Cineworld Group plc

(formerly Cineworld UK Limited)

Directors' report and consolidated financial statements

Registered number 05212407

29 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 29 December 2005.

Principal activities

The company acts as an investment holding company for a group of companies whose principal activity is the operation of cinemas in the UK and Ireland for the exhibition of films and related retail activity. The directors do not expect any change in the principal activity during the next financial year.

Business review

On 17 May 2006 the company was re-named Cineworld Group plc and re-registered as a public limited company.

The results for the period are detailed on page 6. The loss after tax for the period is £31,820,000 *(2004: £15,434,000)*, operating profit before depreciation and amortisation, impairment charges, onerous lease charges and transaction and reorganisation costs for the period is £44,129,000 *(2004:£4,197,000)* and the operating loss for the period is £1,675,000 *(2004:£570,000)*.

Proposed dividend

The directors do not recommend the payment of a dividend for the period ended 29 December 2005 *(2004: £nil)*.

Directors and directors' interests

The directors who held office during the period were as follows:

AH Bloom	(Chairman)
S Wiener	(Chief Executive)
L Guffey	
W Kamhawi	(resigned 22 May 2006)
D Marks	(resigned 22 May 2006)
M Tooth	
T McGrath	(appointed 16 May 2005)
R Jones	(appointed 28 March 2006)

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the company according to the register of directors' interests:

		Interest at end of period	**Interest at start of period**
S Wiener	£0.01 Ordinary shares	7,969	5,578

None of the other directors who held office at the end of the financial period had any disclosable interest in the shares of group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

Directors' report *(continued)*

Employees

The policy is to recruit, employ and develop staff on the basis of the suitability of their qualifications and experience, regardless of sex, marital status, race, nationality, age, sexual orientation or religion. It is company policy to give full and fair consideration to applications for employment from disabled people, having regard to their particular abilities and aptitudes. Full consideration is given to continuing the employment of staff who become disabled, including considering them for other reasonable positions.

The organisation encourages the development of employee involvement in the business operations through regular focus group meetings.

Political and charitable contributions

The group made no political contributions and no charitable donations in the period.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

AH Bloom
Chairman

S Wiener
Director

22 May 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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

KPMG
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of Cineworld Group plc

We have audited the group and parent company financial statements (the "financial statements") of Cineworld Group plc for the period ended 29 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Reconciliation of Movements in Shareholders Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Cineworld Group plc *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 29 December 2005 and of the group's loss for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

22 May 2006

Consolidated profit and loss account
for the period ended 29 December 2005

	Note	2005 £000	2004 £000
Group turnover	*1,2*	**272,243**	38,445
Cost of sales		**(208,232)**	(29,666)
Gross profit		**64,011**	8,779
Total administrative expenses		**(66,356)**	(9,349)
Other operating income		**670**	-
Group operating loss	*3*	**(1,675)**	(570)
Analysed between:			
Operating loss before depreciation and amortisation, impairment charges, onerous lease charges and transaction and reorganisation costs		**44,129**	4,197
- Depreciation and amortisation		**(33,513)**	(4,767)
- Impairment charges		**(8,524)**	-
- Onerous lease provisions		**(840)**	-
- Transaction and reorganisation costs		**(2,927)**	-
Interest receivable and similar income	*6*	**426**	118
Interest payable and similar charges	*7*	**(30,571)**	(7,344)
Loss on ordinary activities before taxation		**(31,820)**	(7,796)
Tax on loss on ordinary activities	*8*	**-**	(7,638)
Loss on ordinary activities after taxation		**(31,820)**	(15,434)
Minority interest		**-**	(37)
Retained loss for the period after taxation	*20*	**(31,820)**	(15,471)

All results are derived from continuing operations.

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

Consolidated balance sheet
at 29 December 2005

	Note	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Intangible assets – goodwill	9		**203,264**		224,243
Tangible assets	10		**147,251**		160,645
			350,515		384,888
Current assets					
Stocks	12	**1,619**		1,850	
Debtors	13	**17,317**		16,983	
Cash at bank and in hand		**19,592**		6,954	
		38,528		25,787	
Creditors: amounts falling due within one year	14	**(53,998)**		(52,005)	
Net current liabilities			**(15,470)**		(26,218)
Total assets less current liabilities			**335,045**		358,670
Creditors: amounts falling due after more than one year, analysed as:					
- Subordinated bonds held by the shareholders	15	**(116,248)**		(105,706)	
- Bank loans	16	**(230,930)**		(228,785)	
- Obligations under finance leases	17	**(5,672)**		(6,025)	
- Accruals and deferred income		**(5,922)**		(7,930)	
			(358,772)		(348,446)
Provisions for liabilities and charges	18		**(18,533)**		(20,534)
Net liabilities excluding pension liabilities			**(42,260)**		(10,310)
Pension liabilities					
Total of defined benefit schemes with net liabilities	23		**(5,648)**		(4,648)
Net liabilities			**(47,908)**		(14,958)
Capital and reserves					
Called up share capital	19		**2**		2
Profit and loss account	20		**(47,910)**		(14,960)
Shareholders' deficit - equity			**(47,908)**		(14,958)

