

# **Hawkshead Limited**

## **Directors' report and financial statements**

**Year ended 31 December 2006**

**Registered number 1488467**



## Contents

Company information	1
Directors' report	2
Statement of Directors' responsibilities	4
Independent auditors' report to the members of Hawkshead Limited	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8-12

## **Company information**

### **Directors**

P Bazalgette  
R Johnston

### **Company Secretary**

J Parsons

### **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

### **Solicitors**

Berwin Leighton Paisner  
Adelaide House  
London Bridge  
London  
EC4R 9HA

### **Bankers**

National Westminster Bank plc  
PO Box 305  
Spring Gardens  
Manchester  
M60 2DB

Barclays Bank Plc  
27 Soho Square  
London  
W1D 3QR

### **Registered Office**

Shepherds Building Central  
Charecroft Way  
Shepherds Bush  
London  
W14 0EE

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

### Directors and directors' interests

The directors who held office during the year and through to the date of signing the accounts, except as noted were as follows

T Barnicoat	(Resigned 2 March 2007)
P Bazalgette	
R Johnston	(Appointed 2 March 2007)

None of the directors who held office during the period had any beneficial interest in the shares of the company or other group companies during the year that require disclosure under the Companies Act 1985

The company seeks exemption under SI 802, The Companies Act 1985, not to disclose the directors' interests in the share capital of Endemol N V , a company incorporated in The Netherlands, a parent undertaking of the company and Telefónica S A , a company incorporated in Spain, which was the ultimate parent undertaking of the company during the year

### Results for the year

The loss for the year, after taxation, is £7,000 (2005 profit of £79,000) The director does not recommend the payment of a dividend (2005 £nil) and accordingly the retained loss has been transferred to reserves

### Principal activities and review of the business

The principal activity of Hawkshead Limited ("the company") is the production of corporate videos

The company's key financial and other performance indicators during the year were as follows

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Turnover	1,593	1,392
Operating profit	8	63
(Loss)/profit after tax	(7)	79
Shareholders' funds	532	539
Current assets as % of current liabilities	3.0	3.1
Average number of employees	6	4

Company turnover increased by 14% during the year

Operating profit declined by 87% during the year as a result of an increase in administrative expenses following a marketing campaign launched in 2006

Profit after tax decreased by 109% due to the decline in operating profit

### **Principal risks and uncertainties**

Over the past five years the corporate video production market has faced a marked downward pressure on budgets and margins. Hawkshead has achieved success in the video production market mainly due to the quality of its work and the strong relationships built with clients.

### **Future developments**

The company will continue to consider strategic options for its future development.

### **Political and charitable contributions**

The company made no charitable contributions during the year (2005: £nil).

### **Creditor payment policy**

The company has implemented systems to ensure the prompt recognition of all identifiable liabilities to creditors and payments are made to these creditors in line with the Confederation of British Industry's Prompt Payers Code. The creditor days figure for the year was 2 days (2005: 2 days).


### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Auditors**

A resolution for the reappointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**John Parsons**  
Company Secretary

23 July 2007

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards and applicable law). The financial statements are required by law to 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 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 UK Accounting Standards have been followed, 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HAWKSHEAD LIMITED**

We have audited the company financial statements (the "financial statements") of Hawkshead Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

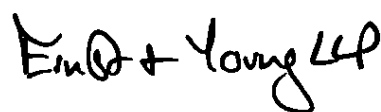
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of the company's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP  
Registered auditor  
London  
23 July 2007

## Profit and loss account

for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Turnover	1	1,593	1,392
Cost of sales		(1,105)	(927)
<b>Gross profit</b>		<b>488</b>	<b>465</b>
Administrative expenses		(480)	(402)
<b>Profit on ordinary activities before taxation</b>	2	<b>8</b>	<b>63</b>
Tax on profit on ordinary activities	4	(15)	16
<b>Retained (loss)/profit for the financial year</b>	8	<b>(7)</b>	<b>79</b>

The above results are derived from continuing operations in both the current and previous financial periods

### Statement of Total Recognised Gains and Losses

There were no recognised gains or losses for either year other than the (loss)/profit above and therefore no separate statement of total recognised gains and losses has been presented

### Note on Historical Profits and Losses

There is no difference between the profit on ordinary activities before taxation and the retained (loss)/profit for the years stated above, and their historical cost equivalents



**Balance sheet**  
*as at 31 December 2006*

	<i>Notes</i>	<b>As at 31 December 2006 £000</b>	<b>As at 31 December 2005 £000</b>
<b>Current assets</b>			
Debtors	5	737	703
Cash at bank and in hand		62	93
		<u>799</u>	<u>796</u>
<b>Creditors: amounts falling due within one year</b>	6	<u>(267)</u>	<u>(257)</u>
<b>Net current assets</b>		<u>532</u>	<u>539</u>
<b>Net assets</b>		<u>532</u>	<u>539</u>
<b>Capital and reserves</b>			
Called up share capital	7	-	-
Profit and loss account	8	532	539
<b>Equity shareholders' funds</b>	8	<u>532</u>	<u>539</u>

These financial statements were approved by the board of directors on 23 July 2007 and were signed on its behalf by



**R Johnston**  
*Director*

The notes on pages 8 to 12 form part of these financial statements

## Notes to the financial statements

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### *Basis of preparation*

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards on a basis consistent with prior years

#### *Turnover*

Turnover represents the amounts received or receivable for goods provided and work done for customers exclusive of value added tax. Turnover and related costs from programme contracts are recognised over the period of the relevant contract

