

Prime Focus London plc

STATUTORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010

Company Number: 1694613

**Prime Focus London plc
Annual report 2010**

Contents

	Page No
Directors, Advisers and Registered office	3
Corporate Profile	4
Chairman's Statement	5
Managing Director's Review	7
Directors' Report	13
Directors' Responsibilities Statement	15
Statement of Corporate Governance	16
Report of the Remuneration Committee	18
Independent Auditors' Report	19
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Cash Flows	23
Consolidated Statement of Changes in Equity	24
Notes to the Group Accounts	25
Company Balance Sheet	54
Notes to the Company Accounts	55

Prime Focus London plc

Annual report 2010

Directors, Advisers and Registered office

Directors

Namit Malhotra (Chairman and Managing Director)
Christopher Mills (Non-Executive Director)
Naresh Malhotra (Non-Executive Director)
Riv Karan Singh Chadha (Non-Executive Director)
Marie Louise Windeler (Non-Executive Director)

Secretary

Derringtons Limited
Erico House
93 – 99 Upper Richmond Road
London SW15 2TG

Registered office

64 Dean Street
London W1D 4QQ

Company Registration Number

01694613

Nominated Adviser

Grant Thornton UK LLP
30 Finsbury Square
London EC2P2YU

Auditors

Shipleys LLP
Chartered Accountants
10 Orange Street
Haymarket
London
WC2H 7DQ

Bankers

National Westminster Bank plc
19 Shaftesbury Avenue
London W1A 4QQ

Solicitors

Farrer & Co. LLP
66 Lincoln's Inn Fields
London WC2A 4LH

Registrar and transfer office

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA

Corporate Profile

Who are we?

Prime Focus is a global Visual Entertainment Services group. We provide creative and technical services to the Film, Broadcast, Commercials, Gaming, Internet and Media industries. Visual Entertainment Services is a new definition for an industry where technology, visual delivery platforms and content are converging and evolving.

What do we do?

We offer a genuine end-to-end solution from pre-production to final delivery including pre-visualisation, equipment hire, visual effects, video and audio post-production, Digital Intermediate, digital asset management and distribution.

What makes us different?

Our pioneering business model 'Worldsourcing' enables our talent to share their expertise across projects, locations, disciplines and sectors. It means we can operate across the entire Visual Entertainment sector; in every major market and at every stage of a project's development. Worldsourcing has no borders, timezones or limits on capacity and is able to adapt to the constantly changing needs and ambitions of content creators.

What are the benefits?

Prime Focus London PLC is part of Prime Focus, a worldwide network that combines global cost advantages, resources and talent pool with strong relationships and a deep understanding of the local markets we operate in. A tailored approach to each project ensures the delivery of a superior level of service aligned with a highly competitive pricing structure.

How does it work?

By delivering imaginative, proactive and timely solutions that help our clients creatively, technically and financially. By spreading projects across integrated facilities over three continents and five timezones using the Prime Focus "Global Digital Pipeline™". By tapping our global talent base of 1200+ post production professionals. By harnessing the advantage of differing cost bases to offer highly attractive pricing and client value. By supporting these advantages with powerful and proven Prime Focus creative technologies:

CLEAR - a secure hosted enterprise class Media Asset Management (MAM) platform, provided as a service.

View-D™ - a proprietary system for the conversion of 2D moving images to stereo 3D images.

R&D and proprietary VFX software - custom solutions to visual effects challenges and three production-proven software products for purchase (KRAKATOA™, AWAKE™ and DEADLINE®).

Prime Focus London plc Annual report 2010

Chairman's Statement

"Prime Focus is well positioned to deliver the highest quality post-production, VFX, and 3D solutions to the Global Visual Entertainment space with the most cost-effective Worldsourcing™ model".

This past year has seen the global economy start to recover, with the associated benefits starting to filter through to the media and entertainment sector. This has enabled Prime Focus to report an improvement in its financial performance.

The Group increased turnover to £21.5m for the year to 31 March 2010, up from £15.9m, whilst the group made profit before tax of £3.0m compared to a loss of £7.3m (as restated) in the previous year.

The Company took a critical review of all its subsidiary businesses with a view to restructuring the operations in line with the changing business scenario. As a result of the restructuring the Company closed down certain subsidiary businesses. The assets and liabilities of the closed down subsidiaries were written off / back in the accounts even though technically in the case of two subsidiaries namely 'Kpost Limited' and 'PF Post Production Limited', the subsidiaries entered formal liquidation / administration only after the end of the financial year being the date of the appointment of the administrator / liquidator. As per strict interpretation of the technical guidelines laid down by the accounting standards the Company should only write off assets in the current financial period and write back the liabilities in the next financial period. The Company has taken a view of substance over form to ensure that the accounts disclose the true and fair view of the state of affairs and that there is no abnormal loss or profit in any one particular financial period. Please refer to note 32 to the financial statements.

Operational highlights and opportunities

The global entertainment industry is improving. After two difficult years, market commentators expect the industry to grow at 2-3% in the short to medium term. Importantly, the big Hollywood blockbusters spend up to 70% of the movie production cost on post-production and visual effects. The directors expect this to remain the same given the importance and success of movies with great VFX (Feature Film Visual Effects) with the industry looking at getting 'more for less'. Prime Focus' ability to provide these services efficiently while maintaining high quality ensures a strong position going forward.

The Group has focused on changing its business model and is looking at forging more long term contracts with the ultimate end clients of its services. The most significant change being in the area of advertising, where the Group is looking to engage with global brands to become a preferred supplier with a direct relationship and guaranteed volume of work over multiple years.

The market for traditional film post production services has undergone change as well. Post Production Companies such as ours are now making investment into films in return for services rather than discounting the price for services. The discount has therefore been transformed into an investment with returns being earned from the sales of the films themselves.

Animation Services Contract

During the year the Company also entered into a contract worth £12.3m to deliver animation services for an animated feature film. As part of the delivery the Company was able to re-purpose and re-use animation assets created in the past and to that extent has made a significant profit margin on the contract. This contract has opened a new area of revenue for the Company being animated services for television and feature productions.

I want to thank all of our stakeholders – our employees, our customers, our vendors and our investors across the world for their support.

Prime Focus London plc Annual report 2010

Outlook

The business model changes outlined above are all good news for Prime Focus. We are uniquely positioned to deliver the highest quality post-production, VFX, and 3D solutions to the global visual entertainment space with the most cost-effective Worldsourcing model.

I am optimistic about the future of Prime Focus. The economy is looking much more confident, and we are seeing an increase in all sectors of our business. The current period has seen a continuation of a positive trend that started to emerge in the year to end March 2010 although the current financial year will see the impact of incremental costs as the business refocuses its emphasis onto the 3D film industry.

Further to the Company's announcement of 30 September 2010 the Board continues to seek out and identify opportunities and proposals with the intention to significantly enhance shareholders value and further announcements will be made as required.

Changes to the Board

Since the end of the period Anshul Doshi has left the Board to take up a position with the wider Prime Focus India group as Chief Operations Officer. Neil Barnett left the Company on 20 January to pursue other opportunities. We thank them for their contribution to the Company and success in their new endeavours.

Namit Malhotra
Chairman
28 January 2011

Prime Focus London plc Annual report 2010

Managing Director's Review

GROUP STRATEGY

Our mission is to:

- build a globally competitive business through the use of talent and technology.
- provide a platform for our people where growth = focus + hardwork.
- provide our customers greater levels of service by adapting and learning from them constantly.
- earn profit respectably by always delivering greater value for money.
- be a leader in the business by harnessing creativity and passion with a zeal to change convention through conviction.
- deliver to our shareholders a commitment to working with full Integrity and Intelligence at all times.

Prime Focus London plc is part of Prime Focus, a company born in India, which has grown by acquiring businesses in the major media centres around the world. Prime Focus has taken examples of best practice from each of its businesses and united them in a single brand with one set of values, one clear brand position and one strategic vision. That brand is Prime Focus. Our values represent our company, our brand and our people.

<i>Diversity</i>	Our strength lies in the qualities and diversity of our people.
<i>Family</i>	We are a family of differing backgrounds and experiences that share a common purpose and goal.
<i>Hunger</i>	Our hunger for creative and commercial success means that we constantly strive for improvement.
<i>Adventure</i>	Our people share a sense of adventure and a thirst for knowledge. We listen, question and use our insight to make good ideas even better.
<i>Full-blooded</i>	We share a full-blooded passion for our work which means we will always go the extra mile in the pursuit of excellence.
<i>Visionary</i>	Our visionary outlook, talent and commitment means we are able to meet any challenge and succeed.

As a result we create strong relationships built on total confidence in the quality of our work, the honesty of our opinions and the effectiveness of our ideas.

REVIEW OF THE YEAR

After a number of demanding years, we have positioned Prime Focus London to deliver organic growth. The global visual entertainment space is evolving, challenging and dynamic and Prime Focus is at the centre, providing creative and technical services to the film, broadcast, commercials, gaming, internet and media industries.

During the year the group took the important step of bringing the entire global business under one brand. Prime Focus is now represented globally under one name, one visual identity, one set of values and one voice.

Revenue

The reported growth in revenue from £15.9m to £21.5m was due to a number of reasons, the most significant being the award to the company of contract to provide animation services for a feature film.

Operating profit

Operating profit before exceptional items increased to £1.6m from a loss of £3.0m (as restated) in the prior year. The most significant factor contributing to the profit being the ability of the Group to re-purpose and re-use existing animation assets to deliver its contracted services under the contract to provide animation services for a feature film awarded to the Company.

Prime Focus London plc Annual report 2010

Exceptional items

The operating profit is before exceptional items. These are non-recurring items which are material to the Group's performance and included in the profit before tax:

- The company recognized net income of £1.7m on the closure through administration / liquidation of three of its subsidiary businesses. The closure of the subsidiary businesses was based on the critical review undertaken by the Company of its existing operations.

In the case of two subsidiaries namely K<Post Limited and PF Post Production Limited, the technical date of the administration / liquidation was after the end of the financial year being April 9, 2010 and May 13, 2010 respectively. In this case as per strict interpretation of the accounting guidelines laid down under IFRS the Company should only write off the assets in the Consolidated Statement of Financial Position as at March 31, 2010. The liabilities should only be written back in the next financial period i.e. April 1, 2010 to March 31, 2011. The Company has however written back these liabilities in the Consolidated Statement of Financial Position as at 31 March 2010. In the case of these two subsidiaries the assets written off total £2.1m and the liabilities written back total to £4.4m for both the subsidiary businesses taken together. The decision to write back the liabilities in the Consolidated Statement of Financial Position as at 31 March 2010 was because the Company felt it was important to reflect the true and fair financial position rather than have an abnormal loss in the current financial period and an abnormal gain in the next financial period. Accordingly on the basis of substance over form and given the fact that the liabilities would no longer be settled by the Group, the decision was taken to write back the liabilities in the Consolidated Statement of Financial Position as at 31 March 2010.

Finance costs

Net finance costs have decreased from £0.4m to £0.3m.

Key hires

The Group has continued to hire high quality executives. Romilly Endacott joined from Glassworks as Executive Producer for the Commercials division, with a special emphasis on driving the telecine business with Chief Creative Director Tareq Kubaisi.

Rowan Bray joined from Halo Post Production as Facilities Director for the UK Broadcast division.

