

Sunshine Holdings 3 Limited

Annual report and financial statements

for the year ended 31 July 2009

Registered number: 05359848

Sunshine Holdings 3 Limited

Directors' report

For the year ended 31 July 2009

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 July 2009.

Principal activities and review of business

The principal activity of the Company and its subsidiaries (the 'Group') is the creation, production and exploitation of 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 \$568,914,000 (2008: \$16,138,000) after an impairment charge of \$503,000,000 relating to goodwill (2008: \$nil) and net interest payable of \$44,662,000 (2008: \$50,401,000). The Group's net debt of \$482,981,000 (2008: \$470,122,000) arose principally at the time of the acquisition of the Group.

In accordance with the Group's accounting policy, a full impairment review of tangible and intangible fixed assets was performed as of the end of the financial year. As a result the goodwill has been impaired by \$503,000,000 (2008: nil). The value in use method was used, discounting the cash flows expected for the remainder of the goodwill amortisation period, which is approximately 16 years.

Business environment

The TV sector for pre-school is highly competitive. There are a number of production companies operating in this space, and while the industry has seen a proliferation of specialist kids' channels emerge over the last decade, overall TV revenue growth remains modest. This is due in part to the large broadcasters developing their own programming, and hence the demand for independent third party content has declined. New media platforms such as the internet and mobile/portable applications present potential alternative distribution means, but have not become a significant factor in the pre-school market to date.

The licensed consumer products market remains strong, particularly for well-established properties with secure distribution. In many key territories, character-based retailing is concentrated in the hands of a few retailers who focus on maximising shelf space return with proven properties or new, heavily promoted brands and events. To illustrate, in November 2008, the Group executed an agreement with Fisher Price on a six-year worldwide (excluding Japan) master toy license for the Thomas the Tank Engine (Thomas) brand. Management believe this partnership will provide substantial growth for Thomas in the coming years, and as a consequence of the rights granted in the agreement, the Group will be liquidating its in-house toy division by February 2010.

As broadcast of pre-school shows is a driver of retail placement of Consumer Products (CP), ancillary revenues are also somewhat dependent on the Group's broadcast footprint in each territory. The Group continues to enjoy strong relationships with major broadcasters in all key territories.

During the reporting period, the Group experienced revenue growth in the Home Entertainment (HE) segment, underpinned by its distribution contract guarantees with Lionsgate in North America. However, the market for sales of DVDs in general is in decline. Looking forward, new formats, such as Blu-ray, are projected to support the packaged media side of the business but increased penetration of VOD, and new offerings such as digital downloading, will present challenges to the traditional DVD sell-through model.

Principal risks and uncertainties

Credit Facilities

As explained in Note 1 to the financial statements, the Group has commenced discussions with its lending agents regarding a potential restructuring and/or an amendment to its existing credit facilities. The Group faces more restrictive financial covenants beginning in the second quarter of fiscal year 2010, and in the current economic environment, the directors believe it is likely that the Group will not meet the financial covenants required under the first lien credit agreement.

As at the date of signing these financial statements, these discussions remain ongoing. The directors expect negotiations to be finalised before 15th March 2010, the deadline for reporting of second quarter fiscal 2010 results to the lenders. If the discussions with the lending agents are not successful, there is a risk that due to the current challenging economic environment, the existing credit facilities could be withdrawn.

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Directors' report

While the directors fully expect to resolve the covenant issues with a restructuring and/or amendment to the facility agreements, these circumstances represent a material uncertainty regarding the Group's going concern status. Nevertheless, after making enquiries and considering the assumption with regard to resolving the covenant issues described above, the directors have a reasonable expectation that the Group will satisfactorily conclude its covenant issues and will have adequate resources to continue in operational existence for the foreseeable future. Therefore the accounts have been prepared on a going concern basis.

Operations

As described above, broadcast is a driver of success for the Group's business and therefore loss of broadcast is a key risk. The Group owns a portfolio of heritage brands that enjoy global appeal and awareness; hence, it is our expectation that programming of the Group's brands will remain in demand for the foreseeable future. The Group is also a partner in the US digital channel "Sprout" - the full benefit of this will be realised when Sprout reaches critical mass in terms of numbers of subscribers.

The global CP market remains fragmented and competitive. The Group's position in this market is strong considering the worldwide appeal of its brands, but competition in various territories always presents a risk to continued success of a particular brand. The Group's brands are represented in many geographic markets, including the US, and are generally not concentrated in one or two key markets. A key risk in the CP business relates to licensed product quality and safety, and the Group mitigates this risk by partnering with highly reputable licensees who demonstrate very high quality and safety standards.

Emerging technologies, including alternative delivery platforms, as well as pressure on prices and competition from new brands represent the principal risks and uncertainties for the Home Entertainment business.

The Live Events/Themed Attractions business which the Group continues to develop is currently challenged by slowed capital spending in the corporate environment. The timing of the rebound in the economy presents a principal risk to the growth of this business. However, Management believe that the evergreen nature of the Group's brands uniquely positions the Group for future growth in this market.

Strategy

Key elements of the Group's strategic plan are as follows:

- * continued exploitation of existing brands through diverse lines of business including Home Entertainment, Consumer Products, Live Events, Television and New Media
- * enhance existing brands through programming investment and innovation
- * increase brand awareness through alternatives to television, such as movies, theme parks, publishing and new media
- * pursue new property development and co-production agreements which diversify risk and reduce capital commitment
- * maintain strong relationships with broadcasters all over the world
- * remain opportunistic in acquiring rights to other brands to add to the asset portfolio

Future outlook

As described above, a restructuring and/or amendment to the Group's credit facilities is necessary for the Group's continuing operations. The continued success of Thomas and other core portfolio brands is key to the future of the Group. Efforts to develop new properties at relatively low levels of investment could result in significant profit growth for the Group over time. The directors currently know of no further issues that would prevent the Group's continued success.

Sunshine Holdings 3 Limited

Directors' report

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.