#### *Taxation and deferred taxation*

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the balance sheet date, except as otherwise required by Financial Reporting Standard No 19 *Deferred Tax*. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

#### *Cash flow statement*

The company has taken advantage of the exemptions under Financial Reporting Standard No 1 *Cash Flow Statements* not to produce a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and the financial statements of its ultimate parent undertaking include a cash flow statement and are publicly available (see note 11)

#### *Pensions*

The company pays pension contributions into various individuals' own money purchase pension schemes as part of the Endemol UK plc pension scheme. The assets of the schemes are held separately from those of the company in an independently administered fund. The charge to the profit and loss account comprises the total contributions payable in the period. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

#### *Foreign currency*

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences are taken to the profit and loss account for the year

## Notes to the financial statements *(continued)*

### 2 Profit on ordinary activities before taxation

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Staff costs (note 3)	291	258
Auditors' remuneration – audit of company statutory accounts	2	1

### 3 Staff numbers and costs

The average number of persons employed by the company (excluding directors who are employed and remunerated by Endemol UK plc) during the year, was as follows

	Number of employees Year ended 31 December 2006	Year ended 31 December 2005
Production	3	4
Administration	3	-
	<u>6</u>	<u>4</u>

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Wages and salaries	251	221
Social security costs	32	28
Pension costs (note 9)	8	9
	<u>291</u>	<u>258</u>

Two (2005 two) of the directors who served during the year were also directors of Endemol UK Plc, the immediate parent company. Their remuneration is paid by that company and is disclosed in the accounts of that company. The directors received no remuneration in the current or previous financial periods for services to Hawkshead Limited.

## Notes to the financial statements *(continued)*

### 4 Tax on profit on ordinary activities

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
UK corporation tax charge for the year	-	-
Adjustment in respect of prior periods	15	(16)
	<hr/>	<hr/>
Tax charge/(credit) on profit on ordinary activities	15	(16)
	<hr/>	<hr/>

#### *Factors affecting the tax charge for the year*

The tax charge for the year is lower (2005 lower) than the standard rate of corporation tax in the UK (30%) (2005 30%)  
The differences are explained below

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Profit on ordinary activities before taxation	8	63
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	2	19
<i>Effects of</i>		
Group relief	(7)	(23)
Expenses not deductible for tax purposes	5	4
	<hr/>	<hr/>
Current tax charge for the year	-	-
	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 5 Debtors

	As at 31 December 2006 £000	As at 31 December 2005 £000
Trade debtors	214	313
Amounts owed by group undertakings	483	332
Other debtors	7	7
Prepayments and accrued income	33	51
	<u>737</u>	<u>703</u>

### 6 Creditors: amounts falling due within one year

	As at 31 December 2006 £000	As at 31 December 2005 £000
Trade creditors	3	10
Amounts owed to group undertakings	27	-
Taxation and social security	50	49
Other creditors	2	1
Accruals and deferred income	185	197
	<u>267</u>	<u>257</u>

### 7 Called up share capital

	As at 31 December 2006 £	As at 31 December 2005 £
<i>Authorised</i>		
Equity 1,000 Ordinary shares of £0.10 each	100	100
	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
Equity 1,000 Ordinary shares of £0.10 each	100	100
	<u>100</u>	<u>100</u>

## Notes to the financial statements *(continued)*

### 8 Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Profit and loss account £000	Total £000
At 1 January 2005	-	460	460
Retained profit for the year	-	79	79
	<hr/>	<hr/>	<hr/>
At 1 January 2006	-	539	539
Retained loss for the year	-	(7)	(7)
	<hr/>	<hr/>	<hr/>
At 31 December 2006	-	532	532
	<hr/>	<hr/>	<hr/>

### 9 Pension obligations

The company's pension charge for the year under the Endemol UK plc scheme was £8,000 (2004 £9,000) (see note 3)

Contributions totalling £nil (2005 £nil) were payable to the fund as at the year-end

### 10 Related parties

As a wholly owned subsidiary of Endemol UK plc and ultimately Telefónica S A , whose accounts are publicly available, the company has taken advantage of the exemption in Financial Reporting Standard No 8 *Related Party Disclosures*, regarding the disclosure of related party transactions

### 11 Ultimate parent undertaking and immediate parent undertaking

The immediate parent undertaking is Endemol UK plc which is registered in England and Wales. The smallest group in which the results of the company are consolidated is that headed by Endemol UK plc. Financial statements for Endemol UK plc are available publicly and can be obtained from The Company Secretary, Shepherds Building Central, Charecroft Way, Shepherds Bush, London, W14 0EE

Until 3rd July 2007 Telefónica S A was the ultimate parent of the company. The largest group in which the results of the company for the year ended 31 December 2006 are consolidated is that headed by Telefónica S A. Financial statements for Telefónica S A are publicly available and can be obtained from the Company Secretary, Telefónica S A , Calle Gran Vía 28, 3e Planta, 28013 Madrid, Spain

On 3rd July 2007 Telefónica S A sold its 75% stake in Endemol to Edam Acquisition B V , a company registered in the Netherlands that is jointly and equally owned by (i) Cyrte Fund II B V (ii) Mediaincino Cartera S L , a newly incorporated entity owned by Mediaset S p A and its quoted subsidiary Gestevisión Telecinco S A and (iii) funds affiliated to the Goldman Sachs Group Inc

Edam Acquisition B V is the largest group in which the results of the company for the year ended 31 December 2007 will be consolidated