

The Moving Picture Company Limited

Annual Report and Accounts for the year ended 30 September 1998

Registered no: 1191228



The Moving Picture Company Limited

Annual report for the year ended 30 September 1998

	Pages
Directors and advisers	1
Directors' report	2-4
Report of the auditors	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 - 15

Directors and advisers

Executive directors

D St G Jeffers
M Houghton
A J Mitchell (resigned 31 October 1997)
R J Brown
A W Camilleri
M Benson
M Holben (resigned 10 July 1998)
A Hope (resigned 15 July 1998)
D Buttimore (appointed 1 October 1998)

Auditors

PricewaterhouseCoopers
Embankment Place
London
WC2N 6NN

Bankers

National Westminster Bank PLC
15 Bishopsgate
London
EC2P 2AP

Secretary and registered office

D Abdoo
25 Knightsbridge
London
SW1X 7RZ

Directors' report for the year ended 30 September 1998

The directors present their report and the audited financial statements for the year ended 30 September 1998.

Principal activities

The main activities of the company are film and videotape production, and the provision of broadcast videotape facilities to the television and film industry.

Review of business

Both the level of business and the year end financial position were satisfactory. The directors anticipate a fall in the present level of activity following the disposal of one of the commercial production divisions, Rogue Films, with effect from 1 October 1998; coupled with the planned relocation of the company during 1998/99.

Dividends

The directors recommend a dividend of £597,000 in respect of the year ended 30 September 1998 (1997: £ 969,000).

Fixed assets

The movements in fixed assets during the year are set out in notes 12 and 13 to the accounts.

Charitable donations

The donations made by the company during the year for charitable purposes were £3,500 (1997: £500).

Directors and their interests

The following directors held office during the year under review. At no time have they had any beneficial interest in the shares of the company.

D St G Jeffers
M Benson
R J Brown
A W Camilleri
A Hope (resigned 15 July 1998)
M Holben (resigned 10 July 1998)
M Houghton
A J Mitchell (resigned 31 October 1997)

On 1 October 1998 D Buttimore was appointed as a director of the company.

Directors' interests

The interests of the directors in the share capital of the ultimate parent company, Carlton Communications Plc, on 30 September 1998, together with their interests at 1 October 1997, were:

<u>5p Ordinary shares</u>	<u>30 September 1998</u>	<u>1 October 1997</u>
D St G Jeffers	197	197
M Houghton	4,670	4,670
A W Camilleri	2,065	5,365

The interests of the following directors in share options exercisable between three and ten years after the date of grant to subscribe for Carlton Communications Plc 5p Ordinary shares at prices ranging from 339.2p to 509p, together with movements during the year are:-

	Options held at 1 October 1997	Granted	Exercised	Options held at 30 September 1998
D St G Jeffers	31,250	30,000	-	61,250
R J Brown	25,000	15,000	-	40,000
M Benson	12,500	25,000	-	37,500
A W Camilleri	10,000	15,000	-	25,000
M Houghton	10,000	1,000	-	11,000

Statement of directors' responsibilities

The directors are required by UK company law to ensure that financial statements for each financial year are prepared which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

In preparing the financial statements for the year ended 30 September 1998, the directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

It is also the directors' responsibility to ensure that adequate accounting records are maintained, to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the members appointed the new firm, PricewaterhouseCoopers, as auditors.

An elective resolution has been passed dispensing with the need to reappoint the auditors annually. In the absence of a notice proposing that the appointment be terminated, the auditors PricewaterhouseCoopers will be deemed to be reappointed for the next financial year.

Year 2000

In 1996 the company established a programme/task force to address the issues arising as a result of the millenium date. An assessment of all systems (both IT and non-IT) has been made and an action plan to deal with non-compliant systems is under way. The action plan prioritises those systems that are seen as critical to the business. To achieve compliance the action plan involves a combination of modifying existing systems where they continue to meet the company's functional requirements, and replacement where there is a business process improvement to be made. In addition, the company is in liaison with its major trading partners to ensure that the supply chain the company is part of will continue to operate without disruption. The company has a reasonable expectation that it will achieve year 2000 compliance for critical systems by 31 March 1999. The action plan includes the development of appropriate contingency plans to protect the company against disruption as far as reasonably can be done.