The Group trades as HIT Entertainment Limited. HIT Entertainment is a portfolio company as defined by the Walker Report and the board has agreed to adopt all of the recommendations in its year end reporting. Funds advised and managed by Apax Partners have a controlling interest in HIT Entertainment. P Fitzsimons, I Hemmers 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 review are included in this Directors Report.

Directors

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

M Brockman (private equity executive, resigned 11 November 2009)

I Hemmers (private equity executive, appointed 11 November 2009)

P Fitzsimons (private equity executive)

G Dyke (industry expert)

J Reses (private equity executive)

J Weight (executive, resigned 16 January 2009)

J Dunn (executive)

S S Sullivan (executive, appointed 12 January 2009)

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 \$587,326,000 (2008: loss of \$15,768,000) inclusive of a \$503,000,000 goodwill impairment charge. The directors do not propose a dividend for the year (2008: \$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

Subsequent to year end, and as a result of the Group's financial covenants becoming more restrictive in the current fiscal year (as defined in the credit agreement), the Group has engaged in discussions with its lending agents regarding potential restructuring and/or an amendment to the current agreement. Discussions remain ongoing.

Research and development

The Group is involved with development activities in relation to its toy division. During the year ended 31 July 2009, \$3,031,000 (2008: \$4,723,000) 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 35.

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 payments 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

Directors' report

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 UK and abroad, and to a lesser extent, net assets denominated in foreign currencies. See note 22 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 22 and 23.

Credit risk

The Group's policy is to provide for any trade or other debtor 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 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

Directors' report

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 \$2,025 (2008: \$52,000) 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. 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.

Overseas branches

Gullane Entertainment Limited, a wholly owned subsidiary, operates an overseas branch in Japan.

Sunshine Holdings 3 Limited

Directors' report

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 group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the loss of the group for that period.

In preparing these 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

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

Disclosure of information to auditors'

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the Company's auditors and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

On behalf of the board



S S Sullivan
Director

16 December 2009

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 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Parent Company Reconciliation of Movements in Shareholders' Funds, the Principle accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2009 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

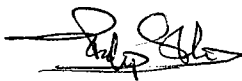
Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company and Group's ability to continue as a going concern. The directors believe that it is likely that the Group will not meet its existing financial covenants during 2010. In the directors' view there is no certainty that the ongoing negotiations with the Group's lenders to resolve this issue will be successful. This conclusion indicates the existence of a material uncertainty which may cast significant doubt about the Company and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Philip Stokes (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London, WC2N 6RH

17 December 2009

Sunshine Holdings 3 Limited
Registered number: 05359848

Consolidated profit and loss account for the year ended 31 July 2009

		2009	2008	2008	2008
		\$'000	\$'000	\$'000	\$'000
	Note	Total	Continuing Operations	Discontinued Operations	Total
Group turnover	2	249,299	238,403	35,386	273,789
Cost of sales		(120,936)	(102,229)	(13,643)	(115,872)
Gross profit		128,363	136,174	21,743	157,917
Selling, marketing and distribution costs		(22,696)	(22,154)	(3,247)	(25,401)
Administrative expenses					
Operating expenses		(69,738)	(74,978)	(4,250)	(79,228)
Amortisation of goodwill	12	(42,910)	(43,024)	(2,429)	(45,453)
Impairment of goodwill	12	(503,000)	-	-	-
Exceptional items	3	(17,387)	(12,285)	-	(12,285)
		(633,035)	(130,287)	(6,679)	(136,966)
Other operating income/(loss)					
Other operating income	5	547	13,575	-	13,575
Share of losses in joint ventures and associates	15	(3,894)	(4,516)	-	(4,516)
		(3,347)	9,059	-	9,059
Total operating (loss)/profit		(530,715)	(7,208)	11,817	4,609
Gain on sale of fixed assets		6,902	-	-	-
Impairment of investments in joint ventures		-	(2,857)	-	(2,857)
Gain/(loss) on disposal of subsidiary and joint ventures	15	(439)	-	32,511	32,511
Interest receivable and similar income	7	416	436	8	444
Interest payable and similar charges	8	(45,078)	(50,845)	-	(50,845)
(Loss)/profit on ordinary activities before taxation	9	(568,914)	(60,474)	44,336	(16,138)
Taxation	10	(18,412)	411	(41)	370
(Loss)/profit for the financial year	28	(587,326)	(60,063)	44,295	(15,768)

There is no material 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 2009**

	Note	2009 \$'000	2008 \$'000
Loss for the financial year	28	(587,326)	(15,768)
Currency translation differences on foreign currency net investments	29	(7,193)	1,389
Total recognised losses for the year		(594,519)	(14,379)

Sunshine Holdings 3 Limited
 Consolidated balance sheet as at 31 July 2009

	Note	2009 \$'000	2008 \$'000
Fixed assets			
Intangible assets			
Goodwill	12	175,805	721,715
Acquired rights	12	22,337	30,400
		<u>198,142</u>	<u>752,115</u>
Tangible assets			
Tangible assets	13	13,785	16,331
Development costs	14	5,513	8,097
Investment in joint ventures	15	-	1,537
Investment in associates	15	38,653	44,924
		<u>256,093</u>	<u>823,004</u>
Current assets			
Stock	17	14,790	12,833
Investment in programmes	18	101,792	100,770
Debtors	19	61,253	84,855
Deferred taxation	25	11,662	44,636
Cash at bank and in hand		75,464	33,706
		<u>264,961</u>	<u>276,800</u>
Creditors: amounts falling due within one year	20	<u>(136,135)</u>	<u>(134,454)</u>
Net current assets		<u>128,826</u>	<u>142,346</u>
Total assets less current liabilities		<u>384,919</u>	<u>965,350</u>
Creditors: amounts falling due after one year	21	(503,629)	(499,047)
Provisions for liabilities and charges	24	<u>(15,640)</u>	<u>(6,134)</u>
		<u><u>(134,350)</u></u>	<u><u>460,169</u></u>
Capital and reserves			
Called-up share capital	27	570,196	570,196
Profit and loss account	28	(704,546)	(110,027)
Total shareholders' funds	29	<u><u>(134,350)</u></u>	<u><u>460,169</u></u>

