

MELROSE FILM PRODUCTIONS LIMITED

COMPANY NUMBER 1337265

Reports and Financial Statements

for the Year Ended 31 December 1997



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 1997.

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.

On 29 May 1997, MediaKey plc acquired the entire share capital of Selmore Films Limited and its subsidiaries, including Melrose Film Productions Limited. The ultimate parent company to this date was BPP Holdings plc.

Financial results and dividend

The loss for the year after taxation amounted to £517,000 (1996: profit of £236,000). The directors recommend the payment of a final dividend of £49.50 per ordinary share (1996: nil) which together with interim dividends of £31.17 per ordinary share (1996: £11.88) makes a total of £80.67 per ordinary share (1996: £11.88).

The final dividend payment amounts to £500,000 (1996: nil) and the interim dividend £314,800 (1996: £120,000) making a total of £815,000 (1996: £120,000). The resulting loss of £1,332,000 (1996: profit of £116,000) will be debited against reserves.

Directors

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

J Christmas	(appointed 29 May 1997)
R Harman	(appointed 29 May 1997)
T Tietjen	(appointed 29 May 1997)
M Tree	(appointed 29 May 1997)
R Price	(resigned 29 May 1997)
C Prior	(resigned 29 May 1997)

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, Ms T Tietjen 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)

Charitable contributions

During the period, the company made contributions of £1,005 (1996 - nil) to United Kingdom charitable organisations.

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.

Auditors

Following the acquisition by MediaKey plc, Arthur Andersen were appointed to replace Ernst & Young as the company's 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



T T Parkinson
Secretary

31 March 1998

**Dumbarton House
68 Oxford Street
London W1N 0LH**

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

We have audited the financial statements on pages 5 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

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 1997 and of the loss 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

31 March 1998

MELROSE FILM PRODUCTIONS LIMITED

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	Notes	Year ended 31 December 1997 £000	Year Ended 31 December 1996 £000
Turnover	2	3,750	4,466
Cost of sales		<u>(2,947)</u>	<u>(3,011)</u>
Gross profit		803	1,455
Administrative and distribution expenses		<u>(1,291)</u>	<u>(1,060)</u>
Operating (loss)/profit		(488)	395
Income from shares in group undertakings		36	-
Net interest receivable	6	13	4
Amounts written off investments		<u>(36)</u>	<u>-</u>
(Loss)/profit on ordinary activities before taxation	3	(475)	399
Taxation on (loss)/profit on ordinary activities	7	<u>(42)</u>	<u>(163)</u>
(Loss)/profit on ordinary activities after taxation		(517)	236
Dividends paid and proposed		<u>(815)</u>	<u>(120)</u>
(Loss)/profit for the financial year	16	<u>(1,332)</u>	<u>116</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 company had no recognised gains or losses in either year other than the results reported above.

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

MELROSE FILM PRODUCTIONS LIMITED

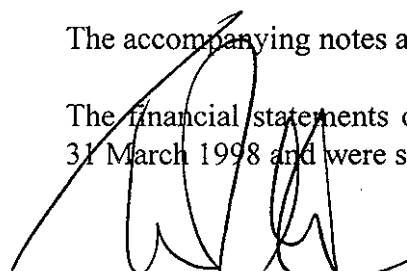
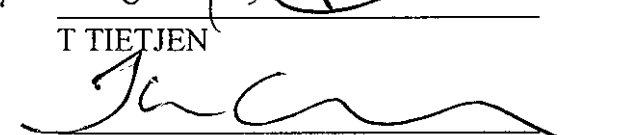
BALANCE SHEET

