



PINEWOOD
SHEPPERTON

Introduction

Pinewood Shepperton is the leading European provider of studio and related services to the film and television industries. Our facilities support film production, filmed television and studio television recording, post production sound services and media related businesses.

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Financial highlights

	2004	2003
Turnover from continuing operations	£38.5m	£37.4m
Operating profit from continuing operations before exceptional IPO related costs	£12.9m	£11.4m
Profit on ordinary activities before tax	£6.4m	£2.6m
Diluted earnings per share	13.1p	11.9p
Proposed final dividend per share	2.7p	–

Mrs Henderson A comedy drama directed by Stephen Frears and starring Judi Dench and Bob Hoskins is currently in post production.



Chairman's statement

2004 has been a successful year for Pinewood Shepperton. We completed our Initial Public Offering in May during a difficult period for raising new equity on the London Stock Exchange and ended the year with an excellent set of financial results.

Strategically, we continue to focus on maximising the efficiency of our operations and enhancing the worldwide reputation of our film and television studio business. Our ambitious studio enhancement plans are progressing well.

The quality and range of facilities on offer at Pinewood and Shepperton continue to attract pre-eminent content producers from the UK and internationally. Add to this the depth, quality and skill base of actors, writers, directors, technicians and craftsmen and it is easy to understand why Britain has a long-term position in the global facilities market.

Batman Begins The story of how Bruce Wayne became what he was destined to be. Directed by Christopher Nolan for release in 2005.



It is this premium service – available in the UK in general and at Pinewood and Shepperton in particular – which has reduced the adverse impact of the weak dollar on our US customers. A further competitive factor has been the UK government's continuing commitment to fiscal measures devised to stimulate growth in UK film production. The Chancellor of the Exchequer has been consistent in maintaining a policy of taxation relief for the UK film sector and has recently restated that commitment.

Pinewood Shepperton's success over the past 12 months reflects the hard work and enthusiasm of our staff. On behalf of the Board, I place on record my thanks to the Chief Executive, Ivan Dunleavy and his colleagues for their contribution during the Initial Public Offering and congratulate them all on an excellent financial performance in our first year as a public company.

Handwritten signature of Michael Grade.

Michael Grade
Chairman
18 March 2005

Harry Potter and the Goblet of Fire A Warner Brothers production due to be released in 2005 used Pinewood Shepperton facilities.



Chief Executive's review

2004 marked an important chapter in the history of Pinewood Shepperton. In the course of these 12 months we achieved the following:

- strong revenue and profit performance;
- successfully completed an Initial Public Offering (IPO) on the London Stock Exchange raising £46.9m of equity through a placing with institutional shareholders;
- enhanced our market position and improved our financial performance;
- advanced our long-term strategic growth objectives and made progress with our studio enhancement planning applications.

Pinewood Shepperton is the leading European provider of studio and related services to the film and television industries. For over 70 years the studios have competed globally, and we will continue to ensure that Pinewood Shepperton remains a preferred destination for film and television production.

During 2004 turnover from continuing operations increased by 3% with operating profit from continuing operations, before exceptional IPO related costs, rising 13% to £12.9m. This has been another strong performance for our market leading business, building on successes in prior years.

A principal element of Pinewood Shepperton's long-term growth strategy is our studio enhancement plans, which, if successful, will increase our capacity and efficiency significantly. In May 2004 we submitted outline planning applications for both studios and discussions with the planning authorities are progressing well.



Nanny McPhee Directed by Kirk Jones, part written by and starring Emma Thompson, is currently in post production.

We have continued to invest in our studio facilities: at Shepperton Studios, phase one of the Eastern Workshops was completed during March 2005, and the construction of I Block production facilities will commence during 2005 with completion expected during 2006. We secured detailed planning permission for both these projects during 2004. Additional capital projects at Shepperton Studios have included the upgrading of A and B Stages, and new post production mixing desks in the Korda Theatre and Theatre One.

At Pinewood Studios, we commenced construction of the underwater filming stage (U Stage), a unique facility which will be available for use by quarter two 2005. There is no other such permanent facility in Europe, and U Stage, as anticipated, has attracted strong demand. We are currently upgrading Theatre Two at Pinewood in our sound post production business which will create a new facility for television dubbing.

Global demand for filmed entertainment continued to increase – especially with the introduction of digital technology. A large percentage of the major film studios' revenues is now derived from DVD sales.

During 2004 we built upon our growing reputation as a provider of bespoke television facilities, by hosting a number of new productions not previously housed at the studios, together with productions which have established themselves at our television facility. With the television industry continuing to seek outsourced solutions for production, we are well positioned to take advantage of rationalisation in this sector in future years.

Current trading and outlook

As anticipated, our Television and Sound Services revenues continue to perform well as we develop a strong presence in the television market. Our Media Park revenues are also performing in line with expectations.

According to Bex is a new TV series recorded at Pinewood Television, created by award-winning producer Fred Barron for the BBC.



Our Film Stage Services revenues are always impacted by the timing of the start of larger films during each year. A review was expected of Section 42 film tax policy for large films, creating uncertainty in the industry particularly among film producers. Tax relief in the UK partly mitigates the effects of the weaker US dollar which is another consideration for film makers. This fiscal uncertainty against a background of continued dollar weakness has understandably caused delays in the timing of some key productions provisionally booked at Pinewood Shepperton. The effect of this will be to reduce substantially our revenues from Film Stage Services for the first half of 2005 compared with the first half of 2004.

The recent budget has removed this uncertainty. The government's commitment to fiscal incentives for the film industry for the long term has been reconfirmed by the Chancellor, and the Treasury is now working on an improved replacement for Section 42 relief. Fiscal policy in the UK continues to be positive overall for film and our customers can now begin to commit to their productions.

Although we are expecting the reduction in Film Stage Services revenues in the first half of 2005 to lead to a reduction in total revenues for the year when compared with 2004, the outlook for the second half of 2005 is encouraging and we are expecting revenues in this period to show real growth over those for the second half of 2004.

Overall, demand for our services continues to rise and worldwide media markets continue to grow. In response to this we will continue our strategy of investing in unique and state-of-the-art facilities. The Board views the Company's prospects and strategy with confidence and looks forward to growth in the years to come.

A handwritten signature in black ink, appearing to read 'Ivan Dunleavy', with a long horizontal flourish extending to the right.

Ivan Dunleavy
Chief Executive
18 March 2005

Thunderbirds The film version of the classic television series, directed by Jonathan Frakes, was shot and used audio post production facilities at Pinewood Shepperton.



Operating and financial review

Operating review

The facilities

Pinewood Shepperton is the leading European provider of studio and related services to the film and television industries encompassing 34 stages, two digital television studios, 14 sound theatres, production offices, workshops, an outdoor paddock tank, an underwater filming stage and four backlots for set building. Accommodation is provided to over 200 businesses which benefit from being located at Pinewood or Shepperton Studios.

Film Stage Services

Film Stage Services revenues for 2004 were £21.5m (2003: £21.5m).

Pinewood Shepperton derives income from the rental of its 34 stages for film and filmed television production. Additional ancillary services such as art and design facilities, utilities, consumables, specialised workshops and production offices are also provided.

During 2004 Pinewood Shepperton enjoyed strong Film Stage Services revenues, from the following productions amongst others; *Charlie and the Chocolate Factory*, *Batman Begins*, *Harry Potter and the Goblet of Fire*, *Sahara*, *King Arthur*, *Bridget Jones: Edge of Reason*, *Mrs Henderson*, *Russian Dolls* and *Nanny McPhee*. In the year, Pinewood Shepperton provided facilities to 21 features, 54 commercials and pop promos and 26 TV dramas or specials, such as *Strictly Ice Dancing*. We also provided ancillary services to 32 location productions.

In April 2004, the 007 stage reverted to Pinewood Shepperton together with all rights to the revenue from this unique facility. This stage was utilised primarily by *Charlie and the Chocolate Factory* following reversion.

As part of the studio enhancement plans, at Shepperton Studios, we commenced construction of 8,000 sq ft of phase one of the Eastern Workshops, which was completed in March 2005. These additional workshops will increase ancillary facilities' revenues.

Additionally, at Shepperton Studios we received detailed planning permission in September 2004 for I Block, a major complex comprising 62,000 sq ft of production facilities. Pre-development work has commenced with construction expected to start during 2005, for 12 months. This will further add to our ancillary revenues.

Charlie and the Chocolate Factory Based on the Roald Dahl book and directed by Tim Burton, this film is currently in post production and due to be released in 2005.



Pinewood Studios commenced construction in October 2004, of a new underwater filming stage, U Stage, which was completed in March 2005 and has a depth of six metres, length of 20 metres and width of 10 metres, housed in a bespoke complex. This is a unique facility that will enhance the reputation of the studios and add to our premium offering.

In addition to the above projects we continued to upgrade and enhance our stage and ancillary facilities, and during the year, we invested in such projects as a Motion Capture Studio at Pinewood and improvements to A and B Stages at Shepperton.

Television and Sound Services

Television and Sound Services revenues for 2004 were £10.7m (2003: £9.7m).

Pinewood Television has two dedicated digital television studios, which were introduced during 2001 to diversify revenue streams. Since that date Pinewood Television has established itself as a recognised provider of digital television facilities and has played host to a cross section of major productions. During 2004 we hosted *The Weakest Link*, *My Family*, *All About Me*, *According to Bex*, *20th Century Roadshow* and a number of other smaller productions which we were able to accommodate given the flexibility of the Pinewood Shepperton offering.

We continued to invest in our television studios' infrastructure to facilitate a broader spectrum of recorded and live productions, and actively seek to attract major broadcasters and independent production companies.