The financial statements on pages 9 to 53 were approved by the board of directors on 16 December 2009 and signed on its behalf by:



S S Sullivan
 Director

Sunshine Holdings 3 Limited
 Company balance sheet as at 31 July 2009

	Note	2009 \$'000	2008 \$'000
Fixed assets			
Investments	16	178,124	570,282
Creditors: amounts falling due within one year	20	<u>(105)</u>	<u>(83)</u>
Total assets less current liabilities		<u>178,019</u>	<u>570,199</u>
Creditors: amounts falling due after one year	21	<u>(252)</u>	<u>(252)</u>
		<u>177,767</u>	<u>569,947</u>
Capital and reserves			
Called-up share capital	27	570,196	570,196
Profit and loss account	28	<u>(392,429)</u>	<u>(249)</u>
Total shareholders' funds	29	<u>177,767</u>	<u>569,947</u>

The financial statements on pages 9 to 53 were approved by the board of directors on 16 December 2009 and signed on its behalf by:



S S Sullivan
 Director

Sunshine Holdings 3 Limited
Consolidated cash flow statement for the year ended 31 July 2009

	Note	2009 \$'000	2008 \$'000
Net cash inflow from operating activities before investment in programmes	11	55,772	91,867
Net cash outflow from investment in programmes	18	(33,282)	(32,483)
Net cash inflow from operating activities		22,490	59,384
Returns on investments and servicing of finance			
Interest received		402	444
Interest paid		(42,710)	(45,091)
Payment of financial fees		-	-
Interest element of finance lease rental payments		-	(150)
Net cash outflow from investments and servicing of finance		(42,308)	(44,797)
Taxation			
Corporate tax paid		(1,632)	(224)
Overseas tax paid		(1,247)	(1,544)
Net taxation paid		(2,879)	(1,768)
Capital expenditure			
Purchase of tangible assets		(5,561)	(7,123)
Proceeds from sale of tangible assets		10,000	-
Acquisition of share in associate		-	(10,771)
Acquisition of rights		(299)	-
Development costs		(3,031)	(4,723)
Net cash inflow/(outflow) for capital expenditure		1,109	(22,617)
Acquisitions and disposals			
Disposal of subsidiary and joint venture undertakings		740	120,311
Fees paid on disposal of subsidiary		-	(3,582)
Net cash balance disposed of with subsidiary undertaking		-	(8,076)
Net cash inflow from acquisitions and disposals		740	108,653
Net cash outflow before financing		(20,849)	98,855
Financing			
Increase in debt borrowings		92,000	41,000
Payments on debt borrowings		(41,000)	(136,969)
Capital element of finance lease rental payments		(185)	(208)
Net cash inflow/(outflow) from financing		50,815	(96,177)
Increase in cash	34	29,966	2,678
Reconciliation of net cash flow to movement in net debt			
Movement in cash in the year		29,966	2,678
Net cash (inflow) from short-term borrowings		(51,000)	(12,757)
Net cash outflow from long-term borrowings		-	108,726
Other non-cash movements		(4,230)	(4,260)
Cash outflow from lease financing		185	208
Foreign currency movement		12,220	1,375
Movement in net debt in the year		(12,859)	95,970
Net debt at beginning of year		(470,122)	(566,092)
Net debt at end of year	34	(482,981)	(470,122)

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

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 2006 and applicable United Kingdom accounting standards.

At 31 July 2009, the Group has net liabilities totaling (\$134,350,000) and as highlighted in the directors' report, the Group has engaged in discussions with its lending agents regarding potential restructuring and/or an amendment to the existing credit facilities. This is as a result of the Group's financial covenants becoming more restrictive in the current fiscal year (as defined in the credit agreement).

The Group faces more restrictive financial covenants beginning in the second quarter of fiscal year 2010, and in the current economic environment, the directors believe it is likely that the Group will not meet the financial covenants required under the first lien credit agreement. One consequence of this is that the existing lending facility could be withdrawn.

As at the date of signing these financial statements, discussions with the lending agents for the first and second lien are ongoing. The directors expect to resolve the covenant issues before 15th March 2010, the deadline for reporting of second quarter fiscal 2010 results to the lenders.

There can be no certainty that the outcome of the matters discussed above will be as forecast by the directors and the directors therefore recognise that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. However, the directors believe that the result of the discussions with the lenders will allow the Group to continue to meet its liabilities as they fall due for the foreseeable future. The financial statements have therefore been prepared on a going concern basis in accordance with the Companies Act 2006 and FRS18.

These financial statements do not include any adjustment to the value of balance sheet assets which would result should the going concern concept not be valid.

A summary of the significant policies which have been applied consistently during the year is set out below.

Basis of consolidation

The consolidated financial statements for the year ended 31 July 2009 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 16. 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.

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

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.

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 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.

Fixed asset investments are stated at cost less provision for any diminution in value.

Impairment of intangible and tangible fixed assets

Impairment reviews are carried out by management when there are indications that fixed asset carrying values may be impaired. In addition, goodwill is subject to an impairment review at the end of the first full year following an acquisition.

Fixed assets are impaired if their carrying value is greater than the recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Any impairment identified is recognised immediately in the profit and loss account.

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.

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

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 \$1.645 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.

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 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. 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
Notes to the consolidated financial statements for the year ended 31 July 2009

2. Segmental analysis

Group turnover

	Year ended 31 July 2009	Year ended 31 July 2008
	\$'000	\$'000
Turnover by destination:		
United States	145,046	129,371
United Kingdom	42,465	67,435
Rest of World	43,657	51,393
Rest of Europe	18,131	25,590
	249,299	273,789
Turnover by origin:		
United States	132,452	127,347
United Kingdom	83,357	126,822
Rest of World	33,490	19,620
	249,299	273,789
Turnover by class of business:		
Consumer Products	135,811	175,528
Home Entertainment	86,648	65,935
Television	13,513	14,470
Live Events	13,327	17,856
	249,299	273,789

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

Notes to the consolidated financial statements for the year ended 31 July 2009

3. Exceptional items

During 2009, the Group performed a restructure which resulted in exceptional items of \$17,387,000 for the year ended 31 July 2009 (2008: \$12,285,000).

