means of communication included all staff being regularly invited to briefings on the business from the Chief Executive Officer. Furthermore, an optional employee equity scheme was put in place in August 2006 which encourages the involvement of employees in the Group's performance. Employment of individuals within the Group is based on the position to be filled and the qualifications of the applicant, without regard to race, religion, sex, age, colour, marital status, national origin, handicap or any other characteristic. The aim is to ensure that the most capable job applicants are recruited and the most competent qualified candidate, including disabled persons, are considered for vacancies in the Group. Priority is given to the training of employees and the development of their skills and if individuals become disabled during employment and are unable to continue to perform their jobs, consideration is given to retraining for alternative jobs.

## **Sunshine Holdings 3 Limited**

### **Health and Safety**

The Group takes all reasonable and practicable steps to safeguard the health, safety and welfare of its employees and recognises its responsibility for the health and safety of other people who may be affected by its activities. The health and safety policy is reviewed each year and is made available to employees and displayed at each of the Group's places of business. In addition, detailed health and safety plans have been prepared and are displayed at each of the Group's workplaces. Periodic ergonomic assessments are made of individual working environments to ensure persons using workstations, etc. are accommodated as comfortably and effectively as possible.

### **Environment**

The Group does not operate in a business sector which causes significant pollution or other adverse environmental effects. The principal direct environmental impacts are the consumption of energy at its offices and studios, the production of waste, including packaging, and the consumption of water. Each office and studio has arrangements in place for the collection and recycling of waste paper. Used printer toner cartridges are donated to charities which arrange for them to be recycled and redundant information technology equipment is either donated to non-profit organisations such as schools or disposed of through specialist recycling companies.

### **Charity and community activities**

The Group's commitment to both goodwill and outreach efforts is a natural product of its commitment to providing the highest quality, educational entertainment for the enrichment of young children. Companies in the Group are strong supporters of, and participants in, various charities and community efforts throughout the UK, US, and other territories in which the Group operates using its global brands Bob the Builder, Barney, Thomas the Tank Engine, Angelina Ballerina, and others to help raise funds for many charitable organisations. In addition, the Group gives value in kind through staff involvement and product donations to schools and other organisations. During the year the Group made \$52,000 (2007: \$89,000) in charitable cash donations to various children's charities. No political donations were made.

### **Ethical business conduct**

The Group enjoys a worldwide reputation for quality, integrity and ethical conduct. Everyone employed by the Group is expected to do all they can to maintain this reputation and is required to act in accordance with the Group's Code of Business Conduct, which is issued to all employed and published on the Group's intranet, [www.hitentertainment.net](http://www.hitentertainment.net). Training in ethical standards and behaviour is provided to all employees who are then required to sign to confirm their understanding and acceptance of the Code.

Before the Group grants licences for the manufacture of products bearing any of its characters, the places and methods of manufacture are carefully reviewed to ensure that working conditions are satisfactory and no use is made of child labour. All products produced by licensees are extensively tested before being approved for sale and HIT will not grant licences for products which it does not consider to be in keeping with its aim of providing safe, entertaining and educational products for children. The Group is extremely careful in awarding licences to food manufacturers. In the UK, the Group has its own in-house guidelines forbidding the licensing of various foodstuffs such as certain fast-food products and confectionery; for example, the Group does not grant licences to crisp manufacturers. The Group works with the UK Food Standards Agency to ensure that Group-related food products contain safe quantities of sugar and salt. The Group's guidelines of foodstuffs are constantly under review and are currently being extended to cover the other territories in which the Group operates.

## Sunshine Holdings 3 Limited

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the board

J Weight  
Chief Financial Officer

25 November 2008

## Sunshine Holdings 3 Limited

### Independent auditors' report to the members of Sunshine Holdings 3 Limited

We have audited the group and parent company financial statements (the "financial statements") of Sunshine Holdings 3 Limited for the year ended 31 July 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.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 group's and 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 United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 July 2008 and of the group's loss and cash flows 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.

#### PricewaterhouseCoopers LLP

Chartered accountants and registered auditors

London

November 2008

		2008	2008	2008	2007	2007	2007
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Notes	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
<b>Group turnover</b>	2	238,403	35,386	273,789	231,164	32,207	263,371
Cost of sales		(102,229)	(13,643)	(115,872)	(94,409)	(13,018)	(107,427)
Gross profit		136,174	21,743	157,917	136,755	19,189	155,944
<b>Selling, marketing and distribution costs</b>		(22,154)	(3,247)	(25,401)	(20,077)	(3,376)	(23,453)
<b>Administrative expenses</b>							
Operating expenses		(74,978)	(4,250)	(79,228)	(58,987)	(6,579)	(65,566)
Amortisation of goodwill	13	(43,024)	(2,429)	(45,453)	(42,903)	(4,514)	(47,417)
Exceptional items	3	(12,285)	-	(12,285)	(2,935)	(649)	(3,584)
		(130,287)	(6,679)	(136,966)	(104,825)	(11,742)	(116,567)
<b>Other operating income/(loss)</b>							
Other operating income	5	13,575	-	13,575	2,893	-	2,893
Share of losses in joint ventures and associates	16	(4,516)	-	(4,516)	(11,523)	-	(11,523)
		9,059	-	9,059	(8,630)	-	(8,630)
<b>Total operating (loss)/profit</b>		(7,208)	11,817	4,609	3,223	4,071	7,294
Impairment of investments in joint ventures	16	(2,857)	-	(2,857)	-	-	-
Gain on sale of subsidiary	10	-	32,511	32,511	-	-	-
Interest receivable and similar income	7	436	8	444	2,287	7	2,294
Interest payable and similar charges	8	(50,845)	-	(50,845)	(51,397)	-	(51,397)
<b>(Loss)/profit on ordinary activities before taxation</b>	9	(60,474)	44,336	(16,138)	(45,887)	4,078	(41,809)
Taxation	11	411	(41)	370	11,062	(423)	10,639
<b>(Loss)/profit for the financial year</b>	29	(60,063)	44,295	(15,768)	(34,825)	3,655	(31,170)

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.

**Sunshine Holdings 3 Limited****Consolidated statement of total recognised gains and losses for the year ended 31 July 2008**

	Notes	2008 \$'000	2007 \$'000
Loss for the financial year		(15,768)	(31,170)
Currency translation differences on foreign currency net investments	30	1,389	3,124
<b>Total recognised losses for the year</b>		<b>(14,379)</b>	<b>(28,046)</b>

**Sunshine Holdings 3 Limited**  
**Consolidated balance sheet as at 31 July 2008**

	Notes	2008 \$'000	2007 \$'000
<b>Fixed assets</b>			
Intangible assets			
Goodwill	13	721,715	845,173
Acquired rights	13	30,400	35,177
		<u>752,115</u>	<u>880,350</u>
Tangible assets			
Development costs	14	16,331	15,208
Investment in joint ventures	15	8,097	6,220
Investment in associates	16	1,537	2,127
	16	44,924	40,639
		<u>823,004</u>	<u>944,544</u>
<b>Current assets</b>			
Stock	18	12,833	19,813
Investment in programmes	19	100,770	87,967
Debtors	20	84,855	80,783
Deferred taxation	26	44,636	37,560
Cash at bank and in hand		33,706	29,721
		<u>276,800</u>	<u>255,844</u>
<b>Creditors: amounts falling due within one year</b>	21	<u>(134,454)</u>	<u>(122,948)</u>
<b>Net current assets</b>		<u>142,346</u>	<u>132,896</u>
<b>Total assets less current liabilities</b>		<u>965,350</u>	<u>1,077,440</u>
<b>Creditors: amounts falling due after one year</b>	22	<u>(499,047)</u>	<u>(600,894)</u>
<b>Provisions for liabilities</b>	25	<u>(6,134)</u>	<u>(1,998)</u>
		<u>460,169</u>	<u>474,548</u>
<b>Capital and reserves</b>			
Called-up share capital	28	570,196	570,196
Profit and loss account	29	(110,027)	(95,648)
<b>Total shareholders' funds</b>	30	<u>460,169</u>	<u>474,548</u>