During the second half of 2004 we restructured the management of Pinewood Television to enhance our ability to increase our share of this potential growth market, as the major broadcasters outsource or dispose of their studio facilities, and to dovetail with the wider Pinewood Shepperton sales and marketing initiatives.

Pinewood Shepperton has 13 dedicated audio mixing and recording theatres and a preview theatre that offer a range of facilities.

Customers have access to high speed broadband secure networks which provide fast and reliable file transfer between the studios and global locations, via its broadband provider, Sohonet.

Phantom of the Opera The film version of the musical, directed by Joel Schumacher, was shot and used audio post production facilities at Pinewood Shepperton.



Pinewood Shepperton also provides optical transfer services as part of its sound services offering. This comprises the transfer of sound into a photographic format to be combined with pictures for the production of cinema prints. This technical service is highly specialised as there is only one other principal provider in the UK.

During the year Pinewood Shepperton's sound services business experienced an exceptional level of activity, working on productions such as *Troy*, *Thunderbirds*, *Around the World in 80 Days*, *Alien vs Predator* and *Phantom of the Opera*.

We renewed our contract in April 2004 to dub foreign language versions for Disney Character Voices International (DCVI), a division of Buena Vista International (UK) Limited, using four of Shepperton Studios' audio theatres exclusively.

We continue to invest in our facilities in the sound post production businesses and have recently renewed sound desks in the Korda Theatre and Theatre One at Shepperton Studios, in addition to upgrades to support our foreign language versioning for DCVI. At Pinewood Studios we are in the process of redeveloping Theatre Two, which will facilitate the dubbing and mixing of television programmes, being a new growth opportunity for us.

Media Park income

Media Park income for 2004 was £6.3m (2003: £6.2m).

Pinewood Shepperton hosts over 200 businesses at its two studios on lease arrangements ranging from six months to five years. These businesses are generally media related and view Pinewood Shepperton as a media community, providing them with a readily accessible market for their businesses. The facilities are also let to production companies on a flexible basis which gives rise to low vacancy rates.

As expected 2004 Media Park income remained consistent with 2003. As surplus space is absorbed in the surrounding market, it is anticipated that further demand for our Media Park facilities will emerge. Our market continues to benefit from media businesses wishing to relocate away from central London.

Around the World in 80 Days New film version of the Jules Verne novel, directed by Frank Coraci, was released in 2004, starring Jackie Chan, Steve Coogan and Jim Broadbent.



Operating and financial review

Financial review

Overview

Group revenues from continuing operations for 2004 were £38.5m (2003: £37.4m).

Our Film Stage Services revenue of £21.5m retained the momentum of 2003's record success. Several major productions, notably *Charlie and the Chocolate Factory* and *Batman Begins*, utilised facilities for a significant period during 2004. Television and Sound Services had another satisfying year with revenues increasing 10.2% to £10.7m. Media Park income of £6.3m was in line with 2003, as we continued to enjoy high occupancy rates in 2004.

Profit performance

Gross margin from continuing operations increased from 46.4% in 2003 to 49.1% in 2004, and operating margin from continuing operations before exceptional costs increased from 30.4% in 2003 to 33.6% in 2004. Our business is operationally geared and therefore growth in revenue in 2004 has beneficially impacted both gross margin and operating margin. Continued cost control has further benefited operating margin.

Earnings per share

Diluted earnings per share increased by 10% from 11.9p in 2003 to 13.1p in 2004, including the impact of the Company's change in capital structure following its Initial Public Offering.

Adjusted basic earnings per share for 2004 and 2003 (as detailed in the table and related notes on page 12 in the Adjusted Profit and Loss Account), has been calculated on the basis that the Company's capital structure immediately following its Initial Public Offering had been in place for the entirety of those financial years. Adjusted basic earnings per share rose from 13.4p in 2003 to 15.3p in 2004.

Operating cash flow

Cash flow generated from operating activities was £12.2m (2003: £16.2m). £1.5m of the reduction in operating cash flow in the year was attributable to costs incurred relating to the Initial Public Offering. The balance of £2.5m reflected a lower level of contracted productions at 31 December 2004, compared to the equivalent position in 2003, and so reduced instalments received in advance of facility usage.

Alien vs Predator A science fiction movie directed by Paul WS Anderson, used facilities at Pinewood Shepperton.



Initial Public Offering and refinancing costs

During the year the Company incurred £1.5m of costs related to the Initial Public Offering, which were charged to the profit and loss account, and £3.1m of equity raising costs, which were charged to the share premium account. In addition, £0.7m of costs were incurred in arranging and executing the Company's new £60m revolving credit facility. These costs have been capitalised and are being amortised over the five year life of the facility. In the period from 12 May to 31 December 2004, £91,000 of debt amortisation costs were charged to the profit and loss account.

Interest

Interest payable and similar charges decreased from £7.3m in 2003 to £4.3m in 2004, resulting from the refinancing of the Company at the time of the Initial Public Offering in May 2004. The Company has put in place a revolving credit facility that enables flexibility to pre-pay and re-draw debt in accordance with the requirements of the business. In May 2004 the Company entered into a five year interest rate swap at a fixed rate of 5.525% on £20m of drawn debt, with interest on the remainder of the debt at floating rate libor.

During the restructuring of the Company's financing at the time of the Initial Public Offering, it incurred a one-off charge of £0.6m, being the early termination costs of the then existing interest rate swap agreements.

Taxation

The effective tax rate for the year is 29.8%, reflecting one-off deductible and disallowable exceptional items associated with the Initial Public Offering and related reorganisation of the Company's capital structure. In future years, we anticipate an effective tax rate of circa 32%, allowing for the impact of certain disallowable expenditure.

Dividend

The proposed final dividend for 2004 of £1.2m, which the Directors are recommending, to be paid on 27 May 2005 to shareholders on the register on 6 May 2005 (ex dividend date 4 May 2005), represents 2.7p per share. The Directors intend to maintain a progressive dividend policy.

Net debt

Net borrowings at 31 December 2004 were £40.6m (2003: £89.2m), after raising £46.9m of equity from our Initial Public Offering.

Russian Dolls (Les Poupées Russes) A French foreign language film, directed by Cédric Klapisch, is currently in post production.



Adjusted profit and loss account

The following table summarises the Group profit and loss account for 2004, identifying results from continuing operations, and non-core items, being the Initial Public Offering, refinancing costs, and the losses attributable to Silver Lining Productions Limited, as detailed in the footnotes to the table.

	Results from continuing operations £000	Non-core £000	2004 Full year total £000	2003 Full year total £000
Turnover	38,535	132	38,667	37,869
Cost of sales	(19,623)	(139)	(19,762)	(20,434)
Gross profit	18,912	(7)	18,905	17,435
Selling, distribution and administrative expenses	(5,977)	(109)	(6,086)	(6,500)
Operating profit before exceptional items	12,935	(116) (ii)	12,819	10,935
Exceptional initial public offering costs	–	(1,517) (i)	(1,517)	–
Group operating profit	12,935	(1,633)	11,302	10,935
Loss on sale of operations	–	(7) (ii)	(7)	–
Interest payable and similar charges	(2,643)	(1,613) (iii)	(4,256)	(7,299)
Exceptional interest payable	–	(555) (iv)	(555)	–
Amortisation of loan issue costs	(146)	55 (v)	(91)	(1,008)
Profit on ordinary activities before taxation	10,146	(3,753)	6,393	2,628
Taxation	(3,119)	1,211 (vi)	(1,908)	(881)
Profit on ordinary activities after taxation	7,027	(2,542)	4,485	1,747
Minority interest	–	91 (ii)	91	118
Profit for the year	7,027	(2,451)	4,576	1,865
Dividend	(1,237)	–	(1,237)	–
Retained profit for the year	5,790	(2,451)	3,339	1,865

(i) During the year the Company incurred £1.5m of costs related to the Initial Public Offering, which were charged to the profit and loss account.

(ii) The Group's interest in Silver Lining Productions Limited was disposed of in April 2004.



My Family A TV situation comedy for the BBC, starring Robert Lindsay and Zoe Wanamaker, recorded at Pinewood's Television studios.

- (iii) Non-core interest payable and similar charges reflects adjustments of £1.6m to interest payable arising as if the Company's refinancing had occurred on 1 January 2004, and £13,000 of interest payable relating to Silver Lining Productions Limited.
- (iv) £0.6m of costs relate specifically to the cancellation of the Company's then existing interest rate swap agreements.
- (v) Amortisation of loan issue costs has been adjusted to reflect the amortisation arising as if the Company's refinancing had occurred on 1 January 2004.
- (vi) Adjusted taxation reflects the impact of non-core items.

Adjusted earnings is summarised as follows:

	2004 £000	2003 £000
Profit for the year	4,576	1,865
Exceptional Initial Public Offering costs	1,517	–
Operating loss – discontinued operations	116	458
Loss on sale of operations – discontinued operations	7	–
Interest payable and similar charges – non-core	1,613	4,739
Exceptional interest payable	555	–
Amortisation of loan issue costs	(55)	862
Minority interest – discontinued operations	(91)	(118)
Taxation deduction on adjustments	(1,211)	(1,671)
Adjusted profit for the year	7,027	6,135
Adjusted basic EPS	15.3p	13.4p

The adjusted profit for the year is prepared on the basis that the Company's capital structure immediately following its Initial Public Offering had been in place for the entirety of 2004 and 2003. Consequently, it reflects an adjusted position for interest and amortisation of loan issue costs, in addition to tax on these adjustments. Exceptional costs associated with the Initial Public Offering and bank refinancing, and related tax, in addition to profits and losses arising from the discontinued operations of Silver Lining Productions Limited, have been excluded for the purposes of calculating adjusted profit for the year.

The Weakest Link The well-known BBC quiz, featuring Anne Robinson, is recorded at Pinewood's Television studios.