These exceptional charges of \$17,387,000 are included within administrative expenses (2008: \$12,285,000) and relate to a provision for an onerous lease (\$9,434,000), salaries, benefits and severance. The 2008 charge also relates to salaries, benefits and severance.

The accrual relating to exceptional expenses at 31 July 2009 is \$nil (2008: \$2,295,000 included within Creditors due within one year).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

4. Directors' emoluments

	2009 \$'000	2008 \$'000
Directors		
Aggregate emoluments and benefits	1,760	3,617
Compensation for loss of office	214	588
Company pension contributions	9	51
Sums paid to third parties for directors' services	121	79
	2,104	4,335

Retirement benefits accrued to one director (2008: 2) under a defined contribution scheme. This director resigned during the year. It should be noted that an individual, who was disclosed as a director in the prior year, was not a director of Sunshine Holdings 3 Limited, but of the group subsidiaries. The prior year numbers have therefore been restated to reflect this.

Highest paid director		
Aggregate emoluments and benefits	1,019	1,384
Compensation for loss of office	-	588
Company pension contributions	-	26
	1,019	1,998

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

5. Other operating income

Other operating income for the year ended 31 July 2009 is \$547,344 (2008: \$13,575,000).

Other operating income includes \$179,525 relating to input VAT on share issue expenses that could not previously be claimed, \$117,592 relating to recoupment of expenses incurred in relation to a property turnaround, \$76,028 from a transition services agreement with a former subsidiary, and \$174,199 of miscellaneous income recorded for the year.

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 transition services agreement with a former subsidiary, \$128,000 from a lawsuit settlement, and \$141,000 of miscellaneous income recorded for the year.

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

6. Employee information

	2009	2008
Note	Number	Number
The average monthly number of persons (including executive directors) employed by the group by activity during the year was:		
Sales and marketing	89	136
Administration	117	148
Creative production	84	97
Distribution	2	3
	292	384

	2009	2008
	\$'000	\$'000
Staff costs (including directors' remuneration) amounted to:		
Wages and salaries	34,925	46,894
Social security costs	2,687	3,316
Pension costs	600	1,024
	38,212	51,234

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 (2008: none).

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

7. Interest receivable and similar income

	2009	2008
Group	\$'000	\$'000
Bank interest	<u>416</u>	<u>444</u>

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

8. Interest payable and similar charges

Group	Note	2009 \$'000	2008 \$'000
Interest on bank borrowings		39,663	44,998
Deferred debt arrangement fees expensed		4,230	4,230
Preference dividend	30	22	26
Interest on finance leases		113	150
Interest on deferred cash contributions to investment in associate		1,050	1,441
		45,078	50,845

Sunshine Holdings 3 Limited**Notes to the consolidated financial statements for the year ended 31 July 2009****9. (Loss)/Profit on ordinary activities before taxation**

	Note	2009 \$'000	2008 \$'000
Loss on ordinary activities before taxation is stated after charging:			
Total staff costs	6	38,212	51,234
Impairment of goodwill	12	503,000	-
Depreciation of tangible fixed assets owned assets	13	4,123	4,569
Amortisation of intangible assets goodwill	12	42,910	45,453
acquired rights	12	3,143	4,707
Amortisation of development costs	14	5,538	2,732
Amortisation of investment in programmes and style guides		22,069	19,395
Exceptional items included within administrative expenses	3	17,387	12,285
Operating lease rentals - land and buildings		3,880	4,116
Operating lease rentals - equipment		155	237
Finance lease rentals		113	150
Exchange loss/(gain)		12,167	5,797

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	174	203

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	715	754
Other services	193	67
Tax services	587	748
Services relating to corporate finance transactions	-	953

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

10. Taxation

	2009 \$'000	2008 \$'000
Current tax:		
Foreign tax	(1,831)	3,264
Corporation tax	-	7,483
Adjustments in respect of prior periods	(12,227)	(3,846)
Total current tax charge	(14,058)	6,901
Deferred tax:		
Origination and reversal of timing differences	32,424	(8,009)
Adjustments in respect of prior periods	46	738
Total deferred tax	32,470	(7,271)
Tax on loss on ordinary activities	18,412	(370)

Factors affecting tax charge for the year

The tax assessed for 2009 is lower (2008: lower) than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2009 \$'000	2009 %	2008 \$'000	2008 %
Loss before tax	(568,915)		(16,138)	
Tax at UK standard rate of 28%	(159,296)	28.0	(4,734)	29.3
Higher tax rate of 35% on US earnings	(2,051)	0.4	(929)	5.8
UK/US blended statutory tax rate	(161,347)	28.4	(5,663)	35.1
Non-deductible goodwill amortisation and impairment	152,855	(26.9)	13,333	(82.6)
Overseas taxes suffered	403	(0.1)	495	(3.1)
Tax on overseas earnings	(571)	0.1	4,973	(30.8)
Group relief for nil consideration	(3,023)	0.5	(4,085)	25.3
Deferred tax asset unrecognised	38,228	(6.7)	(199)	1.2
Other permanent differences	5,392	(0.9)	(5,734)	35.5
Prior year adjustment	(12,181)	2.1	(3,108)	19.3
Losses utilised	113	(0.0)	377	(2.3)
US State taxes	(1,759)	0.3	(433)	2.7
Other	302	(0.1)	(326)	2.0
Tax charge for the year	18,412	(3.2)	(370)	2.3
Excess of capital allowances over depreciation	(1,034)		(4,811)	
Deferred tax prior year adjustments	(46)		(738)	
Losses not utilised	(150)		576	
Short-term timing differences	(31,240)		12,244	
Current tax charge for the year	(14,058)		6,901	

There is an unrecognised deferred tax asset of \$17.3 million (FY 2008 - \$16.4M) 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:

There are no foreseeable factors that may affect future tax charges.