The financial statements on pages 9 to 55 were approved by the board of directors on 25 November 2008 and signed on its behalf by:

J Weight  
**Chief Financial Officer**

**Sunshine Holdings 3 Limited**  
**Company balance sheet as at 31 July 2008**

	Notes	2008 \$'000	2007 \$'000
<b>Fixed assets</b>			
Investments	17	570,282	570,282
<b>Creditors: amounts falling due within one year</b>	21	<u>(83)</u>	<u>(57)</u>
<b>Total assets less current liabilities</b>		<u>570,199</u>	<u>570,225</u>
<b>Creditors: amounts falling due after one year</b>	22	<u>(252)</u>	<u>(252)</u>
		<u>569,947</u>	<u>569,973</u>
<b>Capital and reserves</b>			
Called-up share capital	28	570,196	570,196
Profit and loss account	29	<u>(249)</u>	<u>(223)</u>
<b>Total shareholders' funds</b>	30	<u>569,947</u>	<u>569,973</u>

The financial statements on pages 9 to 55 were approved by the board of directors on 25 November 2008 and signed on its behalf by:

J Weight  
**Chief Financial Officer**

**Sunshine Holdings 3 Limited**  
**Consolidated cash flow statement for the year ended 31 July 2008**

	Notes	2008 \$'000	2007 \$'000
<b>Net cash inflow from operating activities before investment in programmes</b>			
	12	91,867	79,064
Net cash outflow from investment in programmes	19	(32,483)	(32,258)
<b>Net cash inflow from operating activities</b>		<b>59,384</b>	<b>46,806</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		444	2,304
Interest paid		(45,091)	(42,518)
Payment of financial fees		-	(59)
Interest element of finance lease rental payments		(150)	(154)
<b>Net cash outflow from investments and servicing of finance</b>		<b>(44,797)</b>	<b>(40,427)</b>
<b>Taxation</b>			
Corporate tax paid		(224)	-
Overseas tax paid		(1,544)	(3,936)
<b>Net taxation paid</b>		<b>(1,768)</b>	<b>(3,936)</b>
<b>Capital expenditure</b>			
Purchase of tangible assets		(7,123)	(10,463)
Proceeds from sale of tangible assets		-	10,111
Acquisition of share in associate		(10,771)	-
Acquisition of rights		-	(5,837)
Development costs		(4,723)	(5,203)
<b>Net cash outflow for capital expenditure</b>		<b>(22,617)</b>	<b>(11,392)</b>
<b>Disposals</b>			
Disposal of subsidiary undertaking	38	120,311	-
Fees paid on disposal of subsidiary	38	(3,582)	-
Net cash balance disposed of with subsidiary undertaking	38	(8,076)	-
<b>Net cash inflow from disposals</b>		<b>108,653</b>	<b>-</b>
<b>Acquisitions</b>			
Purchase of subsidiary undertaking		-	(12,384)
Net cash balance acquired with subsidiary undertaking		-	77
<b>Net cash outflow for acquisitions</b>		<b>-</b>	<b>(12,307)</b>
<b>Net cash outflow before financing</b>		<b>98,855</b>	<b>(21,256)</b>
<b>Financing</b>			
Increase in debt borrowings		41,000	109,843
Payments on debt borrowings		(136,969)	(66,580)
Capital element of finance lease rental payments		(208)	(175)
<b>Net cash (outflow)/inflow from financing</b>		<b>(96,177)</b>	<b>43,088</b>
<b>Increase in cash</b>	35	<b>2,678</b>	<b>21,832</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Movement in cash in the year		2,678	21,832
Net cash (inflow)/outflow from short-term borrowings		(12,757)	26,796
Net cash outflow/(inflow) from long-term borrowings		108,726	(70,000)
Other non-cash movements		(4,260)	(4,238)
Cash outflow from lease financing		208	175
Foreign currency movement		1,375	(2,729)
<b>Movement in net debt in the year</b>		<b>95,970</b>	<b>(28,164)</b>
Net debt at beginning of year		(566,092)	(537,928)
<b>Net debt at end of year</b>	35	<b>(470,122)</b>	<b>(566,092)</b>

## Sunshine Holdings 3 Limited For the year ended 31 July 2008

### 1. Principal accounting policies

These financial statements have been prepared under the historical cost convention, on the going concern basis, and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. A summary of the significant policies which have been applied consistently during the year are set out below.

#### Basis of consolidation

The consolidated financial statements for the year ended 31 July 2008 consolidate the accounts of Sunshine Holdings 3 Limited ('the Company') and its subsidiary undertakings (together named 'the Group'). A listing of the Company's principal subsidiary undertakings is given in note 17. A full list can be obtained at Companies House.

Uniform accounting policies have been applied across the Group. The profit or loss on transactions between Group entities have been eliminated on consolidation. Joint ventures are accounted for using the gross equity method, and are defined as those entities in which the Group holds a long-term interest and which are jointly controlled by the Group and one or more venturers under a contractual agreement. Associates are those undertakings, other than subsidiaries and joint ventures, in which the Group holds a long term participating interest and exerts a significant influence. The Group's share of profits and/or losses of associates is included in the Group profit and loss account and the Group's share of their net assets, together with goodwill arising on acquisition, is included in the Group balance sheet.

#### Significant estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles required the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event, or actions, actual results may ultimately differ from those estimates.

#### Turnover

##### \* Company owned television programme series and distribution of other television programmes

Income recognised on Sunshine Holdings 3 Limited owned television programme series and from the distribution of other television programmes represents the invoiced value of licence fees including withholding tax but excluding value added tax. The Group's policy is to recognise the income and associated royalty payable when all of the following criteria are met:

- (a) a licence agreement has been executed by both parties;
- (b) the programme has substantially met all necessary technical quality requirements;
- (c) delivery to the broadcaster has occurred;
- (d) the licence term has commenced;
- (e) the arrangement is fixed or determinable; and
- (f) collection of the arrangement fee is reasonably assured.

Any licence fees received in advance, which do not meet all of the above criteria, are included in deferred income until the above criteria are met.

##### \* Consumer products

The Group policy is to recognise licensing revenue by spreading the total guaranteed minimum value of a contract over the term, only recognising actual licensing income receivable once it exceeds the apportionment of the total guaranteed minimum contract value. In addition recognition of revenue and associated royalty expenses will only begin once the following criteria are met:

- (a) a licence agreement has been executed by all parties and
- (b) the licence term has commenced.

Any licence fees received in advance which do not meet all of the above criteria, are included in deferred income until the above criteria are met. Associated royalties on consumer products sales are recognised when the related turnover is recorded.

##### \* Home entertainment

Revenues and associated costs of goods sold and royalty expenses from home entertainment revenues are recognised on the date that the products are made widely available for sale by the Group's retailer customers.

##### \* Stage shows

Turnover from stage shows is based on the invoiced value of the goods and services provided in the year excluding sales tax. Any licensing revenue related to stage show activity is accounted for in accordance with the consumer product policies above.

#### Investment in programmes

The investment in programmes, including distribution advances, is stated at the lower of cost less accumulated amortisation, or net realisable value.

Costs comprise direct programme costs, which are capitalised on costs incurred up to the date of first release of the programme, and programme development costs. Costs for developing programmes are expensed until such time that a pilot is produced and decision made to further exploit the programme. Development costs are transferred to work in progress once a decision is made to proceed with the programme.

A charge is made to write down the cost of completed programmes over their useful lives. Completed programmes are expensed based on the ratio of the current period's net revenues to estimated total net revenues from all sources on an individual production basis.

## Sunshine Holdings 3 Limited

### Intangible fixed assets

Goodwill arising from the purchase of subsidiaries, representing the excess of the fair value of the purchase consideration over the fair value of the net assets acquired, is capitalised in the year in which it arises and written off on a straight-line basis over its useful economic life, not exceeding 20 years. The estimated useful life is determined after taking into account such factors as the nature and age of the business and the stability of the industry in which the acquired business operates, as well as typical life spans of the acquired product to which the goodwill relates. Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any other time if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill amortisation is included within administrative expenses.