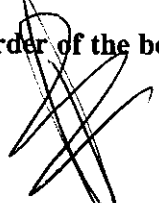
The resources required to achieve year 2000 compliance are expected to be found from normal operating budgets. Much of the cost of compliance will be covered through the process of systems renewal which is part of the company's normal cycle of replacement. There were no direct costs of modification in the year to 30 September 1998. The total incremental cost attributable to year 2000 systems compliance over the life of the project is expected to amount to approximately £30,000.

EMU

The company is preparing for the introduction of a single currency within Europe in 1999. Preparations include the upgrading of information systems, where necessary, and the training of staff to handle euro-denominated transactions, including dual currency transactions in the transition period between commencement of EMU in 1999 and the first issue of notes and coins in 2002.

The decision as to when to adopt the euro as the company's functional currency will depend among other things, on the timing of the UK joining the euro. The Company has not yet assessed costs to be incurred as a result of the introduction of the euro, but believes it to be not material.

By order of the board



D Abdoo, Company Secretary,

21 May 1999,

25 Knightsbridge, London, SW1X 7RZ

**Report of the auditors to the members of
The Moving Picture Company Limited**

We have audited the financial statements on pages 6 to 15 which have been prepared under the historic cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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. 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

26 MAY 1999

**Profit and loss account
for the year ended 30 September 1998**

	Notes	1998 £'000	1997 £'000
Turnover - continuing operations	3	13,930.0	12,743.4
- discontinued operations	3	2,186.2	2,865.3
	4	<u>16,116.2</u>	<u>15,608.7</u>
Cost of sales	3	<u>(6,522.7)</u>	<u>(6,773.0)</u>
Gross profit		9,593.5	8,835.7
Net operating expenses	3	<u>(8,316.1)</u>	<u>(6,791.6)</u>
Operating profit - continuing operations		1,331.8	2,087.4
- discontinued operations		<u>(54.4)</u>	<u>(43.3)</u>
		1,277.4	2,044.1
Interest receivable and similar income	6	280.0	399.0
Interest payable and similar charges	7	<u>(38.6)</u>	<u>(38.6)</u>
Profit on ordinary activities before taxation	5	1,518.8	2,404.5
Tax on profit on ordinary activities	10	<u>(561.4)</u>	<u>354.2</u>
Profit on ordinary activities after taxation		957.4	2,758.7
Dividends proposed	11	<u>(597.0)</u>	<u>(969.0)</u>
Retained profit for the year		360.4	1,789.7
Retained profit brought forward		5,761.1	3,971.4
Retained profit at 30 September	21	<u><u>6,121.5</u></u>	<u><u>5,761.1</u></u>

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 8 to 15 form part of these financial statements.

Auditors' report page 5.