Sue Mitchell joined from Technicolor as Commercial Director, Content Services, charged with setting the sales strategy for the UK business in duplication, encoding, film mastering and archive restoration services, whilst also exploring opportunities for digital delivery and global content services contracts utilising CLEAR.

Michael Elson and Martin Hobbs, both formerly of MPC, were brought in to oversee our expanding Film VFX and View-D™ operations in the UK.

Film rights

During the year the Group entered into a global content distribution agreement in respect of 50 Hindi language films. The fair value of consideration paid by the Group for access to these rights was £9.055m. The Company has subsequently after the end of the financial year end sold these rights to a wholly owned subsidiary of the parent group – Prime Focus Motion Pictures Limited for equivalent value in cash consideration. These rights have been disclosed in the Consolidated Statement of Financial Position as at 31 March 2010 under Intangible Assets.

Prime Focus London plc
Annual report 2010

REVIEW BY OPERATING SEGMENT

An analysis of revenue and profit or loss by operating segment is set out below.

Year ended 31 March 2010	Content services, post production & animation	VFX	Total
	£'000	£'000	£'000
Revenue	19,046	2,466	21,512
Inter-segment transactions	(75)	75	-
Depreciation and impairment of property, plant & equipment	(1,043)	(197)	(1,240)
Other income and expenses	(13,685)	(3,630)	(17,315)
Profit / (loss) before tax	4,243	(1,286)	2,957

Year ended 31 March 2009	Content services & post production	VFX	Total
	£'000	£'000	£'000
Revenue	15,268	628	15,896
Depreciation	(920)	(173)	(1,093)
Amortisation	-	(1,467)	(1,467)
Other income and expenses	(19,706)	(964)	(20,670)
Loss before tax	(5,358)	(1,976)	(7,334)

Content Services, post-production and animation

This segment currently represents the largest piece of the Group's business and comprises data and content management facilities as well as top-end post-production and visual effects services for the broadcast & commercial sectors.

These activities are aggregated together into one reportable segment on the basis that the economic characteristics are equivalent.

During the year, revenues have increased from £15.3m to £19.0m due to a number of reasons. The most significant being the award to the company of contract to provide animation services for a feature film.

Content Services

We launched CLEAR™ during the financial year, our proprietary web-based media asset management service. CLEAR™ manages the entire lifecycle of content from production to distribution, and offers a secure, fast and reliable digital delivery platform. This also enables the Prime Focus 'global digital pipeline' by seamlessly interconnecting the 16 Prime Focus offices around the world.

The availability of CLEAR™ to clients, alongside our growing Content Services offering in the UK, has led to new relationships in this area with companies such as Sony, Nickelodeon and Discovery.

We also launched our WorldVersioning™ offering, managed out of the UK. WorldVersioning™ is a next-generation service for the regional adaptation of TV, online and print campaigns, and answers a growing need among multi-national companies for efficient, high quality versioning that stays true to the centrally approved concept.

Prime Focus London plc Annual report 2010

We have partnered with Schawk!, the world's largest print supplier, giving us over 100 locations worldwide – the largest global footprint of any transcreation company.

Post-production

This segment includes short-form title sequences, idents and on-air promos to long-form television programming such as documentaries, sitcoms, dramas and factual series. We also offer high-end visual effects (“VFX”), colour grading and full post production services to the international commercials, music video and feature film industries.

We opened a new 5.1 Sound Studio in our London facility during the year. This suite, the fourth at our London facility, was installed to meet the growing demand from broadcast and commercials clients. It is also specified for Dolby commercials and trailer certification.

Whilst the year has been challenging owing to the continued impact of the global recession, we have:

- cemented our position as a leader in providing top-end broadcast post-production and visual effects across broadcasters including Discovery Channel, National Geographic, History Channel, BBC, BBC HD, ITV and Channel 4. Some of the major projects executed during the year included *BBC HD Channel Idents*, *Wonders of the Solar System*, *UEFA Super Cup idents*, *9/11 Phone Calls from the Towers*, *How Earth Made US*, *Who Was Jesus*, *Great British Menu*, *Heston's Feasts*, *Inside Planet Earth* and *America The Story of Us*; and
- established a well-earned reputation for working with some of the biggest brands in the UK for commercials and advertisements, including NatWest, McDonalds, Burger King, Debenhams, Herbal Essences, Sony Playstation, Subaru, ghd, Canon, AXA and Nokia alongside strong relationships with some of the leading agencies including; M&C Saatchi, Mother Euro RSCG, AMV BBDO, Saatchi & Saatchi, Leo Burnett, TBWA, JWT and RKCR/Y&R.

Animation Services Contract

During the year the Company also entered into a contract worth £12.3m to deliver animation services for an animated feature film. As part of the delivery the Company was able to re-purpose and re-use animation assets created in the past and to that extent has made a significant profit margin on the contract. The said contract has opened a new area of revenue for the company being animated services for television and feature productions.

Visual Effects (“VFX”)

The VFX division offers a full range of services to film and broadcast including pre-production, pre-visualisation and design, VFX supervision, 3D animation, matte paintings, digital grading and title design.

Our VFX division witnessed a number of exciting opportunities and projects which have seen revenues grow from £0.6m to £2.5m. We completed *Creation*, the film based on the life of Charles Darwin, which involved the completion of 60 VFX shots as well as *Robin Hood* for Ridley Scott, which involved the delivery of over 150 VFX shots over a four month period.

While this sector currently continues to be loss making, VFX is an area in which we see the potential for substantial growth in the UK, and we will be concentrating heavy attention and investment in this area.

Our revolutionary 2D-to-3D conversion process View-D™ was brought online in the UK during the year. The impact of 3D on the global visual entertainment industry is enormous. View-D™ allows filmmakers to efficiently create stereoscopic 3D movies from source material shot on virtually any medium. With View-D™, we are offering the industry an exciting new production method to convert both library titles and new releases to terrific stereoscopic quality in considerably less time than other methods. We expect this to lead to a significant increase in work for Prime Focus in the UK film VFX and 3D space.

Prime Focus London plc

Annual report 2010

FINANCIAL POSITION

Net debt

Net debt increased to £7.1m. Whilst the Group has repaid £0.8m of bank and other third party loans in the year, this has been compensated through an increased number of finance leases and intercompany borrowings to support the investment and growth of the business.

Non-current assets

Two major changes in the non-current assets

- £9.1m being investment in film rights classified under Intangible Assets. As stated earlier the company has sold these rights to a wholly owned subsidiary of the parent group – Prime Focus Motion Pictures Limited for equal value in cash consideration.
- Write off of non-current assets on the closure of subsidiary businesses. During the year the Company undertook a critical review of its subsidiary businesses with a view to restructure the operations in line with the changing business scenario. As a result of the restructuring the Company closed down certain subsidiary businesses. All assets of the closed down subsidiary businesses have been written off in the Consolidated Statement of Financial Position as at March 31, 2010.

CASHFLOW

Our cash balance has reduced to £1.2m from £1.5m in the prior year. This reflects operating cash inflows of £10.1m offset by investing cash out flows of £10m and financing cash out flows of £0.3m.

KEY PERFORMANCE INDICATORS

Key performance indicators (KPIs) used by the Board to monitor progress are listed in the table below.

KPI	2010	2009 (Restated - Note 31)	Definition and method of calculation
Revenue	£21,512k	£15,896k	Revenue per the consolidated statement of comprehensive income.
Profit / (loss)	£2,957k	(£7,334)k	Profit / (loss) before tax per the consolidated statement of comprehensive income.
Earnings per share	7.89p	(20.40)p	Basic earnings per share per the consolidated statement of comprehensive income.
Net Cash & Cash Equivalents	£1,224k	£1,502k	Net cash position of the Group as per the consolidated statement of cash flows.
Net debt	£7,117k	£6,431k	Cash and cash equivalents less bank loans and overdrafts, hire purchase obligations and net parent and associate company loans. All taken from the consolidated statement of financial position.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Group's strategy are subject to a number of risks. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

The following section comprises a summary of the main risks the Board believes could potentially impact the Group's operating and financial performance.

Prime Focus London plc Annual report 2010

Key Creative Staff

The Group's performance depends largely on the retention of key creative staff. The Group has successfully retained its key staff up to this point by ensuring that it gives them the necessary tools and working atmosphere such that they can maximize their creative energies and output.

Competition

The Group operates in highly competitive markets with several companies, small and large, competing for the same market share. Investment in the latest technology and a reputation of consistently delivering high quality services are a prime asset in the market. The Group continues to operate a programme for investment in the latest technology to bring the Group up to speed and ahead of competition in terms of technology.

Macro economic environment

Business environment risks considered by the Group include a downturn in film production activity in the UK, potential delay in revenue generation from the Group's media asset management business, the timing of television production and the cut in advertising spend by blue chip clients.

Technology

The Group is reliant on a number of technology systems to provide services to clients. Due to the rapid advancement of technology, there is a risk that systems could become outdated with the potential to affect efficiency and have an impact on revenue and client service. This risk is mitigated by regular reviews of the Group's technology strategy and ongoing development of in-house technology and software.

The Company's policy in relation to the use of financial instruments and its exposure to price risk, liquidity risk and cash flow risk is given in Note 4 to the financial statements.

Namit Malhotra

Group Managing Director
28 January 2011

Prime Focus London plc

Annual report 2010

Directors' report

The directors present their report and the financial statements for the Group and Company for the year ended 31 March 2010.

Results and dividends

The Group profit before tax for the year amounted is presented in the consolidated statement of comprehensive income. The directors do not recommend the payment of a dividend (2009: £nil).

Principal activities and review of the business

The principal activity of the Group continues to be that of the provision of technology based creative services for the media and entertainment industry.

A full operational review of the business is dealt with in the Chairman's Statement and Managing Director's review.

Directors

The following directors have held office since 31 March 2009:

Namit Malhotra (Chairman)
Anshul Doshi (Managing Director – resigned on 25 January 2011)
Christopher Mills (Non-Executive Director)
Naresh Malhotra (Non-Executive Director)
Riv Karan Singh Chadha (Non-Executive Director)
Marie Louise Windeler (Non-Executive Director)
Neil Barnett (Finance Director - appointed 22 June 2010 and resigned on 20 January 2011)

Directors' interests and other substantial shareholdings

The interests in the shares of the Company of the directors who served during the year were:

	At 31 March 2010		At 31 March 2009	
	Ordinary shares	Options	Ordinary shares	Option
Namit Malhotra	-	-	-	-
Anshul Doshi	-	-	-	-
Christopher Mills	-	-	-	-
Naresh Malhotra	-	-	-	-
Riv Karan Chadha	-	-	-	-
Marie Louise Windeler	-	-	-	-
Neil Barnett **	-	16,000	-	-

**Neil Barnett options have subsequently been cancelled as a result of his resignation from the Company.

Directors' interests in the shares of the parent undertaking, Prime Focus Limited are disclosed in the accounts of the Parent Company.

Riv Karan Singh Chadha and Naresh Malhotra were re-appointed to the Board at the Annual General Meeting on 30 September 2009.