The Group's accounting policy for acquired rights is to capitalise at cost and amortise on a straight-line basis over the economic lives of the rights not to exceed 10 years. Acquired rights amortisation is included within cost of sales.

### Research and development expenditure

Research expenses are charged to the profit and loss account in the period in which they are incurred. Development costs relating to major projects are analysed under the following criteria:

- (a) The project is clearly defined and separately identifiable,
- (b) The outcome is both technically feasible and commercially viable,
- (c) The future revenues are expected to exceed the aggregate deferred costs, and
- (d) Resources exist to enable the project to be completed.

Development costs associated with projects meeting all of the above criteria are capitalised and are amortised over a period between three and five years commencing in the year sales of the product are first made.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and amortisation. Valuations are done periodically, and no impairment was required from assessments performed during the year. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Amortisation of leasehold improvements is calculated to write off the cost on a straight-line basis over the term of the lease.

Depreciation of buildings is calculated so as to write off the cost on a straight-line basis over the expected useful economic life, not exceeding 40 years. Depreciation of fixtures and fittings, production equipment and motor vehicles is calculated so as to write off the cost on a straight-line basis over the expected useful economic life of three to five years. Freehold land is not depreciated. Depreciation relating to production facilities has been capitalised within investment in programmes.

### Stock

Finished goods and work in progress are valued at the lower of direct cost or net realisable value. Provision is recorded where necessary for obsolete or slow-moving stock.

### Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce outstanding obligations and the interest element is allocated to accounting periods based on the capital element of the leases outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms or the useful lives of equivalent owned assets.

### Deferred taxation

Provision is made in full for deferred tax that arises from timing differences that have originated but not reversed by the balance sheet date on transactions or events that result in an obligation to pay more tax in the future. Deferred tax assets are recognised to the extent that it is regarded more likely than not that there will be taxable profits from which the underlying differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

### Foreign currencies

Transactions denominated in foreign currencies are translated into US dollars at the exchange rates at the date of transactions. All other gains and losses are dealt with in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at either the exchange rates ruling at the balance sheet date or at the historical rate where appropriate. The rate ruling at the balance sheet date was \$1.9805 per £.

Exchange differences arising from the retranslation of the opening net assets of overseas subsidiaries are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at year end.

### Provision for returns

The provision for returns represents management's estimates for future returns of videos, DVDs and consumer products sold under sale or return contracts. Provision is made for returns of products based on historical return rates and current market conditions.

## **Sunshine Holdings 3 Limited**

### **Pension costs**

The Group operates two defined contribution (money purchase) pension schemes, one for UK employees and one for US employees (a 401(k) plan). These cover substantially all full-time employees that can elect to participate in the plans upon employment in the US and providing they have served with the Group for at least three years in the UK.

The pension scheme assets are held separately from those of the Group in independently administered funds. Contributions are charged to the profit and loss account on the basis of contributions payable during the year.

### **Fixed asset investments**

Fixed asset investments are stated at cost less provision for any diminution in value. Impairment reviews are carried out by management when there are indications that the investments carrying value may be impaired.

### **Capital instruments**

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged to the profit and loss account over the term of the borrowings.

### **Financial instruments**

The Group uses financial instruments in managing interest rate exposures. Interest rate swaps are used to hedge a portion of the total floating rate debt held by the Group. Effectiveness testing is not performed on a regular basis on the interest rate swaps, and the fair value of these swaps is not included in the Group balance sheet at the end of the period. The settlements from the swap counterparties are included within interest payable in the profit and loss account.

Sunshine Holdings 3 Limited

2. Segmental analysis

Group turnover

	2008 \$'000	2008 \$'000	2008 \$'000	2007 \$'000	2007 \$'000	2007 \$'000
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
<b>Turnover by destination:</b>						
United States	120,056	9,315	129,371	133,237	9,289	142,526
United Kingdom	56,007	11,428	67,435	50,893	9,994	60,887
Rest of World	44,007	7,386	51,393	32,072	5,947	38,019
Rest of Europe	18,333	7,257	25,590	14,962	6,977	21,939
	<b>238,403</b>	<b>35,386</b>	<b>273,789</b>	<b>231,164</b>	<b>32,207</b>	<b>263,371</b>
<b>Turnover by origin:</b>						
United States	118,204	9,143	127,347	131,100	8,756	139,856
United Kingdom	100,579	26,243	126,822	95,119	23,451	118,570
Rest of World	19,620	-	19,620	4,945	-	4,945
	<b>238,403</b>	<b>35,386</b>	<b>273,789</b>	<b>231,164</b>	<b>32,207</b>	<b>263,371</b>
<b>Turnover by class of business:</b>						
Consumer Products	140,637	34,892	175,529	115,877	31,114	146,991
Home Entertainment	65,935	-	65,935	86,895	-	86,895
Television	13,975	494	14,469	12,061	1,093	13,154
Stage Show	17,856	-	17,856	16,331	-	16,331
	<b>238,403</b>	<b>35,386</b>	<b>273,789</b>	<b>231,164</b>	<b>32,207</b>	<b>263,371</b>

Further disclosures have not been provided in respect of these revenues, profits before taxation, and net assets as in the opinion of the directors such disclosure would be seriously prejudicial to the interests of the Group.

No separate disclosure of the revenues, losses before tax, assets or liabilities of the associate has been provided as in the opinion of the directors, such disclosure would be prejudicial to the business of the associate.

## Sunshine Holdings 3 Limited

### 3. Exceptional items

During 2008, the Group performed a restructure which resulted in exceptional items of \$12,285,000 for the year ended 31 July 2008 (2007: \$3,584,000)

These exceptional charges of \$12,285,000 are included within administrative expenses (2007: \$3,584,000) and relate to salaries, benefits, severance, and bonuses.

The accrual relating to exceptional expenses at 31 July 2008 is \$2,295,000 (2007: \$2,455,000), and is included within Creditors due within one year.

**Sunshine Holdings 3 Limited**

**4. Directors' emoluments**

	2008	2007
	\$'000	\$'000
<b>Directors</b>		
Aggregate emoluments and benefits	4,023	2,406
Compensation for loss of office	588	-
Company pension contributions	60	66
	<b>4,671</b>	<b>2,472</b>

Retirement benefits accrued to three directors (2007: 2) under a defined contribution scheme.

<b>Highest paid director</b>		
Aggregate emoluments and benefits	1,384	1,151
Compensation for loss of office	588	-
Company pension contributions	26	41
	<b>1,998</b>	<b>1,192</b>

Included in the emoluments number above is \$588,491 paid to the former CEO upon his resignation on 6 March 2008 as compensation for loss of office.

Prior year numbers have been restated to reflect amounts accrued but not yet paid.

## **Sunshine Holdings 3 Limited**

### **5. Other operating income**

Other operating income for the year ended 31 July 2008 of \$13,575,000 includes \$12,686,000 relating to a settlement from a licensee, \$416,000 from an inducement fee relating to a new distribution arrangement, \$204,000 from a shared services agreement with a former subsidiary, \$128,000 from a lawsuit settlement, and \$141,000 of miscellaneous income recorded for the year.

Other operating income for the year ended 31 July 2007 of \$2,893,000 includes \$2,056,000 profit on the sale of the Allen building, \$776,000 from a rebate from a licensee resulting from lower than contractual spending on marketing in prior periods and \$61,000 of miscellaneous income recorded for the year.

## Sunshine Holdings 3 Limited

### 6. Employee information

	<b>2008</b>	2007
<b>Notes</b>	<b>Number</b>	Number
The average monthly number of persons (including executive directors) employed by the Group by activity during the year was:		
Sales and marketing	<b>136</b>	113
Administration	<b>148</b>	153
Creative production	<b>97</b>	149
Distribution	<b>3</b>	9
	<b>384</b>	424

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Staff costs (including directors' remuneration) amounted to:		
Wages and salaries	<b>46,894</b>	46,071
Social security costs	<b>3,316</b>	3,590
Pension costs	<b>1,024</b>	1,383
	<b>51,234</b>	51,044

Staff costs disclosed above include certain exceptional amounts paid to redundant employees. See note 3 for further details.

