

Registered no: 2852812

Cosgrove Hall Films Limited
Annual report
for the 18 months ended 31 December 1996



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Directors and advisers

Directors

B J Cosgrove

M W Hall

C Schreger
(Chairman)

V Lawrence

A Macbean

Registered Auditors

Coopers & Lybrand
1 Embankment Place
London
WC2N 6NN

Secretary and registered office

J Rowland
8 Albany Road
Chorlton cum Hardy
Manchester
M21 0AW

Bankers

National Westminster Bank PLC
438 Barlow Moor Road
Chorlton cum Hardy
Manchester
M21 1BR

Directors' report for the 18 months ended 31 December 1996

The directors present their report and the audited financial statements for the 18 months ended 31 December 1996.

Principal activities

The company's principal activity is the production of animated films for television.

The company makes programmes for ITV, the BBC, Channel 4 and for third parties.

Review of business and future developments

The company will continue its planned production of animated films for television. The secondary exploitation of these programmes should ensure a profit by the end of 1999.

The loss for the eighteen months to 31 December 1996 was £2,136,000. Included within this is a loss of £492,000 on "Discworld", a thirteen part series of 30 minute episodes. Owing to a number of identified factors this series was produced at a loss. Most of these factors were unique to the production of "Discworld".

However, actions have been taken, including senior management changes, to ensure that the combination of factors which lead to the unbudgeted loss will not reoccur.

The financial position of the company at 31 December 1996 is as set out in the balance sheet on page 7. The company is dependent on financial support from its shareholders.

Dividends

The directors do not recommend the payment of a dividend.

Change of ultimate and immediate parent companies

On 31 March 1996, the company's ultimate parent changed from MAI plc to International Television Enterprises London. International Television Enterprises London is a joint venture between MAI plc and Time Warner Inc.

On 13 June 1996, MAI plc became a wholly owned subsidiary of United News & Media plc.

Change of accounting reference date

The company has changed its accounting reference date from 30 June to 31 December to align with the accounting reference date of International Television Enterprises London, the ultimate parent company. The relevant notice has been filed with the Registrar of Companies in accordance with section 225 of the Companies Act 1985.

Change of accounting reference period

The accounting reference period has been extended to 31 December 1996. The 1996 financial statements have been prepared in relation to the 18 month period to 31 December 1996, and references to 1995 prior period figures refer to the six months to 30 June 1995.

Directors

The directors of the company at 31 December 1996, all of whom have been directors for the whole of the period ended on that date, except as detailed below, are listed on page 1.

C Schreger was appointed chairman of the company on 31 December 1996.

S Lawson resigned as director of the company on 6 October 1995 and V Lawrence and A Miles were appointed as directors on the same date. A Miles resigned as a director on 11 December 1996.

A Macbean was appointed a director of the company on 27 November 1995.

J Cresswell was appointed a director of the company on 1 January 1997 and resigned as a director on 26 February 1997. D McCall, who was a director on 1 January 1996, resigned as a director on 31 December 1996.

Directors' interests in shares of the company

The directors had the following interests in the shares of the company at the beginning and end of the financial period:

	'A'ordinary shares of 1p fully paid	
	31 December 1996	30 June 1995
B J Cosgrove	12,500	12,500
M W Hall	12,500	12,500

A Macbean and C Schreger are directors of the parent company and their share interests in the group are disclosed in the financial statements of that company. No other director held an interest in the shares of the company or other group undertakings.

Directors' responsibilities

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

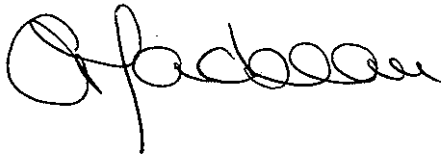
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the 18 months ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, and for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually. Coopers & Lybrand therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to read 'A Macbean', written in a cursive style.

A Macbean

Director

31 October 1997

Report of the auditors to the members of Cosgrove Hall Films Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on pages 3 and 4 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 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 31 December 1996 and of its loss and cash flows for the 18 months then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors
London
31 October 1997

**Profit and loss account
for the 18 months ended 31 December 1996**

	Notes	18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
All continuing operations			
Turnover	2	4,931	100
Cost of sales		(5,174)	(113)
Gross loss		(243)	(13)
Administrative expenses		(1,675)	(409)
Operating loss		(1,918)	(422)
Interest receivable and similar income		5	3
Interest payable and similar charges	5	(223)	(30)
Loss on ordinary activities before taxation	6	(2,136)	(449)
Tax on loss on ordinary activities	7	-	-
Loss for the financial period	16	(2,136)	(449)

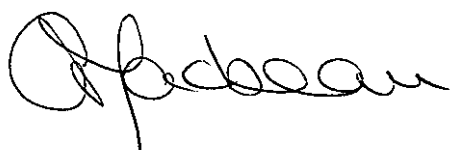
The company has no recognised gains and losses other than those included in the losses above and therefore no statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial period stated above, and their historical cost equivalents.