On 31 March 2010 the Company had been notified of the following holdings of 3% or more of the total voting rights attaching to its issued share capital:

	Number of ordinary shares held	Percentage held
Prime Focus Limited	19,567,003	59.96%
Mrs. Diana Dixon	3,140,000	9.62%
Oryx International Growth Fund Limited	1,800,000	5.51%
Chase Nominees Limited	1,117,000	3.42%

Prime Focus London plc Annual report 2010

Creditor payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2010, the Group had an average of 133 days (As at 31 March 2009: 77 days).

Charitable and political donations

No charitable or political donations were made in the year. The policy of the directors is to leave the decision to make such contributions at the discretion of the individual shareholders.

Going concern

The directors, having reviewed the Group's forecasts, are confident that the Group has adequate financial resources to continue in operational existence for the foreseeable future. The directors have, therefore, continued to adopt the going concern basis in preparing these accounts. Furthermore, the ultimate Parent Company has confirmed that it will continue to support the company for a period of at least twelve months from the date of approval of these financial statements.

Close Company status

The Company is not a close Company within the meaning of Schedule 19 of the Income and Corporation Taxes Act 1988.

Employee involvement

The Group's policy is to encourage employee involvement at all levels as it believes this is essential for the success of the business. The directors have adopted an open management style and encourage communication to give employees the opportunity to contribute on business issues.

The Group does not discriminate against anyone on any grounds. Criteria for selection and promotion are based on the suitability of an applicant for the job. Applicants for employment by disabled persons are always fully considered, bearing in mind the respective aptitude of the applicant concerned.

Financial Risk Management

Details of the Group's financial risk management objectives and policies are provided in note 4 to the financial statements.

Directors' statement of disclosure of information to auditors

Having made the requisite enquiries, the directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

On 29 March 2010, Sterling Associates confirmed their resignation as the company's auditors. At the same time Shipleys LLP were appointed as the replacement auditors.

A resolution to re-appoint Shipleys LLP as auditors will be proposed at the Annual General Meeting.

On behalf of the Board

Namit Malhotra

Director

28 January 2011

Prime Focus London plc Annual report 2010

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements under 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 Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Prime Focus London plc

Annual report 2010

Statement of Corporate Governance

Although AIM listed companies are not required to report on the Combined Code, the directors are obliged to follow proper standards of corporate governance and will continue to keep procedures under review. The following provides an outline of the principal policies and procedures established by the Board.

The Board

The Board is responsible to shareholders for the overall management of the Group providing leadership within a framework of controls for managing risk; setting the Group's strategy; maintaining the policy and decision-making framework in which this strategy is implemented; ensuring that necessary resources are in place; monitoring performance and overseeing the system of risk management.

The responsibility of the directors is collective, taking into account their respective roles as executive and non-executive directors.

Chairman and Group Managing Director's function will be fulfilled by Namit Malhotra..

The non-executive directors bring a wide range of skills and experience to the Group together with independent judgement on issues of strategy, performance, risk and people.

There have been a total of five board meetings during the year. The attendance record of the directors was as follows:

22 May 2009	Christopher Mills, Marie Louise Windeler, Anshul Doshi
15 July 2009	Christopher Mills, Marie Louise Windeler
12 August 2009	Christopher Mills, Marie Louise Windeler, Anshul Doshi
10 November 2009	Christopher Mills, Marie Louise Windeler, Anshul Doshi
18 February 2010	Christopher Mills, Marie Louise Windeler, Anshul Doshi

Board committees

In view of the small size of the Board, the Remuneration Committee, composed of Christopher Mills and Marie Louise Windeler, has met once during the year. The committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive directors' individual remuneration packages are fixed by the committee or the Board. Full details of the directors' remuneration are set out in the Directors' Remuneration Report.

The Audit Committee is composed of Christopher Mills and Marie Louise Windeler. The Audit Committee examines and reviews internal controls, together with accounting policies and practices, the form and context of financial reports and statements and general matters raised by the auditors. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditors, reviews their independence and objectivity, and monitors the scope and results of the audit. The Committee has met twice during the year under review.

Accountability and financial control

The Board has overall responsibility for the systems of financial control. Implementation and maintenance of the financial control systems is the responsibility of executive management. It should be understood, that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The Company has an established framework of internal financial controls which reflect the current scale of Group activities, the key features of which are as follows:-

Control environment - There are clearly defined organizational responsibilities and the Board is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.

Prime Focus London plc

Annual report 2010

Information and financial reporting systems – The board reviews the adequacy of systems in place to record operational and financial information. The board approves the annual operating budgets and each month receives details of actual financial performance against budget.

Identification and evaluation of business risks and controls - Management control is exercised at all levels of the Group and is regulated by appropriate limits of authority. The directors have considered various areas of business risks and have developed appropriate policies to manage and diffuse those risks. These policies are reviewed in the light of known and perceived changes to the risks. For further details of identified risks and mitigation plans, please refer to the Managing Director's Review.

Quality and integrity of personnel - The Group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruitment and promoting suitably experienced personnel with clearly defined accountabilities.

Investment appraisal - Capital investment being a significant element of the Group's operations, all major expenditure is included in the annual budget and reported quarterly to the Board. In addition, all potential and actual acquisition opportunities are regularly reviewed by the Board, both in meetings and by ad hoc reports.

Internal audit - Given the size of the Group and the close day-to-day involvement of the executive directors no formal internal audit is considered necessary.

Relations with shareholders

The Board places considerable importance on creating and maintaining a strong relationship with its shareholders and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Company uses the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 37 Dean Street, London W1D 4PT on 30 March 2011, will be circulated to shareholders. Details of the resolutions and explanatory notes thereto are included with the Notice.

Namit Malhotra

Group Managing Director
28 January 2011

Prime Focus London plc

Annual report 2010

Report of the Remuneration Committee

The policy of the Group is to offer competitive remuneration packages that will attract, retain and motivate experienced and talented individuals who will enhance the value of the Group. The remuneration packages of the executive directors are reviewed and approved by the Remuneration Committee on an annual basis.

The remuneration of the executive directors is determined by the remuneration committee all of whom are non-executive directors: Christopher Mills (Chairman) and Marie Louise Windeler.

Directors' service agreements

The non-executive directors do not have a service agreement and their remuneration continues to be determined by the Board with the non-executive directors abstaining. In accordance with Regulation 82 to 84 of the Companies Articles of Association, one third of the non-executives retire each year and are eligible for re-election at the Company's Annual general Meeting.

Remuneration of the directors

	Salary £	2010 Total £	Salary £	Severance Payment £	Pension Contribution £	2009 Total £
AG Doshi**	15,000	15,000	15,000	-	-	15,000
CHB Mills	15,000	15,000	12,000	-	-	12,000
M L Windeller	15,000	15,000	8,750	-	-	8,750
NF Lane	-	-	9,000	30,000	4,349	43,349
	45,000	45,000	44,750	30,000	4,349	79,099

** Emoluments for Mr A G Doshi are in respect of his holding the position as a Board Director. Mr Doshi did not receive any emoluments for his executive duties.

Mr Namit Malhotra, Mr Naresh Malhotra and Mr Riv Karan Singh did not receive any emoluments during the year.

The basic salary of each director is determined by taking into account the director's experience, responsibility, value to the organization and market value. There is no bonus scheme.

Remuneration paid to CHB Mills has been paid to J O Hambro Capital Management

Directors' interests in ordinary shares

None of the current directors at the date of this report have any interest in the shares of the Company. At 31 March 2010, Neil Barnett was the only director with outstanding share options, holding 16,000 in total, which have subsequently been cancelled owing to his resignation.

The mid market price of the Company's shares at the end of the financial year was 11.25p. During the year, the share price ranged from 24.5p to 4p.

CHB Mills

Chairman
Remuneration Committee
28 January 2011

Prime Focus London plc

Annual report 2010

Independent Auditors' report to the members of Prime Focus London plc

We have audited the group financial statements of Prime Focus London plc for the year ended 31 March 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 15), the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group'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.

Adverse opinion on financial statements

As explained in note 32 to the financial statements, certain of the company's subsidiary undertakings entered administration / liquidation subsequent to the year end. The directors consider that as the liabilities of these subsidiaries will not be settled by the group, the liabilities should be written back in the period to 31 March 2010. In our opinion, as the subsidiaries remained under the control of the group as at 31 March 2010, the liability should still be recognised in the consolidated financial statements as at that date. If these liabilities had been so recognised, the effect would have been to increase current liabilities by £3,462,425 and reduce the profit for the year and retained earnings by the same amount.

In view of the effect of the failure to recognise the liabilities referred to above, in our opinion the group financial statements:

- do not give a true and fair view of the state of the Group's affairs as at 31 March 2010 and of its result for the year then ended; and
- have not been properly prepared in accordance with IFRSs as adopted by the European Union.

In all other respects, in our opinion the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Prime Focus London plc
Annual report 2010**

**Independent Auditors' report to the shareholders of Prime Focus London plc -
continued**

Opinion on other matter prescribed by the Companies Act 2006

Notwithstanding our adverse opinion on the financial statements, 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.

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.

Other matter

We have reported separately on the Parent Company financial statements of Prime Focus London plc for the year ended 31 March 2010.

Joseph Kinton (Senior Statutory Auditor)

For and on behalf of

Shipleys LLP

Chartered Accountants & Statutory Auditor

10 Orange Street
Haymarket
London
WC2H 7DQ
28 January 2011

Prime Focus London plc
Annual report 2010

Consolidated Statement of Comprehensive Income for the year ended 31 March 2010

	Notes	2010 £000	2009 Restated (Note 31) £000
Revenue	5	21,512	15,896
Cost of sales		(2,412)	(1,695)
Gross profit		19,100	14,201
Net operating charges		(17,477)	(17,585)
Other Income	8	-	399
Operating profit / (loss) before exceptional items	6	1,623	(2,985)
Exceptional income	10a	1,657	-
Exceptional charges	10b	-	(3,989)
Operating profit / (loss)		3,280	(6,974)
Finance income	9	270	-
Finance costs	9	(593)	(360)
Profit / (loss) before taxation		2,957	(7,334)
Taxation	11	(384)	676
Profit / (loss) for the year		2,573	(6,658)
Other comprehensive income:			
Revaluation of available-for-sale financial assets		-	(366)
Total comprehensive income for the year		2,573	(7,024)
Earnings per share (pence)			
Basic	12	7.89	(20.40)
Diluted	12	7.80	(20.40)

The above results are derived from continuing activities.

Namit Malhotra
 Director

Prime Focus London plc
Annual report 2010

Consolidated Statement of Financial Position at 31 March 2010

	Notes	31 March 2010 £000	31 March 2009 Restated (Note 31) £000	1 April 2008 Restated (Note 31) £'000
ASSETS				
Non-current assets				
Intangible assets	13	9,345	216	3,382
Property, plant and equipment	14	6,746	7,916	10,325
Other receivables	15	-	100	120
Deferred tax assets	19	18	402	20
Investments	16	22	29	859
Total non-current assets		16,131	8,663	14,706
Current assets				
Inventories	17	30	32	30
Trade and other receivables	18	11,265	9,355	5,416
Cash and cash equivalents		1,224	1,502	2,393
Total current assets		12,519	10,889	7,839
Total assets		28,650	19,552	22,545
EQUITY				
Capital and reserves attributable to equity shareholders				
Share capital	20	1,632	1,632	1,505
Share premium account		6,498	6,498	9,384
Capital redemption reserve		270	270	270
Fair value reserve		-	-	366
Special reserve		-	-	-
Retained earnings		(1,108)	(3,776)	(887)
Total equity		7,292	4,624	10,638
LIABILITIES				
Non-current liabilities				
Borrowings	25	3,405	3,708	667
Deferred tax liability	19	-	-	410
Total non-current liabilities		3,405	3,708	1,077
Current liabilities				
Borrowings	22	4,936	4,225	5,774
Trade and other payables	23	13,017	6,994	5,029
Current income tax liabilities	24	0	1	27
Total current liabilities		17,953	11,220	10,830
Total liabilities		21,358	14,928	11,907
Total equity and liabilities		28,650	19,552	22,545

The financial statements were approved by the Board of Directors and authorised for issue on 28 January 2011.