The Company had no employees during the year (2007: none).

**Sunshine Holdings 3 Limited**

**7. Interest receivable and similar income**

<b>Group</b>	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Bank interest	<u>444</u>	<u>2,294</u>

## Sunshine Holdings 3 Limited

### 8. Interest payable and similar charges

Group	Notes	2008	2007
		\$'000	\$'000
Interest on bank borrowings		44,998	46,926
Deferred debt arrangement fees expensed		4,230	4,224
Preference dividend	31	26	27
Interest on finance leases		150	156
Interest on deferred cash contributions to investment in associate		1,441	64
		<u>50,845</u>	<u>51,397</u>

## Sunshine Holdings 3 Limited

### 9. Loss on ordinary activities before taxation

	Notes	2008 \$'000	2007 \$'000
Loss on ordinary activities before taxation is stated after charging:			
Total staff costs	6	51,234	51,044
Depreciation of tangible fixed assets			
owned assets	14	4,569	2,534
Amortisation of intangible assets			
goodwill	13	45,453	47,417
acquired rights	13	4,707	1,860
Amortisation of development costs	15	2,732	543
Amortisation of investment in programmes and style guides		19,395	30,678
Exceptional items included within administrative expenses	3	12,285	3,584
Operating lease rentals - land and buildings		4,116	5,627
Operating lease rentals - equipment		237	165
Finance lease rentals		150	154
Exchange loss/(gain)		5,797	(3,858)

#### Auditors' remuneration

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	\$'000	\$'000
Fees payable to company auditor for the audit of parent company and consolidated accounts	203	193

#### Non-audit services

Fees payable to the Company's auditor and its associates for other services:

The audit of Company's subsidiaries pursuant to legislation	754	651
Other services	67	177
Tax services	748	921
Services relating to corporate finance transactions	953	-

## Sunshine Holdings 3 Limited

### 10. Profit on sale of subsidiary

	2008	2007
<b>Discontinued operations</b>	<b>\$'000</b>	<b>\$'000</b>
Gain on sale of subsidiary net tangible assets	110,516	-
Goodwill	(78,005)	-
<b>Profit on sale of subsidiary</b>	<b>32,511</b>	<b>-</b>
Taxation	-	-

On 13 February 2008, the Group sold Guinness World Records Limited and Guinness World Records North America Inc, wholly owned subsidiaries, for \$119.5m in cash. As a result of the material change in the nature and focus of the Group's operations that this disposal represented, it has been treated as a discontinued operation in the profit and loss account. There is no associated tax expense as the taxable gain is offset by available tax losses.

## Sunshine Holdings 3 Limited

### 11. Taxation

	Notes	2008 \$'000	2007 \$'000
<b>Current tax:</b>			
Foreign tax		3,264	12,641
Corporation tax		7,483	8,894
Adjustments in respect of prior years		<u>(3,846)</u>	<u>-</u>
<b>Total current tax charge</b>		<b>6,901</b>	<b>21,535</b>
<b>Deferred tax:</b>			
Origination and reversal of timing differences		(8,009)	(32,174)
Adjustments in respect of prior years		738	-
<b>Total deferred tax</b>	26	<u>(7,271)</u>	<u>(32,174)</u>
<b>Tax credit on loss on ordinary activities</b>		<u>(370)</u>	<u>(10,639)</u>

#### Factors affecting tax charge for the year

The tax assessed for 2008 is lower (2007: lower) than the standard rate of corporation tax in the UK (28/30%). The differences are explained below:

	2008 \$'000	2008 %	2007 \$'000	2007 %
<b>Loss before tax</b>	<b>(16,138)</b>		<b>(41,809)</b>	
Tax at UK standard rate of 28% / 30%	(4,734)	29.3	(12,543)	30.0
Higher tax rate of 35% on US earnings	(929)	5.8	(528)	1.3
UK/US blended statutory tax rate	(5,663)	35.1	(13,071)	31.3
Non-deductible goodwill	13,333	(82.6)	14,225	(34.0)
Overseas taxes suffered	495	(3.1)	-	-
Tax on overseas earnings	4,973	(30.8)	4,190	(10.0)
Group relief for nil consideration	(4,085)	25.3	(4,267)	10.2
Deferred tax asset previously unrecognised	(199)	1.2	(16,864)	40.3
Other permanent differences	(5,734)	35.5	7,637	(18.3)
Prior year adjustment	(3,108)	19.3	(1,524)	3.6
Losses not utilised	377	(2.3)	-	-
US State taxes	(433)	2.7	(800)	1.9
Other	(326)	2.0	(165)	0.4
<b>Tax charge for the year</b>	<b>(370)</b>	<b>2.3</b>	<b>(10,639)</b>	<b>25.4</b>
Excess of capital allowances over depreciation	(4,811)		1,337	
Deferred tax prior year adjustments	(738)		19,119	
Losses not utilised	577		(2,887)	
Short-term timing differences	12,243		14,605	
<b>Current tax charge for the year</b>	<b>6,901</b>		<b>21,535</b>	

There is an unrecognised deferred tax asset of \$16.4m (2007: \$25.5m) arising primarily in respect of losses not utilised. The asset may reduce future tax charges in the event that appropriate profits arise in the future such that the losses can be utilised.

#### Factors that may affect future tax charges:

The standard rate of Corporation Tax in the UK changed to 28% with effect from 1 April 2008.

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

## Sunshine Holdings 3 Limited

### 12. Reconciliation of operating profit to net cash inflow before investment in programmes

	2008	2007
	\$'000	\$'000
Operating profit	4,609	7,294
Depreciation of tangible fixed assets	4,569	2,534
Amortisation of goodwill	45,453	47,417
Amortisation of acquired rights	4,707	1,860
Amortisation of investment in programmes and style guides	19,395	30,678
Amortisation of development costs	2,732	543
Deferred debt arrangement fees expensed	4,230	4,224
Loss/(gain) on sale of tangible assets	70	(2,056)
Loss on investment in associate and joint ventures	4,516	11,523
Decrease/(increase) in stocks	6,396	(6,514)
Increase in trade debtors	(19,193)	(6,795)
Increase in distribution costs recoverable	(33)	(35)
Decrease/(increase) in other debtors and prepayments	1,707	(2,915)
Increase in trade creditors	6,891	7,945
Increase/(decrease) in provisions for liabilities and charges	5,541	(21)
Increase/(decrease) in royalty accruals	1,386	(3,541)
Decrease in other creditors, accruals and deferred income	(1,109)	(13,077)
<b>Net cash inflow from operating activities before investment in programmes</b>	<b>91,867</b>	<b>79,064</b>

## Sunshine Holdings 3 Limited

### 13. Intangible assets

#### Goodwill

<b>Group</b>	<b>\$'000</b>
<b>Cost</b>	
At 1 August 2007	948,321
Disposals	<u>(90,287)</u>
At 31 July 2008	<u>858,034</u>
<b>Accumulated amortisation</b>	
At 1 August 2007	(103,148)
Disposals	12,282
Charge for the year	<u>(45,453)</u>
At 31 July 2008	<u>(136,319)</u>
<b>Net book amount 31 July 2008</b>	<u><u>721,715</u></u>
Net book amount 31 July 2007	<u><u>845,173</u></u>

During the year, the Group sold Guinness World Records Limited and Guinness World Records North America, Inc. For more information, see note 10.

#### Acquired rights

<b>Group</b>	<b>\$'000</b>
<b>Cost</b>	
At 1 August 2007	38,148
Additions	652
Exchange rate movement	<u>(817)</u>
At 31 July 2008	<u>37,983</u>
<b>Accumulated amortisation</b>	
At 1 August 2007	(2,971)
Charge for the year	(4,707)
Exchange rate movement	<u>95</u>
At 31 July 2008	<u>(7,583)</u>
<b>Net book amount 31 July 2008</b>	<u><u>30,400</u></u>
Net book amount 31 July 2007	<u><u>35,177</u></u>

The Company balance sheet has nil intangible fixed asset value (2007: \$nil).