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**Notes to the consolidated financial statements for the year ended 31 July 2009****11. Reconciliation of operating profit to net cash inflow before investment in programmes**

	2009	2008
	\$'000	\$'000
Operating (loss)/profit	(530,715)	4,609
Impairment of goodwill	503,000	-
Depreciation of tangible fixed assets	4,123	4,569
Amortisation of intangible assets	46,053	50,160
Amortisation of development costs	5,538	2,732
Amortisation of investment in programmes and other current assets	22,069	19,395
Deferred debt arrangement fees expensed	4,230	4,230
Loss/(gain) on sale of tangible assets	-	70
Loss on investment in associate and joint ventures	3,894	4,516
Loss on onerous lease provision	9,434	-
Decrease/(increase) in stocks	(2,107)	6,396
Increase in trade debtors and other debtors	(2,534)	(17,518)
Increase in trade creditors and other creditors	(7,213)	12,709
Net cash inflow from operating activities before investment in programmes	55,772	91,867

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

12. Intangible assets

Goodwill

Group	\$'000
Cost	
At 1 August 2008	<u>858,034</u>
At 31 July 2009	<u>858,034</u>
Accumulated amortisation	
At 1 August 2008	(136,319)
Charge for the year	(42,910)
Impairment charge	<u>(503,000)</u>
At 31 July 2009	<u>(682,229)</u>
Net book amount 31 July 2009	<u><u>175,805</u></u>
Net book amount 31 July 2008	<u><u>721,715</u></u>

Acquired rights

Group	\$'000
Cost	
At 1 August 2008	37,983
Additions	299
Exchange rate movement	<u>(6,257)</u>
At 31 July 2009	<u>32,025</u>
Accumulated amortisation	
At 1 August 2007	(7,583)
Charge for the year	(3,143)
Exchange rate movement	<u>1,038</u>
At 31 July 2008	<u>(9,688)</u>
Net book amount 31 July 2009	<u><u>22,337</u></u>
Net book amount 31 July 2008	<u><u>30,400</u></u>

The Company balance sheet has nil intangible fixed asset value (2008: \$nil).

As at 31 July 2009 a full impairment review of intangible assets and investment in programmes was carried out in accordance with the Group's accounting policy. As a result of this, an impairment charge of \$503,000,000 has been recognised in relation to goodwill.

In determining recoverable amount, the value in use method has been used. A post tax discount rate of 12.83% has been used to calculate the present value of these estimated future cash flows. This rate has been calculated by management to represent the current market assessments of the time value of money and the risks specific to the cash flows of the business as a whole.

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

13. Tangible assets

Group	Land and buildings \$'000	Leasehold improvements \$'000	Fixtures and fittings \$'000	Plant, Machinery & tooling \$'000	In progress assets \$'000	Total \$'000
Cost						
At 1 August 2008	1	8,523	4,324	12,504	3,622	28,974
Additions	-	(18)	4,198	1,662	(281)	5,561
Transfers	-	-	-	379	(379)	-
Disposals	-	-	(208)	(4,790)	(228)	(5,226)
Reclassification	-	-	-	403	-	403
Exchange rate movement	-	(800)	(1,757)	(953)	(516)	(4,026)
At 31 July 2009	1	7,705	6,557	9,205	2,218	25,686
Depreciation						
At 1 August 2008	(1)	(2,745)	(2,322)	(7,575)	-	(12,643)
Charge for period	-	(836)	(1,701)	(1,801)	-	(4,338)
Disposals	-	-	175	2,405	-	2,580
Reclassification	-	-	-	(403)	-	(403)
Exchange rate movement	-	525	1,545	833	-	2,903
At 31 July 2009	(1)	(3,056)	(2,303)	(6,541)	-	(11,901)
Net book value						
At 31 July 2009	-	4,649	4,254	2,664	2,218	13,785
2008	-	5,778	2,002	4,929	3,622	16,331

The depreciation charge of \$4,338,000 includes \$518,805 (2008: \$565,000) relating to tangible fixed assets at the production facilities, \$215,000 of which has been capitalised in investment in programmes. The remaining \$4,123,000 is included in administrative expenses on the profit and loss statement.

The assets associated with the finance lease (see note 31) have \$nil value at 31 July 2009 (2008: \$nil), due to write-offs in previous years.

The Company balance sheet has \$nil tangible fixed asset value (2008: \$nil).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

14. Development costs

Group	\$'000
Cost	
At 1 August 2008	11,386
Additions	3,031
Exchange rate movement	(111)
At 31 July 2009	<u>14,306</u>
Accumulated amortisation	
At 1 August 2008	(3,289)
Charge for the year	(5,538)
Exchange rate movement	34
At 31 July 2009	<u>(8,793)</u>
Net book amount at 31 July 2009	<u>5,513</u>
Net book amount at 31 July 2008	<u>8,097</u>

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

As a result of the decision by the Group to liquidate its in-house toy division by early calendar 2010, the development costs that relate to the toy division have been amortised over the closure period from the announcement date rather than the Group's policy of 3-5 years to reflect this closure timeline. The toy related net book value for the year ended 31 July is \$5,334,000 (2008: \$7,593,000).