The Moving Picture Company Limited

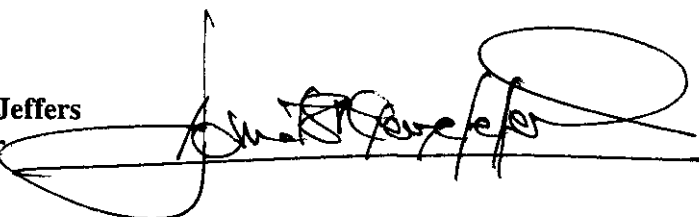
7

Balance sheet at 30 September 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	12	5,030.2	5,604.3
Investments	13	<u>1,287.2</u>	<u>1,287.2</u>
		<u>6,317.4</u>	<u>6,891.5</u>
Current assets			
Stock	14	101.4	157.1
Debtors	15	3,147.3	3,501.0
Cash at bank in hand		<u>4,157.0</u>	<u>4,112.6</u>
		<u>7,405.7</u>	<u>7,770.7</u>
Creditors: amounts falling due within one year	16	<u>(3,814.2)</u>	<u>(5,105.1)</u>
Net current assets		<u>3,591.5</u>	<u>2,665.6</u>
Total assets less current liabilities		<u>9,908.9</u>	<u>9,557.1</u>
Creditors: amounts falling due after more than one year	17	<u>(3,787.2)</u>	<u>(3,787.2)</u>
Provisions for liabilities and charges	18	-	(8.6)
Net assets		<u><u>6,121.7</u></u>	<u><u>5,761.3</u></u>
Capital and reserves			
Called up share capital	20	0.2	0.2
Profit and loss account		<u>6,121.5</u>	<u>5,761.1</u>
Equity shareholders' funds	21	<u><u>6,121.7</u></u>	<u><u>5,761.3</u></u>

The financial statements on pages 6 to 15 were approved by the board of directors on
21 MAY 1999 and were signed on its behalf by:

D St G Jeffers
Director



**Notes to the financial statements
for the year ended 30 September 1998****1 Accounting policies****Basis of presentation**

In accordance with Financial Reporting Standard No.1 the company has not prepared a cash flow statement as a group statement has been disclosed in the report and accounts of Carlton Communications Plc, the ultimate parent company, for the period ended 30 September 1998.

Basis of accounting

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

Turnover

Turnover, which excludes value added tax, is arrived at as follows:-

- (i) Where facilities are being provided, turnover represents the sales value of the service during the year.
- (ii) Where a production contract exists, turnover represents the sales value of contracts completed during the year. Completion is defined as when all post production work is finished.

Depreciation

Depreciation is calculated on a straight line basis so as to write off the book value of fixed assets over their expected useful lives. The main annual rates adopted are as follows:-

Leasehold improvements	Length of lease	
Equipment, fixtures and fittings		15-33% per annum
Motor vehicles		25% per annum

Depreciation policies are reviewed on a regular basis. In the case of video taping equipment, the estimated useful economic life of certain assets has been extended to bring it in line with other assets which fulfil the same function.

Work in progress

Work in progress on productions for third parties is valued at the lower of cost and net realisable value. No value is attributed to work in progress unless there is a contract committing a customer to purchase the production. Cost comprises direct costs of production. Net realisable value is the estimated selling price less all further costs to completion. Payments in advance are set off against work in progress in the balance sheet, and any amount in excess of the value of work in progress is included in current liabilities.

Investments in films

Investments in films acquired or produced for exploitation and distribution are stated in the balance sheet at cost less amortisation to date. Amortisation is charged to write down the cost of such assets over their useful lives and the charge for each year is equivalent to the revenue notified during the year as being receivable in respect of the asset. Provision is also made for diminution in value of such assets immediately it becomes apparent that their book value exceeds their realisable value.

Deferred taxation

Provision is made for deferred taxation to the extent that the liability is expected to crystallise within the foreseeable future.

2 Restatement of prior year comparatives

At 1 October 1998 the company sold one of its commercials productions divisions, Rogue Films. The 1997 comparative figures have therefore been restated to reclassify this activity as discontinued operations.

3 Cost of sales and other operating expenses

	1998			1997		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	13,930.0	2,186.2	16,116.2	12,743.4	2,865.3	15,608.7
Cost of sales	<u>4,722.8</u>	<u>1,799.9</u>	<u>6,522.7</u>	<u>4,314.2</u>	<u>2,458.5</u>	<u>6,773.0</u>
Gross profit	9,207.2	386.3	9,593.5	8,429.2	406.5	8,835.7
Net operating expenses	<u>7,875.4</u>	<u>440.7</u>	<u>8,316.1</u>	<u>6,341.8</u>	<u>449.8</u>	<u>6,791.6</u>
Operating profit	<u>1,331.8</u>	<u>(54.4)</u>	<u>1,277.4</u>	<u>2,087.4</u>	<u>(43.3)</u>	<u>2,044.1</u>