The Board considers that the presentation of adjusted profit provides a useful comparison between continuing operations for 2004 and 2003.

The calculation of adjusted basic earnings per share is based on earnings of £7.0m (2003: £6.1m) and on 45,813,000 (2003: 45,813,000) ordinary shares, being the total number of shares in issue at 31 December 2004. This measure of earnings per share for 2003 forms the basis of share option vesting performance criteria as detailed in the Directors' share options section of the Directors' remuneration report.

Other financial items

Pensions

Pinewood Shepperton operated two defined contribution schemes during 2004. Contributions to the Shepperton Studios Limited defined contribution pension scheme ceased on 1 October 2004, and were transferred to the Pinewood Shepperton Pension Plan.

Accounting disclosures and policies

The Company's Directors are mindful of the impending implementation of International Financial Reporting Standards (IFRS) and continue to review, with our auditors Ernst & Young, all accounting policies to ensure that compliance with the standards will be met for calendar year commencing 1 January 2005.

Troy Directed by Wolfgang Petersen, was shot and used audio post production facilities at Pinewood Shepperton.



The Company's current expectation is that the principal impact of IFRS will be the requirement to recognise a deferred tax liability arising from the uplift in fair values of land and buildings on the acquisitions of Pinewood Studios Limited and Shepperton Studios Limited in 2000 and 2001 respectively. Under UK GAAP, no deferred tax liability is required to be recognised.

Managing our financial risks

Treasury policy and interest rate risk

The Group borrows in sterling and manages floating rate risk via a five year interest rate swap agreement at a fixed rate of 5.525% on £20m of debt, entered into in May 2004. Treasury policy, including hedging strategy, is approved by the Board.

Liquidity and refinancing risks

The Group seeks to ensure continuity of funding at manageable costs and has entered into a five year revolving credit facility of £60m, of which £39m was drawdown at the year end. In addition to this facility, the Group further utilises a £3m working capital facility, which is repayable on demand.

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Board of Directors and advisers

Chairman

Michael Grade *†• [62] began his career as a sports journalist; previous positions include Director of Programmes at London Weekend Television (1973–1981) and Chief Executive of Channel 4 (1987–1997). Michael Grade is Chairman of the Governors of the BBC, and also holds a number of other non-executive directorships. With Ivan Dunleavy, he led the management buy-in of Pinewood Studios Limited in 2000.

Executive Directors

Ivan Dunleavy [45] has spent his career in media businesses initially in finance roles; prior positions include a variety of media business roles including Chief Executive of VCI plc (April 1998), until it was acquired by Kingfisher plc in November 1998. With Michael Grade, he led the management buy-in of Pinewood Studios Limited in 2000.

Stephen Jaggs [58] has worked in the film industry since 1963 and has been Managing Director of Pinewood Studios Limited since January 1993. In September 2002, Stephen Jaggs was appointed Group Managing Director of Pinewood Shepperton plc.

Patrick Garner FCA [59] was a director of Trafalgar House Property Limited and Finance Director of Canary Wharf Limited from 1993 to 1995 (appointed by the secured lenders on exit from administration), Finance Director of ABC Cinemas Limited and Vice President Property and Finance for Village Cinemas Limited. He joined Pinewood Shepperton plc in September 2001.

Non-Executive Directors

Adrian Burn FCA *†• [59] trained as a chartered accountant. He has spent most of his career in professional practice, becoming Managing Partner and then Senior Partner of Binder Hamlyn and a member of the UK Board of Arthur Andersen. He is currently a Non-Executive Director of a number of companies including GE Capital Bank and is also a trustee and the Honorary Treasurer of the NSPCC. He is the senior independent Director of Pinewood Shepperton plc.

Nigel Hall FCA *†• [49] trained as a chartered accountant. He joined the Burton Group (renamed Arcadia Group plc following the demerger of Debenhams in January 1998) in 1984, being appointed to its Board in August 1997 and becoming Group Finance Director in November 1997, a role he continued in until March 2003. He is currently a Non-Executive Director of Unite Group plc, Countrywide Farmers plc and Christie-Tyler Holdings Limited.

* Member of the Audit Committee

† Member of the Nomination Committee

• Member of the Remuneration Committee

Company Secretary

Nigel Wolfin ACA

Registered Office

Pinewood Road
Iver Heath
Buckinghamshire
SL0 0NH

Auditors

Ernst & Young LLP

Bankers

The Royal Bank of Scotland plc
Lloyds TSB plc
Allied Irish Bank p.l.c. (GB)
Alliance & Leicester Commercial Bank plc

Stockbrokers and Financial Advisers

JPMorgan Cazenove

Solicitors

Travers Smith

Registrar

Lloyds TSB Registrars

Directors' report

The Directors are pleased to present their annual report to shareholders together with the financial statements for the year ended 31 December 2004.

Principal activities and future developments

The principal activities of the Group and likely future developments are discussed as part of the Chief Executive's review and the Operating review.

Results and dividends

Profit for the financial year ended 31 December 2004 was £3.3m (2003: £1.9m). A final dividend of 2.7p per share is recommended for the year ended 31 December 2004.

Directors and their interests

The Directors at 31 December 2004 and their interests in the share capital of the Company, other than with respect to options to acquire ordinary shares (which are contained within the Directors' remuneration report), were as follows:

	Number of ordinary shares
Michael Grade	620,486
Ivan Dunleavy	1,071,180
Stephen Jaggs	112,500
Patrick Garner	71,991
Adrian Burn	66,660
Nigel Hall	5,490

At the beginning of the year under review Sir Ridley Scott, Tony Scott, Neville Shulman and Michael Pacitti were Directors of Pinewood Shepperton Limited. Michael Pacitti resigned on 29 March 2004 and Sir Ridley Scott, Tony Scott and Neville Shulman resigned on 19 April 2004. Nigel Hall was appointed as an independent Non-Executive Director with effect from 19 April 2004. All Directors will retire by rotation at the forthcoming Annual General Meeting on 23 May 2005, and being eligible will offer themselves for re-election. Details of Directors' service contracts are given in the Directors' remuneration report. Directors' interests in contracts in the Group's business are disclosed as related party transactions in Note 24 to the financial statements.

Share capital

Details of issued share capital are contained in Note 19 to the financial statements.

At 18 March 2005, the beneficial interests amounting to 3% or more of the issued share capital of the Company, notified to the Company, comprised:

	Number of shares	Percentage held
JPMorgan Chase & Co.	4,736,997	10.34%
Landsdowne Partners Limited Partnership	3,760,000	8.21%
Artemis Investment Management Limited	3,725,000	8.13%
Aegon UK plc	3,695,413	8.07%
Scottish Widows Investment Partnership	2,186,000	4.77%
Morley Fund Management Limited	1,932,089	4.22%
Legal & General Group plc	1,379,442	3.01%

Creditor payment policy

Group trade creditors at 31 December 2004 were equivalent to 33 days of purchases during the year. Group policy is that specific terms are agreed between operating companies and their respective suppliers, and that payments are made to suppliers in accordance with these terms.

Charitable donations

During the year the Company donated £23,000 to charitable causes. The Company is committed to supporting local charities and causes in addition to supporting its industry charities.

Annual General Meeting

The notice convening the Annual General Meeting of the Company, to be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA, at 10.30 am on 23 May 2005, together with an explanation of the resolutions to be proposed at the meeting, is contained in a circular to shareholders enclosed with this Annual Report.

Registered auditors

In accordance with Section 384 of the Companies Act 1985 resolutions proposing the reappointment of Ernst & Young LLP as auditors to the Company will be proposed at the Annual General Meeting at a level of remuneration to be agreed by the Directors.

Statement of Directors' responsibilities in respect of the financial statements

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of the affairs of the Company and the Group as at the end of the year and of the profit or loss of the Group for that period. In preparing those financial statements the Directors are required to:

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

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

In preparing the financial statements the Directors consider that appropriate accounting policies have been used and applied in a consistent manner supported by reasonable and prudent judgements and estimates and that all relevant accounting standards have been followed.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Approved by the Board on 18 March 2005 and signed on its behalf by



N Wolfin ACA
Company Secretary
18 March 2005

Corporate governance

Introduction

The Board supports the principles of corporate governance advocated by the Combined Code (the Code) and details are given below on the Company's approach to the application of the principles set out in the Code for the year under review. Since the Initial Public Offering Pinewood Shepperton plc has been compliant with the Code subject to the composition of the Audit and Remuneration Committees, on which the Chairman sits. Given the size of the Company's Board it is considered appropriate that Michael Grade sits on the Audit and Remuneration Committees.

Composition of the Board

The Board consists of the Chairman, Michael Grade, three Executive Directors and two independent Non-Executive Directors. Adrian Burn is the senior independent Director.

Independence of Directors

Adrian Burn has been an independent Non-Executive Director of the Company since April 2000, and throughout the period has contributed significantly in discharging his duties in this role. Nigel Hall, who joined the Board as an independent Director at the Initial Public Offering, brings a depth of listed company experience, and has been influential in guiding the Company through its initial phase as a listed company.

Board meetings

The Board meets at least ten times per year and at other times as appropriate. During the year under review the Board held ten scheduled meetings, which were attended by all serving Directors, save for Sir Ridley Scott and Tony Scott, as a result of overseas commitments. In addition, a further nine meetings were held in relation to the Initial Public Offering.

The duties and responsibilities of the Board

The Board is responsible for the following: strategy, capital expenditure projects over certain thresholds, treasury policy, interim and final dividends, the financial statements and appointments to the Board.

The Board receives comprehensive monthly financial and operational information to enable it to fulfil its responsibilities. All Directors have access to the Company Secretary and to senior management, to facilitate their assessment of the Company's prospects, including succession planning. Procedures are in place for Directors to take independent professional advice if required.

