

MELROSE FILM PRODUCTIONS LIMITED

COMPANY NUMBER 1337265

Reports and Financial Statements

for the Year Ended 31 December 1998



MELROSE FILM PRODUCTIONS LIMITED

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MELROSE FILM PRODUCTIONS LIMITED

REPORT OF THE DIRECTORS

The directors present their report and financial statements of the company for the year ended 31 December 1998.

Principal activity and review of the business

The company's principal activity continues to be the production and distribution of training films, other specialist films and related services and products. The directors believe this will continue for the foreseeable future.

Financial results and dividends

During the year the company changed its accounting policy for production costs of CD ROM titles so that these costs will now be written off as incurred rather than amortised over the two years following release of the title. The effect of this accounting policy change is to increase pre-tax profits by £103,000 from £1,243,000 to £1,346,000 in 1998 and increase the pre-tax loss by £138,000 from £475,000 to £613,000 in 1997. Prior year comparatives have been restated to reflect this change where indicated.

The profit for the year after taxation amounted to £1,101,000 (1997: loss of £655,000). The directors recommend the payment of a final dividend of £49.50 per ordinary share (1997: £49.50) which together with interim dividends of £49.50 per ordinary share (1997: £31.17) makes a total of £99.00 per ordinary share (1997: £80.67).

The final dividend payment amounts to £500,000 (1997: £500,000) and the interim dividend £500,000 (1997: £315,000) making a total of £1,000,000 (1997: £815,000). The resulting profit of £101,000 (1997: loss of £1,470,000) will be credited to reserves.

Directors

The directors of the company who served during the year were as follows:

J Christmas	
R Harman	
T Tietjen	(resigned 7 August 1998)
M Tree	

No director held any beneficial interest in the share capital of the company during the year required to be disclosed in accordance with Schedule 7 of the Companies Act 1985.

Directors' interests in the shares of Selmore Films Limited (the immediate parent company) are shown in the Report of the Directors for that company.

Mr J Christmas, Mr R Harman and Ms M Tree are directors of MediaKey plc (the ultimate parent company) and their interests in its shares are shown in the Report of the Directors for that company.

MELROSE FILM PRODUCTIONS LIMITED

REPORT OF THE DIRECTORS (continued)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. 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 that the company 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 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable contributions

During the year, the company made contributions of nil (1997 - £1,000) to United Kingdom charitable organisations.

Year 2000 compliance

Given the nature of the company's business, computers and computer systems are vital for the production of publishing materials, in addition to the day to day running and control of its activities.

The company is a wholly owned subsidiary of MediaKey plc and is addressing the issues raised by Year 2000 as part of a thorough Group review which is scheduled to be completed and matters raised addressed by 30 September 1999. Further details are contained within the Report of the Directors of MediaKey plc.

Euro

The company transacts a significant amount of business with both customers and suppliers in countries which are among the initial participants in Economic and Monetary Union. Consequently the directors expect the Euro to be a key transactional currency and it is the intention of the Company to be able to deal fully in this currency as soon as possible. The costs associated with this transition are expected to be minimal.

MELROSE FILM PRODUCTIONS LIMITED
REPORT OF THE DIRECTORS (continued)

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be re-appointed as auditors of the company will be put to the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to be 'T T Parkinson', written over a horizontal line.

T T Parkinson
Secretary

8 April 1999

The Orangery
161 New Bond Street
London W1Y 9PA

MELROSE FILM PRODUCTIONS LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF MELROSE FILM PRODUCTIONS LIMITED

We have audited the financial statements on pages 6 to 18, which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

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

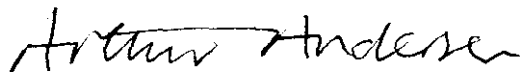
Basis of opinion

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 information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS

8 April 1999

MELROSE FILM PRODUCTIONS LIMITED

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<i>Notes</i>	Year ended 31 December 1998 £000	Year ended 31 December 1997 As restated £000
Turnover	2	3,332	3,750
Cost of sales		<u>(1,429)</u>	<u>(2,947)</u>
Gross profit		1,903	803
Administrative and distribution expenses		<u>(557)</u>	<u>(1,429)</u>
Operating profit/(loss)		1,346	(626)
Income from shares in group undertakings		-	36
Net interest receivable	6	-	13
Amounts written off investments		<u>-</u>	<u>(36)</u>
Profit/(loss) on ordinary activities before taxation	3	1,346	(613)
Taxation on profit/(loss) on ordinary activities	7	<u>(245)</u>	<u>(42)</u>
Profit/(loss) on ordinary activities after taxation		1,101	(655)
Dividends paid and proposed		<u>(1,000)</u>	<u>(815)</u>
Retained profit/(loss) for the financial year	16	<u>101</u>	<u>(1,470)</u>

All of the operations of the company are continuing.

There is no material difference between the results reported above and the historical cost results of both periods.

The accompanying notes are an integral part of this profit and loss account.

MELROSE FILM PRODUCTIONS LIMITED

**STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1998**

	<i>Notes</i>	Year ended 31 December 1998 £000	Year ended 31 December 1997 As restated £000
Profit/(loss) on ordinary activities after taxation		1,101	(655)
Prior year adjustment	4	(138)	-
Total gains and losses recognised		<hr/>	<hr/>
since last financial statements		<hr/> 963 <hr/>	<hr/> (655) <hr/>

The accompanying notes are an integral part of this statement of recognised gains and losses.

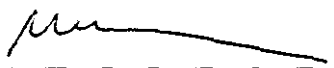

MELROSE FILM PRODUCTIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	31 December 1998 £000	31 December 1997 As restated £000
Fixed Assets			
Tangible assets	8	14	57
Investments	9	-	-
		<u>14</u>	<u>57</u>
Current Assets			
Stock and work in progress	10	270	388
Debtors	11	1,795	715
Cash at bank and in hand		<u>149</u>	<u>946</u>
		2,214	2,049
Creditors: Amounts falling due within one year	12	<u>(1,189)</u>	<u>(1,160)</u>
Net Current Assets		<u>1,025</u>	<u>889</u>
Total Assets less Current Liabilities		1,039	946
Creditors: Amounts falling due in more than one year	13	<u>(40)</u>	<u>(48)</u>
Net Assets		<u>999</u>	<u>898</u>
Capital and Reserves			
Called up share capital	15	10	10
Profit and loss account	16	<u>989</u>	<u>888</u>
Equity shareholders' funds		<u>999</u>	<u>898</u>

The accompanying notes are an integral part of this balance sheet.

The financial statements on pages 6 to 18 were approved by the Board of Directors on 8 April 1999 and were signed on its behalf by:

)	
R HARMAN)	
)	
J CHRISTMAS)	Directors

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

The following significant accounting policies of the company, which have been consistently applied throughout the year and the preceding year, except as noted in note 1(e) below, have been used in the preparation of these financial statements.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention.

(b) Turnover

Turnover comprises the total value of royalties receivable, goods sold and services invoiced to customers and is stated net of trade discounts and sales taxes.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life as follows:

Computer equipment	3 years
Motor vehicles	4 years
Fixtures, fittings and equipment	4 years

(d) Investments

Investments in subsidiary undertakings are carried at cost less provision for impairment.

(e) Stock and work in progress

Stock is valued at the lower of cost and net realisable value.

Work in progress relates to production costs of film titles, which include attributable overhead and are carried forward whilst a programme is being produced. On completion, these costs are written off over the two year period following the release of the programme. All production costs incurred in developing CD ROM titles are charged to the profit and loss account as incurred.

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

(f) Pension costs

All the company's pension arrangements are money purchase schemes. Costs relating to these schemes are charged to the profit and loss account in the accounting period to which they relate.

(g) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the date of the transaction. Exchange differences are dealt with through the profit and loss account.

(h) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for is written off except when recoverability against corporation tax payable is considered to be reasonably assured.

Deferred taxation is provided using the liability method, to the extent that such taxation is likely to be payable in the foreseeable future.

(i) Operating leases

Payments made on assets held under operating leases are charged to the profit and loss account on a straight line basis.