The Company balance sheet has \$nil development cost value (2008: \$nil).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

15. Investment in joint ventures and associates

Group	Joint ventures	Associates	Total
	\$'000	\$'000	\$'000
At 1 August 2008			
Goodwill	-	10,024	10,024
Other	1,537	34,900	36,437
Net book value	1,537	44,924	46,461
Share in profits/(losses)	179	(3,349)	(3,170)
Amortisation of goodwill	-	(724)	(724)
Total Share in profits/(losses)	179	(4,073)	(3,894)
Elimination of unrealised profit	-	(460)	(460)
Cash received from liquidator	(740)	-	(740)
Loss on liquidation	(439)	-	(439)
Exchange movement	(537)	(1,738)	(2,275)
At 31 July 2009			
Goodwill	-	7,598	7,598
Other	-	31,055	31,055
Net book value	-	38,653	38,653

Gullane Entertainment Limited, a wholly owned, direct subsidiary, owned a 50% share in Bridgefilms Limited, a UK company, and accounted 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. Bridgefilms Limited was put into members' voluntary liquidation on 13 November 2008. Gullane Entertainment Limited received \$740,000 in cash for its share in the net assets of the Bridgefilms Group, and booked a loss of \$439,000 on the liquidation.

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 \$3,835,000 net loss for the year (2008: \$6,235,500) 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 2009, the liability totalled \$4,580,000 (2008: \$3,529,000) 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. JimJam is a TV channel dedicated to pre-school children aged between 1 – 6 years, their parents and carers. Since its launch in 2006, the channel has grown rapidly, and it is now available in more than 50 countries and in 10 different languages. Zone Kids Limited has a 31 December fiscal year end.

16. Company investments

Company	Shares in Group undertakings \$'000	Amounts owed to Group undertakings \$'000	Total \$'000
Cost and net book amount at 1 August 2008	570,448	(166)	570,282
Impairment charge	(392,158)	-	(392,158)
Cost and net book amount at 31 July 2009	178,290	(166)	178,124

As at 31 July 2009 a full impairment review of tangible and intangible fixed assets was carried out in accordance with the Group's accounting policy. As a result of this, an impairment charge of \$392,158,000 has been recognised in relation to the carrying value of the Company investments in its subsidiaries.

Interests in subsidiaries

The following companies were material subsidiaries. These were included in the consolidated accounts as at 31 July 2009:

Name of undertaking	Country of Incorporation	Class of shares held	Principal business activity	Percentage of voting rights held
Direct holdings:				
Sunshine Holdings 3A Limited	Great Britain	Ordinary	Intermediate holding company	100%
Gullane Entertainment Limited	Great Britain	Ordinary	Promotion of the Group's products associated with the intellectual properties	100% [⊖]
Indirect holdings:				
Sunshine Acquisition Limited	Great Britain	Ordinary	Intermediate holding company	100%
HIT Entertainment Limited	Great Britain	Ordinary	Promotion of the Group's products associated with the intellectual properties	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%
Gullane (Music Publishing) Limited	Great Britain	Ordinary	Promotion of audio rights	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	100%
Lyrick Studios, Inc.	United States	Ordinary	Management and distribution of intellectual property rights	100%
HIT Television Ventures LLC	United States	Ordinary	Holds HIT's 30% interest in Children's Network LLC	100%
Lyons Entertainment of Nevada, Inc.	United States	Ordinary	Exploitation of intellectual property rights. Is the holding company of LEN-II Corp.	100%
HIT Entertainment Canada, Inc.	Canada	Ordinary	Management and distribution 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	100%
LEN-II, Corp.	United States	Ordinary	Holding and exploitation of character licensing rights. Is the Limited Partner of Lyons Partnership, L.P.	100%
Rhenclid Inc.	United States	Ordinary	Holding and exploitation of character licensing rights. Is the General Partner of Lyons Partnership, L.P.	100%
Joker, Inc.	United States	Ordinary	Exploitation of intellectual property rights	100%
HIT Entertainment Finance Limited	Great Britain	Ordinary	Intermediate holding company	100%
Gullane (Thomas) LLC	United States	Ordinary	Holding and exploitation of character licensing rights	100%
Rainbow Magic Limited	Great Britain	Ordinary	Holding and exploitation of character licensing rights	100%

[⊖] Denotes 28.5% held directly and 61.5% indirectly

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

17. Stock

	2009	2008
Group	\$'000	\$'000
Finished goods	<u>14,790</u>	<u>12,833</u>
	<u>14,790</u>	<u>12,833</u>

The Company balance sheet has \$nil stock value (2008: \$nil).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

18. Investment in programmes

Group	Completed programmes \$'000	Work in progress \$'000	Distribution advances \$'000	Total \$'000
At 1 August 2008	76,946	21,891	1,933	100,770
Additions	1,705	29,874	1,703	33,282
Capitalised depreciation	-	215	-	215
Transfers	20,805	(20,805)	-	-
Amortisation	(21,725)	-	-	(21,725)
Recoupment	-	-	(305)	(305)
Exchange rate movement	(7,139)	(2,983)	(323)	(10,445)
At 31 July 2009	70,592	28,192	3,008	101,792

Sunshine Holdings 3 Limited**Notes to the consolidated financial statements for the year ended 31 July 2009****19. Debtors**

Group	2009	2008
	\$'000	\$'000
Trade debtors	29,271	34,609
Amounts owed by related parties	7	8
Other debtors	7,236	4,395
Distribution costs recoverable	192	95
Prepayments and accrued income	24,547	45,748
	61,253	84,855

The Company balance sheet has \$nil debtors value (2008: \$nil).

Analysed as:	\$'000	\$'000
Amounts falling due within one year	59,631	84,855
Amounts falling due after more than one year	1,622	-
	61,253	84,855

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

20. Creditors: amounts falling due within one year

Group	2009	2008
	\$'000	\$'000
Bank loans	61,766	10,766
Trade creditors	20,659	23,419
Royalty accruals	11,529	19,556
Other creditors	15,047	19,846
Corporation tax liability	4,083	24,331
Amounts owed to related parties	188	251
Preference dividends payable	105	83
Obligations under finance leases	225	244
Other taxation and social security payable	115	235
Accruals and deferred income	22,418	35,723
	136,135	134,454

Company

	\$'000	\$'000
Preference dividends payable	105	83

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

Sunshine Holdings 3 Limited**Notes to the consolidated financial statements for the year ended 31 July 2009****21. Creditors: amounts falling due after more than one year**

Group	2009	2008
	\$'000	\$'000
Bank loans	<u>494,576</u>	490,346
Deferred cash contributions to investment in associate	4,580	3,529
Fixed dividend preference shares	252	252
Obligations under finance leases	1,626	2,220
Other creditors	<u>2,595</u>	<u>2,700</u>
	<u>503,629</u>	<u>499,047</u>

Company	\$'000	\$'000
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
Notes to the consolidated financial statements for the year ended 31 July 2009

22. 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 83% (2008: 75%) 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 2009 was 1.645 (2008: 1.9805). Included within administrative expenses for the year ended 31 July 2009 is a loss on foreign denominated monetary assets of \$12,167,000 (2008: loss of \$5,797,000).