These financial statements were approved by the board of directors on 22 May 2006 and were signed on its behalf by:

AH Bloom
Chairman

S Wiener
Director

Company balance sheet
at 29 December 2005

	Note	**2005** **£000**	2004 £000
Fixed assets			
Investments	*11*	2	2
Net assets		2	2
Capital and reserves			
Called up share capital	*19*	2	2
Profit and loss account	*20*	-	-
Shareholders' funds - equity		2	2

These financial statements were approved by the board of directors on 22 May 2006 and were signed on its behalf by:

AH Bloom
Chairman

S Wiener
Director

Consolidated cash flow statement

for the period ended 29 December 2005

	Note	2005 £000	2004 £000
Cash flow from operating activities	*24*	**45,763**	2,306
Returns on investments and servicing of finance	*25*	**(17,530)**	(14,661)
Capital expenditure and financial investment	*25*	**(8,777)**	(2,380)
Acquisitions	*25*	**(2,221)**	(249,969)
Cash inflow/(outflow) before financing		**17,235**	(264,704)
Net financing	*25*	**(434)**	271,658
Increase in cash in the period		**16,801**	6,954

Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period	*26*	**16,801**	6,954
Cash outflow/(inflow) from increase in debt and lease financing		**434**	(271,658)
Change in net debt resulting from cash flows		**17,235**	(264,704)
Loans and bonds acquired with subsidiary		-	(64,984)
Finance lease acquired with subsidiary		-	(6,547)
Write off and amortisation of bank fees		**(2,145)**	(219)
Accrued interest on bonds		**(10,542)**	(1,757)
Movement in net debt in the period		**4,548**	(338,211)
Net debt at the start of the period	*26*	**(338,211)**	-
Net debt at the end of the period	*26*	**(333,663)**	(338,211)

Consolidated statement of total recognised gains and losses
for the period ended 29 December 2005

	2005	2004
	£000	£000
Retained loss for the period	**(31,820)**	(15,471)
Actuarial (loss)/gain recognised in the pension scheme	**(1,123)**	146
Exchange differences on foreign operations	**(7)**	365
Total recognised gains and losses relating to the financial period	**(32,950)**	(14,960)

Reconciliations of movements in shareholders' (deficit)/funds
for the period ended 29 December 2005

	Group	**Company**	Group	Company
	2005	**2005**	2004	2004
	£000	**£000**	£000	£000
Retained loss for the period	**(31,820)**	-	(15,471)	-
Actuarial (loss)/gain recognised in the pension scheme	**(1,123)**	-	146	-
Exchange differences on foreign operations	**(7)**	-	365	-
Net reduction in shareholders' deficit	**(32,950)**	-	(14,960)	-
Opening shareholders' (deficit)/funds	**(14,958)**	2	2	2
Closing shareholders' (deficit)/funds	**(47,908)**	2	(14,958)	2

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial information except as noted below.

The following new standards have been adopted for the first time in these financial statements:

- FRS 21 *Events after the balance sheet date*;
- The presentation requirements of FRS 25 *Financial instruments: presentation and disclosure*; and
- FRS 28 *Corresponding amounts*.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

As a result of the group adoption of FRS 21, dividends unpaid at the balance sheet date are only recognised at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. The adoption of the standard had no material effect on the financial statements.

The adoption of FRS 25 had no significant impact on presentation in the financial statements.

FRS 28 *Corresponding amounts* has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The directors have reviewed the group's projected working capital requirements and fixed asset expenditure and believe that the company has sufficient funding for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised on a straight line basis over its useful economic life from the date of acquisition. A charge is recognised in the Group's profit and loss account in respect of any impairment in the value of goodwill.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings and long leasehold properties	-	30 years or life of lease if shorter
Short leasehold land and buildings	-	life of lease
Plant and machinery	-	5 to 10 years
Fixtures, fittings, tools and equipment	-	4 to 10 years

No depreciation is provided on freehold land or on assets in the course of construction.

Impairment

The group evaluates its goodwill and fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value, an impairment in value is recorded.

Financial instruments

The costs of issue of capital instruments such as the issue costs of new debt are charged to the profit and loss account over the life of the instrument.

Foreign currencies

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

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

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals paid and received under operating leases are charged to income on a straight-line basis over the lease term.

Provision is made for onerous leases where it is considered that the unavoidable costs of the lease obligations are in excess of the economic benefits expected to be received by it. The unavoidable costs of the lease reflect the least net cost of exiting from the contract and are measured as the lower of the net cost of continuing to operate the lease and any penalties or other costs of exiting from it.