Board evaluation

During 2005 the Board intends to undertake an evaluation of its effectiveness and that of its committees and its members. There will also be a process for the Chairman's appraisal of the performance of the individuals on the Board. The performance of the Chairman will be reviewed by the senior independent Director.

The Chairman's commitments

In line with the requirement of the Code the Directors report that Michael Grade's commitments to the Company have remained constant throughout 2004. In May 2004, Michael Grade was appointed Chairman of the Governors of the BBC, a customer of Pinewood Shepperton plc. The Chairman of Pinewood Shepperton plc's Audit Committee has agreed procedures with his counterpart at the BBC to avoid any potential conflict arising.

Directors' training

Directors receive extensive details about the Company prior to appointment to the Board, and continue to be updated on all operational issues via Board meetings and direct access to management. On an ongoing basis the Directors are briefed and provided with information concerning issues affecting their roles and responsibilities.

Executive Directors' contracts

All Executive Directors' service contracts are of a rolling 12 months' duration.

Dialogue with institutional shareholders

Executive Directors have regular and structured contact with institutional shareholders and respond to shareholder queries and requests. In addition, the Chairman makes himself available to meet significant shareholders.

Board committees

The Board has established three committees – Audit, Nomination and Remuneration. The Chairman and members of these committees are appointed by the Board on the recommendation of the Nomination Committee, following consultation with the appropriate committee's chairman. All meetings of the committees were attended by the serving members of the respective committees.

Audit Committee

Adrian Burn – Chairman
Nigel Hall
Michael Grade

Adrian Burn and Nigel Hall are both independent Non-Executive Directors and have significant financial experience due to the senior positions they have held in major commercial organisations.

The committee has written terms of reference reflecting the requirements of the Code which have been approved by the Board and implemented with effect from 19 April 2004, as amended 27 September 2004. The committee provides the Board with assurance in respect of the integrity of the Group's financial procedures, policies and controls. The Group's external auditors have direct access to the Audit Committee and meet with them prior to the finalisation of the interim and final results, and on other occasions as required. The Audit Committee reports to the full Board of Pinewood Shepperton plc. The committee also reviews the effectiveness of the external audit process including the issue of auditor independence. In line with best practice, the Audit Committee has introduced a policy that defines non-audit services that the Group's auditors may or may not provide. The committee met four times during the year with the external auditors, with the Finance Director in attendance. The Audit Committee has concluded that given the size of the Company, an internal audit function is not currently required.

Nomination Committee

Nigel Hall – Chairman
Adrian Burn
Michael Grade

Following the adoption of the Code the Board has put in place terms of reference for the committee, which were approved by the Board on 19 April 2004, as amended on 27 September 2004. The committee's purpose will be to make recommendations to the Board on all proposed appointments of Directors and to review succession plans for the Group. It is intended that the committee will meet at least three times per year.

Remuneration Committee

Nigel Hall – Chairman
Adrian Burn
Michael Grade

A detailed report on the Remuneration Committee's activities is contained within the Directors' remuneration report.

Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and has reviewed its effectiveness in accordance with the provisions of the Code. The internal control system implemented at Pinewood Shepperton plc for the year under review, and continuing, is structured in order that the Group's risks are effectively identified, evaluated and managed to provide reasonable but not absolute reassurance that there is no material misstatement or loss. This process is consistent with the requirements of the Turnbull Guidance.

The main elements of the Group's internal control system including risk identification are as follows:

Board

The Board of Directors is responsible for the Group's internal control procedures, with an organisational structure that supports clearly defined authority levels. Board meetings include consideration of strategic, financial, operational and compliance issues, which is endorsed through assessment by the Audit Committee of the effectiveness of the internal, financial and operating control environment.

Operating company controls

The identification and mitigation of major business risks is the responsibility of the Executive Directors and senior heads of department of each studio operating company, which maintain procedures to identify and mitigate all types of risk.

Financial reporting

A comprehensive budget, incorporating detailed commentary, is approved annually by the Board of Directors. Monthly financial information including trading results, balance sheet, cash flow statements, cash forecasts, capital expenditure and levels of indebtedness are reported against the budget and prior year comparatives. In addition, forecasts, treasury policy, financial resources, borrowing facilities and hedging strategy are reviewed at these meetings. On an annual basis, the Board reviews the adequacy of the insurance cover for the Group.

Internal control continued**Shareholder communication**

Pinewood Shepperton plc has a communication strategy with its shareholders, the majority of whom are institutional. The Company regularly communicates with its employees, a number of whom are shareholders in the Company. All Company announcements are posted on the investor relations section of the Company's website at www.pinewoodshepperton.com as soon as they are released. Relevant shareholder presentations are also accessible to all investors via the website. The Company's dedicated investor relations section of its website includes historical financial and share price information, as well as information about the business. Following the announcement of interim and final results, presentations are made to institutional shareholders. The Annual General Meeting, to be held on 23 May 2005, provides an opportunity for shareholders to meet and question the Company's Board, and to review the previous year's results and business.

Employees

The Company has comprehensive employment practices for recruitment, remuneration, employee relations and health and safety.

Pinewood Shepperton plc is committed to its statutory obligations in respect of recruitment and the progression of its employees irrespective of race, gender, age, sexual orientation, physical ability, or religion, and seeks to ensure regular and relevant communication with employees in respect of operational issues and trading performance.

Environmental policy

Pinewood Shepperton plc's environmental policy was formalised in May 2004. The policy is reviewed regularly to reflect the Group's respect for the environment and the local communities within which it operates. Pinewood Shepperton supports a caring approach to environmental challenges and undertakes initiatives to promote greater environmental responsibility and encourages development and diffusion of environmentally friendly processes.

Health and safety management, which is reviewed monthly by the Board, pays particular attention to safety in the work place for staff and customers and also the working environment within which the Company operates.

Pinewood Shepperton plc's proposed enhancement plans embrace the use of environmentally friendly technology in the construction of new buildings, which will include the review of energy efficiency, recycling of water and waste and solar energy.

Social responsibility policy

Pinewood Shepperton plc is cognisant of its social responsibility. The Board takes regular account of the significance of social matters in business of the Company and has identified areas of social responsibility pertinent to its business, which cover labour standards, charitable contributions, training opportunities aimed at the local community and the elimination of any employee or discriminatory issues in the work place.

Directors' remuneration report

Information not subject to audit

The Board presents its remuneration report to shareholders of the Company. The Board has established a Remuneration Committee (the committee) to advise it on appropriate remuneration policy. During the year there were four meetings of the committee, which were attended by all members of the committee. The committee is chaired by Nigel Hall, and also comprises Adrian Burn and Michael Grade. Prior to Nigel Hall's appointment to the committee, Michael Pacitti, a Non-Executive Director, was a member of the committee.

The committee's responsibilities are to monitor, review and make recommendations to the Board on the Company's broad policy for the remuneration of all Executive Directors, and determine and thereafter review at least annually the remuneration packages of all Executive Directors, which includes basic salary, pension arrangements and annual and long-term incentives, and, as appropriate, make recommendations in respect of other senior management. In addition, the committee reviews the corporate targets and objectives relative to the Executive Directors' compensation, including an evaluation of their performance.

At the time of the Initial Public Offering the committee took independent advice from Halliwell Consulting to supply data and advice on market trends, long-term incentives and other general remuneration matters. In addition, legal advice was obtained on executive and non-executive contracts to ensure they were compliant with best practice.

General policy

The Company's remuneration policy seeks to align the interests of Executive Directors and other senior management with those of shareholders, whilst retaining the necessary flexibility to cater for future changes to remuneration policy best practice and the environment in which the Company operates. Company policy aims to provide competitive rewards for the achievement of both short-term and long-term target performance.

The Company actively encourages share ownership by its employees. Following the Initial Public Offering of the Company in May 2004, a Sharesave Scheme was established, with participation eligibility extended to all employees of the Group. In addition, Executive Directors and certain of the Group's senior management were granted options under the Company Share Option Plans during 2004. Details of grants of options made to Directors and criteria for their exercise are detailed under the section of this report, Directors' share options. The Remuneration Committee is responsible for selecting performance measures relating to the Company Share Option Plans, and for determining whether or not targets have been met.

Components of the Executive Directors' remuneration

The key components of the Executive Directors' remuneration are:

Basic salary and benefits in kind

At the time of the Initial Public Offering, the committee took extensive advice from Halliwell Consulting. The basic salary for each Executive Director reflects the Remuneration Committee's assessment of performance, responsibilities and market value for comparable positions. The basic salary and benefits in kind of all Executive Directors are reviewed annually. Benefits in kind include provision of a company car or car allowance, pension, medical and life insurance, and permanent health insurance.

Annual bonus

The Executive Directors participate in an annual bonus scheme, which is linked to the achievement of annual financial targets set by the committee having regard to the budget approved prior to the commencement of the financial year. The maximum bonus entitlement for the Executive Directors is 100% of salary, payable on the achievement of 120% of budgeted EBIT performance. 50% of salary is payable on the achievement of budgeted EBIT performance, with a straight line mechanism operating between 100% and 120% performance. The committee may award individual discretionary bonuses, subject to the 100% of basic salary maximum, and to a detailed explanation as to why that discretion was exercised being provided in the Directors' remuneration report. In recognition of the success of the Initial Public Offering during 2004, Stephen Jaggs was awarded a discretionary bonus of £170,000, and Patrick Garner was awarded a discretionary bonus of £55,000 in addition to an exceptional contribution to his company pension scheme of £60,000.