Namit Malhotra
 Director

Prime Focus London plc
Annual report 2010

Consolidated Statement of cash flows for the year ended 31 March 2010

	2010	2009
	£000	£000
Cash Flows from operating activities		
Profit / (loss) before taxation	2,957	(7,334)
Finance income	(270)	-
Finance costs	593	360
Depreciation	1,240	1,093
Share based payment	95	-
Amortisation	-	1,466
Impairments	7	503
Non-cash exceptional items	(1,657)	3,562
Profit on disposal of fixed assets	(84)	(521)
Operating cash flows before movements in working capital	<u>2,881</u>	<u>(871)</u>
Increase in inventories	1	(2)
Increase in receivables	(2,037)	535
Increase in payables	9,543	2,367
Cash generated from operations	<u>10,388</u>	<u>2,029</u>
Interest received	270	-
Interest paid	(592)	(360)
Tax recovered / (paid)	-	(1)
Net cash generated from operating activities	<u>10,066</u>	<u>1,668</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(777)	(416)
Purchases of intangible assets	(9,345)	-
Proceeds from sale of property, plant and equipment	83	521
Net cash (used in)/generated from investing activities	<u>(10,039)</u>	<u>105</u>
Cash flows from financing activities		
Issue of shares	-	1,010
Net receipt / (repayment) in respect of Parent borrowings	692	(3,096)
Repayment of Hire Purchase Obligations	(213)	(2,632)
(Repayment) / receipt of Bank and other loans	(784)	2,054
Net cash generated from financing activities	<u>(305)</u>	<u>(2,664)</u>
Decrease in cash & cash equivalents	(278)	(891)
Cash and cash equivalents at the beginning of the year	<u>1,502</u>	<u>2,393</u>
Cash and cash equivalents at the end of the year	<u>1,224</u>	<u>1,502</u>

Prime Focus London plc
Annual report 2010

Consolidated statement of changes in equity

	Share capital	Share premium (i)	Capital redemption reserve (ii)	Fair value reserve (iii)	Special reserve (iv)	Retained earnings (v)	Total Equity
	£000	£000	£000	£000	£000	£000	£000
At 1 April 2008 (as restated (Note 31))	1,505	9,384	270	366	-	(887)	10,638
Comprehensive income:							
Loss for the year (as restated (Note 31))	-	-	-	-	-	(6,658)	(6,658)
Other comprehensive income:							
Revaluation of available-for-sale financial assets	-	-	-	(366)	-	-	(366)
Transactions with owners:							
Shares issued	127	883	-	-	-	-	1,010
Creation of special reserve following court application for reduction in share capital (as restated (Note 31))	-	(3,769)	-	-	3,769	-	-
Release of special reserve (as restated (Note 31))	-	-	-	-	(3,769)	3,769	-
At 1 April 2009 (as restated (Note 31))	1,632	6,498	270	-	-	(3,776)	4,624
Comprehensive income:							
Profit for the year	-	-	-	-	-	2,574	2,574
Transactions with owners:							
Share-based payments	-	-	-	-	-	95	95
At 31 March 2010	1,632	6,498	270	-	-	(1,107)	7,293

- (i) Share premium – amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs.
- (ii) Capital redemption reserve - created as a result of a previous share buy-back.
- (iii) Fair value reserve – represents cumulative gains or losses on the fair value of available for sale investments recognized in other comprehensive income.
- (iv) Special reserve – created following court application for reduction in share capital. This was then released against the deficit recorded in retained earnings as permitted by the court.
- (v) Retained earnings – cumulative net gains and losses recognized in the consolidated statement of comprehensive income net of associated share based payment credits.

Prime Focus London plc

Annual report 2010

Notes to the Accounts

1. General information

Prime Focus London plc ("the Company") and its subsidiaries (together "the Group") are technology based creative service providers to the media and entertainment industry.

The Company is a public limited company which is listed on the AIM Market of the London Stock Exchange and is incorporated and domiciled in England (Registration number 1694613). The address of its registered office and principal place of business is 64 Dean Street, London W1D 4QQ.

These financial statements were authorised for issue on 28 January 2011.

2. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2010. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the Consolidated Statement of Comprehensive Income from the date at which power of control is transferred to the group.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated statement of comprehensive income, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method.

On acquisition, the acquiree's identifiable assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair value and recognised at the acquisition date. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital.

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets / net liabilities of the acquired entity at the date of acquisition. At the date of acquisition, goodwill acquired is recognised as an asset and allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill.

Prime Focus London plc Annual report 2010

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell, and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue comprises the fair value of the consideration received for the sale of services and products in the ordinary course of the Group's activities. Revenue is shown net of value added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historic results, taking into consideration the type of transaction, the type of customer and the specifics of each arrangement.

(a) Content services, post production & animation

Software sales

Where software is sold to a third party, there may be separable elements of the transaction, such as software products, upgrades or maintenance contracts. The Group allocates revenue to each element based upon fair value. Revenue for software products is recognised on delivery whereas revenue for upgrades or maintenance contracts is recognised on a straight line basis over the life of the relevant contract.

Post production & animation services

The group sells a variety of post production services to clients in the film, broadcast and commercials sectors. These services are provided as fixed price contracts, with contract terms generally ranging over a period of many months.

Where the outcome of a contract can be estimated reliably, revenue under these fixed price contracts is recognised under the percentage completion method based on the services performed to the reporting date as a percentage of total services expected to be performed to deliver the contract. The Group generally measures services performed by reference to hours spent.

Unbilled revenue is included as accrued income within receivables. Revenue in respect of subsequent sales of completed productions is recognised at the date the sale is agreed and the product is shipped.

Where the terms of a contract take the form of an agency arrangement, for example when the group does not have exposure to significant risk associated with the completion of the contract, commission revenue are recognised according to contractual element.

(b) VFX

The group sells VFX services to clients in the film, broadcast and commercials sectors. These services are provided as fixed price contracts, with contract terms generally ranging over a period of many months.

Where the outcome of a contract can be estimated reliably, revenue under these fixed price contracts is recognised under the percentage completion method based on the services performed to the reporting date as a percentage of total services expected to be performed to deliver the contract. The Group generally measures services performed by reference to hours spent.

Prime Focus London plc Annual report 2010

Unbilled revenue is included as accrued income within receivables. Revenue in respect of subsequent sales of completed productions is recognised at the date the sale is agreed and the product is shipped.

Operating profit

Operating profit is shown after the deduction of expenses incurred in the ordinary course of business. Exceptional items represent income or expenses which based on their materiality and non-recurring nature have been separately disclosed to allow an assessment of the group's underlying operating profit.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of share option awards are estimated at the date of award, using a Black-Scholes model, taking into account the terms and conditions of the award.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in profit or loss, with a corresponding entry in equity.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

Leasehold improvements, equipment, motor vehicles, fixtures and fitting

Leasehold property, equipment, motor vehicles, fixtures and fittings are stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of fixed assets to their residual values on a reducing balance basis over the following estimated useful economic lives:

Equipment	13.91%
Fixtures and fittings	18.10%
Motor vehicles	25.89%

Leasehold improvements are depreciated on a straight line basis over the unexpired period of the lease.

Hire purchase and leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives at the rates set out above. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are operating leases which have annual rentals charged to the profit and loss on a straight line over the lease term.

Acquired intangible assets

Film rights represent amounts paid by the Group in respect of content distribution agreements for certain film distribution rights where the Group intends to enhance and release such films. Film rights are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. The period of amortisation only starts at the point at which the films to which the Group has purchased rights have been enhanced and become available to produce economic returns.

Prime Focus London plc

Annual report 2010

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are amortised on a straight-line basis over this life, which is usually less than one year.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If such indication exists, the recoverable amount of the asset is established in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as a credit to profit or loss immediately.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to profit or loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Foreign currency translation

Transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

Prime Focus London plc

Annual report 2010

Taxation

Corporation tax expense represents the sum of corporation tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are non-interest bearing and are recognised initially at fair value and subsequently measured less provision for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

When a trade receivable is uncollectible, it is written off against the provision for trade receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Investments

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the period. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Prime Focus London plc

Annual report 2010

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Going concern

The Directors acknowledge the latest guidance issued by the Financial Reporting Council in October 2009: "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009".

The Group's activities, together with the factors likely to affect its future development are set out in the Managing Director's Review. The Group meets its day to day working capital requirements and funds its investment on content through a variety of banking arrangements, cash generated from operations or, where necessary, by loan from the Ultimate Parent Company, Prime Focus Limited. The Ultimate Parent Company has confirmed it will continue to support the Group for the foreseeable future if necessary.

The banking arrangements are shown in note 25 to the accounts. The bank arrangements are subject to covenants and the Group is in full compliance with its existing bank facility covenant arrangements.

The Group is exposed to uncertainties arising from the economic climate and also in the markets which it operates. Market conditions could lead to lower than anticipated demand for the Group's products and services and exchange rate volatility could also impact reported performance. The directors have considered the impact of these and other uncertainties and factored them into their financial forecasts and assessment of covenant headroom. The Group's forecasts and projections, taking into account of the reasonable possible changes in trading performance (and available mitigating actions), show that the Group will be able to operate within the expected limits of the banking arrangements and provide headroom against the covenants for the foreseeable future.

In the directors' view, the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Inventories

Inventories are included at the lower of cost and net realisable value less any provision for impairment.

Prime Focus London plc

Annual report 2010

Changes in accounting policy

i) Adoption of new and revised International Accounting Standards (IAS/IFRS) and Interpretations affecting current or prior periods:

Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation: As a result of the application of this amendment the Group has elected to present a single statement of comprehensive income; previously it presented an income statement and the statement of recognised income and expense. In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note. An analysis of the tax effect of any items recognised in other comprehensive income will be included if this is applicable in the future. The amendment does not change the recognition or measurement of transactions and balances in the financial statements.

IFRS 8 Operating Segments: This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The segments are to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess its performance. It replaces IAS 14 Segmental Reporting. The adoption of the standard does not change the recognition or measurement of transactions and balances in the financial statements.

There has been no material impact on the financial statements of the Group with respect to other International Accounting Standards (IAS/IFRS) and Interpretations becoming effective during the period.

ii) International Accounting Standards (IAS/IFRS) and interpretations not yet adopted:

At the date of authorisation of these financial statements the following Standards and Interpretations that have not been applied in these financial statements were in issue but not yet effective. Other than as described below, the directors do not anticipate any of the new standards, amendments and interpretations issued but not yet effective to have a material impact on the financial statements.