Notes *(continued)*

1 Accounting policies *(continued)*

Sale and leaseback

The group has entered into a sale and leaseback transaction whereby the risks and rewards of ownership of the assets concerned have not been substantially transferred to the lessor. In accordance with SSAP 21 and FRS 5 the assets subject to those sale and leaseback transactions have been retained on the Group's balance sheet and the proceeds of the sale are included within creditors as liabilities under sale and leaseback arrangements. The rent payable by the Group throughout the term of the lease is apportioned first as a partial repayment of the related liabilities and secondly, as interest charged to profits. Any increase in rent under the term of the lease will be charged to profit.

Defined benefit pension schemes

The subsidiary undertaking, Cineworld Cinemas Limited, operates two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group.

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

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

Defined contribution pension schemes

The Group also operates three defined contribution pension schemes in the United Kingdom and one defined contribution scheme in Ireland. The schemes are individual, rather than group, money purchase plans with the final retirement payment dependent upon the performance of the individual's plan. Contributions are charged to the profit and loss account as they become payable in accordance with the schemes.

Stocks

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

Deferred taxation

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

Turnover

Turnover is recognised at the point of sale for ticket and refreshment sales. Income from other related activities is recognised in the period to which they relate. Turnover is stated net of Value Added Tax.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand.

Notes *(continued)*

2 Segmental information

Geographic sector analysis

Turnover by destination and by origin from countries other than the UK in all financial periods was not material.

Business sector analysis

The Group has operated in one business sector in al financial periods, being cinema operations.

3 Loss on ordinary activities before taxation

	2005	2004
	£000	£000
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation – owned assets	**22,258**	3,126
Depreciation – finance leases	**272**	219
Amortisation of goodwill	**10,983**	1,422
Impairment of goodwill	**4,790**	-
Impairment of fixed assets	**3,734**	-
Onerous lease charges	**840**	-
Transaction costs	**530**	-
Reorganisation costs	**2,397**	-
Auditors' remuneration – audit	**167**	79
- other services	**312**	21
Operating lease rentals	**39,638**	5,644
Rents receivable from property	**(669)**	(42)

Transaction costs relate to the write off of professional fees in relation to aborted transactions. Reorganisation costs relate to redundancy, rebranding costs and cancellation of material contracts as a result of the UGC acquisition.

In 2004 auditors' remuneration represented the audit fees charged to the group and its subsidiaries for the periods during which they were consolidated into the group. Total auditors' remuneration for all group companies for the financial period ending 30 December 2004 was £268,000, including £139,000 paid to auditors other than the group auditors.

4 Remuneration of directors

	2005	2004
	£000	£000
Directors' emoluments	**519**	263
Company contributions to money purchase pension schemes	**28**	6
	547	269

Notes *(continued)*

4 Remuneration of directors *(continued)*

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £465,183 and company pension contributions of £28,041 were made to a money purchase scheme on his behalf. During the period the highest paid director received shares under a long-term incentive scheme. There were no directors who were part of the defined benefit pension schemes.

	Number of directors	
	2005	2004
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	**2**	2
In receipt of remuneration under long term incentive schemes	**1**	1

5 *Staff numbers and costs*

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

	Number of staff	
	2005	2004
Head office	**133**	71
Cinemas	**4,490**	2,047
	4,623	2,118

Included in the average number of persons employed by the Group are part-time employees. No distinction is made between full-time and part-time employees in the table above.

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	**41,141**	5,710
Social security costs	**2,749**	386
Other pension costs – Defined benefit	**149**	12
– Defined contribution	**370**	59
	44,409	6,167

6 *Interest receivable and similar income*

	2005	2004
	£000	£000
Bank interest	**326**	118
Other	**100**	-
	426	118

Notes *(continued)*

7 Interest payable and similar charges

	2005	2004
	£000	£000
Interest payable on bank loans and overdrafts	**17,248**	2,073
Write off of financing fees on redemption of loans	**-**	3,276
Amortisation of financing costs	**2,145**	219
Interest payable on deep discounted bonds	**10,542**	1,757
Net finance cost on pension scheme (Note 23)	**209**	19
Unwind of discount on onerous lease	**311**	-
Other finance costs	**116**	-
	30,571	7,344

During the period ended 30 December 2004, loan arrangement fees were written off following refinancing as a result of the acquisition of Cineworld Cinemas Holdings Limited.

8 Taxation

(a) *Analysis of charge/(credit) in period*	**2005**	2004
	£000	£000
UK corporation tax		
Current tax on income for the period	**-**	-
Adjustments in respect of prior periods	**-**	(10)
Total current tax	**-**	(10)
Deferred tax	**-**	7,648
Tax on loss on ordinary activities	**-**	7,638

(b) Factors affecting the current tax credit for the period

Current tax credit for the period is lower than the standard rate of corporation tax in the UK of 30% *(2004: 30%)*. The differences are explained below.