Sunshine Holdings 3 Limited

14. Tangible assets

Group	Short leasehold improvements \$'000	Fixtures and fittings \$'000	Total \$'000
<b>Cost</b>			
At 1 August 2007	8,486	14,907	23,393
Additions	262	6,861	7,123
Disposals	(119)	(732)	(851)
Exchange rate movement	(104)	(587)	(691)
<b>At 31 July 2008</b>	<b>8,525</b>	<b>20,449</b>	<b>28,974</b>
<b>Accumulated depreciation</b>			
At 1 August 2007	(1,705)	(6,480)	(8,185)
Charge for year	(951)	(4,183)	(5,134)
Disposals	52	104	156
Exchange rate movement	64	456	520
<b>At 31 July 2008</b>	<b>(2,540)</b>	<b>(10,103)</b>	<b>(12,643)</b>
<b>Net book amount</b>			
<b>At 31 July 2008</b>	<b>5,985</b>	<b>10,346</b>	<b>16,331</b>
At 31 July 2007	6,781	8,427	15,208

The depreciation charge of \$5,134,000 includes \$565,000 (2007: \$1,073,000) relating to tangible fixed assets at the production facilities which has been capitalised in investment in programmes. The remaining \$4,569,000 is included in administrative expenses on the profit and loss statement.

The assets associated with the finance lease (see note 32) have \$nil value at 31 July 2008 (2007: \$nil).

The Company balance sheet has \$nil tangible fixed asset value (2007: \$nil).

**Sunshine Holdings 3 Limited**

**15. Development costs**

<b>Group</b>	<b>\$'000</b>
<b>Cost</b>	
At 1 August 2007	6,781
Additions	4,723
Exchange rate movement	<u>(118)</u>
At 31 July 2008	<u>11,386</u>
<b>Accumulated amortisation</b>	
At 1 August 2007	(561)
Charge for the year	(2,732)
Exchange rate movement	<u>4</u>
At 31 July 2008	<u>(3,289)</u>
<b>Net book amount at 31 July 2008</b>	<u><b>8,097</b></u>
Net book amount at 31 July 2007	<u>6,220</u>

Additions during the year arose in connection with the Group's direct consumer products division.

The Company balance sheet has \$nil development cost value (2007: \$nil).

## Sunshine Holdings 3 Limited

### 16. Investment in joint ventures and associates

Group	Joint ventures \$'000	Associates \$'000
<b>Cost</b>		
At 1 August 2007	2,127	40,639
Reclassification from other debtors	179	-
Acquisitions	-	10,407
Share in profits/(losses)	1,542	(6,058)
Elimination of unrealised profit	-	(169)
Cash fundings	518	-
Impairment	(2,857)	-
Other movements	-	105
Exchange movement	28	-
<b>At 31 July 2008</b>	<b>1,537</b>	<b>44,924</b>

Gullane Entertainment Limited, a wholly owned, direct subsidiary, owns a 50% share in Bridgefilms Limited, a UK company, and accounts for this investment as a joint venture. Bridgefilms Limited owns Bridgefilms 2 Limited (formerly Mumfie Limited), Sooty Limited, and Sooty Entertainment Limited, all UK companies which manage and exploit pre-school properties primarily in the UK and European Union. All of these companies have an accounting year end of 31 July. On 18 March 2008, Bridgefilms 2 Limited sold its interest in the Programmes, the Intellectual Property and certain related physical properties, assets and agreements to Britt Allcroft Limited for total consideration of \$1.4m. On 24 June 2008, Sooty Limited and its affiliate Sooty Entertainment Limited, sold its interests in the Programmes, the Intellectual Property and certain related physical properties, assets and agreements to Cadells Limited for a total consideration of \$1.04m. An impairment of \$1,026,652 was recognised at the year end to bring the carrying value of the Group's investment in line with the underlying net assets of Bridgefilms. Bridgefilms Limited was put into members' voluntary liquidation on 13 November 2008.

HIT Entertainment Limited, a wholly owned, indirect subsidiary, owns a 47.5% share in Children's Radio (UK) Limited, a UK company, and accounts for this investment as a joint venture. Children's Radio (UK) Limited produces and broadcasts digital radio programmes, and has a fiscal year end of 31 March. The shares were sold on 10 September 2008 for £1 to Folder Media Limited, the level to which the investment had been written down to in the year. Included within this write-off was \$178,740 related to the initial investment, which has been historically held within other debtors. For completeness this value has been shown as an addition to cost for disclosure purposes by way of a reclassification.

HIT Television Ventures LLC, a wholly-owned, indirect subsidiary of the Company, has a 30% interest in Children's Network LLC, a US company, and accounts for this investment as an associate. Children's Network LLC owns and operates PBS Kids Sprout, a 24 hour pre-school television network in the US, and has a 31 December fiscal year end. HIT Television Ventures LLC recorded a \$6,235,500 net loss for the year (2007: \$11,243,000) on its investment. In addition to the Investment in associate, HIT Television Ventures LLC also has a liability for future cash commitments. At 31 July 2008, the liability totalled \$3,529,000 (2007: \$10,862,000) on a discounted basis (using a discount rate of 8%).

On 19 November 2007, HIT Entertainment Limited paid €7.0m for a 40% ownership in Zone Kids Limited, which owns JimJam Television Limited and JimJam CEE Limited. The Group accounts for this investment as an associate.

Sunshine Holdings 3 Limited

17. Company investments

Company	Shares in Group undertakings \$'000	Loans to Group undertakings \$'000	Total \$'000
Cost and net book amount at 1 August 2007 and 31 July 2008	570,448	(166)	570,282

Interests in subsidiaries

The following companies were material subsidiaries. These were included in the consolidated accounts as at 31 July 2008:

Name of undertaking	Country of Incorporation	Class of shares held	Principal business activity	Percentage of voting rights held
<b>Direct holdings:</b>				
Sunshine Holdings 3A Limited	Great Britain	Ordinary	Intermediate holding company Promotion of the Group's products associated with the intellectual properties	100%
Gullane Entertainment Limited	Great Britain	Ordinary		100% <sup>⊖</sup>
<b>Indirect holdings:</b>				
Sunshine Acquisition Limited	Great Britain	Ordinary	Intermediate holding company Promotion of the Group's products associated with the intellectual properties	100%
HIT Entertainment Limited	Great Britain	Ordinary	Film production	100%
Gullane (Productions) Limited	Great Britain	Ordinary	Film production	100%
Gullane (Thomas) Limited	Great Britain	Ordinary	Exploitation of the character licensing rights associated with its film production	100%
The Media Merchants TV Co. Limited	Great Britain	Ordinary	Exploitation of the character licensing rights associated with its film production	100%
Prism Art & Design Limited	Great Britain	Ordinary	Holding and exploitation of character licensing rights	100%
Television Support Services Limited	Great Britain	Ordinary	Film production	100%
Gullane (Licensing) Limited	Great Britain	Ordinary	Exploitation of character property rights	100%
Gullane (Distribution) Limited	Great Britain	Ordinary	Film and television distribution	100%
HIT Entertainment, Inc.	United States	Ordinary	Exploitation of character property rights	100%
Gullane (Development) Limited	Great Britain	Ordinary	Developing character and entertainment properties	100%
Gullane (Delaware) LLC	United States	Ordinary	Intermediate holding company	100%
Thomas Licensing LLC	United States	Ordinary	Exploitation of character property rights Management and distribution of intellectual property rights	100%
Lyrick Studios, Inc.	United States	Ordinary	Television	100%
HIT Television Ventures LLC	United States	Ordinary	Exploitation of intellectual property rights	100%
Lyons Entertainment of Nevada, Inc.	United States	Ordinary	Management and distribution of intellectual property rights	100%
HIT Entertainment Canada, Inc.	Canada	Ordinary	Exploitation of intellectual property rights	100%
Big Feats Entertainment LP	United States	Ordinary	Exploitation of intellectual property rights	100%
Lyons Partnership LP	United States	Ordinary	Exploitation of intellectual property rights Holding and exploitation of character licensing rights	100%
LEN-II, Corp.	United States	Ordinary	Holding and exploitation of character licensing rights	100%
Rhenclid Inc.	United States	Ordinary	Exploitation of intellectual property rights	100%
Joker, Inc.	United States	Ordinary	Intermediate holding company	100%
HIT Entertainment Finance Limited	Great Britain	Ordinary	Holding and exploitation of character licensing rights	100%
Gullane (Thomas) LLC	United States	Ordinary	Holding and exploitation of character licensing rights	100%
Rainbow Magic Limited	Great Britain	Ordinary	licensing rights	100%

⊖ Denotes 28.5% held directly and 61.5% indirectly

**Sunshine Holdings 3 Limited**

**18. Stock**

<b>Group</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Finished goods	<b>12,833</b>	17,391
Work in progress	-	2,422
	<b>12,833</b>	<b>19,813</b>

The Company balance sheet has \$nil stock value (2007: \$nil).