- Revised IFRS 3 Business Combinations (effective from periods beginning 1 July 2009): Revised IFRS 3 retains the requirement to apply acquisition accounting in all cases and to identify and recognise intangible assets separately from goodwill. However, for all future acquisitions, all acquisition costs shall be written off to profit or loss instead of being included in the cost of investment; an intangible asset shall be recognised even if it cannot be reliably measured; and, it will be possible to gross up the balance sheet for goodwill attributable to 'non-controlling interests' (previously 'minority interests'). The revised standard will not require the restatement of the Group's previous business combinations.
- Amendments to IAS 27 Consolidated and Separate Financial Statements (effective from periods beginning 1 July 2009): This amendment affects in particular the acquisition of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether or not control is obtained as a result of the transaction, or where a transaction results only in a change in the percentage of a controlling interest. The amendment will not require the restatement of previous transactions.
- IFRS 9 Financial Instruments: IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components (classification and measurement; impairment; and, hedge accounting) and it is considered unlikely that the new standard will be endorsed until all of these components are in their final form. While the current standard is largely incomplete, its eventual adoption may result in changes to the classification and measurement of the Group's financial instruments.

Prime Focus London plc Annual report 2010

- IAS 24 Related party disclosures: The revision to IAS 24 is in response to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where governments control is pervasive. The revised standard addresses these concerns by providing a partial exemption for government-related entities and providing a revised definition of a related party. The revised definition will mean that some entities will have more related parties for which disclosures will be required. The revision may result in additional or revised related party disclosures made by the Group.

3. Critical accounting estimates and judgments

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which from the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates and assumptions are primarily made in respect of revenue recognition. As set out in the accounting policy note, turnover is recognised as contract activity progresses and the right to consideration is earned, reflecting time and cost incurred as a percentage of total anticipated costs.

4. Capital management and financial instruments

- a) Categorisation of financial instruments

At 31 March 2010	Available-for- sale £'000	Loans and receivables £'000	Total £'000
Non-current financial assets			
Investments	22	-	22
Current financial assets			
Trade and other receivables	-	8,802	8,802
Cash and cash equivalents	-	1,224	1,224
	22	10,026	10,048
Non-current financial liabilities			
Borrowings	-	3,405	3,405
Current financial liabilities			
Borrowings	-	4,936	4,936
Trade and other payables	-	8,787	8,787
	-	17,128	17,128

Prime Focus London plc Annual report 2010

At 31 March 2009	Available-for- sale £'000	Loans and receivables £'000	Total £'000
Non-current financial assets			
Investments	29	-	29
Other receivables	-	100	100
Current financial assets			
Trade and other receivables	-	7,605	7,605
Cash and cash equivalents	-	1,502	1,502
	29	9,207	9,236
Non-current financial liabilities			
Borrowings	-	3,708	3,708
Current financial liabilities			
Borrowings	-	4,225	4,225
Trade and other payables	-	2,183	2,183
	-	10,116	10,116

b) Capital risk management

Capital comprises all components of equity – share capital, other reserves and retained earnings. The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. At present the Group is unable to pay dividends or return equity to shareholders.

The Group sets the amounts of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

During the year ended 31 March 2010 the Group's strategy, which was unchanged from the previous year, was to monitor and manage the use of funds whilst developing business strategies and marketing.

c) Financial risk management

i) Credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from clients and cash. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Group has a low credit risk in respect of its trade receivables, its principal customers being national broadcasters and major organisations which the Group has worked with for a number of years. The Group is also exposed to credit risk in respect of its cash and seeks to minimize this risk by holding funds on deposit with major United Kingdom financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The highest credit risk exposure to a single customer at 31 March 2010 was £254k (2009: £713k).

An analysis of ageing of debt and the movement in the allowance for doubtful accounts is presented in note 18.

Prime Focus London plc Annual report 2010

ii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has developed a liquidity management forecasting process which aims to ensure that the Group has sufficient cash at all times to meet liabilities as they fall due.

Working capital requirements are generally provided from cash generated from operations, bank overdraft or, where necessary, by loan from the Parent Company, Prime Focus Limited.

The following analysis sets out the maturities of financial assets and liabilities.

At 31 March 2010	Less than 3 months £'000	Between 3 and 12 months £'000	More than 12 months £'000	Total £'000
Financial assets				
Investments	-	-	22	22
Trade and other receivables	7,564	1,238	-	8,802
Cash and cash equivalents	1,224	-	-	1,224
	8,788	1,238	22	10,048
Financial liabilities				
Borrowings	1,149	3,787	3,405	8,341
Trade and other payables	8,260	527	-	8,787
	9,409	4,314	3,405	17,128
At 31 March 2009				
	Less than 3 months £'000	Between 3 and 12 months £'000	More than 12 months £'000	Total £'000
Financial assets				
Investments	-	-	29	29
Other receivables	-	-	100	100
Trade and other receivables	7,605	-	-	7,605
Cash and cash equivalents	1,502	-	-	1,502
	9,107	-	129	9,236
Financial liabilities				
Borrowings	4,050	176	3,708	7,933
Trade and other payables	2,183	-	-	2,183
	6,233	176	3,708	10,116

iii) Market risk

The Group does not trade in financial instruments. As described in note 16, the Group does have an equity investment which is exposed to price risk, but the directors do not consider this to be material to the Group.

It is, and has been throughout the year under review, the Group's policy that financial derivatives shall not be used. As a result, the Group has not used interest rate hedges and currency swaps during the year.

Accordingly, the primary market risks to which the Group is exposed are foreign currency and interest rate risk.

Foreign currency risk

Some equipment is purchased in US Dollars. Management has continued to monitor the foreign exchange risk so that appropriate action can be taken if required.

Prime Focus London plc Annual report 2010

The table below shows the extent to which the Group has financial assets and liabilities in currencies other than Sterling. Foreign exchange differences on re-translation of these assets and liabilities are recognised profit or loss.

	US Dollars £000	GB pounds £000	2010 Total £000
Assets - GBP	811	9,237	10,048
Liabilities - GBP	2,204	14,924	17,128

	US Dollars £000	GB pounds £000	2009 Total £000
Assets - GBP	875	8,361	9,236
Liabilities - GBP	3,293	6,823	10,116

A 10 percent strengthening of Sterling against the US Dollar at 31 March would have increased / (decreased) equity and profit or loss by £274k (2009: £379k). A 10 percent weakening of sterling against the US Dollar at 31 March would have had the equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The Group does not consider this risk as significant. The benchmark rates for determining floating rate liabilities are based on LIBOR.

The interest rate profile of the Group's financial assets and liabilities were:

At 31 March 2010	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Financial assets				
Investments	-	-	22	22
Trade and other receivables	-	-	8,802	8,802
Cash and cash equivalents	-	1,224	-	1,224
	-	1,224	8,824	10,048
Financial liabilities				
Borrowings	1,960	2,547	3,834	8,341
Trade and other payables	-	-	8,787	8,787
	1,960	2,547	12,621	17,128

At 31 March 2009	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Financial assets				
Investments	-	-	29	29
Other receivables	-	-	100	100
Trade and other receivables	-	-	7,605	7,605
Cash and cash equivalents	-	1,502	-	1,502
	-	1,502	7,734	9,236
Financial liabilities				
Borrowings	1,341	3,331	3,261	7,933
Trade and other payables	-	-	2,183	2,183
	1,341	3,331	5,444	10,116

Prime Focus London plc Annual report 2010

A 1 percent increase in floating interest rates at 31 March would have decreased equity and profit by £13k (2009: £18k). A 1 percent decrease in floating interest rates at 31 March would have had the equal but opposite effect. This analysis assumes that all other variables remain constant.

5. Segmental Reporting

The Group is organised into operating segments based on the nature of services provided. The information reviewed by the executive directors, who are perceived to fulfill the function of chief operating decision maker for the Group, contains various operating segments however, certain of these operating segments are aggregated into one reportable segment on the basis of the operating segments having similar economic characteristics and one management team is responsible for these combined segments.

The reportable segments of the group are comprised of the following:

- Content services, post production & animation – providing data, content management and full post production & animation services and facilities to the broadcasting, advertising and film production sectors;
- VFX – offers a full range of services to film and broadcast including pre-production, pre-visualisation and design, VFX supervision, 3D animation, matte paintings, digital grading and title design.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The executive directors evaluate performance on the basis of profit or loss before tax.

Year ended 31 March 2010	Content services, post production & animation	VFX	Total
	£'000	£'000	£'000
Revenue	19,046	2,466	21,512
Inter-segment transactions	(75)	75	-
Depreciation and impairment of property, plant & equipment	(1,043)	(197)	(1,240)
Other income and expenses	(13,684)	(3,631)	(17,315)
Profit / (loss) before tax	4,244	(1,287)	2,957
Year ended 31 March 2009 (Restated (Note 31))	Content services & post production	VFX	Total
	£'000	£'000	£'000
Revenue	15,268	628	15,896
Depreciation	(920)	(173)	(1,093)
Amortisation	-	(1,467)	(1,467)
Other income and expenses	(19,706)	(964,)	(20,670)
Loss before tax	(5,358)	(1,976)	(7,334)

Prime Focus London plc

Annual report 2010

Entity wide disclosures

Revenue by geographical markets

	2010	2009
	£'000	£'000
United Kingdom	16,587	14,341
Europe	92	46
Rest of the world	4,833	1,508
	21,512	15,896

Non-current assets by geographical market

	2010	2009
	£'000	£'000
United Kingdom	16,131	10,485

6. Operating profit / (loss) before exceptional items

	2010	2009
	£000	Restated (Note 31) £000
Operating profit / (loss) is stated after charging/(crediting):		
Depreciation Charge for the period		
Owned Assets	944	827
Leased Assets	296	266
Total Depreciation	1,240	1,093
(Profit) / loss on disposal of property, plant and equipment	(84)	(521)
Impairment on available for sale investment	-	-
Impairment of goodwill	-	493
Amortisation of intangible assets	-	1,466
Operation lease rentals:		
Plant and Machinery	-	-
Others	1,021	1,021

Auditors' remuneration

	2010	2009
	£000	£000
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of Company	30	35
Audit of financial statement of subsidiaries pursuant to legislation	9	10
All other services relating to taxation	3	30
All other services	2	-

Other fees paid to auditors relate to advice in connection with taxation, capital reduction implementation and compliance matters. The directors do not consider that the level of fees paid to the auditors for non-audit services threatens their independence. The auditors have confirmed they agree with the conclusion.

Prime Focus London plc
Annual report 2010

7. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year was:

	2010	2009
	No.	No.
Production and sales	182	215
Management and administration	60	64
	242	279

The total staff cost incurred by the Group was:

	2010	2009
	£000	£000
Wages and salaries	9,036	9,554
Social security costs	1,074	958
Other pension costs	-	4
Share based payments	95	-
	10,205	10,516

Directors' emoluments were £45,000 (2009: £79,189), of which the highest paid director's received £15,000 (2009: £43,349).

Contributions were paid on behalf of the directors to money purchase pension schemes amounting to £nil (2009: £4,349).