(j) Group accounts

The company has taken advantage of the exemption conferred by FRS 2 not to prepare consolidated financial statements on the grounds that it is a wholly owned subsidiary undertaking of MediaKey plc, a company whose consolidated accounts are available to the public (see note 19).

(k) Related party transactions

The company has taken advantage of the exemption conferred by FRS 8 not to disclose details of transactions with companies in the same group on the grounds that it is a wholly owned subsidiary undertaking of MediaKey plc, a company whose consolidated accounts are available to the public (see note 19).

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

(1) Cash flow statement

The company has taken advantage of the exemption conferred by FRS 1 (revised) not to present a statement of cash flows on the grounds it is a wholly owned subsidiary undertaking of MediaKey plc, a company whose consolidated accounts are available to the public (see note 19).

2. Segmental analysis

An analysis of turnover and profit on ordinary activities before tax or net assets by geographical area and class of business has not been presented as, in the opinion of the directors, the disclosure of this information would be seriously prejudicial to the interests of the company.

3. Profit/(loss) on ordinary activities before taxation

	Year ended 31 December 1998 £000	Year ended 31 December 1997 £000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Depreciation of owned assets	18	228
Exceptional item – write down of assets to fair value on acquisition by MediaKey plc		
- unamortised films	-	237
- stock	-	284
- debtors	-	77
Auditors' remuneration		
Auditing - current auditors	16	4
- previous auditors	-	6
Operating leases		
- plant and machinery	-	9
- land and buildings	-	188

MELROSE FILM PRODUCTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 1998 (continued)

4. Prior year adjustment

During the year the company changed its accounting policy for productions cost of CD ROM titles so that these costs will now be written off as incurred rather than amortised over the two years following release of the title. The comparative figures have been restated to reflect the new policy. The effect of this accounting policy change is:

	Year ended 31 December 1998 £000	Year ended 31 December 1997 £000
Profit and loss account:		
Increase/(decrease) in profit		
on ordinary activities before taxation	103	(138)
Tax effect	-	-
Increase/(decrease) in profit		
on ordinary activities before taxation	103	(138)
Loss as previously reported	(2)	(517)
Retained profit/(loss) as restated	101	(655)
Balance sheet:		
Decrease in stock and work in progress	(35)	(138)
Decrease in retained profit	(35)	(138)

5. Staff costs

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Staff costs during the year amounted to:		
Wages and salaries	245	489
Social security costs	25	49
Other pension costs	-	3
	270	541
	Number	Number
The average monthly number of employees (including directors) during the year was	13	38

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

5. Staff costs (continued)

No director received any remuneration for their services during the year. All directors are employed and their costs borne by another group undertaking.

All four directors are members of money purchase pension schemes operated by another group undertaking. The company has no defined benefit pension schemes.

6. Net interest receivable

	Year Ended 31 December 1998 £000	Year ended 31 December 1997 £000
Interest receivable on loan to BPP Holdings plc	-	16
Notional interest charge arising from acquisition of subsidiary undertaking	-	(3)
	<hr/>	<hr/>
	-	13
	<hr/>	<hr/>

7. Taxation on profit on ordinary activities

	Year ended 31 December 1998 £000	Year ended 31 December 1997 £000
The tax charge is based on the profit for the year and comprises:		
United Kingdom corporation tax at an effective rate of 31% (1997 – 31.5%)	-	49
Overseas taxation	(3)	-
Group relief payable	324	-
Over provision in prior years	(76)	-
Deferred taxation	-	(7)
	<hr/>	<hr/>
	245	42
	<hr/>	<hr/>

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

8. Tangible fixed assets

	Comp. equip't £000	Motor vehicles £000	Fixtures, fittings & equip't £000	Total £000
Cost				
At 1 January 1998	-	106	795	901
Additions	1	-	-	1
Disposals	-	(53)	(743)	(796)
	<u>1</u>	<u>53</u>	<u>52</u>	<u>106</u>
At 31 December 1998				
Depreciation				
At 1 January 1998	-	60	784	844
Charge for the year	-	10	8	18
Disposals	-	(27)	(743)	(770)
	<u>-</u>	<u>43</u>	<u>49</u>	<u>92</u>
At 31 December 1998				
Net book value				
At 31 December 1998	<u>1</u>	<u>10</u>	<u>3</u>	<u>14</u>
At 31 December 1997	<u>-</u>	<u>46</u>	<u>11</u>	<u>57</u>