4 Turnover

The analysis of turnover by geographical destination is as follows:

	1998 £'000	1997 £'000
United Kingdom	13,103.5	12,156.5
Rest of Europe	1,948.9	1,562.0
North America	988.6	1,734.6
South America	-	1.4
Asia	0.4	-
Africa	80.8	154.2
	<u>16,116.2</u>	<u>15,608.7</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities is stated after charging:

	1998 £'000	1997 £'000
Depreciation charge for the year on tangible fixed assets	2,284.0	1,861.6
Audit fees	9.2	9.2
Hire of plant and machinery - operating leases	202.8	250.8
Hire of other assets - operating leases	<u>207.5</u>	<u>207.5</u>

Remuneration of the company's auditors for provision of non-audit services to the company was £Nil (1997:Nil).

6 Interest receivable and similar income

	1998 £'000	1997 £'000
Bank interest receivable	<u>280.0</u>	<u>399.0</u>

7 Interest payable and similar charges

	1998 £000	1997 £'000
Group interest payable	<u>38.6</u>	<u>38.6</u>

8 Directors' emoluments

The remuneration of the directors of The Moving Picture Company Limited was:

	1998 £'000	1997 £'000
Fees	647.2	732.9
Other emoluments (including pension contributions and benefits in kind)	<u>125.2</u>	<u>128.2</u>
	<u>772.4</u>	<u>861.1</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1998 £'000	1997 £'000
The Chairman and highest paid director	<u>221.1</u>	<u>268.2</u>

The company made a contribution of £ 22,975 to the highest paid director's defined contribution pension scheme.

9 Employee information

(a) The average weekly number of persons (including executive directors) employed during the year was:

	1998 Number	1997 Number
Production	74	70
Selling	30	29
Administration	39	38
	<u>143</u>	<u>137</u>

(b) Staff costs (for the above persons):

	1998 £'000	1997 £'000
Wages and salaries	4,949.8	4,387.1
Social security costs	470.9	423.5
Pension costs	143.6	128.3
	<u>5,564.3</u>	<u>4,938.9</u>

10 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
U. K. corporation tax at 31% (1997: 32%)	668.7	676.6
Adjustment in respect of prior years	(98.7)	(1,030.2)
Transfer from deferred tax	(8.6)	(0.6)
	<u>561.4</u>	<u>(354.2)</u>

11 Dividends

	1998 £'000	1997 £'000
Ordinary:		
Final proposed £2,985 per Ordinary share (1997: £4,845 per Ordinary share)	<u>597.0</u>	<u>969.0</u>

12 Tangible fixed assets

	Alterations to short leasehold properties £'000	Video taping equipment £'000	Fixtures fittings and motor vehicles £'000	Total £'000
Cost				
At 1 October 1997	1,009.0	10,270.1	710.6	11,989.7
Additions	211.0	1,447.4	82.0	1,740.4
Disposals	-	(1,097.4)	(82.1)	(1,179.5)
At 30 September 1998	1,220.0	10,620.1	710.5	12,550.6
Depreciation				
At 1 October 1997	447.5	5,724.4	213.5	6,385.4
Charge for year	374.9	1,752.9	156.2	2,284.0
Eliminated in respect of disposals	-	(1,091.3)	(57.7)	(1,149.0)
At 30 September 1998	822.4	6,386.0	312.0	7,520.4
Net book value				
At 30 September 1998	397.6	4,234.1	398.5	5,030.2
Net book value				
At 30 September 1997	561.5	4,545.7	497.1	5,604.3

13 Fixed asset investments

	£'000
Investments in films are stated as follows:	
Cost at 1 October 1997 and 30 September 1998	<u>2,087.0</u>
Accumulated amortisation at 1 October 1997 and 30 September 1998	<u>799.8</u>
Net book value at 1 October 1997 and 30 September 1998	<u>1,287.2</u>

This investment is funded by a long term loan from the company's parent - see Note 17.