	Sterling \$'000	US Dollars \$'000	Euros \$'000	Other currencies \$'000	Total \$'000
2009					
Functional currency of Group operation					
Sterling	-	9,181	3,663	5,374	18,218
US Dollars	918	-	46	41	1,005
HK Dollars	-	1,993	-	1	1,994
<hr/>					
	Sterling \$'000	US Dollars \$'000	Euros \$'000	Other currencies \$'000	Total \$'000
2008					
Functional currency of Group operation					
Sterling	-	4,438	4,396	5,735	14,569
US Dollars	33	-	46	38	117
HK Dollars	-	2,882	-	1	2,883

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 \$75,464,000 (2008: \$33,706,000) 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 2009 \$'000	Cash floating rate 2008 \$'000
Sterling	21,371	4,345
US Dollars	52,214	24,170
Other currencies	1,879	5,191
	75,464	33,706

Interest rate risk of financial liabilities

	Floating rate \$'000
2009	
Sterling	1,830
US Dollars	556,342
Other	21
	558,193
<hr/>	
	Floating rate \$'000
2008	
Sterling	2,441
US Dollars	501,112
Other	29
	503,582

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

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

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

	Bank borrowings	Finance	Total	Total
	\$'000	leases	2009	2008
	\$'000	\$'000	\$'000	\$'000
Due in one year or less	61,766	233	61,999	11,012
Due in more than one year but not more than two years	(808)	253	(555)	(2,241)
Due in more than two years but not more than five years	320,384	1,365	321,749	318,907
Due in more than five years	175,000	-	175,000	175,904
	556,342	1,851	558,193	503,582

Bank borrowings are net of amortisation of deferred loan fees. Between 1 August 2010 and 31 July 2011, the amortisation of deferred loan fees exceed the scheduled loan payments.

The floating rate liabilities due in more than five years in the above table comprise \$175,000,000 in non-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	Fair value	Book value	Fair value
	2009	2009	2008	2008
	\$'000	\$'000	\$'000	\$'000
Primary financial instruments held to finance the Group's operations				
Cash at bank	75,464	75,464	33,706	33,706
Financial liabilities	(558,193)	(558,193)	(503,582)	(503,582)
Preference shares	(252)	(252)	(252)	(252)
Other creditors falling due after more than one year	(7,179)	(7,179)	(6,229)	(6,229)
Derivative financial instruments held to manage the Group's currency risks				
Interest rate swaps	-	(18,501)	-	(13,451)

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	Total	Total
	\$'000	\$'000	\$'000
Expiring in more than two years but not more than five years	4,345	4,345	62,000

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 23.

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

Notes to the consolidated financial statements for the year ended 31 July 2009

23. 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 2.25% (2.00% until 23 December 2008) 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. From June 2009, the margin was 1.75%, increased from 1.5% (2008: 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., Thomas Licensing, LLC and HIT Holdings 3 Limited.

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. This has since reverted to 2.25% given Moody's downgrade of HIT Entertainment, Inc during the year.

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 2009 was \$429,000,000 (2008: \$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 2009, the balance of the deferred interest income related to the cancelled swaps was Nil (2008: \$1,182,000).

Group	2009	2008
	\$'000	\$'000
Due within one year		
Bank borrowings under revolver	66,000	15,000
Deferred financial fees in accordance with FRS 4	<u>(4,234)</u>	<u>(4,234)</u>
	61,766	10,766
Due after more than one year		
Bank borrowings	502,548	502,548
Deferred financial fees in accordance with FRS 4	<u>(7,972)</u>	<u>(12,202)</u>
	494,576	490,346

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

24. Provisions for liabilities

	Provisions for returns \$'000	Provision for onerous lease \$'000	Total \$'000
Group			
At 1 August 2008	6,134	-	6,134
Charge to profit and loss	20,631	9,434	30,065
Utilised during the year	(20,507)	-	(20,507)
Disposals	-	-	-
Exchange rate movement	(52)	-	(52)
At 31 July 2009	<u>6,206</u>	<u>9,434</u>	<u>15,640</u>

The balance of the provisions for returns at 31 July 2009 are expected to be utilised within the next financial year.

The Company balance sheet has no provisions (2008: none).

Analysed as:	<u>\$'000</u>
Amounts falling due within one year	7,529
Amounts falling due after more than one year	<u>8,111</u>
	<u>15,640</u>

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

25. Deferred taxation

	2009	2008
	<u>\$'000</u>	<u>\$'000</u>
Accelerated capital allowances	(4,410)	(4,733)
Tax losses carried forward	(441)	(591)
Other timing differences	<u>(6,811)</u>	<u>(39,312)</u>
Deferred tax asset	<u>(11,662)</u>	<u>(44,636)</u>

	<u>\$'000</u>
Group	
Deferred tax asset at 1 August 2008	(44,636)
Credit to profit and loss	32,470
Exchange Difference	<u>504</u>
Deferred tax asset at 31 July 2009	<u>(11,662)</u>

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

26. Pensions

The pension cost for the Group's money purchase pension schemes, which represents contributions payable by the Group, amounted to \$600,000 for the year ended 31 July 2009 (2008: \$1,024,000).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

27. Called-up share capital

	2009	2008
Group and Company	\$'000	\$'000
<hr/>		
Authorised		
Ordinary shares - 399,865,000 of £1.00 each	<u>743,749</u>	<u>743,749</u>
Allotted, called-up and fully paid		
Ordinary shares 305,965,001 of £1.00 each	<u>570,196</u>	<u>570,196</u>