Number of directors to whom retirement benefits are accruing under the defined contribution pension scheme is nil (2009: 1)

Key management remuneration (including directors):

	2010	2009
	£000	£000
Wages and salaries	1,656	1,828
Social security costs	201	395
Other pension costs	-	4
Share based payment	34	-
	1,891	2,227

Key management is defined as being the directors of the Group and other senior management with the authority and responsibility for planning, directing and controlling the Group's activities.

8. Other income

	2010	2009
	£000	£000
Rental income	-	58
Sundry Income	-	341
	-	399

Prime Focus London plc

Annual report 2010

9. Finance income and cost	2010	2009
	£000	£000
Finance income		
Interest on loans to fellow subsidiaries	270	-
Finance cost		
Other interest payable	281	329
Interest on loans from Parent	270	-
Bank interest payable	42	31
	593	360

10a. Exceptional income	2010	2009
	£000	Restated (Note 31) £000
Net Balance on liquidation of subsidiaries	1,657	-

10b. Exceptional charges	2010	2009
	£000	Restated (Note 31) £000
Bad Debt written off	-	1,180
Net Balance on liquidation of subsidiaries	-	2,382
Damages for loss of employment	-	102
Legal Fees relating to abortive property purchase	-	54
Professional Fees in respect of administration and liquidation of subsidiaries	-	82
Dilapidations on surrender of leasehold properties	-	189
	-	3,989

Net balance on liquidation of subsidiaries relate to excess assets not recoverable and excess liabilities not payable by the Group upon liquidation of certain subsidiaries as the case may be. This also includes the write back of liabilities in subsidiaries which were placed into liquidation subsequent to the reporting date (see note 32).

11. Tax expense

	2010	2009
	£000	£000
Current tax		
UK Corporation tax	-	-
Adjustments in respect of prior years	-	(23)
	-	(23)
Deferred tax		
Origination and reversal of temporary differences	384	(653)
Total tax on profit on ordinary activities	384	(676)

Prime Focus London plc Annual report 2010

The difference between the tax charge and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is shown below.

	2010	2009 Restated
	£000	£000
Group profit / (loss) on ordinary activities before tax	2,957	(7,334)
Tax on Group profit / (loss) on ordinary activities at the standard UK corporation tax		
Rate of 28% (2009: 28%)	828	(2,054)
Effects of:		
Expenses Not Deductible for tax purposes	(1,455)	1,613
Unrecognised tax losses	84	-
Tax losses no longer allowable due to cessation of trade	1,115	(213)
Adjustment to tax charge in respect of prior periods	(188)	(23)
Tax charge for the year	384	(676)

12. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of shares in issue during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares in issue during the year, adjusted for the effects of potentially dilutive options.

The dilution effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group.

All operations are continuing for the years presented.

	2010			2009		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit / (Loss) (£000)	2,573		2,573	(6,658)	-	(6,658)
Weighted average number of shares (000s)	32,632	348	32,980	32,632	-	32,632
Earnings per share (pence)	7.89		7.80	(20.40)	-	(20.40)

Prime Focus London plc

Annual report 2010

13. Intangible assets

	Goodwill £000	Film Rights £000	Customer contracts £000	Total £000
Cost				
At 1 April 2009 (as previously stated)	1,985	-	-	1,985
Restatement (Note 31)	(1,266)	-	1,760	494
At 1 April 2009 (as restated)	719	-	1,760	2,479
Additions	-	9,345	-	9,345
Disposals	(216)	-	-	(216)
At 31 March 2010	503	9,345	1,760	11,608
Accumulated amortisation and impairment losses				
At 1 April 2009 (as previously stated)	9	-	-	9
Restatement (Note 31)	494	-	1,760	2,254
At 31 March 2009 (as restated) and 31 March 2010	503	-	1,760	2,263
Net carrying value				
At 31 March 2010	-	9,345	-	9,345
At 31 March 2009 (restated)	216	-	-	216
Cost				
At 1 April 2008 (as previously stated)	3,183	-	-	3,183
Restatement (Note 31)	(1,266)	-	1,760	494
At 1 April 2008 (as restated)	1,917	-	1,760	3,677
Additions	175	-	-	175
Subsidiary liquidation	(1,373)	-	-	(1,373)
At 31 March 2009 (as restated)	719	-	1,760	2,479
Accumulated amortisation and impairment losses				
At 1 April 2008 (as previously stated)	-	-	-	-
Restatement in relation to amortisation	-	-	294	294
At 1 April 2008	-	-	294	294
Impairment charge for the year (restated, Note 31)	503	-	-	503
Amortisation	-	-	1,466	1,466
At 31 March 2009 (as restated)	503	-	1,760	2,263
Net carrying value				
At 31 March 2009 (as restated)	216	-	-	216
At 31 March 2008 (as restated)	1,917	-	1,466	3,383

For details of restatement of prior year financial statements, please refer to note 31.

During the year, the Group entered into a content distribution agreement with a third party in respect of certain film distribution rights. The Group has recognised these film distribution rights based upon their fair value at acquisition. These rights have been sold to a wholly owned subsidiary of the parent group – Prime Focus Motion Pictures Limited after the end of the financial year.

Prime Focus London plc
Annual report 2010

14. Property, plant and equipment

GROUP	Short leasehold premises £000	Motor Vehicles £000	Equipment, fixtures and fittings £000	Total £000
Cost				
At 1 April 2009	4,409	52	17,290	21,751
Additions	-	-	1,607	1,607
Disposals	-	-	(6,216)	(6,216)
At 31 March 2010	4,409	52	12,681	17,142
Accumulated depreciation				
At 1 April 2009	2,710	27	11,098	13,835
Charge for the year	227	7	1,006	1,240
Disposals	-	-	(4,679)	(4,679)
At 31 March 2010	2,937	34	7,425	10,396
Net Book Value				
At 31 March 2010	1,472	18	5,256	6,746
At 31 March 2009	1,699	25	6,192	7,916
Cost				
At 1 April 2008	4,409	52	30,283	34,744
Additions	-	-	2,269	2,269
Disposals	-	-	(15,262)	(15,262)
At 31 March 2009	4,409	52	17,290	21,751
Accumulated depreciation				
At 1 April 2008	2,483	18	21,918	24,419
Charge for the year	227	9	857	1,093
Disposals	-	-	(11,677)	(11,677)
At 31 March 2009	2,710	27	11,098	13,835
Net Book Value				
At 31 March 2009	1,699	25	6,192	7,916
At 31 March 2008	1,926	34	8,365	10,325

The net book value of equipment, fixtures & fittings includes an amount of £2,177,661 (2009:£1,643,880) in respect of assets held under hire purchase agreements. The charge for depreciation for the year on these assets was £296,271 (2009: £266,199).

Disposal of equipment, furniture and fittings includes £5,595,223 relating to assets held in The Machine Room Limited (in liquidation), PF Post Production Limited (in administration subsequent to the reporting date) and K Post Limited (in liquidation subsequent to the reporting date). Accumulated depreciation eliminated on disposal of these assets amounted to £4,678,813.

Prime Focus London plc

Annual report 2010

15. Other receivables

	2010 £000	2009 £000
Amounts falling after more than one year:		
Other receivables	-	100
	-	100

16. Investments

	Listed equity investments £000	Total £000
At 1 April 2009	29	29
Change in fair value	(7)	(7)
At 31 March 2010	22	22

	Other investments £000	Listed equity investments £000	Total £000
At 1 April 2008	435	424	859
Write off on liquidation of subsidiary	(435)	-	(435)
Change in fair value	-	(395)	(395)
At 31 March 2009	-	29	29

The Group through its wholly owned subsidiary, VTR Media Investments Limited, owns 1,750,000 ordinary shares of £1 each in Conexion Media Group Plc (formerly known as Music Copyrights Solutions plc), a company incorporated in England and Wales. This company is listed on AIM. The market value of these shares at 31 March 2010 was £21,875 (2009: £28,875).

The principal undertakings in which the Group's interest at the year end is more than 20% are as follows:

Subsidiary undertakings:	Principal activity at 31 March 2009	Country of incorporation	Percentage of ordinary shares held
Amazing Spectacles Limited ** (formerly The Hive Animation Limited)	Post production services	Great Britain	100%
Prime Focus Visual Entertainment Services Limited * (formerly Blue Post Production Limited)	Broadcast post production	Great Britain	100%
VTR Media Investments Limited *	Media investments	Great Britain	100%
Clipstream Limited **	Digital content management	Great Britain	100%
Machine Effects Limited *	Graphics for feature films	Great Britain	100%
Meanwhile Content Limited **	Post production of television commercials	Great Britain	100%
37 Dean Street Limited *	Dormant	Great Britain	100%
PF Post Production Limited *	Post production of television commercials	Great Britain	100%
K<Post Limited **	Post production of television commercials	Great Britain	100%
Associates:			
VTR North Limited **	Post production of television commercials	Great Britain	20%
Busy Buses Limited**	Dormant	Great Britain	33%

* Held by Prime Focus London plc

** Held by VTR Media Investments Limited

The Company accounts for its investments in subsidiaries using the cost model.

Prime Focus London plc
Annual report 2010

17. Inventories

	2010	2009
	£000	£000
Tapes and cassettes	30	32

18. Trade and other receivables

	2010	2009
	£000	£000
Amounts falling due within one year:		
Trade receivables	6,461	5,111
Less: Provision for impairment of trade receivables	(369)	(443)
	6,092	4,668
Amounts owed from fellow subsidiaries	2,709	2,937
Prepayments and accrued income	2,464	1,750
	11,265	9,355

The average credit period for trade receivables at the end of the year is 87 days. (2009: 100 days).
The carrying amounts of the Group's trade and other receivables are denominated in sterling.

Trade receivables that are less than 3 months past due are not considered impaired. As of 31 March 2010, trade receivables of £1,238k (2009: £1,259k) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of all trade receivables is as follows:

	2010	2009
	£000	£000
Up to 3 months	4,854	3,410
3 to 6 months	497	370
Over 6 months	741	888
	6,092	4,668

An analysis of the movement in the provision for impairment of trade receivables is provided below:

	2010	2009
	£000	£000
Balance at beginning of year	443	148
Impairment losses recognised	293	404
Amounts written off	(367)	(109)
Balance at end of year	369	443

Prime Focus London plc Annual report 2010

19. Deferred tax

The movement for the year in the Group's net deferred tax asset provided at the UK company rate of corporation tax of 28% (2009: 28%) was as follows:

	2010 £000	2009 £000
Opening balance (as previously stated)	402	20
Restatement (Note 31)	-	(410)
Opening balance (as restated)	402	(390)
Adjustment relating to liquidation of subsidiary transferred to exceptional items	-	140
Recognised in statement of comprehensive income	(384)	652
Closing balance	18	402
The non-current asset/(provision) comprises:		
Accelerated capital allowances	18	(768)
Unutilised losses	-	1,170
	18	402

20. Called Up Equity Share Capital

The Company has issued the following shares during the year:

	2010		2009	
	£000	Number (000s)	£000	Number (000s)
Authorised				
Ordinary shares of 5p each	2,500	50,000	2,500	50,000
Allotted				
Allotted, called up and fully paid				
Ordinary shares of 5p each At 1 April 2009	1,632	32,632	1,505	30,106
Issued during the year				
Issue of Shares to Prime Focus Limited (8 th June 2008)	-	-	126	2,525
Ordinary shares of 5p each at 31 March 2010	1,632	32,632	1,632	32,631

The shares issued on 8 June 2008 to the parent company have the same rights as the rest of the issued share capital.