	2005	2004
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	**(31,820)**	(7,796)
Current tax in the UK at 30 % *(2004: 30%)*	**(9,546)**	(2,339)
Effects of:		
Expenses not deductible for tax purposes	**7,432**	610
Effect of lower overseas tax rate	**(170)**	121
Capital allowances for period (less than)/ in excess of depreciation	**(4,334)**	103
Losses arising in the period not relievable against current tax	**7,465**	1,884
Tax losses utilised	**(660)**	(387)
Other timing differences	**(187)**	8
Adjustments in respect of prior periods	**-**	(10)
Total current tax credit	**-**	(10)

Notes *(continued)*

8 Taxation *(continued)*

(c) Factors that may affect future tax charges

As at 29 December 2005 the Group had the potential tax assets relating to the following:

- tax losses of approximately £8 million;
- capital allowances in excess of depreciation of approximately £40 million; and
- other losses of approximately £32 million.

No deferred tax assets were recognised at 29 December 2005, as at that date the Group's funding structure was leading to substantial unrelieved non-trading deficits. The Group would also expect a benefit spread over a number of years as a result of utilising capital allowances in excess of depreciation against future total taxable profits. In addition, the Group is proposing to dispose of certain cinema sites during 2006 which will result in a utilisation of capital losses (contained within other losses above) of approximately £6 million. The Group has no expectation that it will be able to use the remaining other losses in the foreseeable future.

The net tax benefit of utilising any of the above losses is expected to amount to approximately 30% of the losses utilised.

Notes *(continued)*

9 Intangible fixed assets

Group	**Goodwill** £000
Cost	
At 30 December 2004	225,665
Additions	690
Change to fair value adjustments in relation to the acquisition of Cineworld Cinemas Holdings Limited	(5,896)
At 29 December 2005	**220,459**
Amortisation	
At 30 December 2004	1,422
Charged in the period	10,983
Impairment	4,790
At 29 December 2005	**17,195**
Net book value	
At 29 December 2005	**203,264**
At 30 December 2004	224,243

The goodwill acquired on the purchases of the businesses of Cine-UK Limited and Cineworld Cinemas Holdings Limited represents the excess of the fair value of the consideration over the fair value of the separable net assets acquired.

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill in respect of both acquisitions to date is amortised over 20 years from the date of purchase on a straight-line basis.

Goodwill additions represent additional acquisition costs incurred in 2005 in respect of the purchase of Cineworld Cinemas Holdings Limited.

The fair value adjustment relates to attributing a market value to interest in leases where the rental payments are below market value.

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Total
Group	£000	£000	£000	£000	£000
Cost					
At 30 December 2004	94,400	35,408	33,022	1,213	164,043
Additions	1,340	2,731	3,164	154	7,389
Adjustment on purchase of business	5,896	-	-	-	5,896
Disposals	-	(173)	(338)	-	(511)
Exchange movements	(109)	(35)	(311)	-	(455)
Transfers between categories	81	-	-	(81)	-
At 29 December 2005	**101,608**	**37,931**	**35,537**	**1,286**	**176,362**
Depreciation					
At 30 December 2004	973	1,403	1,022	-	3,398
Charge for period	5,659	7,120	9,751	-	22,530
Disposals	-	(110)	(295)	-	(405)
Impairment	2,678	111	945	-	3,734
Exchange movements	(32)	(24)	(90)	-	(146)
At 29 December 2005	9,278	8,500	11,333	-	29,111
Net book value					
At 29 December 2005	**92,330**	**29,431**	**24,204**	**1,286**	**147,251**
At 30 December 2004	93,427	34,005	32,000	1,213	160,645

Included in the total net book value of £147,251,000 *(2004: £160,645,000)* are assets of £6,347,000 *(2004: £6,581,000)* held under a finance lease. Depreciation for the year on these assets were £272,000 *(2004: £219,000)*.

The net book value of land and buildings comprises:

	Group 2005 £000	Group 2004 £000
Freehold	**1,256**	1,294
Long leasehold	**10,384**	5,194
Short leasehold	**80,690**	86,939
	92,330	93,427

Total depreciation on freehold buildings for the period was £72,415 *(2004: £180,520)*. Total depreciation on leasehold buildings for the period was £4,785,000 *(2004: £781,000)*.

Impairments

When calculating the impairment loss, a discount rate of 12% *(2004: 11%)* was used to discount forecast future cash flows.

Security

The secured bank loans (note 16) are secured by fixed and floating charges on the assets of Cineworld Group.

Notes *(continued)*

11 Fixed asset investments

Company	Share in group undertaking 2005	Share in group undertaking 2004
Cost		
At 30 December 2004	2	2
Additions	-	-
At 29 December 2005	2	2
Provisions		
At 30 December 2004	-	-
At 29 December 2005	-	-
Net book value		
At 29 December 2005	2	2
At 30 December 2004	2	2