9. Investments

	Shares in Subsidiary Undertakings £000
Cost	
At 1 January 1998 and 31 December 1998	<u>343</u>
Provisions for impairment	
At 1 January 1998 and 31 December 1998	<u>343</u>
Net book value	
At 31 December 1998 and 31 December 1997	<u>-</u>

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

9. Investments (continued)

The principal subsidiaries of the company all of which are 100% owned are as follows:

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Shares held</u>	<u>Proportion held</u>	<u>Class of activity</u>
Melrose Mitchell Limited	England	Ordinary	100%	Management training
Monitor Training Limited	England	Ordinary	100%	Non trading

The company acquired the remaining 25% holding it did not previously hold in Melrose Mitchell Limited on 21 January 1998.

10. Stock and work in progress

	31 December 1998 £000	31 December 1997 As restated £000
Raw materials and finished goods	78	85
Work in progress	192	303
	<u>270</u>	<u>388</u>

11. Debtors

	31 December 1998 £000	31 December 1997 £000
Trade debtors	51	522
Amounts owed by ultimate holding company	979	-
Amounts owed by other group undertakings	570	45
Advance corporation tax recoverable	79	56
Other debtors	37	15
Prepayments and accrued income	79	77
	<u>1,795</u>	<u>715</u>

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

12. Creditors: Amounts falling due within one year

	31 December 1998 £000	31 December 1997 £000
Trade creditors	88	111
Amounts owed to group undertakings	-	192
Other creditors including tax and social security	26	82
Corporation tax	-	26
Group relief payable	324	-
Accruals and deferred income	251	249
Proposed dividends	500	500
	<u>1,189</u>	<u>1,160</u>

The company's overdraft is secured by a fixed and floating charge over its assets.
Interest is paid and borne by the ultimate parent company.

13. Creditors: Amounts falling due in more than one year

	31 December 1998 £000	31 December 1997 £000
Deferred consideration in respect of the acquisition of Monitor Training Limited	<u>40</u>	<u>48</u>

Amounts due at 31 December 1998 are payable as follows:

Between 1 – 2 years	8	11
Between 2 – 5 years	17	23
Over 5 years	<u>15</u>	<u>14</u>
	<u>40</u>	<u>48</u>

14. Deferred taxation

No liability for deferred taxation has been provided nor is there any unprovided liability for deferred taxation.

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

15. Share capital

	31 December 1998 £000	31 December 1997 £000
Authorised: 20,000 ordinary equity shares of £1 each	<u>20</u>	<u>20</u>
Allotted, called up and fully paid: 10,100 ordinary equity shares of £1 each	<u>10</u>	<u>10</u>

16. Reconciliation of movements in equity shareholders' funds

	Share Capital £000	Profit & Loss Account £000	Total £000
At 1 January 1998 as reported	10	1,026	1,036
Prior year adjustment	<u>-</u>	<u>(138)</u>	<u>(138)</u>
At 1 January 1998 as restated	10	888	898
Retained profit for the financial year	<u>-</u>	<u>101</u>	<u>101</u>
At 31 December 1998	<u>10</u>	<u>989</u>	<u>999</u>

17. Operating lease commitments

At the balance sheet date, the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	Plant & Machinery	
	31 December 1998 £000	31 December 1997 £000
Leases which expire:		
within one year	-	5
within 2 - 5 years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>5</u>

MELROSE FILM PRODUCTIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 1998 (continued)**

18. Contingent liabilities

The company is party to a cross guarantee arrangement under which the bank overdrafts of a number of fellow group companies are secured by a fixed and floating charge over its assets.

19. Ultimate parent company

The directors consider the ultimate parent company at 31 December 1998 to be MediaKey plc a company incorporated and registered in England and Wales. The registered office of MediaKey plc is The Orangery, 161 New Bond Street, London W1Y 9PA. Copies of MediaKey plc's statutory accounts may be obtained from Companies House at Crown Way, Maindy, Cardiff CF4 3UZ.