21. Share-based payments

During the year the company implemented a share option scheme for all employees of the Group who participated in a salary reduction scheme. The charge for the year recognised in profit or loss in respect of equity-settled, share-based payments is £95k (2009: £nil).

The following tables reconcile the number of share options outstanding and the weighted average exercise price:

For the year ended 31 March 2010

	Options	Weighted average exercise price
	Number	Pence
Outstanding at 1 April 2009 and 1 April 2008	-	-
Granted	1,086,190	7.00
Forfeited	-	-
Exercised	-	-
Outstanding at 31 March 2010	1,086,190	7.00
Exercisable as at 31 March 2010	-	-

Prime Focus London plc Annual report 2010

The average share price during the year ended 31 March 2010 was 14.22p (2009: 27.21p).

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown.

	2010	2009
Expected dividend yield (%)	0%	-
Expected volatility (%)	36%	-
Risk-free interest rate (%)	4.5%	-
Expected life of options (years)	5 years	-
Weighted average fair value of options granted (pence)	16.08p	-
Probability of forfeiture (%)	0%	-
Share price (pence)	21.5p	-
Weighted average exercise price (pence)	7p	-

22. Borrowings

Due within one year	2010	2009
	£000	£000
Bank loan	415	261
Hire Purchase Obligation	687	703
Loan from Parent Company	3,834	3,261
	4,936	4,225

23. Trade and other payables

	2010	2009
	£000	£000
Trade payables	7,435	1,274
Other payables	1,352	800
Amounts due to Parent Company	-	110
Amounts due to fellow subsidiaries	-	-
Accruals and deferred income	2,266	1,150
Social security and other taxes	1,964	3,660
	13,017	6,994

The average credit period taken for trade payable at the end of the year is 133 days (2009: 77 days).

24. Income tax liabilities

Amounts falling within one year:	2010	2009
	£000	£000
Corporation tax payable	-	1

Prime Focus London plc

Annual report 2010

25. Borrowings

Due after more than one year	2010	2009
	£000	£000
Bank / other loan	2,132	3,070
Hire purchase obligation	1,273	638
	3,405	3,708
Analysis of debt maturity:	2010	2009
	£000	£000
Repayable within one year		
Bank loan	415	261
Hire purchase obligations	687	703
Loan from Parent Company	3,834	3,261
	4,936	4,225
Repayable between one and two years		
Bank loan	2,132	3,070
Hire purchase obligations	636	319
Repayable between two and five years		
Bank loan	-	-
Hire purchase obligations	637	319
	3,405	3,708

Bank loans are secured by a fixed and floating charge over the assets of the Group.

The maximum facility available as per the RBS Invoice discounting loan is £1 million (2009: £1 million). Interest is charged at 2.5% (2009: 1.6%) above the Bank of England base rate.

26. Operating Lease and Capital commitments

- (a) At the year end the company is committed to acquiring films rights for £1,802,000. This amount is included within accruals in note 23. These rights form part of the film rights disclosed in note 32 as being sold following the reporting date.
- (b) Total commitments under non-cancellable operating leases, together with the obligations by maturity, are as follows:

	2010	2009
	£000	£000
Commitments under non-cancellable operating leases:		
Within one year	1,054	919
Later than one year and less than five years	4,175	3,674
After five years	2,529	3,408
	7,758	8,001

27. Pensions

The Group's principle pension plans comprise a defined contribution pension scheme. The pension charge for the year represents contributions payable by the Group which amounted to £nil (2009: £4,349).

There were no outstanding or prepaid contributions at either the beginning or end of each financial year.

Prime Focus London plc Annual report 2010

28. Related party transactions

The following transactions with companies within the Group headed by Prime Focus Investments Limited ("PFIL group"), a fellow subsidiary company, occurred during the year:

- Post Logic Studios Inc, paid a sum equivalent of £133,016 (2009: £178,316) on behalf of PFLPLC to third parties in respect of operational and capital expenditures.
- Post Logic Studios Inc charged the Group the equivalent of £247,277 for travel expenses (2009:£nil) and £1,341,112 (2009: £nil) for license fees.
- The Group charged Post Logic Studios Inc £234,429 (2009: £nil) for loan interest incurred. Costs of £258,119 (2009 £nil) were incurred by the Group in relation to fixed assets. Additionally, costs in relation to travel and other business expenses totaling £38,155 (2009: £nil) were incurred by the Group.
- The Group paid a sum of £168,271 (2009: £202,043) to third parties in respect of capital expenditures by Frantic Film VFX Inc. Additionally, costs in relation to travel and other business expenses totaling £29,184 (2009: £nil) were incurred by the Group. Frantic Film VFX Inc incurred costs of £14,537 (2009: £nil) on behalf of the Group.
- The balance outstanding at the end of the year due from Prime Focus Investments Limited and its subsidiaries was £2,709,482 (2009: £2,937,000).

The following transactions with Parent Company (Prime Focus India Limited) occurred during the year:

- Parent Company charged PFLPLC for operational related expenditure relating to PFLPLC's activities in sum of £339,691(2008 : £15,255);
- Parent Company charged PFLPLC for bank loan processing fees a sum of £133,464 (2009 : £nil);
- PFLPLC charged Parent Company for travelling expenditure relating to Parent Company's activities in the sum of £nil (2009: £2,033)
- PFLPLC charged Parent Company for salaries for members of staff seconded to Parent Company. The total sum for the year was £nil (2009: £13,885);
- PFLPLC paid a sum of £34,880 (2009: £159,356) to third party on behalf of Parent Company;
- Parent Company carried out post production work on PFLPLC clients. The total fee paid by PFLPLC to Parent Company was £366,183 (2009: £37,500).
- As at 31 March 2010, PFLPLC has net interest payable to the Parent Company in the sum of £ nil (2009: £184,153) in respect of the above advances.
- A balance of £300,172 (2009: £nil) payable to the Parent Company arose from the Group receiving and settling cash on the Parent Company's behalf during the year.
- Work under an animation service contract was subcontracted to the Parent Company. The fee for these services payable to the Parent Company during the year to 31 March 2010 was £189,900 (2009:nil) In addition the Parent Company provided PFL Plc with a guarantee on future project costs and an indemnity against claim relating to the project. No fee was charged for the provision of this guarantee and indemnity.

Prime Focus London plc

Annual report 2010

- The balance outstanding at the end of the year payable to Parent Company was £3,834,078 (2009: £3,371,208).

The Parent Company has indemnified against all foreign exchange gains and losses.

As reported in previous year's accounts under related party balances, certain equipment owned by the Company is retained in India for the use of the Group's trading activities. No charge has been made by the Parent Company for rent, maintenance and operation of the equipment.

29. Contingent assets & liabilities

The bank loans of the Group undertakings are secured by cross guarantee between Group companies. At 31 March 2010, the liability of the bank was borne by the Company at a value of £68,165 (2009: £3,330,341)

The Company is a member of a Group VAT registration and is jointly and severally liable for any debts by member of the registration as at the year ended 31 March 2010. The total Group liability amounted to £834,204.

30. Ultimate controlling party

Prime Focus Limited, a company incorporated in India is the ultimate controlling party.

31. Prior year restatements

Identification of intangible assets on business combination

In January 2008, the Group acquired Machine Effects Limited and the excess of consideration over the fair value of identifiable assets and liabilities, totalling £1.8m, was recognised as goodwill. Subsequently, the directors have identified certain intangible assets, substantially comprising certain customer contracts and relationships, which should have been separated and recognised at fair value. This has therefore resulted in a material misstatement of the Group financial position and performance presented in the financial statements for 2008 and 2009.

These intangible assets have retrospectively been valued as at the date of acquisition as £1.8m (with a corresponding deferred tax liability of £0.4m) and the directors believe the expected useful life to have been one year from the date of acquisition, given the short duration of the key customer contract in question.

Furthermore, the directors believe that the restated goodwill of £0.5m arising from this business combination was incorrectly tested for impairment based on forecast cash flows which arose outside of the Machine Effects Limited cash generating unit. Accordingly, having revisited this analysis, the directors believe the goodwill should have been fully impaired as at 31 March 2009 and have made the related adjustment to the statement of financial position at 31 March 2009.

Accounting entries with respect to a capital reduction

In March 2009, the Company applied to the court for a reduction of the Company's share premium account by £3.8m. Subsequently, the directors have identified that the accounting entries recognised had been misclassified and therefore resulted in a material misstatement of the Group financial performance presented in the financial statements for 2009.

The accounting entries have subsequently been corrected such that the level of exceptional income recognised in 2009 has been reduced to reflect losses which had been incorrectly recognised directly in equity. There has been no overall effect on equity.

Prime Focus London plc Annual report 2010

Accounting entries with respect to profit on sale of E-Title

In the period to March 31, 2009, the Company sold certain software IP it had created in prior years. The substance of the sale agreement was for consideration to be received as equity shares in an unlisted entity. The Company had recognised as exceptional income the notional contract amount of £1.8m. In doing so it resulted in a material misstatement of the Group financial position and performance presented in the financial statements for 2009. Subsequently the directors have revisited the accounting treatment for recognition of consideration received in the form of shares in an unlisted entity and consider that the original fair value of the consideration approximated to book value being £0.1. Accordingly the exceptional income of £1.8m has been reversed in 2009 resulting in related adjustment to the statement of financial position at 31 March 2009.

Effect on the financial statements

The effect of above restatements is summarised below:

	As previously stated 31 March 2009 £'000	As restated 31 March 2009 £'000	Restatement 31 March 2009 £'000
Effect on Statement of Financial Position			
Intangible assets	1,976	216	(1,760)
Retained earnings	(194)	(3,776)	(3,582)
Net effect on equity			(3,582)
Effect on Income Statement			
Net operating charges	(15,625)	(17,585)	(1,960)
Net exceptional income / charges	1,602	(3,989)	(5,591)
Taxation	265	676	411
Decrease in result for the year			(7,140)
Effect on Earnings per share			
Basic and diluted earnings per share	1.48	(20.40)	(21.88)

There was no cash flow impact as a result of the restatements other than the consequential adjustments arising as a result of the restatement of the comparative Statement of Consolidated Financial Position.

32. Events after the reporting date

Closure of subsidiary businesses

In the case of two subsidiaries namely K<Post Limited and PF Post Production Limited, the technical date of the administration / liquidation was after the end of the financial year being April 9, 2010 and May 13, 2010 respectively. In this case as per strict interpretation of the accounting guidelines laid down under IFRS the Company should only write off the assets in the Consolidated Statement of Financial Position as at March 31, 2010. The liabilities should only be written back in the next financial period i.e. April 1, 2010 to March 31, 2011. The Company has however written back these liabilities in the Consolidated Statement of Financial Position as at 31 March 2010. In the case of these two subsidiaries the assets written off total to £2.1m and the liabilities written back total to £4.4m for both the subsidiary businesses taken together. The decision to write back the liabilities in the Consolidated Statement of Financial Position as at 31 March 2010 was because the Company felt it was important to reflect the true and fair financial position rather than have an abnormal loss in the current financial period and an abnormal gain in the next financial period. Accordingly on the basis of substance over form and given the fact that the liabilities would no longer be settled by the Group, the decision was taken to write back the liabilities in the Consolidated Statement of Financial Position as at 31 March 2010.