Components of the Executive Directors' remuneration continued**Share options**

The committee aims to ensure that Executive Directors and other senior executives are fairly rewarded for their contribution to the success of the Company and the grant of share options provides an incentive in a highly competitive labour market. The Company operates a number of share option schemes including an approved and unapproved Company Share Option Plan, and a Sharesave Scheme. Discretionary options are granted at prevailing market value whilst Sharesave options have been issued at a 20% discount to the then prevailing market value. The discretionary options granted to the Executive Directors and senior management have performance criteria based on the achievement of financial targets for the Company. Details of the criteria for achievement related to Executive Directors are set out under the table in this report, Directors' share options. The Sharesave scheme does not have performance conditions.

Pension arrangements

For Executive Directors, only basic salary is pensionable. All Executive Directors are eligible to become members of the Group personal pension plan, which is a defined contribution scheme. The Company's contribution for the Executive Directors is capped at 12.5% of basic salary for Ivan Dunleavy, Stephen Jaggs and Patrick Garner. All other employer contributions for senior executives and employees reflect longevity of service with the Company but are capped at a maximum of 10% of employee basic salary.

Directors' service agreements

The Executive Directors have rolling service agreements, which are all subject to 12 months' notice. The committee regards the notice period on these contracts as being appropriate in the event of termination of an Executive Director's service agreement. The service agreements specify the compensation payable where the Company terminates the agreement without notice or cause. Such liquidated damages are limited to the notice period.

Executive Directors' service agreements are summarised as follows:

Name	Date of agreement	Notice period	Compensation on termination
Ivan Dunleavy	20 April 2004	12 months	100% of salary at date of termination and all other benefits
Stephen Jaggs	20 April 2004	12 months	100% of salary at date of termination and all other benefits
Patrick Garner	20 April 2004	12 months	100% of salary at date of termination and all other benefits

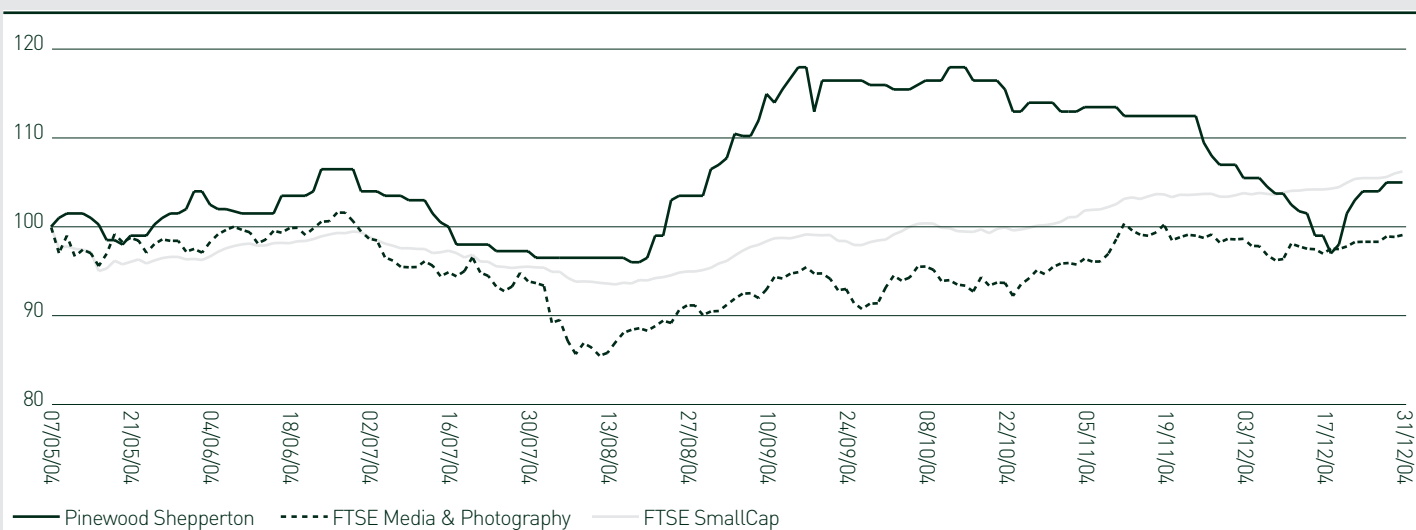
Chairman and Non-Executive Directors' remuneration

Fees for Non-Executive Directors, including the Chairman, are determined by the full Board having regard for market practice, which reflects the level of service, time and expertise devoted for the benefit of the Company. The Chairman and Non-Executive Directors have service agreements and are not eligible for pension scheme membership and do not participate in any of the Group's bonus or share option plans. The Board's policy is that the Chairman's remuneration should be set at a level that is competitive with that of Chairmen in similar positions in comparable companies.

Performance graph

The graph on page 27 details the percentage change in total shareholder return from the date of the Company's admission to the London Stock Exchange to 31 December 2004 against both the FTSE Small Cap and the FTSE Media and Photography index, which the Board considers to be appropriate peer groups for the Company.

Total shareholder return: Pinewood Shepperton plc vs FTSE Small Cap and FTSE Media and Photography for the period from the date of the Company's admission to the London Stock Exchange to 31 December 2004 (rebased to 100).



The starting value for the Company is based on the offer price of 180p on 7 May 2004.

Information subject to audit

Directors' remuneration

	Basic salary and fees 2004 £	Benefits in kind 2004 £	Pension contributions 2004 £	IPO payments 2004 £	Total remuneration 2004 £	Total remuneration 2003 £
Chairman						
Michael Grade	149,773	658	–	–	150,431	150,536
Executive Directors						
Ivan Dunleavy	235,769	12,120	26,467	–	274,356	289,921
Stephen Jaggs	195,776	1,671	65,378	170,000	432,825	248,093
Patrick Garner	141,963	1,696	39,698	115,000	298,357	151,101
Non-Executive Directors						
Adrian Burn	31,583	–	–	–	31,583	25,750
Nigel Hall ⁽¹⁾	23,000	–	–	–	23,000	–
Sir Ridley Scott ⁽²⁾	34,167	–	–	35,000	69,167	50,000
Tony Scott ⁽³⁾	33,467	–	–	35,000	68,467	50,000
Neville Shulman ⁽⁴⁾	25,383	–	–	750	26,133	8,418
Michael Pacitti ⁽⁵⁾	6,438	–	–	–	6,438	917

(1) Appointed 19 April 2004
(2) Resigned 19 April 2004
(3) Resigned 19 April 2004
(4) Resigned 19 April 2004
(5) Resigned 29 March 2004

Following the Initial Public Offering during 2004, Stephen Jaggs was awarded a discretionary bonus of £170,000. Patrick Garner was awarded a discretionary bonus of £55,000 and an exceptional contribution to his Company pension scheme of £60,000.

No other bonuses were paid to any of the Directors during the year.

Sir Ridley Scott and Tony Scott were each paid £35,000, and Neville Shulman paid £750 as compensation for loss of office at the time of the Initial Public Offering.

Directors' share options

	Date of grant	Granted during the year and held at 31 December 2004	Exercise price (pence)	Earliest exercise date	Expiry date
Ivan Dunleavy	12 May 2004	14,742 ⁽ⁱ⁾	203.5	12 May 2007	12 May 2014
	12 May 2004	230,958 ⁽ⁱⁱ⁾	203.5	12 May 2007	12 May 2014
	9 June 2004	5,789 ⁽ⁱⁱⁱ⁾	162.8	1 July 2007	1 Jan 2008
Stephen Jaggs	12 May 2004	14,742 ⁽ⁱ⁾	203.5	12 May 2007	12 May 2014
	12 May 2004	125,307 ⁽ⁱⁱ⁾	203.5	12 May 2007	12 May 2014
	9 June 2004	5,789 ⁽ⁱⁱⁱ⁾	162.8	1 July 2007	1 Jan 2008
Patrick Garner – note (iv)	12 May 2004	14,742 ⁽ⁱ⁾	203.5	12 May 2007	12 May 2014
	12 May 2004	100,540 ⁽ⁱⁱ⁾	203.5	12 May 2007	12 May 2014
	9 June 2004	5,789 ⁽ⁱⁱⁱ⁾	162.8	1 July 2007	1 Jan 2008

Other than as detailed in Note (iv) below, no Director had been granted any options in the Company as at 1 January 2004.

The market price of the shares at 31 December 2004 was £2.105 and the range during the period since the Initial Public Offering was £1.80 to £2.365.

- (i) Options issued under the Company Approved Share Option Plan
- (ii) Options issued under the Company Unapproved Share Option Plan
- (iii) Options issued under the Company Sharesave Scheme
- (iv) During the year Patrick Garner exercised 122,505 of options issued in April 2003 under the Company's discretionary share option scheme prior to flotation, at an exercise price of 6.67p per option. At the date of exercise, the Company's share price was £1.80 per share.

100% of the options issued under (i) and (ii) above will vest subject to performance criteria, being growth in Earnings per Share of RPI plus 18% per annum over a three year period. 25% of the options issued will vest on achievement of Earnings per Share of RPI plus 5% per annum. Options vest on a straight line basis between 25% and 100%.