AS AT 31 DECEMBER 1997

	Notes	31 December 1997 £000	31 December 1996 £000
Fixed Assets			
Tangible assets	8	57	293
Investments	9	-	36
		<u>57</u>	<u>329</u>
Current Assets			
Stock and work in progress	10	526	1,303
Debtors	11	715	1,727
Cash at bank and in hand		946	-
		<u>2,187</u>	<u>3,030</u>
Creditors: Amounts falling due within one year	12	<u>(1,160)</u>	<u>(930)</u>
Net Current Assets		<u>1,027</u>	<u>2,100</u>
Total Assets less Current Liabilities		1,084	2,429
Creditors: Amounts falling due in more than one year	13	<u>(48)</u>	<u>(61)</u>
Net Assets		<u>1,036</u>	<u>2,368</u>
Capital and Reserves			
Called up share capital	15	10	10
Profit and loss account	16	<u>1,026</u>	<u>2,358</u>
Equity shareholders' funds		<u>1,036</u>	<u>2,368</u>

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

The financial statements on pages 5 to 16 were approved by the Board of Directors on 31 March 1998 and were signed on its behalf by:


 T TIETJEN

 J CHRISTMAS

} Directors

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997

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(c) 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. 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:

Motor vehicles	4 years
Fixtures, fittings and equipment	4 years

Completed films which were treated as tangible fixed assets in the financial statements for the year ended 31 December 1996 have been reclassified as stock and work in progress in accordance with the MediaKey group accounting policy.

(d) Investments

Investments in subsidiary undertakings are carried at cost less provision for permanent diminution in value.

(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, 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.

MELROSE FILM PRODUCTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 1997 (continued)

(f) Pension costs

All the company's pension arrangements are money purchase schemes. Costs relating to these schemes are charged 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 FRS2 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 16).

(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 16).

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997 (continued)

(l) 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 16).

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. (Loss)/profit on ordinary activities before taxation

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
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	4	-
- previous auditors	6	15
Operating leases		
- plant and machinery	9	10
- land and buildings	188	90

The amount paid under operating leases in the year ended 31 December 1997 includes an amount of £140,000 to buy the lease on the company's offices at 16 Bromells Road, London SW4.

During the year the company reclassified the carrying value of completed films from fixed assets to stocks and work in progress and reduced the period in which such costs are amortised in the profit and loss account from 30 to 24 months. The effect of this change in amortisation rate on the result for the year ended 31 December 1997 was to increase the loss by £174,000.

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997 (continued)

4. Staff costs

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Staff costs during the year amounted to:		
Wages and salaries	489	928
Social security costs	49	84
Other pension costs	3	12
	<u>541</u>	<u>1,024</u>
	Number	Number
The average monthly number of employees during the year was	<u>27</u>	<u>38</u>

5. Directors' emoluments

	Year ended 31 December 1997 £000	Year Ended 31 December 1996 £000
Basic salaries	-	32
Taxable benefits	-	6
Total emoluments	-	38
Compensation for loss of office	-	49
Company contributions to money purchase pension schemes	-	18
	<u>-</u>	<u>105</u>

No director received any remuneration for their services during the year. All directors are employed by 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.

MELROSE FILM PRODUCTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 1997 (continued)

6. Net interest receivable

	Year Ended 31 December 1997 £000	Year ended 31 December 1996 £000
Interest receivable on loan to BPP Holdings plc	16	33
Notional interest charge arising from acquisition of subsidiary undertaking	(3)	(29)
	<hr/> 13	<hr/> 4

7. Taxation on profit on ordinary activities

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
The tax charge is based on the profit for the year and comprises:		
United Kingdom corporation tax at an effective rate of 31.5% (1996 – 33%)	49	221
Overseas taxation	-	20
Deferred taxation	(7)	(78)
	<hr/> 42	<hr/> 163

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 (continued)

8. Tangible fixed assets

	Freehold buildings £000	Motor vehicles £000	Fixtures, fittings & equip't £000	Total £000
Cost				
At 1 January 1997	34	145	778	957
Additions	-	-	83	83
Disposals	(34)	(39)	(66)	(139)
At 31 December 1997	-	106	795	901
Depreciation				
At 1 January 1997	9	63	592	664
Charge for the year	-	32	196	228
Disposals	(9)	(35)	(4)	(48)
At 31 December 1997	-	60	784	844
Net book value				
At 31 December 1997	-	46	11	57
At 31 December 1996	25	82	197	293

Films have been reclassified as stock and work in progress. The net book value of films at 31 December 1996 was £670,000.