**Sunshine Holdings 3 Limited****19. Investment in programmes**

<b>Group</b>	<b>Completed programmes \$'000</b>	<b>Work in progress \$'000</b>	<b>Distribution advances \$'000</b>	<b>Total \$'000</b>
At 1 August 2007	70,305	16,341	1,321	87,967
Additions	6,918	24,755	810	32,483
Capitalised depreciation	-	565	-	565
Transfers	19,205	(19,205)	-	-
Amortisation	(18,932)	-	-	(18,932)
Recoupment	-	-	(198)	(198)
Exchange rate movement	(550)	(565)	-	(1,115)
<b>At 31 July 2008</b>	<b>76,946</b>	<b>21,891</b>	<b>1,933</b>	<b>100,770</b>

## Sunshine Holdings 3 Limited

### 20. Debtors

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade debtors	<b>34,609</b>	23,207
Prepayments and accrued income	<b>45,748</b>	50,729
Amounts owed by related parties	<b>8</b>	69
Other debtors	<b>4,395</b>	6,714
Distribution costs recoverable	<b>95</b>	64
	<b>84,855</b>	80,783

The Company balance sheet has \$nil debtors value (2007: \$nil).

**Sunshine Holdings 3 Limited****21. Creditors: amounts falling due within one year  
Group**

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Bank loans	<b>10,766</b>	229
Trade creditors	<b>23,419</b>	26,049
Accruals and deferred income	<b>35,723</b>	33,467
Royalty accruals	<b>19,556</b>	18,480
Deferred cash contributions to investment in associate	-	7,637
Other creditors	<b>19,846</b>	16,553
Corporation tax liability	<b>24,331</b>	20,056
Amounts owed to related parties	<b>251</b>	-
Preference dividends payable	<b>83</b>	57
Obligations under finance leases	<b>244</b>	216
Other taxation and social security payable	<b>235</b>	204
	<b>134,454</b>	122,948

**Company**

	<b>\$'000</b>	\$'000
Preference dividends payable	<b>83</b>	57

The preference dividends payable are cumulative and are currently in arrears from the date of issue in May 2005.

## Sunshine Holdings 3 Limited

### 22. Creditors: amounts falling due after more than one year

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	<u>490,346</u>	<u>592,610</u>
Deferred cash contributions to investment in associate	3,529	3,225
Fixed dividend preference shares	252	252
Obligations under finance leases	2,220	2,506
Other creditors	<u>2,700</u>	<u>2,301</u>
	<u>499,047</u>	<u>600,894</u>

  

<b>Company</b>	<b>\$'000</b>	<b>\$'000</b>
Fixed dividend preference shares	<u>252</u>	<u>252</u>

#### Preference shares

On 24 May 2005, 135,000 preference shares were authorised and issued at nominal value to Sunshine Holdings 2A Limited for the payment of \$251,586. These preference shares were immediately sold to a third party.

The preference shares are non-redeemable and have a 10% cumulative fixed dividend payable annually.

## Sunshine Holdings 3 Limited

### 23. Financial instruments

With the exception of the currency analysis of net assets, all short-term debtors and creditors (other than derivative financial instruments and finance lease payments) have been excluded from the following disclosures.

#### A) Currency risk management

The Group is exposed to movements in foreign currency exchange rates as follows:

Approximately 75% (2007: 77%) of the Group's sales are made to customers outside the UK. These sales are primarily invoiced in US dollars, but also include contracts negotiated in other currencies.

#### Currency analysis of net assets

The following table shows the extent to which the net assets held by companies within the Group are denominated in currencies other than the functional currency. The year end exchange rate used to translate sterling denominated balances at 31 July 2008 was 1.9805 (2007: 2.0243). Included within administrative expenses for the year ended 31 July 2008 is a loss on foreign denominated monetary assets of \$5,797,000 (2007: gain of \$3,858,000).

	Sterling \$'000	US Dollars \$'000	Euros \$'000	Other currencies \$'000	Total \$'000
<b>2008</b>					
<b>Functional currency of Group operation</b>					
Sterling	-	4,438	4,396	5,735	14,569
US Dollars	33	-	46	38	117
HK Dollars	-	2,882	-	1	2,883
<b>2007</b>					
<b>Functional currency of Group operation</b>					
Sterling	-	2,815	2,825	2,478	8,118
US Dollars	421	-	45	38	504
HK Dollars	-	2,191	-	-	2,191

The foreign subsidiaries operating with a functional currency of euros and Canadian dollars have immaterial amounts of monetary assets and liabilities denominated in other currencies.

#### B) Interest and liquidity risk management

At the year end, the Group's net cash position is \$33,706,000 (2007: \$29,721,000) on deposit. Short-term flexibility is available through overdraft and other committed bank borrowings. Bank facilities utilised incur floating rate interest based on appropriate LIBOR rates.

The interest rate profile of the Group's financial assets as at 31 July was:

	Cash floating rate 2008 \$'000	Cash floating rate 2007 \$'000
Sterling	4,345	7,400
US Dollars	24,170	20,322
Other currencies	5,191	1,999
	33,706	29,721

Interest rate risk of financial liabilities

	Floating rate \$'000
<b>2008</b>	
Sterling	2,441
US Dollars	501,112
Other	29
	503,582
<b>2007</b>	
Sterling	2,707
US Dollars	592,839
Other	15
	595,561

Floating rate liabilities comprise bank borrowings, which incur floating rate interest based on appropriate LIBOR rates, and finance leases.

The maturity profile of the floating rate liabilities at 31 July was as follows:

	Bank borrowings \$'000	Finance leases \$'000	Total 2008 \$'000	Total 2007 \$'000
Due in one year or less	10,766	246	11,012	445
Due in more than one year but not more than two years	(2,519)	278	(2,241)	481
Due in more than two years but not more than five years	317,865	1,042	318,907	418,429
Due in more than five years	175,000	904	175,904	176,206
	<b>501,112</b>	<b>2,470</b>	<b>503,582</b>	<b>595,561</b>

Bank borrowings are net of amortisation of deferred loan fees. No payments required in between 1 August 2009 and 31 July 2010, therefore the only item included in the maturity profile for that year is the amortisation of deferred loan fees for that year.

The floating rate liabilities due in more than five years in the above table comprise \$175,000,000 in non-instalment debt and \$904,000 in instalment debt.

#### C) Fair value of financial instruments used for risk management

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Book values were the amounts recorded in the balance sheet.

	Book value 2008 \$'000	Fair value 2008 \$'000	Book value 2007 \$'000	Fair value 2007 \$'000
<b>Primary financial instruments held to finance the Group's operations</b>				
Cash at bank	33,706	33,706	29,721	29,721
Financial liabilities	(503,582)	(503,582)	(595,561)	(595,561)
Preference shares	(252)	(252)	(252)	(252)
Other creditors falling due after more than one year	(6,229)	(6,229)	(5,526)	(5,526)
<b>Derivative financial instruments held to manage the Group's currency risks</b>				
Interest rate swaps	-	(13,451)	-	1,781

#### D) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 July in respect of which all conditions precedent had been met at that date.

	Floating rate \$'000	Total 2008 \$'000	Total 2007 \$'000
Expiring in more than two years but not more than five years	62,000	62,000	77,000

The figures shown in the tables above take into account interest rate swaps used to manage interest rate risk and the currency profits of financial liabilities.