	Country of incorporation	Principal activity	Class and percentage of shares held	
Subsidiary undertakings				
Directly Held				
Augustus 1 Limited	England & Wales	Holding company	Ordinary	100
Indirectly Held				
Augustus 2 Limited	England & Wales	Holding company	Ordinary	100
Cineworld Group Limited	England & Wales	Holding company	Ordinary	100
Cine-UK Limited	England & Wales	Cinema operation	Ordinary	100
Cineworld Cinemas Holdings Limited	England & Wales	Holding company	Ordinary	100
Cineworld Cinemas Limited	England & Wales	Holding company and cinema operation	Ordinary	100
Cineworld Finance Limited	England & Wales	Dormant	Ordinary	100
Cineworld Estates Limited	England & Wales	Cinema property leasing	Ordinary	100
Cineworld South East Cinemas Limited	England & Wales	Holding company	Ordinary	100
Cineworld Exhibition Limited	England & Wales	Dormant	Ordinary	100
Gallery Holdings Limited	England & Wales	Holding company	Ordinary	100
			"A" Ordinary	100
			Preference	100
Gallery Cinemas Limited	England & Wales	Dormant	Ordinary	100
Slough Movie Centre Limited	England & Wales	Dormant	Ordinary	100
Adelphi-Carlton Limited	Eire	Cinema operation	Ordinary	100
Cineworld Cinema Properties Limited	England & Wales	Property company	Ordinary	100
Cineworld Elite Pictures Theatre (Nottingham) Limited	England & Wales	Non-trading	Ordinary	98.2
			Cum 5% Pref	99.6
Classic Cinemas Limited	England & Wales	Retail services company	Ordinary	100
Computicket Limited	England & Wales	Dormant	Ordinary	100

Augustus 1 Limited, Augustus 2 Limited and Cineworld Group Limited were acquired for the nominal value of their share capital with no goodwill arising on acquisition.

Notes *(continued)*

12 Stocks

	Group 2005 £000	Group 2004 £000
Raw materials and consumables	**110**	100
Goods held for resale	**1,509**	1,750
	1,619	1,850

13 Debtors

	Group 2005 £000	Group 2004 £000
Trade debtors	**1,488**	1,138
Other debtors	**549**	1,055
Prepayments and accrued income	**15,280**	14,790
	17,317	16,983

14 Creditors: amounts falling due within one year

	Group 2005 £000	Group 2004 £000
Bank loans and overdrafts after issue costs (note 16)	**-**	4,163
Obligations under finance leases (note 17)	**405**	486
Trade creditors	**18,303**	13,066
Other creditors including taxation and social security	**5,662**	3,981
Accruals and deferred income	**29,478**	30,155
Corporation tax	**150**	154
	53,998	52,005

Notes *(continued)*

15 Interest bearing loans

	Group 2005 £000	Group 2004 £000
Deep discounted bonds	**115,115**	104,676
10% interest bearing unsecured bonds	**1,133**	1,030
	116,248	105,706

The Deep discounted bonds are zero coupon discounted and unsecured and accrue interest at 10% which is payable on redemption of the bonds. The amounts redeemable are £152,768,000 on 7 October 2014 and £114,254,000 on 1 December 2014.

Subject to having given no less that 30 days and not more than 60 days notice in writing to the bondholders the Group may, at any time, with the consent of the bondholders having the majority of the bonds, redeem the whole or any part of the bonds.

The 10% interest bearing unsecured bonds have a redemption date of 7 October 2014. Interest is payable on repayment or redemption of the bonds.

16 *Bank loans*

Analysis of bank debt	Group 2005 £000	Group 2004 £000
Debt can be analysed as falling due:		
Bank overdraft – repayable within one year	-	4,163
Bank Loan Term A – repayable between two and five years	**225,000**	215,000
Bank Loan Term B – repayable between two and five years	**10,000**	20,000
Less issue costs of debt to be amortised	**(4,070)**	(6,215)
	230,930	232,948

Both bank loans (Term A and B) are repayable by 30 November 2007. The interest rate charged is at a rate above LIBOR: Term A - 2.25%, Term B – 6%. The rates increased by 0.25% per annum at the end of August 2005 and then again at 3 monthly intervals thereafter. The bank loans are secured by fixed and floating charges on the assets of the group.

The bank loan issue costs are being amortised over three years, being the life of the loan.

Notes *(continued)*

17 Obligations under finance leases

The maturity of obligations under finance leases is as follows:

	Group 2005 £000	Group 2004 £000
Within one year	**486**	486
Between one and two years	**486**	486
In the second to fifth years	**1,612**	1,534
Over five years	**12,712**	13,275
	15,296	15,781
Less future finance charges	**(9,219)**	(9,270)
	6,077	6,511
Analysed as:		
Within one year	**405**	486
More than one year	**5,672**	6,025
	6,077	6,511

18 Provisions for liabilities and charges

	Onerous leases £000	**Dilapidations** £000	**Total** £000
Group			
At 30 December 2004	20,234	300	20,534
Addition in period	840	-	840
Utilised	(2,841)	-	(2,841)
At 29 December 2005	**18,233**	**300**	**18,533**

The provision for onerous leases covers the rent payable on particular cinema sites and on office premises that have been assessed as currently in excess of the economical benefits expected to be derived from their operation on a discounted basis. The remaining provision will be utilised over the period to or the next rent review date or the remaining lease depending on the term of the lease. The discount rate used was 11% *(2004: 11%)*.