9. Investments

	Shares in Subsidiary Undertakings £000
Cost	
At 1 January 1997	343
Additions	-
At 31 December 1997	343
Provisions for Diminution in Value	
At 1 January 1997	307
Provided during the period	36
At 31 December 1997	343
Net book value	
At 31 December 1997	-
At 31 December 1996	36

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997 (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	75%	Management training
Monitor Training Limited	England	Ordinary	100%	Non trading

The company acquired the remaining 25% holding in Melrose Mitchell Limited on 21 January 1998.

10. Stock and work in progress

	31 December 1997 £000	31 December 1996 £000
Raw materials and finished goods	85	389
Production costs	46	244
Unamortised finished productions	395	670
	<u>526</u>	<u>1,303</u>

11. Debtors

	31 December 1997 £000	31 December 1996 £000
Trade debtors	522	471
Amounts owed by BPP Holdings plc	-	1,044
Amounts owed by other group undertakings	45	5
Advance corporation tax recoverable	56	-
Other debtors	15	2
Prepayments and accrued income	77	205
	<u>715</u>	<u>1,727</u>

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997 (continued)

12. Creditors: Amounts falling due within one year

	31 December 1997 £000	31 December 1996 £000
Bank overdraft	-	113
Trade creditors	111	106
Amounts owed to ultimate holding company	8	-
Amounts owed to other group undertakings	184	36
Other creditors including tax and social security	82	175
Advance corporation tax payable	-	30
Corporation tax	26	191
Accruals and deferred income	249	279
Proposed dividends	500	-
	<hr/> 1,160 <hr/>	<hr/> 930 <hr/>

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

	31 December 1997 £000	31 December 1996 £000
Deferred consideration in respect of the acquisition of Monitor Training Limited	<hr/> 48 <hr/>	<hr/> 61 <hr/>

Amounts due at 31 December 1997 are payable as follows:

Between 1 – 2 years	11	20
Between 2 – 5 years	23	15
Over 5 years	<hr/> 14 <hr/>	<hr/> 26 <hr/>
	<hr/> 48 <hr/>	<hr/> 61 <hr/>

MELROSE FILM PRODUCTIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 1997 (continued)

14. Deferred taxation

	Provided 31 December 1997 £000	Provided 30 September 1996 £000
Accelerated capital allowances	<u>-</u>	<u>7</u>

There is no unprovided liability at 31 December 1997 or 31 December 1996.

15. Share capital

	31 December 1997 £000	31 December 1996 £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 1997	10	2,358	2,368
Loss for the financial year	<u>-</u>	<u>(1,332)</u>	<u>(1,332)</u>
At 31 December 1997	<u>10</u>	<u>1,026</u>	<u>1,036</u>

MELROSE FILM PRODUCTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1997 (continued)

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:

	Land & Buildings		Plant & Machinery	
	31 December	31 December	31 December	31 December
	1997	1996	1997	1996
	£000	£000	£000	£000
Other Equipment				
Leases which expire:				
within one year	-	90	5	-
within 2 - 5 years	-	-	-	10
	<hr/>	<hr/>	<hr/>	<hr/>
	-	90	5	10
	<hr/>	<hr/>	<hr/>	<hr/>

18. Ultimate parent company

The directors consider the ultimate parent company at 31 December 1997 to be MediaKey plc a company incorporated in England. The registered office of MediaKey plc is Dumbarton House, 68 Oxford Street, London W1N 0LH. Copies of MediaKey plc's statutory accounts may be obtained from Companies House at Crown Way, Maindy, Cardiff CF4 3UZ.