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

28. Profit and loss account

	2009
Group	\$'000
At 1 August 2008	(110,027)
Loss for the financial year	(587,326)
Currency translation differences	(7,193)
At 31 July 2009	<u>(704,546)</u>

	2009
Company	\$'000
At 1 August 2008	(249)
Loss for the financial year	(392,180)
At 31 July 2009	<u>(392,429)</u>

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

29. Reconciliation of movements in shareholders' funds

Group	2009 \$'000	2008 \$'000
Loss for the financial year	(587,326)	(15,768)
Currency translation differences on foreign currency net investments	(7,193)	1,389
Net change in shareholders' funds	(594,519)	(14,379)
Opening shareholders' funds	460,169	474,548
Closing shareholders' funds	(134,350)	460,169

Company	2009 \$'000	2008 \$'000
Loss for the financial year	(392,180)	(26)
Opening shareholders' funds	569,947	569,973
Closing shareholders' funds	177,767	569,947

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

30. Dividends

Group	Notes	2009 \$'000	2008 \$'000
Preference dividend	8	22	26

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

31. 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:

	2009	2008
	\$'000	\$'000
Land and building operating leases which expire:		
Within one year	547	102
Between two and five years	777	2,932
After five years	3,819	2,101
	<u>5,143</u>	<u>5,135</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:

	2009	2008
	\$'000	\$'000
Equipment and motor vehicle operating leases which expire:		
Within one year	26	-
Between two and five years	103	157
	<u>129</u>	<u>157</u>

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

	2009	2008
	\$'000	\$'000
Finance lease payments:		
Within one year	233	261
Between two and five years	1,618	1,366
After five years	-	-
	<u>1,851</u>	<u>1,627</u>

The comparative information in the note above has been restated to reflect the total amount due under total finance lease obligations.

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 2009 resulting from this transaction amounted to \$1,830,138 (2008: \$2,441,000). The Group has restricted cash of \$1,830,138 (2008: \$2,441,000) related to the sale and leaseback agreement. This balance is included within debtors.

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 2009 resulting from these finance leases amounted to \$20,951 (2008: \$29,000).

The Company had no finance lease commitments at 31 July 2009 (2008: \$nil).

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 200

32. Capital commitments

	2009	2008
	\$'000	\$'000
Group		
Investment in programmes		
Contracted but not provided for	21,210	32,179

The Company had no capital commitments at 31 July 2009 (2008: \$nil)

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

33. Loss on ordinary activities after taxation

As permitted by Section 408 of the Companies Act 2006, 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 2009 amounts to \$392,180,000 (2008: \$26,000). Included within this loss is a charge of \$392,158,000 relating to the impairment of the Company's investment in its subsidiaries.

Sunshine Holdings 3 Limited

Notes to the consolidated financial statements for the year ended 31 July 2009

34. Analysis of net debt

	At 1 August 2008 \$'000	Cash flows \$'000	Other non cash movements \$'000	Exchange movements \$'000	At 31 July 2009 £'000
Funds:					
Cash at bank and in hand	33,706	29,966	-	11,792	75,464
Debt:					
Debt due within one year	(10,766)	(51,000)	-	-	(61,766)
Debt due after one year	(490,346)	-	(4,230)	-	(494,576)
Preference shares	(252)	-	-	-	(252)
Finance leases	(2,464)	185	-	428	(1,851)
	(503,828)	(50,815)	(4,230)	428	(558,445)
Net debt	(470,122)	(20,849)	(4,230)	12,220	(482,981)
Analysed in the balance sheet :					
Cash at bank and in hand	33,706				75,464
Borrowings due within one year	(10,766)				(61,766)
Borrowings due after one year	(490,346)				(494,576)
Preference shares	(252)				(252)
Finance leases	(2,464)				(1,851)
	(470,122)				(482,981)

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

35. 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 wholly owned 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 Helium Holdings 1A Limited totalling \$10,594 (2008: \$5,394), on behalf of Sunshine Holdings 2 Limited totalling \$8,326 (2008: nil), and on behalf of Sunshine Holdings 2A Limited totalling \$nil (2008: \$48,376).

Gullane Entertainment Limited had a 50% ownership in Bridgefilms Limited, which was liquidated during the year. The Group had limited transactions with Bridgefilms Limited, consisting mainly of payment of expenses on its behalf. This amount totalled \$nil (2008: \$38,170) during the year.

HIT Television Ventures LLC has a 30% ownership in Children's Network LLC. The Group's share of turnover for the year was \$645,424 (2008: \$nil) relating to sales of episodes to Children's Network LLC, with Group cost of sales of \$539,000 (2008: \$nil) associated with those episodes.

HIT Entertainment Limited has 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 \$1,752,682 (2008: \$845,000) representing licence fees for use of content. There was no cost of sales (2008: \$98,000).

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

	2009 \$'000	2008 \$'000
Debtors		
HIT Entertainment Scottish LP	7	8
Bridgefilms Limited	<u>-</u>	<u>368</u>
	<u>7</u>	<u>376</u>

Creditors		
Helium Holdings 1A Limited	118	156
Sunshine Holdings 2 Limited	<u>70</u>	<u>95</u>
	<u>188</u>	<u>251</u>

Creditors: amounts falling due after more than one year

Children's Network LLC	<u>4,580</u>	<u>3,529</u>
	<u>4,580</u>	<u>3,529</u>

36. Post balance sheet events

Subsequent to year end, and as a result of the Group's financial covenants becoming more restrictive in the current fiscal year (as defined in the credit agreement), the Group has engaged in discussions with its lending agents regarding potential refinancing and/or an amendment to the current agreement. Discussions are ongoing.

Sunshine Holdings 3 Limited
Notes to the consolidated financial statements for the year ended 31 July 2009

37. 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 3 Limited, which is registered in England and Wales, is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 July 2009.