Notes *(continued)*

19 Called up share capital

	2005	2004
	£000	£000
Authorised		
Equity: 173,515 Ordinary shares of £0.01 each	**2**	2
Allotted, called up and fully paid		
Equity: 172,815 Ordinary shares of £0.01 each	**2**	2

20 Reserves

	Group Profit and loss account
	£000
At 30 December 2004	(14,960)
Retained loss for the period	(31,820)
Exchange adjustments	(7)
Actuarial loss on pension scheme	(1,123)
At 29 December 2005	**(47,910)**

	£000
Profit and loss reserve excluding pension liability	(42,262)
Pension liability	(5,648)
Profit and loss reserve including pension liability	(47,910)

	Company Profit and loss account
	£000
At 30 December 2004	-
Result for the period	-
At 29 December 2005	-

Notes *(continued)*

21 Commitments

(a) Capital commitments at the end of the financial period, for which no provision has been made, are as follows:

	Group 2005 £000	**Company 2005 £000**	Group 2004 £000	Company 2004 £000
Contracted	**5,076**	**-**	4,616	-

(b) Annual commitments under non-cancellable operating leases are as follows:

	2005 Land and buildings	**2005 Other**	2004 Land and buildings	2004 Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire:				
Over five years	**39,049**	**164**	40,846	43

22 Defined contribution pension scheme

The group has three defined contribution pension schemes in the United Kingdom: Cineworld Pension Scheme, the Cineworld Cinemas Executive Pension Scheme and Cine-UK Personal Pension Scheme and one defined contribution scheme in Ireland: the Adelphi-Carlton Cinemas Ireland Pension Scheme. Contributions made by the group to these schemes during the period are shown in note 5.

23 Defined benefit pension scheme

The group operates two externally funded defined benefit pension schemes, one in the United Kingdom, the MGM Pension Scheme, and one in Ireland, the Adelphi-Carlton Limited Contributory Pension Plan.

The largest of these was the MGM Pension Scheme. Bacon & Woodrow, consulting actuaries, carried out a full actuarial valuation as at 5 April 2003. Based on this valuation, the actuarial values of the liabilities exceeded the assets of the scheme. The smoothed past service funding deficit is estimated at £4.5 million, equating to 91% of the minimum funding requirement.

For the MGM Pension Scheme, the company contributed at a rate of 14% of contribution salaries until 31 March 2004 and at the rate of 10.7% of new contribution salaries from 1 April 2004. The total pension contribution for one month ended 29 December 2005 was £482,000. This includes a special contribution of £31,250 per month made by the company from April 2004.

The next full actuarial valuation of the MGM Pension Scheme will be carried out as at 5 April 2006.

The MGM Pension Scheme is now closed to new entrants and the age profile of the active members is rising and therefore the current service cost under the projected unit method will be expected to increase as the members of the scheme approach retirement.

Notes *(continued)*

23 Defined Benefit Pension Scheme *(continued)*

The valuation described above has been updated as at 30 November 2004 and 29 December 2005 for the MGM Pension Scheme by qualified actuaries using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

A further defined benefit pension scheme is operated in Ireland, the Adelphi Carlton Contributory Pension Plan. Watson Wyatt and Partners, the consulting actuaries for Adelphi-Carlton Limited, carried out the last actuarial valuation of the scheme as at 1 October 2003. Based on this assessment, the actuarial value of the assets of the scheme was more than sufficient to cover 100% of the benefits that had accrued to members. In view of this, a suspension of company contributions was in force from 1 April 2001 to 29 December 2005.

Total contributions for year ended 29 December 2005 are nil.

The next actual valuation is scheduled for 5 April 2006.

The Adelphi Carlton Contributory Pension Plan is now closed to new entrants and the age profile of the active members is rising and therefore the current service cost under the projected unit method will be expected to increase as the members of the scheme approach retirement. The trustees of the Adelphi-Carlton Contributory Pension Plan have not agreed that any surplus on the plan can be refunded to the Company. Accordingly the surplus has not been recognised.

MGM Pension Scheme

The major assumptions used for the valuation for FRS 17 requirements were:

	MGM Pension Scheme 29 December 2005 %	MGM Pension Scheme 30 December 2004 %
Discount rate	4.70	5.25
Inflation assumption	2.90	2.90
Rate of increase in salaries	4.40	4.40
Rate of increase in pensions	2.40 - 3.50	2.10 – 3.60

The fair value of the assets in the scheme, the present value of the liabilities in the schemes and the expected rates of return at the balance sheet date were:

Expected long term rate of return on MGM pension scheme	**29 December 2005 % p.a. Return**	30 December 2004 % p.a. Return	**Value at 29 December 2005 £000**	Value at 30 December 2004 £000
Equities	**7.50**	7.55	**10,507**	9,332
Bonds – fixed interest	**4.00**	4.55	**3,090**	2,708
Bonds – index-linked	**3.75**	4.30	**7,306**	6,346
Cash (including net current assets)	**4.60**	4.80	**38**	100
Total fair value of assets			**20,941**	18,486
Present value of scheme liabilities			**(29,009)**	(25,126)
Deficit in the scheme			**(8,068)**	(6,640)
Deferred tax asset (30%)			**2,420**	1,992
Net pension liability			**(5,648)**	(4,648)

Notes *(continued)*

23 Defined Benefit Pension Scheme *(continued)*

The components of the defined benefit cost were as follows:

Charge to operating profit – MGM pension scheme

	29 December 2005 £000	30 December 2004 £000
Current service cost	**149**	12
Charge to operating profit	**149**	12

Net finance charges – MGM pension scheme

	29 December 2005 £000	30 December 2004 £000
Interest cost on scheme liabilities	**(1,295)**	(106)
Expected return on scheme assets	**1,086**	87
Net finance cost	**(209)**	(19)

Actuarial loss in the statement of total recognised gains and losses

Movement in scheme deficit during the period – MGM pension scheme

	29 December 2005 £000	30 December 2004 £000
Opening deficit in scheme	**(6,640)**	-
Acquired on acquisition of UGC	**-**	(6,857)
Current service cost	**(149)**	(12)
Contributions	**482**	40
Net finance cost	**(209)**	(19)
Actuarial (loss)/gain before deferred tax	**(1,552)**	208
Closing deficit in scheme	**(8,068)**	(6,640)

Notes *(continued)*

23 Defined Benefit Pension Scheme *(continued)*

History of experience gains and losses during the period and amounts recognised in the statement of recognised gains and losses – MGM pension scheme

	29 December 2005	30 December 2004
Difference between the expected and actual return on scheme assets:		
Amount (£000)	**1,926**	59
Percentage of scheme assets	**9.2%**	0.32%
Experience gains on scheme liabilities:		
Amount (£000)	**(133)**	(10)
Percentage of present value of scheme liabilities	**(0.5%)**	(0.04%)
Changes in assumptions underlying the present value of the scheme liabilities:		
Amount (£000)	**(3,347)**	159
Percentage of present value of scheme liabilities	**(11.5%)**	0.63%
Total actuarial loss in statement of total recognised gains and losses:		
Amount (£000)	**(1,554)**	208
Percentage of present value of scheme liabilities	**(5.4%)**	0.83%

Adelphi Carlton Limited Contributory Pension Plan

The major assumptions used for the valuation for FRS 17 requirements were:

	Adelphi Carlton Pension Plan 29 December 2005 %	Adelphi Carlton Pension Plan 30 December 2004 %
Discount rate	**5.25**	4.50
Inflation assumption	**2.25**	2.25
Rate of increase in salaries	**N/a**	N/a
Rate of increase in pensions	**3.00**	3.00

The fair value of the assets in the scheme, the present value of the liabilities in the schemes and the expected rates of return at the balance sheet date were:

Expected long term rate of return on Adelphi Carlton pension plan	**29 December 2005 %**	30 December 2004 %	**Value at 29 December 2005 £000**	Value at 30 December 2004 £000
Equities	**7.90**	8.00	**609**	526
Bonds	**3.40**	3.60	**1,028**	967
Property	**5.80**	6.00	**50**	51
Other assets	**2.50**	2.50	**34**	83
Total fair value of assets			**1,721**	1,627
Present value of scheme liabilities			**(1,072)**	(1,074)
Surplus in the scheme			**649**	553
Irrecoverable surplus			**(649)**	(553)
Pension asset before deferred tax			-	-
Deferred tax liability (12.5%)			-	-
Net pension asset			-	-

Notes *(continued)*

23 Defined Benefit Pension Scheme *(continued)*

The components of the defined benefit cost were as follows:

Charge to operating profit – Adelphi Carlton pension plan

	29 December 2005 £000	30 December 2004 £000
Current service cost	-	-
Past service cost	-	-
Charge to operating profit	-	-

Net finance credit – Adelphi Carlton pension plan

	29 December 2005 £000	30 December 2004 £000
Interest cost on scheme liabilities	(45)	(4)
Expected return on scheme assets	77	7
Net finance credit	32	3

Actuarial gain in the statement of total recognised gains and losses

Movement in scheme surplus during the period – Adelphi Carlton pension plan

	29 December 2005 £000	30 December 2004 £000
Opening surplus in scheme	553	-
Acquired on acquisition of UGC	-	521
Current service cost	-	-
Net finance income	32	3
Actuarial gain before deferred tax	85	19
Exchange movement re: translation of Euro opening balance	-	10
Closing surplus in scheme	670	553

***History of experience gains and losses during the period and amounts recognised in the statement of recognised gains and losses* – Adelphi Carlton pension plan**