The Group held two interest rate swaps which are used to hedge the interest rate risk on the floating rate debt. The settlements from the swap counterparties net against interest payable in the Group's profit and loss accounts. The fair value of these swaps are not included in the Group balance sheet. Details of these interest rate swaps can be found in note 24.

#### E) Credit risk

The Group's policy is to provide for any trade or other creditor balance whose collection is deemed doubtful. The Group is exposed to credit risk of its trade and other debtors to the extent they are not specifically provided for as doubtful accounts.

## Sunshine Holdings 3 Limited

### 24. Bank borrowings and long term notes

In respect of the acquisition by Sunshine Acquisition Limited of all of the share capital of HIT Entertainment PLC, and the related refinancing, on 1 June 2005 HIT Entertainment, Inc. borrowed the following amounts against available facilities: senior secured term loans in the amount of \$376,383,470, a senior subordinated bridge loan facility in the amount of \$172,415,500, and a revolving credit facility ("revolver") of \$77,000,000 against which \$3,500,000 and £1,000,000 was drawn down. The bridge facility was refinanced on 26 August 2005 and replaced with a \$175,000,000 second lien facility.

The senior secured term loans bear interest at LIBOR plus 2.00% and mature on 1 June 2012. The term loan facility amortises at a rate of 1.00% per annum on a semi-annual basis, with the balance due at maturity. The \$77,000,000 revolving credit facility terminates on 1 June 2011 and bears interest at LIBOR plus an applicable margin depending on a financial leverage ratio. For the majority of 2008, the margin was 2.00% (2007: 2.00%). These senior credit facilities are secured by the assets of the following group companies: Sunshine Acquisition Limited, Sunshine Holdings 3 Limited, Sunshine Holdings 3A Limited, HIT Entertainment Limited, Lyrick Studios, Inc., Lyons Entertainment of Nevada, Inc., LEN-II ,Corp., Rhenclid, Inc., Lyons Partnership L.P., Joker, Inc., Gullane Entertainment Limited, Gullane (Thomas) Limited, The Media Merchants Television Company Limited, HIT Entertainment Finance Limited, Gullane (Thomas) LLC, HIT Entertainment, Inc., and Thomas Licensing, LLC.

The second lien borrowing bears interest at LIBOR plus 5.50%. There is no annual amortisation and the facility matures on 26 February 2013. The security for this facility is a second lien pledge of the assets of the same group companies securing the senior secured credit facilities.

On 12 April 2007, the Group borrowed an additional \$70,000,000 under the first lien term loan facility, using the proceeds to fund several small acquisitions and pay off all outstanding revolver borrowings. These additional borrowings carry the same terms and security as the other borrowings under the first lien term loan facility. At the time of this additional borrowing, HIT Entertainment, Inc. achieved a margin reduction from 2.25% to 2.00% on the entire first lien facility, subject to the Moody's corporate family rating remaining at B1 or better.

On 19 February 2008, the Group used a portion of the proceeds from the disposal of a subsidiary to pay off \$108,726,000 of the first lien term facility. As a result of this payment, the Group is not obligated to make a semi-annual principal payment until July 2010.

On 3 October 2005, HIT Entertainment, Inc. executed interest rate swaps on a portion of the outstanding term and second lien borrowings. The terms of the swaps provided that HIT Entertainment, Inc. pay a fixed rate of 4.235% to the counterparties and receive floating LIBOR. On 29 December 2006, these swaps were cancelled and new swaps were executed. The new swaps provide that HIT Entertainment, Inc. pay a fixed rate of 4.904% to the counterparties and receive floating LIBOR. The notional amount of the new swaps decrease on a semi-annual basis, and at 31 July 2008 was \$460,000,000. The Group received \$5,025,000 upon cancellation of the original swaps, based on the market value of these swaps at the time of cancellation. A portion of these proceeds was deferred and is being recognised over the remaining term of the original swaps. At 31 July 2008, the balance of the deferred interest income related to the cancelled swaps was \$1,182,000.

Group	2008 \$'000	2007 \$'000
<b>Due within one year</b>		
Bank borrowings	-	4,464
Bank borrowings under revolver	15,000	-
Deferred financial fees in accordance with FRS 4	(4,234)	(4,235)
	10,766	229
<b>Due after more than one year</b>		
Bank borrowings	502,548	609,042
Deferred financial fees in accordance with FRS 4	(12,202)	(16,432)
	490,346	592,610

## Sunshine Holdings 3 Limited

### 25. Provisions for liabilities

	<b>Provisions for returns \$'000</b>
<b>Group</b>	
At 1 August 2007	1,998
Charge to profit and loss	26,179
Utilised during the year	(21,549)
Disposals	(477)
Exchange rate movement	(17)
<b>At 31 July 2008</b>	<b><u>6,134</u></b>

The balance of the provisions at 31 July 2008 are expected to be utilised within the next financial year.

The Company balance sheet has \$nil provisions value (2007: \$nil).

## Sunshine Holdings 3 Limited

### 26. Deferred taxation

	2008	2007
	\$'000	\$'000
Accelerated capital allowances	<u>(4,733)</u>	<u>(12,979)</u>
Tax losses carried forward	(591)	(15)
Other timing differences	<u>(39,312)</u>	<u>(24,566)</u>
Deferred tax asset	<u>(44,636)</u>	<u>(37,560)</u>

	\$'000
<b>Group</b>	
Deferred tax asset at 1 August 2007	(37,560)
GWR balance transferred to reserves	75
<b>Adjusted opening balance</b>	<b>(37,485)</b>
Credit to profit and loss	(7,271)
Exchange difference	120
<b>Deferred tax asset at 31 July 2008</b>	<b><u>(44,636)</u></b>

**27. Pensions**

The pension cost for the Group's money purchase pension schemes, which represents contributions payable by the Group, amounted to \$1,024,000 for the year ended 31 July 2008 (2007: \$1,383,000).

**Sunshine Holdings 3 Limited**

**28. Called-up share capital**

<b>Group and Company</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Authorised</b>		
Ordinary shares - 399,865,000 of £1.00 each	<u>743,749</u>	<u>743,749</u>
<b>Allotted, called-up and fully paid</b>		
Ordinary shares 305,965,001 of £1.00 each	<u>570,196</u>	<u>570,196</u>

**Sunshine Holdings 3 Limited**

**29. Profit and loss account**

	<b>2008</b>
<b>Group</b>	<b>\$'000</b>
At 1 August 2007	<u>(95,648)</u>
Loss for the financial year	(15,768)
Currency translation differences	<u>1,389</u>
<b>At 31 July 2008</b>	<b><u>(110,027)</u></b>

	<b>2008</b>
<b>Company</b>	<b>\$'000</b>
At 1 August 2007	<u>(223)</u>
Loss for the financial year	<u>(26)</u>
<b>At 31 July 2008</b>	<b><u>(249)</u></b>

**Sunshine Holdings 3 Limited**

**30. Reconciliation of movements in shareholders' funds**

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss for the financial year	(15,768)	(31,170)
Currency translation differences on foreign currency net investments	1,389	3,124
Net change in shareholders' funds	(14,379)	(28,046)
Opening shareholders' funds	474,548	502,594
Closing shareholders' funds	460,169	474,548

  

<b>Company</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss for the financial year	(26)	(27)
Opening shareholders' funds	569,973	570,000
Closing shareholders' funds	569,947	569,973

**Sunshine Holdings 3 Limited**

**31. Dividends**

<b>Group</b>	<b>Notes</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Preference dividend	8	<u>26</u>	<u>27</u>

## Sunshine Holdings 3 Limited

### 32. Financial commitments

At 31 July, the Group was committed to make payments during the following year under non-cancellable operating leases in respect of land and buildings as follows:

	2008	2007
	\$'000	\$'000
<b>Land and building operating leases which expire:</b>		
Within one year	102	1,153
Between two and five years	2,932	931
After five years	2,101	3,753
	<u>5,135</u>	<u>5,837</u>

At 31 July, the Group was committed to make payments during the following year under non-cancellable equipment and motor vehicle operating leases as follows:

	2008	2007
	\$'000	\$'000
<b>Equipment and motor vehicle operating leases which expire:</b>		
Within one year	-	-
Between two and five years	157	31
	<u>157</u>	<u>31</u>

At 31 July, the Group was committed to the following payments, net of interest charges allocated to future years:

	2008	2007
	\$'000	\$'000
<b>Finance lease payments:</b>		
Between two and five years	8	3
After five years	238	213
	<u>246</u>	<u>216</u>

The Group has a sale and leaseback agreement in relation to Captain Pugwash Series II. This has been accounted for as a finance lease in accordance with Statement of Standard Accounting Practice 21. The lease has a primary period of 15 years. The lease obligation recorded at 31 July 2008 resulting from this transaction amounted to \$2,441,000 (2007: \$2,707,000). The Group has restricted cash of \$2,441,000 (2007: \$2,707,000) related to the sale and leaseback agreement.