Prime Focus London plc
Annual report 2010

Sale of film rights

Subsequent to the end of the financial year the Company has sold these rights to a wholly owned subsidiary of the parent group – Prime Focus Motion Pictures Limited, the 3D rights for 50 Hindi Films acquired by the Company in the financial year. The sale was for a cash consideration of £9.1m being the book value of the rights.

Prime Focus London plc Annual report 2010

Independent Auditors' report to the members of Prime Focus London plc

We have audited the parent company financial statements of Prime Focus London plc for the year ended 31 March 2010 which comprise the Parent Company Balance Sheet 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).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 15), the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010; and
- have not 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.

**Prime Focus London plc
Annual report 2010**

**Independent Auditors' report to the shareholders of Prime Focus London plc -
continued**

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 Parent Company financial statements.

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.

Other matter

We have reported separately on the Group financial statements of Prime Focus London plc for the year ended 31 March 2010. The opinion in that report is an adverse opinion.

Joseph Kinton (Senior Statutory Auditor)

For and on behalf of

Shipleys LLP

Chartered Accountants & Statutory Auditor

10 Orange Street
Haymarket
London
WC2H 7DQ
28 January 2011

Prime Focus London plc
Annual report 2010

Company Balance Sheet at 31 March 2010

	Notes	2010 £000	2009 Restated (Note 17) £000
Fixed assets			
Intangible assets	3	-	45
Tangible assets	4	3,708	4,608
Investments	5	771	771
		4,479	5,424
Current assets			
Stock	6	30	32
Debtors	7	21,247	11,571
Cash at bank and in hand		1,069	1,349
		22,346	12,952
Creditors – amounts falling due within one year	9	(16,384)	(8,366)
Net current assets		5,962	4,586
Total assets less current liabilities			
		10,441	10,010
Creditors – amounts falling due after more than one year	10	(3,404)	(3,707)
Net assets		7,037	6,303
Capital and reserves			
Share capital	12	1,632	1,632
Share premium account	13	6,498	6,498
Capital redemption reserve	13	270	270
Fair value reserve	13	-	-
Special reserve	13	-	-
Merger reserve	13	730	730
Retained earnings	13	(2,093)	(2,827)
Total equity shareholders' funds		7,037	6,303

The financial statements were approved by the Board of Directors and authorised for issue on 28 January 2011.

Namit Malhotra
 Director

Company Number: 1694613

Prime Focus London plc

Annual report 2010

Notes to the Company financial statements

1. Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with UK Generally Accepted Accounting Principles.

The policies adopted are consistent with those applied in the preparation of the audited accounts for the 12 months ended 31 March 2009, except where noted below.

The following principal accounting policies have been applied:

Turnover

Turnover represents the fair value of services provided during the year to other companies within the Group.

Leasehold improvements, equipment, motor vehicles, fixtures and fitting

Leasehold property, equipment, motor vehicles, fixtures and fittings are stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of fixed assets to their residual values on a reducing balance basis over the following estimated useful economic lives:

Equipment	13.91%
Fixtures and fittings	18.10%
Motor vehicles	25.89%

Leasehold improvements are depreciated on a straight line basis over the unexpired period of the lease.

Hire purchase and leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives at the rates set out above. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are operating leases which have annual rentals charged to the profit and loss on a straight line over the lease term.

Valuation of investments

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

Deferred taxation

Deferred taxation balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Prime Focus London plc

Annual report 2010

Foreign exchange

The individual financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency).

Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of share option awards are estimated at the date of award, using a Black-Scholes model, taking into account the terms and conditions of the award.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in profit or loss, with a corresponding entry in equity.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

Related party disclosures

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related Party disclosures' not to disclose transactions with members of the Group headed by Prime Focus London plc on the grounds that 100% of the voting rights are controlled within that Group.

2. Profit for the period

The Company has elected to take exemption under Section 408 of the Companies Act 2006 not to present the Company's profit and loss account. The profit for the Company for the year is presented in note 14.

3. Intangible assets

	£000
Cost	
At 1 April 2009	50
Arising from business combination	-
	<hr/>
At 31 March 2010	50
	<hr/>
Impairment	
At 1 April 2009	5
	<hr/>
Impairment of goodwill	45
At 31 March 2010	50
	<hr/>
Net Book Value	
At 31 March 2010	-
	<hr/>
At 31 March 2009	45
	<hr/>

Prime Focus London plc
Annual report 2010

4. Tangible assets

	Short leasehold premises £ 000	Motor Vehicles £000	Equipment, fixtures and fittings £000	Total £000
Cost				
At 1 April 2009	4,409	52	4,575	9,036
Additions	-	-	1,170	1,170
Disposals	-	-	(500)	(500)
At 31 March 2010	4,409	52	5,245	9,706
Accumulated depreciation				
At 1 April 2009	2,709	27	1,692	4,428
Charge for the year	227	16	1,827	2,070
Disposals	-	-	(500)	(500)
At 31 March 2010	2,936	43	3,019	5,998
Net Book Value				
At 31 March 2010	1,473	9	2,226	3,708
At 31 March 2009	1,700	25	2,883	4,608

The net book value of equipment, fixtures & fittings includes an amount of £1,467k (2009: £ 822k) in respect of assets held under hire purchase agreements. The charge for depreciation for the year on these assets was £186k (2009 £133k).

5. Investments

	Investment in subsidiary undertakings £000	Investment in associated undertaking £000	Other investments £000	Total £000
Cost				
At 1 April 2009 & 31 March 2010	3,670	1	-	3,671
Provision				
At 1 April 2009 (as previously stated)	1,360	-	-	1,360
Restatement of impairment	1,540	-	-	1,540
At 1 April 2009 (as restated) and 31 March 2010	2,900	-	-	2,900
Net Book Value				
At 31 March 2010	770	1	-	771
At 31 March 2009 (as restated)	770	1	-	771

For details of the restatement of comparative figures, please refer to note 17.

Prime Focus London plc
Annual report 2010

6. Inventories

	2010	2009
	£000	£000
Tapes and cassettes	30	32

7. Debtors

	2010	2009
	£000	£000
Amounts falling due within one year:		
Trade debtors	7	1,122
Less: Provision for impairment	(6)	(198)
	1	924
Amounts owed from Parent Company	-	-
Amounts owed from associates	2,710	2,937
Amounts owed from group	18,153	6,733
Deferred tax (note 8)	135	498
Prepayments and accrued income	248	479
	21,247	11,571

8. Deferred tax

The movement for the year in the Company's net deferred tax asset/liability provided at the UK company rate of corporation tax of 28% (2008: 28%) was as follows:

	2010	2009
	£000	£000
Opening balance	498	(3)
(Charge) credit to income for the year	(363)	501
Closing balance	135	498
The non-current asset / (provision) comprises of:		
Accelerated capital allowances	135	(614)
Unutilised losses	-	1,112
	135	498

Prime Focus London plc
Annual report 2010

9. Creditors – amounts falling due within one year

	2010	2009
	£000	£000
Bank and other borrowings (note 11)	4,636	4,188
Trade creditors	1,003	940
Other payables	1,271	238
Amounts due to Parent Company	-	110
Amounts due to subsidiary undertakings	9,463	2,325
Accruals and deferred income	504	503
Social security and other taxes	(493)	62
	16,384	8,366

10. Creditors – amounts falling due after more than one year

	2010	2009
	£000	£000
Bank / other loan (note 11)	2,131	3,069
Hire purchase obligation	1,273	638
	3,404	3,707

11. Borrowings

Analysis of debt maturity:

	2010	2009
	£000	£000
Repayable within one year		
Bank loan	415	224
Hire purchase obligations	687	703
Loan from Parent Company	3,534	3,261
	4,636	4,188
Repayable between one and two years		
Bank loan	2,131	3,069
Hire purchase obligations	637	319
Repayable between two and five years		
Bank loan	-	-
Hire purchase obligations	636	319
	3,404	3,707

Prime Focus London plc Annual report 2010

12. Called Up Equity Share Capital

The Company has issued the following shares during the year:

	2010		2009	
	£000	Number (000s)	£000	Number (000s)
Authorised				
Ordinary shares of 5p each	2,500	50,000	2,500	50,000
Allotted				
Allotted, called up and fully paid				
Ordinary shares of 5p each At 1 April 2009	1,632	32,632	1,506	30,107
Issued during the year				
Issue of Shares to Prime Focus Limited (8 th June 2008)	-	-	126	2,525
Ordinary shares of 5p each at 31 March 2010	1,632	32,632	1,632	32,632

The shares issued on 8 June 2008 to the parent company have the same rights as the rest of the share capital.

13. Reserves

	Share capital £000	Share premium £000	Capital Redemption Reserve £000	Merger Reserve £000	Special Reserve £000	Retained earnings £000	Total Equity £000
At 1 April 2009 (as restated (note 17))	1,632	6,498	270	730	-	(2,827)	6,303
Profit for the year	-	-	-	-	-	639	639
Share-based payments	-	-	-	-	-	95	95
At 31 March 2010	1,632	6,498	270	730	-	(2,093)	7,037
At 1 April 2008	1,505	9,384	270	730	-	888	12,777
Profit for the year (as restated (note 17))	-	-	-	-	-	(7,484)	(7,484)
Shares issued	127	883	-	-	-	-	1,010
Creation of special reserve following court application for reduction in share capital	-	(3,769)	-	-	3,769	-	-
Release of special reserve	-	-	-	-	(3,769)	3,769	-
At 31 March 2009 (as restated (note 17))	1,632	6,498	270	730	-	(2,827)	6,303

14. Operating Lease and Capital commitments

At 31 March 2010 the company had annual commitments under non-cancellable operating leases for land and buildings expiring as follows:

	2010 £000	2009 £000
Within one year	-	-
Later than one year and less than five years	155	-
After five years	899	1,021
	1,054	1,021

Prime Focus London plc

Annual report 2010

15. Related party transactions

For details of related party transactions entered into by the Company, please refer to the consolidated Group financial statements.

16. Prior year restatements

Impairment of subsidiary investment

In January 2008, the Company acquired Machine Effects Limited for £1.5m. The directors believe that a numerical error was made in supporting the carrying value of this investment, and this investment should have been impaired, based upon the information available, as at 31 March 2009. Accordingly, this has resulted in a material misstatement of the Company's financial performance and position presented in the financial statements for 2009.

Accounting entries with respect to a capital reduction

In March 2009, the Company applied to the court for a reduction of the Company's share premium account by £3.8m. Subsequently, the directors have identified that the accounting entries recognised had been misclassified and therefore resulted in a material misstatement of the Group financial performance presented in the financial statements for 2009.

The accounting entries have subsequently been corrected such that the level of exceptional income recognised in 2009 has been reduced to reflect losses which had been incorrectly recognised directly in equity. There has been no overall effect on equity.

Effect on the financial statements

The effect of both restatements is summarised below:

	As previously stated 31 March 2009 £'000	As restated 31 March 2009 £'000	Restatement 31 March 2009 £'000
Effect on Balance Sheet			
Investments	2,311	771	(1,540)
Retained earnings	(1,287)	(2,827)	(1,540)
Net effect on equity			(1,540)
Effect on Profit and Loss			
Decrease in result for the year			(1,540)