Nigel Hall
Director
18 March 2005

Independent auditors' report

to the members of Pinewood Shepperton plc

We have audited the Group's financial statements for the year ended 31 December 2004 which comprise the Consolidated profit and loss account, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement, Consolidated statement of total recognised gains and losses, and the related Notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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 auditors' 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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, unaudited part of the Directors' remuneration report, Chairman's statement, Chief Executive's review, Operating and financial review and corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and

the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor

London

18 March 2005

Group profit and loss account

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Turnover			
Continuing operations		38,535	37,438
Discontinued operations		132	431
	2	38,667	37,869
Cost of sales	3	(19,762)	(20,434)
Gross profit			
Continuing operations		18,912	17,367
Discontinued operations		(7)	68
		18,905	17,435
Selling and distribution expenses	3	(1,830)	(2,406)
Administrative expenses	3	(4,256)	(4,094)
Exceptional administrative expenses	5	(1,517)	–
Operating profit before exceptional costs			
Continuing operations		12,935	11,393
Discontinued operations		(116)	(458)
		12,819	10,935
Group operating profit			
Continuing operations		11,418	11,393
Discontinued operations		(116)	(458)
	4	11,302	10,935
Loss on sale of operations – discontinued operations		(7)	–
Interest receivable		28	22
Interest payable and similar charges	6	(4,284)	(7,321)
Amortisation of loan issue costs		(91)	(1,008)
Exceptional interest payable	5	(555)	–
Total interest payable and similar charges		(4,909)	(8,307)
Profit on ordinary activities before taxation			
		6,393	2,628
Taxation	8	(1,908)	(881)
		4,485	1,747
Minority interest			
		91	118
Profit for the year attributable to the members of the parent Company			
		4,576	1,865
Ordinary dividend on equity shares	10	(1,237)	–
Retained profit for the year			
		3,339	1,865
Earnings per share – basic	10	13.1p	12.0p
– diluted	10	13.1p	11.9p

Group statement of total recognised gains and losses for the year ended 31 December 2004

	2004 £000	2003 £000
Profit for the year	4,576	1,865
Exchange differences	(15)	(40)
Total recognised gains relating to the year	4,561	1,825

Group balance sheet

at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Tangible fixed assets	11	99,113	97,849
Current assets			
Stocks	13	396	366
Debtors	14	4,568	4,235
Cash at bank and in hand		-	114
		4,964	4,715
Creditors: amounts falling due within one year	15	(12,048)	(11,421)
Net current liabilities		(7,084)	(6,706)
Total assets less current liabilities		92,029	91,143
Creditors: amounts falling due after more than one year	16	(38,363)	(88,436)
Provisions for liabilities and charges	17	(2,634)	(2,589)
Minority interest		-	650
		51,032	768
Capital and reserves			
Called up share capital	19	4,581	238
Share premium account	20	43,269	807
Capital redemption reserve	20	135	-
Merger reserve	20	348	348
Profit and loss account	20	2,699	(625)
Equity shareholders' funds	20	51,032	768



Patrick Garner FCA
Finance Director
18 March 2005

Company balance sheet

at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Investments	12	32,705	32,705
Current assets			
Debtors:			
Amounts falling due after one year		39,133	39,133
Amounts falling due within one year		38,359	28,331
	14	77,492	67,464
Creditors: amounts falling due within one year	15	(20,016)	(9,666)
Net current assets		57,476	57,798
Total assets less current liabilities		90,181	90,503
Creditors: amounts falling due after more than one year	16	(38,363)	(87,786)
		51,818	2,717
Capital and reserves			
Called up share capital	19	4,581	238
Share premium account	20	43,269	807
Capital redemption reserve	20	135	-
Merger reserve	20	348	348
Profit and loss account	20	3,485	1,324
Equity shareholders' funds	20	51,818	2,717



Patrick Garner FCA
Finance Director
18 March 2005

Group statement of cash flows

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	21(a)	12,210	16,184
Returns on investments and servicing of finance			
Interest received		28	22
Interest paid	21(e)	(5,055)	(6,401)
Interest element of finance lease rental payments		(2)	(21)
Loan issue costs	21(e)	(728)	-
Net cash outflow from returns on investments and servicing of finance		(5,757)	(6,400)
Capital expenditure			
Payments to acquire tangible fixed assets		(3,947)	(3,033)
Net cash disposed of with subsidiary undertaking		(281)	-
Taxation			
Corporation tax paid		(1,321)	(659)
Net cash inflow before financing		904	6,092
Financing			
Issue of ordinary share capital		50,000	-
Share issue costs	21(f)	(3,104)	-
Increase in loans		39,124	140
Repayment of capital element of finance leases		(106)	(349)
Repayment of loans		(88,536)	(6,597)
Net cash outflow from financing		(2,622)	(6,806)
Decrease in cash		(1,718)	(714)
Reconciliation of net cash flow to movement in net debt			
	Notes	2004 £000	2003 £000
Decrease in cash		(1,718)	(714)
Cash inflow from increase in loans		(39,124)	(140)
Issue costs of new long-term loans		728	-
Repayment of capital element of finance leases		106	349
Repayment of long-term loans		88,536	6,597
Changes in net debt resulting from cash flows		48,528	6,092
Disposal		774	-
Other non-cash movements		(91)	(2,008)
Movement in net debt		49,211	4,084
Net debt at beginning of year		(89,178)	(93,262)
Net debt at end of year	21(b)	(39,967)	(89,178)

Notes to the financial statements

at 31 December 2004

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The Group financial statements consolidate the financial statements of Pinewood Shepperton plc and its subsidiary undertakings, Pinewood Studios Limited, Pinewood-Shepperton Studios Limited, Shepperton Studios Limited and Studiolink Limited up to 31 December 2004 and the results and cash flows of Silver Lining Productions Limited for the period to 29 April 2004, the date of its sale outside the Group.

The Company has taken advantage of the exemption available under Section 230 of the Companies Act 1985 not to present its own profit and loss account.

Depreciation

Depreciation is not provided on freehold land and assets in the course of construction.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life as follows:

Freehold buildings	– 50 years
Freehold improvements	– 25 years
Fixtures, fittings and equipment	– 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Fixed asset investments

Investments in subsidiaries are stated initially at cost. The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Development expenditure

Internally developed intellectual property is written off as incurred.

Revenue recognition

Revenue is recognised in the period in which the service is provided. Income received in advance is deferred in the balance sheet and is released evenly over the period in which the service is provided.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

1. Accounting policies (continued)

- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Loan issue costs

Loans are initially recorded at their net proceeds. The loan issue costs are amortised in the profit and loss account over the remaining maturity of the loans at a constant carrying amount and are reviewed for changes in circumstances that may indicate that the loans will not be held to maturity.

Share issue costs

Costs directly attributable to the raising of equity are charged to the share premium account.

Pensions

The Group operates defined contribution schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

Foreign currency

The financial statements of the former overseas subsidiary undertaking were translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets was taken directly to reserves. The profit and loss account was translated at the average rate for the year and the difference between the profit and loss account translated at an average rate and at the closing rate was recorded as a movement in reserves.

Derivative instruments

The Group uses an interest rate swap to adjust interest rate exposures. The Group's criteria for interest rate swaps are:

- the instrument must be related to a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing with net interest payable. The interest rate swap is not revalued to fair value or shown on the Group balance sheet at the year end.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts 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 payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Swap agreement costs

Swap agreement costs are expensed in the period in which the expense arises. The cost of terminating swap agreements is expensed at the date of termination and is disclosed as an exceptional interest cost.

2. Turnover and sector analysis

Turnover is recognised in the period in which the service is provided, and is stated net of value added tax.

The Group operates in one principal area of activity, that of media services, arising primarily in the United Kingdom.

Continuing operations represent the provision of media services for film and television production.

Discontinued operations relate to the activities of Silver Lining Productions Limited, being the development of intellectual property.

Revenues from these activities can be further analysed as follows:

	Continuing £000	Discontinued £000	Total £000
2004			
Film Stage Services	21,545	–	21,545
Television and Sound Services	10,678	–	10,678
Media Park income	6,312	–	6,312
Silver Lining Productions	–	132	132
	38,535	132	38,667
	Continuing £000	Discontinued £000	Total £000
2003			
Film Stage Services	21,511	–	21,511
Television and Sound Services	9,694	–	9,694
Media Park income	6,233	–	6,233
Silver Lining Productions	–	431	431
	37,438	431	37,869

3. Cost of sales and operating expenses

	Continuing £000	Discontinued £000	Total £000
2004			
Cost of sales	19,623	139	19,762
Selling and distribution expenses	1,783	47	1,830
Administrative expenses	4,194	62	4,256
Exceptional administrative expenses	1,517	–	1,517
	Continuing £000	Discontinued £000	Total £000
2003			
Cost of sales	20,071	363	20,434
Selling and distribution expenses	2,283	123	2,406
Administrative expenses	3,691	403	4,094

4. Operating profit

This is stated after charging/(crediting):

	2004 £000	2003 £000
Depreciation – owned assets	3,821	3,446
– under finance leases	–	173
Auditors' remuneration – audit services	90	73
– non-audit services	178	57
Development expenditure written off	40	140
Operating lease rentals – plant and machinery	5	16
Reorganisation costs	533	333
Studio enhancement initial assessment costs	–	775
Rates rebate	(686)	(691)

Depreciation of owned assets includes £155,000 following an impairment review of assets relating to reorganised activities during the year.

Reorganisation costs represents costs associated with the restructuring of certain of the Group's trading activities during the year.

In addition to the above £332,000 of non-audit services auditors' remuneration, relating directly to the raising of equity, has been charged to the share premium account.

Rate rebates for 2004 and 2003 reflect one-off receipts in relation to the reassessment of previous year rateable values at the Group's two principal locations.

5. Exceptional items

During the year the Company incurred costs in connection with its listing on the London Stock Exchange, and the refinancing of its banking facilities. £3,104,000 of costs were directly attributable to the raising of equity and have been charged to the share premium account; £728,000 of costs incurred in arranging and executing the Company's new £60,000,000 revolving credit facility have been capitalised and are being amortised over the five year term of the facility; £1,517,000 of costs have been disclosed as exceptional administrative expenses and expensed to the profit and loss account, being costs related to the Initial Public Offering; £555,000 of costs relating specifically to the cancellation of the Company's existing swap agreements have been disclosed in the profit and loss account as exceptional interest payable.