The Group was able to secure lower lease financing costs by providing a deposit as security for the lease obligations. This deposit, which bears interest at LIBOR minus 1/8 % must be maintained at a minimum of 90.5% of the obligations under the lease in order to retain the benefit of the lower finance charges.

During 2007, the Group entered into two finance leases for certain office equipment. These leases have primary periods of 5 and 6 years, respectively. The lease obligation recorded at 31 July 2008 resulting from these finance leases amounted to \$29,000 (2007: \$15,000).

The Company had no operating or finance lease commitments at 31 July 2008 (2007: \$nil).

**Sunshine Holdings 3 Limited**

**33. Capital commitments**

	<b>2008</b>	2007
	<b>\$'000</b>	<b>\$'000</b>
<b>Group</b>		
<b>Investment in programmes</b>		
Contracted but not provided for	<b>32,179</b>	23,131

The Company had no capital commitments at 31 July 2008 (2007: \$nil)

## **Sunshine Holdings 3 Limited**

### **34. Loss on ordinary activities after taxation**

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's loss on ordinary activities after taxation for the year ended 31 July 2008 amounts to \$26,000 (2007: \$27,000).

Sunshine Holdings 3 Limited

35. Analysis of net debt

	At 1 August 2007 \$'000	Cash flows \$'000	Other non cash movements \$'000	Exchange movements \$'000	At 31 July 2008 £'000
<b>Funds:</b>					
Cash at bank and in hand	29,721	2,678	-	1,307	33,706
<b>Debt:</b>					
Debt due within one year	(229)	(12,757)	2,220	-	(10,766)
Debt due after one year	(592,610)	108,726	(6,462)	-	(490,346)
Preference shares	(252)	-	-	-	(252)
Finance leases	(2,722)	208	(18)	68	(2,464)
	(595,813)	96,177	(4,260)	68	(503,828)
<b>Net debt</b>	<b>(566,092)</b>	<b>98,855</b>	<b>(4,260)</b>	<b>1,375</b>	<b>(470,122)</b>
<b>Analysed in the balance sheet :</b>					
Cash at bank and in hand	29,721				33,706
Borrowings due within one year	(229)				(10,766)
Borrowings due after one year	(592,610)				(490,346)
Preference shares	(252)				(252)
Finance leases	(2,722)				(2,464)
	<b>(566,092)</b>				<b>(470,122)</b>

## Sunshine Holdings 3 Limited

### 36. Related party disclosures

The Group has taken advantage of the exemption provided by paragraph 3 (c) of Financial Reporting Standard 8 not to disclose transactions with entities that are part of the Sunshine Holdings 3 Limited group.

Entities within the Group had transactions during the year with entities outside the Group but who shared the same ultimate parent company as Sunshine Holdings 3 Limited. HIT Entertainment Limited paid expenses on behalf of the HIT Entertainment Scottish LP totalling \$Nil (2007: \$1,000), and on behalf of Helium Holdings 1A Limited totalling \$5,394 (2007: \$8,000). Sunshine Acquisition Limited paid expenses on behalf of Sunshine Holdings 2A Limited totalling \$Nil (2007: \$273,000). HIT Entertainment Limited paid expenses on behalf of Sunshine Holdings 2A Limited totalling \$48,376 (2007: \$Nil).

Gullane Entertainment Limited has a 50% ownership in Bridgefilms Limited and HIT Entertainment Limited has a 47.5% ownership in Children's Radio (UK) Limited. The Group had limited transactions with Bridgefilms Limited, consisting mainly of payment of expenses on behalf of Bridgefilms Limited. This amount totalled \$38,170 (2007: \$54,000) during the year. During the year \$130,411 of monies owing to the Group by Bridgefilms was written off. During the year, the Group did not charge Children's Radio (UK) Limited a management fee (2007: \$Nil).

HIT Television Ventures LLC has a 30% ownership in Children's Network LLC. There is no Group turnover for the year (2007: \$106,000) relating to sales of episodes to Children's Network LLC, and no Group cost of sales (2007: \$422,000) associated with those episodes.

During the year HIT Entertainment Limited acquired a 40% ownership in Zone Kids Limited, which owns JimJam Television Limited and JimJam CEE Limited. The Group's share of turnover for the year was \$845,000 (2007: \$Nil) representing licence fees for use of content, and the Group's share of cost of sales was \$98,000 (2007: \$Nil) representing costs associated with those episodes.

#### Amounts due to/from the Group from related parties as at 31 July were as follows:

	2008 \$'000	2007 \$'000
<b>Debtors</b>		
Sunshine Holdings 2A Limited	-	48
HIT Entertainment Scottish LP	8	8
Helium Holdings 1A Limited	-	10
Sunshine Holdings 2 Limited	-	3
Bridgefilms Limited	<u>368</u>	<u>549</u>
	<u>376</u>	<u>618</u>
<b>Creditors</b>		
Helium Holdings 1A Limited	156	-
Sunshine Holdings 2 Limited	<u>95</u>	<u>-</u>
	<u>251</u>	<u>-</u>
<b>Creditors: amounts falling due after more than one year</b>		
Children's Network LLC	<u>3,529</u>	<u>10,862</u>
	<u>3,529</u>	<u>10,862</u>

The net amounts owed to related parties falling due within one year varies from that disclosed in note 21 due to the fact that the Bridgefilms Limited balance is eliminated on consolidation.

## **Sunshine Holdings 3 Limited**

### **37. Post balance sheet events**

On 15 September 2008, HIT Entertainment Limited sold its interest in Children's Radio (UK) Limited to Folder Media Limited. The shares were sold for £1, the level to which the investment had been written down to in the year.

In October 2008, the Group announced a reorganisation which creates a focus on global brand management. To date, there has not been a significant amount of redundancies resulting from the recent reorganisation.

Bridgefilms Limited was put into members' voluntary liquidation on 13 November 2008.

**Sunshine Holdings 3 Limited**

**38. Disposals**

	<b>2008</b>
<b>Disposal of GWR Group</b>	<b>\$'000</b>
Tangible fixed assets	621
Stocks	480
Debtors	9,743
Cash	8,076
Creditors	(12,169)
Foreign exchange differences	(538)
Goodwill	78,005
	<hr/> 84,218
Profit on disposal (Note 10)	32,511
Transaction fees	3,582
	<hr/>
<b>Cash consideration</b>	<b>119,508</b>
<b>Other cash proceeds</b>	<b>803</b>
	<hr/>
<b>Total consideration</b>	<b>120,311</b>

## **Sunshine Holdings 3 Limited**

### **39. Immediate and ultimate parent company**

The immediate parent undertaking is Sunshine Holdings 2A Limited, which is registered in England and Wales.

The ultimate parent undertaking is HIT Entertainment Scottish LP, which is registered in Scotland, while the ultimate controlling party is Apax Partners Europe Managers Ltd on behalf of funds managed by it.

Sunshine Holdings 2 Limited, which is registered in England and Wales, is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 July 2008, while Sunshine Holdings 3 Limited is the smallest group to consolidate these financial statements. Both consolidated financial statements can be obtained from 149 Tottenham Court Road, London W1T 7NF, United Kingdom.