Interests in group undertakings

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares and voting rights held	Principal activity
Digital Film Limited	England and Wales	Ordinary £1	100%	Dormant

14 Stocks

	1998 £'000	1997 £'000
Consumables	10.8	-
Work in progress	90.6	157.1
	<u>101.4</u>	<u>157.1</u>

15 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	2,572.8	2,739.4
Amounts owed by parent company and fellow group undertakings	228.4	388.1
Other debtors	66.2	35.3
Prepayments and accrued income	279.9	338.2
	<u>3,147.3</u>	<u>3,501.0</u>

16 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Payments received on account	2.5	10.4
Trade creditors	1,328.0	1,951.6
Amounts owed to parent company and fellow group undertakings	535.9	470.2
Corporation tax payable	195.7	253.7
Dividend payable	597.0	969.0
Other creditors, including taxation and social security	415.1	419.8
Accruals and deferred income	740.0	1,030.4
	<u>3,814.2</u>	<u>5,105.1</u>

Other creditors including taxation and social security comprise:

	1998 £'000	1997 £'000
Taxation and social security	369.4	326.3
Other creditors	27.4	75.4
Pension	18.3	18.1
	<u>415.1</u>	<u>419.8</u>

17 Creditors: amounts falling due after one year

	1998 £'000	1997 £'000
Amounts owed to group undertakings	<u>3,787.2</u>	<u>3,787.2</u>

The above figures includes a loan of £1,287,200 which has no fixed repayment terms and bears interest at a rate of 3% per annum. The balance of £2,500,000 is an interest free loan from the ultimate parent company.

18 Provisions for liabilities and charges

Deferred taxation provided in the financial statements, and the total potential liability including the amounts for which provision has been made, are as follows:

	Amount provided		Full potential liability	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Deferred gains	<u>-</u>	<u>8.6</u>	<u>-</u>	<u>8.6</u>

19 Pension and similar obligations

Certain employees of the company are members of the Carlton Communications Plc group pension scheme. The scheme, which is of the defined benefit type, is funded and the assets are held in separate funds administered by trustees.

The fund is valued every three years by a professionally qualified independent actuary. Particulars of the scheme are contained in the annual report and accounts of Carlton Communications Plc.

The total pension cost for the company in the year was £143,636 (1997: £128,344).

An accrual of £18,284 for or pensions is included in these financial statements (1997: £18,099).

The pension accrual in respect of certain prior years was released in 1997 following a decision taken by the ultimate parent company not to require the amount to be paid into the group pension scheme.

20 Called up share capital

	1998 £'000	1997 £'000
Authorised		
10,000 shares of £1 each	<u>10</u>	<u>10</u>
Allotted, called up and fully paid		
200 ordinary shares of £1 each	<u>0.2</u>	<u>0.2</u>

21 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	957.4	2,758.7
Dividends	(597.0)	(969.0)
Net additions to shareholders' funds	360.4	1,789.7
Opening shareholders' funds	5,761.1	3,971.6
Closing shareholders' funds	<u>6,121.5</u>	<u>5,761.3</u>

22 Financial commitments

As at 30 September 1998, the company was committed to payments during the next year under non-cancellable leases, expiring as set out below:

	1998 Land and buildings	1997 Land and buildings
Over five years	<u>162.5</u>	<u>87.5</u>

23 Capital commitments

	1998 £'000	1997 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>4,260.0</u>	<u>475.0</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>1,567.0</u>	<u>937.0</u>

24 Ultimate parent company

The company's ultimate parent company and ultimate controlling party (in accordance with FRS8) is Carlton Communications Plc, a company registered in England and Wales. Copies of its report and accounts may be obtained at 25 Knightsbridge, London SW1X 7RZ.