	29 December 2005	30 December 2004
Difference between the expected and actual return on scheme assets:		
Amount (£000)	(129)	(20)
Percentage of scheme assets	(7.54%)	(1.22%)
Experience loss on scheme liabilities:		
Amount (£000)	8.13	1
Percentage of present value of scheme liabilities	0.76%	(0.11%)
Total actuarial loss in statement of total recognised gains and losses:		
Amount (£000)	(85)	(19)
Percentage of present value of scheme liabilities	(7.91%)	(1.73%)

Notes *(continued)*

24 Reconciliation of operating profit/(loss) to operating cash flows

	2005 £000	2004 £000
Operating loss	**(1,675)**	(570)
Depreciation	**22,530**	3,345
Impairment of fixed assets	**3,734**	-
Amortisation of goodwill	**10,983**	1,422
Impairment of goodwill	**4,790**	-
Loss on sale of fixed assets	**-**	10
(Decrease)/increase in onerous lease provision	**(2,312)**	718
Decrease/(increase) in stocks	**231**	(404)
Increase in debtors	**(334)**	(4,863)
Increase in creditors	**7,816**	2,648
Net cash inflow from operating activities	**45,763**	2,306

25 Analysis of cash flows

	2005 £000	2005 £000	2004 £000	2004 £000
Returns on investment and servicing of finance				
Interest received	**426**		75	
Financing fees paid on redemption of old bonds and loans	**-**		(9,441)	
Interest paid on redemption of old bonds	**-**		(4,164)	
Interest paid on other loans redeemed	**-**		(262)	
Interest paid on current bank loans	**(17,904)**		-	
Interest paid on finance leases	**(52)**		(869)	
		(17,530)		(14,661)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(8,402)**		(2,380)	
Pension deficit payments	**(375)**		-	
		(8,777)		(2,380)
Acquisitions				
Purchase of subsidiary undertakings		**(2,221)**		(249,969)
Financing				
Issue of ordinary share capital	**-**		2	
Debt due within one period:				
Increase in short-term borrowing	**-**		4,163	
Repayment of secured loan and bonds	**-**		(71,456)	
Debt due after more than one period:				
Secured loan repayable by 30 November 2007	**-**		235,000	
Discounted subordinated bonds	**-**		103,949	
Repayment of the capital element of the finance lease	**(434)**		-	
		(434)		271,658

Notes *(continued)*

26 Analysis of net debt

	At beginning of period £000	Cash flow £000	Other non cash changes £000	At end of period **£000**
Cash at bank and in hand	6,954	12,638	-	**19,592**
Overdrafts	(4,163)	4,163	-	-
	2,791	16,801	-	**19,592**
Debt due after more than one period – bank loans	(228,785)	-	(2,145)	**(230,930)**
Debt due after more than one period – deep discounted bonds	(105,706)	-	(10,542)	**(116,248)**
Finance leases	(6,511)	434	-	**(6,077)**
	(341,002)	434	(12,687)	**(353,255)**
Total	(338,211)	17,235	(12,687)	**(333,663)**

Other non cash changes relate to £2,145,000 write off and amortisation of bank fees and £10,542,000 of accrued interest on deep discounted bonds.

27 Related party disclosures

Included in the results for the period were amounts accruing to Blackstone Capital Partners (Cayman) LP, Blackstone Capital Partners (Cayman) IV-A L.P and Blackstone Family Investment Partnership (Cayman) IV-A L.P. (the "Blackstone Shareholders") in respect of management fees of £500,679 *(2004: £78,132)* and interest of £10,541,399 *(2004: £1,757,450)* on the discounted subordinated bonds.

S Wiener has 10 per cent interest bearing loan notes which accrued interest of £71,528 *(2004: £17,391)*. The loan outstanding at the end of the period was £788,917 *(2004: £717,389)*.

28 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of Blackstone Capital Partners (Cayman) IV LP, which is the ultimate parent organisation, whose head office is at 345 Park Avenue, New York, NY 10154, United States of America.

Notes *(continued)*

29 Post balance sheet events

Disposal of seven sites

As part of Cineworld Group plc's acquisition of Cineworld Cinemas Holdings Limited in December 2004, the Company undertook to the Office of Fair Trading (the "OFT") to make divestments in each of the identified six localities where Cineworld and UGC cinemas overlap. On 15 November 2005, the Group agreed to dispose of these six sites together with a seventh cinema site. The seven sites are in the following locations: Sunderland; Bishops Stortford; Swindon; Wigan; Ealing; Birmingham and Slough.

The sale is conditional on OFT approval, which was obtained on 20 December 2005, and on certain closing mechanics and, in some case, obtaining relevant landlords' consents.

The total sales proceeds are expected to be £27.0 million, adjusted to reflect the value of stock, accelerated capital allowances and other liabilities transferred to the purchaser. The disposal net assets have been written down to their estimated recoverable amount (after costs of disposal) which meant a £4,790,000 goodwill impairment charge.

Re-registration of the Company

On 17 May 2006 Cineworld UK Limited was renamed as Cineworld Group plc and was re-registered as a public limited company.