6. Interest payable and similar charges

	2004 £000	2003 £000
Bank loans and overdrafts	2,827	3,233
Interest rate hedging	279	941
Investor loan notes	1,088	3,010
Debt monitoring charges	51	89
Interest on finance leases	2	17
Other loans	37	31
	4,284	7,321

7. Staff costs

	2004 £000	2003 £000
Salaries	7,509	8,239
Social security costs	861	828
Pension contributions	412	376
	8,782	9,443

Salaries include redundancy costs of £311,000 (2003: £278,000) reported as part of reorganisation costs.

The average monthly number of employees during the year was made up as follows:

	2004 Number	2003 Number
Management	26	28
Administration	48	58
Operating and technical	119	127
Part time	6	4
	199	217

Details of Directors' remuneration is included in the Directors' remuneration report.

8. Taxation

(a) Analysis of charge in year:

	2004 £000	2003 £000
<i>Current tax:</i>		
UK corporation tax on the profit for the year	1,920	1,197
Corporation tax overprovided in previous years	(57)	(524)
Total current tax (Note 8(b))	1,863	673
<i>Deferred tax:</i>		
Origination and reversal of timing differences	45	208
Total deferred tax (Note 17)	45	208
Total tax charge for year	1,908	881

8. Taxation (continued)**(b) Factors affecting current tax charge for the year:**

	2004 £000	2003 £000
Profit on ordinary activities before tax	6,393	2,628
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	1,918	788
<i>Effects of:</i>		
Expenses not deductible for tax purposes	47	409
Capital allowances in advance of depreciation	(110)	(106)
Other timing differences	65	13
Tax losses not utilised	-	101
Adjustments to tax charge in respect of previous years	(57)	(524)
Other	-	(8)
Total current tax (Note 8(a))	1,863	673

9. Result attributable to members of the parent Company

The profit dealt within the financial statements of the parent Company was £3,398,000 (2003: £1,276,000).

10. Earnings per ordinary share and dividend*Earnings per share*

The calculation of basic earnings per ordinary share is based on earnings of £4,576,000 (2003: £1,865,000), and on 34,887,000 (2003: 15,519,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The number of basic shares for 2004 and 2003 is adjusted to reflect the aggregate number of shares that would have been in issue had the fourteen for one bonus issue on all shares in issue prior to admission, been in place for the full 2003 and 2004 years.

The calculation of basic number of shares is summarised as follows:

	2004 Thousands	2003 Thousands
Basic number of shares at start of the year	1,035	1,035
Number of shares issued via bonus issue	14,484	14,484
Weighted number of shares issued in the year	19,368	-
	34,887	15,519

10. Earnings per ordinary share and dividend (continued)

The calculation of diluted earnings per share is based on profit for the year of £4,576,000 (2003: £1,865,000) and on 35,038,000 (2003: 15,684,000) ordinary shares, calculated as follows:

	2004 Thousands	2003 Thousands
Basic weighted average number of shares	34,887	15,519
Dilutive potential ordinary shares:		
Employee options relating to the Sharesave scheme	151	–
Employee share options	–	28
Warrants	–	137
	35,038	15,684
<i>Dividend</i>		
	2004 £000	2003 £000
Final dividend proposed at 2.7p per ordinary share	1,237	–

11. Tangible fixed assets

Group	Freehold land £000	Freehold buildings and improvements £000	Fixtures, fittings and equipment £000	Assets in the course of construction £000	Total £000
Cost:					
At 31 December 2003	51,307	43,825	13,169	–	108,301
Additions	44	1,455	1,839	1,747	5,085
Disposals	–	–	(11)	–	(11)
Transfers	–	(262)	262	–	–
At 31 December 2004	51,351	45,018	15,259	1,747	113,375
Depreciation:					
At 31 December 2003	–	4,133	6,319	–	10,452
Provided during the year	–	1,368	2,453	–	3,821
Depreciation on disposals	–	–	(11)	–	(11)
At 31 December 2004	–	5,501	8,761	–	14,262
Net book value:					
At 31 December 2004	51,351	39,517	6,498	1,747	99,113
At 31 December 2003	51,307	39,692	6,850	–	97,849

There are no tangible fixed assets held by the Company.

Included in the net book value of fixtures, fittings and equipment is £nil (2003: £497,000) of assets held under finance leases.

12. Investment in subsidiary undertakings

Company	£000
Cost:	
At 1 January 2004 and 31 December 2004	32,705

Name of Company	Holding	Proportion held
Pinewood Studios Limited*	Ordinary shares	100%
Pinewood-Shepperton Studios Limited	Ordinary shares	100%
Shepperton Studios Limited*	Ordinary shares	100%
Studiolink Limited	Ordinary shares	100%

The subsidiaries operate as media service providers.

* Held by subsidiary undertaking.

Silver Lining Productions Limited was disposed of on 29 April 2004 for cash consideration of £51.

13. Stocks

Group	2004 £000	2003 £000
Raw material and consumables	101	73
Finished goods	295	293
	396	366

In the opinion of the Directors the book value of stocks is not materially different from its replacement cost.

14. Debtors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Trade debtors	2,762	3,776	-	-
Due from subsidiary undertakings	-	-	77,481	67,440
Prepayments and accrued income	1,806	459	11	24
	4,568	4,235	77,492	67,464

Included in the above amounts due from subsidiary undertakings is £39,133,000 (2003: £39,133,000) due after one year.

15. Creditors: amounts falling due within one year

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Loans due within one year (Note 16)	-	750	-	750
Dividend	1,237	-	1,237	-
Bank overdraft	1,604	-	7,852	-
Obligations under finance leases (Note 22)	-	105	-	-
Trade creditors	1,812	1,657	146	32
Amounts due to subsidiary undertakings	-	-	10,173	8,384
Corporation tax	1,114	572	-	-
Other taxes and social security	646	735	200	-
Other creditors	31	275	31	264
Accruals and deferred income	5,604	7,327	377	236
	12,048	11,421	20,016	9,666

The bank overdraft is secured by floating charge over certain of the Group's assets, and is repayable in full on demand.

16. Creditors: amounts falling due after more than one year

Group	2004 £000	2003 £000
Loans	38,363	88,436
Loans:		
Amounts falling due:		
in one year or less or on demand	-	750
in more than one year but not more than two years	-	8,422
in more than two years but not more than five years	39,000	65,503
in more than five years	-	14,511
Less: loan issue costs	(637)	-
	38,363	89,186
Less: included in creditors: amounts falling due within one year	-	(750)
	38,363	88,436

The long-term loan is secured by floating charge over certain of the Group's assets, and is repayable in full on a final repayment date, 12 May 2009.

Long-term loan facilities become repayable on demand following a change in control of the Company.

16. Creditors: amounts falling due after more than one year (continued)

Interest on the loan is based on LIBOR plus margins of 1.15%. The Group has entered into an interest rate hedging agreement to manage the impact of interest rate fluctuations.

Company	2004 £000	2003 £000
Loans	38,363	87,786
Amounts falling due:		
in one year	-	750
in more than one year but not more than two years	-	7,772
in more than two years but not more than five years	39,000	65,503
in more than five years	-	14,511
Less: loan issue costs	(637)	-
	38,363	88,536
Less: included in creditors: amounts falling due within one year	-	(750)
	38,363	87,786

Details of loans not wholly repayable within five years are as follows:

Group and Company	2004 £000	2003 £000
LIBOR plus 3% investor loan notes and withheld taxation of £11,120,000 plus accumulated interest rolled up into loans repayable in full on 31 December 2009	-	12,968
LIBOR plus 2.8% investor loan notes of £1,325,000 plus accumulated interest rolled up into loans repayable in full on 31 December 2009	-	1,543
	-	14,511

17. Provisions for liabilities and charges

Deferred taxation provided in the financial statements is as follows:

Group	2004 £000	2003 £000
Accelerated capital allowances	2,741	2,693
Other short-term timing differences	(107)	(104)
Undiscounted provision for deferred tax	2,634	2,589

The Group has unprovided tax losses carried forward of £nil (2003: £587,000) which represent deferred tax assets which in accordance with the Group's accounting policy, have not been recognised.

The movements on the deferred tax provision are as follows:

Group	£000
At 1 January 2003	2,589
Arising during the year (Note 8(a))	45
At 31 December 2004	2,634

18. Derivatives and other financial instruments

The Group's principal financial instruments, other than an interest rate swap, comprise a bank loan, working capital facility and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations.

The Group entered into an interest rate swap. The purpose is to manage the interest rate risks arising from the Group's sources of finance.

The main risk arising from the Group's financial instruments is interest rate risk.

With the exception of the analysis of currency exposures, the disclosures below exclude short-term debtors and creditors.

Interest rate risk

The Group borrows at floating rates of interest and then uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. At the year end, 49% (2003: 40%) of the Group's borrowings were at fixed rates after taking account of the interest rate swap.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of an overdraft facility and a bank loan. Short-term flexibility is achieved by a working capital facility of £3,000,000 which is available to the Group for drawdown until 12 May 2009. At 31 December 2004 the Group has drawn £1,604,000 of this facility. The Group has a £60,000,000 LIBOR plus 1.15% secured loan facility of which £39,000,000 has been drawn down.

Foreign currency risk

The Group does not hedge against foreign currency exposure due to its minimal exposure to foreign currency movements.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December is as follows:

	Floating rate financial liabilities		Fixed rate financial liabilities		Total	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Sterling	20,604	52,491	20,000	36,150	40,604	88,641
US Dollar	-	650	-	-	-	650
	20,604	53,141	20,000	36,150	40,604	89,291

Currency	Fixed rate financial liabilities weighted average interest rate		Weighted average period for which rate is fixed	
	2004 %	2003 %	2004 years	2003 years
Sterling	6.68	8.55	4.3	1.9

The amounts shown in the tables above take into account the interest rate swap used to manage the interest rate profile of financial liabilities. The floating rate financial liabilities comprise the element of loans listed in Note 16 not hedged by the interest rate swap.

Financial liabilities are stated gross of issue costs.

18. Derivatives and other financial instruments (continued)**Interest rate risk profile of financial assets**

The interest rate profile of the financial assets of the Group as at 31 December is as follows:

	Floating rate financial assets	
	2004 £000	2003 £000
Sterling	-	80
US Dollar	-	34
	-	114

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved.

Functional currency of Group operations

	Net foreign currency monetary liabilities US Dollar	
	2004 £000	2003 £000
Sterling	-	(887)

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December were as follows:

	2004 £000	2003 £000
In one year or less, or on demand	1,604	855
In more than one year but no more than two years	-	8,422
In more than two years, but no more than five years	39,000	65,503
In more than five years	-	14,511
	40,604	89,291

18. Derivatives and other financial instruments (continued)

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December in respect of which all conditions precedent had been met at that date are as follows:

	2004 £000	2003 £000
Expiring in one year or less	-	-
Expiring in more than one year but no more than two years	-	8,303
Expiring in more than two years	22,396	-
	22,396	8,303

Fair values of financial assets/liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial liabilities as at 31 December:

	Book value		Fair value	
	2004 £000	2003 £000	2004 £000	2003 £000
Primary financial instruments:				
Financial liabilities				
Short-term borrowings and current position of long-term borrowings	1,604	855	1,604	920
Long-term borrowings	39,000	88,436	39,000	92,317
Financial assets				
Cash	-	114	-	114
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps – fair value of liability	-	-	545	2,823

The fair value of interest rate swaps has been calculated by discounting the difference between LIBOR at the balance sheet date and the swap rate over the remaining life of the swap. The fair values of all other items have been calculated by discounting the expected future cash flows at the weighted average cost of debt.

Hedges

The Group borrows in Sterling at floating rate and uses interest rate swap agreements to manage the exposure to interest rate fluctuations.

At 31 December 2003 the Group had interest rate swaps against LIBOR of £16,574,603 at 5.6%, £9,735,000 at 6.64% and £9,735,000 at 6.85%.

At 31 December 2004 the Group had an interest rate swap against LIBOR of £20,000,000 at 5.525%.

The unrecognised losses of the swaps are represented by the fair values presented above.

19. Share capital

	2004		2003	
	Number	£	Number	£
Ordinary shares of 10p each		7,000,000		–
Ordinary shares of £1 each		–	150,000	150,000
A ordinary shares of 10p each		–	88,946	88,946
B ordinary shares of 10p each		–	13,549	13,549
C ordinary shares of £1 each		–	54,450	54,450
		7,000,000	306,945	306,945
	Allotted, called up and fully paid			
	2004		2003	
	Number	£	Number	£
Ordinary shares of 10p each	45,813,118	4,581,312	–	–
Ordinary shares of £1 each	–	–	150,000	150,000
A ordinary shares of 10p each	–	–	749,059	74,906
B ordinary shares of 10p each	–	–	135,494	13,549
	45,813,118	4,581,312	1,034,553	238,455

All issued shares rank pari passu.

At the time of listing on the London Stock Exchange, on 12 May 2004, the Company redesignated and increased its authorised and issued share capital as follows:

The issued and unissued A and B ordinary shares were each redesignated as one ordinary share of 10p.

The unissued C ordinary shares of £1 were sub-divided into 10 ordinary shares of 10p each.

The existing ordinary shares of £1 each were sub-divided into one ordinary share of 10p and one Deferred Share of 90p.

19. Share capital (continued)

In accordance with the terms of a contingent purchase contract approved by a written resolution passed on 19 April 2004, the Company purchased all of the 150,000 deferred shares of 90p each for an aggregate consideration of £1.

The authorised share capital was increased from £306,945 to £7,000,000 by the creation of 66,930,550 ordinary shares of 10p each.

Prior to the listing, the Company had a share option scheme under which options to subscribe for 30,494 of C ordinary shares of £1 were awarded to certain Executive Directors and senior employees at par. These options were adjusted via a bonus issue of fourteen for one, so as to equal options in respect of 457,410 10p ordinary shares. These options were exercised upon admission on 12 May 2004.

Intermediate Capital Investments Limited and Intermediate Capital Limited together held warrants which entitled them to subscribe to 11.42% of the ordinary share capital of the Company at a subscription price of 10p. Following a fourteen for one bonus issue, warrants over 2,059,635 10p ordinary shares were created. These warrants were exercised upon admission on 12 May 2004.

On 12 May 2004, all redesignated shares in issue were increased via a fourteen for one bonus issue.

By a resolution of the Board passed on 6 May 2004, 27,777,778 new 10p ordinary shares were allotted.

The Company has an approved and an unapproved Company Share Option Plan under which options to subscribe for the Company's shares have been granted to certain Directors and senior managers of the Company. On 12 May 2004, 247,663 options were granted under the approved scheme and 510,859 options were granted under the unapproved scheme. All options have an exercise price of 203.5p per share, exercisable between 12 May 2007 and 12 May 2014 provided certain performance conditions have been satisfied.

The Company has a Sharesave scheme under which options to subscribe for the Company's shares have been granted to employees wishing to participate in the scheme. On 9 June 2004, 283,319 options were granted at 162.8p each. Of these 146,553 options are exercisable between 1 July 2007 and 1 January 2008 and 136,766 options are exercisable between 1 July 2009 and 1 January 2010. Since 9 June 2004, a total of 19,575 of options relating to the Sharesave scheme have lapsed.

20. Reconciliation of Shareholders' funds and movements on reserves

Group	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total £000
At 1 January 2003	238	807	–	348	(2,450)	(1,057)
Profit for the year	–	–	–	–	1,865	1,865
Exchange differences	–	–	–	–	(40)	(40)
At 1 January 2004	238	807	–	348	(625)	768
Profit for the year	–	–	–	–	4,576	4,576
Dividend	–	–	–	–	(1,237)	(1,237)
Exchange differences	–	–	–	–	(15)	(15)
New shares issued	2,778	47,222	–	–	–	50,000
Options exercised	46	(16)	–	–	–	30
Warrants exercised	206	(192)	–	–	–	14
Bonus issue	1,448	(1,448)	–	–	–	–
Shares repurchased	(135)	–	135	–	–	–
Share issue costs	–	(3,104)	–	–	–	(3,104)
At 31 December 2004	4,581	43,269	135	348	2,699	51,032
Company	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total £000
At 1 January 2003	238	807	–	348	48	1,441
Profit for the year	–	–	–	–	1,276	1,276
At 1 January 2004	238	807	–	348	1,324	2,717
Profit for the year	–	–	–	–	3,398	3,398
Dividend	–	–	–	–	(1,237)	(1,237)
New shares issued	2,778	47,222	–	–	–	50,000
Options exercised	46	(16)	–	–	–	30
Warrants exercised	206	(192)	–	–	–	14
Bonus issue	1,448	(1,448)	–	–	–	–
Shares repurchased	(135)	–	135	–	–	–
Share issue costs	–	(3,104)	–	–	–	(3,104)
At 31 December 2004	4,581	43,269	135	348	3,485	51,818

21. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	11,302	10,935
Depreciation	3,821	3,619
(Increase) in stocks	(30)	(36)
(Increase)/decrease in debtors	(333)	72
(Decrease)/increase in creditors	(2,550)	1,594
	12,210	16,184

Net cash inflow from operating activities includes outflows of £1,246,000 (2003: £nil) in respect of exceptional costs related to the Initial Public Offering.

(b) Analysis of net debt

	At 31 December 2003 £000	Cash flow £000	Disposal (Note 21(c)) £000	Other non-cash movements (Note 21(d)) £000	At 31 December 2004 £000
Cash at bank and in hand/(overdraft)	114	(1,718)	–	–	(1,604)
Loans	(89,186)	50,140	774	(91)	(38,363)
Finance leases	(106)	106	–	–	–
	(89,178)	48,528	774	(91)	(39,967)

(c) Disposal

This represents the disposal of a loan repayable by Silver Lining Productions Limited to the minority shareholders of Silver Lining Productions Limited.

(d) Major non-cash movements

Major non-cash movements represent the amortisation of loan issue costs.

(e) Exceptional cash outflows from returns on investments and servicing of finance

Interest paid includes £555,000 (2003: £nil) of cash outflows in respect of swap termination costs.

Loan issue costs of £728,000 (2003: £nil) relate to cash outflows in respect of costs of debt refinancing during the year.

(f) Net cash outflow from financing

Cash outflows in respect of share issue costs of £3,104,000 (2003: £nil) relate to the raising of equity at Initial Public Offering.

22. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2004 £000	2003 £000
Amounts payable:		
Within one year	-	108
In two to five years	-	-
	-	108
Less: finance charges allocated to future periods	-	(3)
	-	105

Finance leases and hire purchase contracts are analysed as follows:

	2004 £000	2003 £000
Current obligations	-	105
Non-current obligations	-	-
	-	105

23. Other financial commitments

At 31 December 2004 the Company had annual commitments under non-cancellable operating leases as set out below:

	2004 £000	2003 £000
Operating leases which expire within one year	-	5

At 31 December 2004, the Group has capital commitments contracted for but not provided in the accounts totalling £1,161,000 (2003: £nil) in relation to the completion of certain investment capital expenditure projects. £448,000 of building works on the Underwater stage, £313,000 of building works and plant and equipment for Pinewood Studios Theatre 2 and £400,000 of building works on A and B stages at Shepperton Studios.

24. Related party transactions

During the year the Group entered into transactions with which A D L Scott and R Scott were associated, involving the utilisation of media facilities at Pinewood Studios and Shepperton Studios at normal market rates.

Transactions entered into are as follows:

	2004 £000	2003 £000
Sales to related parties	191	33
Amounts due from related parties	82	5

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