**Balance sheet
at 31 December 1996**

	Notes	31 December 1996 £'000	30 June 1995 £'000
Fixed assets			
Tangible assets	8	243	336
Current assets			
Stocks	9	2,523	1,209
Debtors	10	470	272
Cash at bank and in hand		310	5
		3,303	1,486
Creditors: amounts falling due within one year	11	(3,651)	(1,467)
Net current (liabilities)/assets		(348)	19
Total assets less current liabilities		(105)	355
Creditors: amounts falling due after more than one year	12	(2,421)	(745)
Net liabilities		(2,526)	(390)
Capital and reserves			
Called up share capital	15	1	1
Share premium account	16	299	299
Profit and loss account	16	(2,826)	(690)
Equity shareholders' funds	17	(2,526)	(390)

The financial statements on pages 6 to 19 were approved by the board of directors and were signed on its behalf by:



A Macbean
Director
31 October 1997

**Cash flow statement
for the 18 months ended 31 December 1996**

		18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
	Notes		
Net cash outflow from continuing operating activities (reconciliation to operating profit on page 9)		(1,068)	(331)
Returns on investments and servicing of finance			
Interest received		5	3
Interest paid		(212)	(27)
Interest paid on finance leases		(6)	(3)
Net cash outflow from returns on investments and servicing of finance		(213)	(27)
Investment activities			
Purchase of tangible fixed assets		(71)	(263)
Net cash outflow from investing activities		(71)	(263)
Net cash outflow before financing		(1,352)	(621)
Financing			
Repayment of principal under finance leases	18	(12)	(2)
Increase in group loans	18	1,705	289
Net cash outflow from financing		1,693	287
Increase / (Decrease) in cash and cash equivalents	19	341	(334)

Reconciliation of operating profit to net cash outflow from operating activities

	18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
Continuing operating activities		
Operating loss	(1,918)	(422)
Depreciation on tangible fixed assets	164	33
Increase in stocks	(1,314)	(1,038)
Increase in trade debtors	(160)	(50)
Increase in other debtors, prepayments and accrued income	(38)	(83)
Increase in trade creditors	254	221
(Decrease) / Increase in amounts owed to parent company	(320)	610
Increase in accruals and deferred income	2,197	398
Increase in other creditors including taxation and social security	67	-
Net cash outflow from continuing operations	(1,068)	(331)

**Notes to the financial statements
for the 18 months ended 31 December 1996****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful economic life, as follows:

Fixtures, fittings and equipment	4 years
Motor vehicles	4 years

Finance and operating leases

Assets acquired under finance lease and hire purchase contracts are capitalised as tangible fixed assets and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors, net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the finance lease and hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals paid under operating leases are charged to the profit and loss account against income on a straight line basis over the lease term.

Stocks and work in progress

Stocks and work in progress have been valued at the lower of cost and net realisable value. Cost includes all expenditure on a production. Contributions received towards the cost of productions in progress are classified as deferred income until the production is invoiced on completion, upon which such contributions are deducted from the related debtor.

Turnover

Turnover comprises income receivable from the production of animated films for television, royalties receivable and the invoiced value of sales to third parties net of value added tax.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension scheme arrangements

The company participates in defined contribution and defined benefit pension schemes, operated by the former ultimate parent company, MAI plc, and the former intermediate parent company, Anglia Television Group Limited, which are contracted out of the state scheme. The defined benefit funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employee's services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The company provides no other post retirement benefits to its employees.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

2 Turnover

The analysis by geographical area of the company's turnover is as follows:

	18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
United Kingdom	4,480	75
Rest of Europe	12	25
United States of America	439	-
	<hr/> 4,931 <hr/>	<hr/> 100 <hr/>

3 Directors' emoluments

	18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
Emoluments (including pension contributions and benefits in kind)	416	93

Emoluments (excluding pension contributions) include amounts paid to:

	1996 £'000	1995 £'000
The chairman	-	-
The highest-paid director	145	47

The number of directors (including the chairman and the highest-paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	1996 Number	1995 Number
£ 0 to £ 5,000	5	4
£45,001 to £50,000	-	2
£120,001 to £125,000	1	-
£140,000 to £145,000	2	-

4 Employee information

The average weekly number of persons (including executive directors) employed by the company during the period was:

	1996 Number	1995 Number
By activity		
Directors	3	2
Administrative	8	8
Production	29	12
	40	22

	18 months ended 31 December 1996 £'000	6 months ended 30 June 1995 £'000
Staff costs (for the above persons excluding directors)		
Wages and salaries	1,109	209
Social security costs	100	18
Pension costs (see note 14)	89	58
	<u>1,298</u>	<u>285</u>

5 Interest payable and similar charges

	1996 £'000	1995 £'000
To parent company	217	27
On finance lease and hire purchase contracts	6	3
	<u>223</u>	<u>30</u>

6 Loss on ordinary activities before taxation

	1996 £'000	1995 £'000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for audit services	4	4
Hire of facilities and equipment - operating leases	79	36
Hire of other assets - operating leases	56	-
Depreciation charge for the period:		
Tangible owned fixed assets	141	25
Tangible assets held under finance lease and hire purchase contracts	23	8
	<u>23</u>	<u>8</u>

7 Tax on loss on ordinary activities

No provision for corporation tax or deferred tax is required because of the availability of losses. Losses available for offset against future profits are estimated at £2,689,000.

8 Tangible fixed assets

	Fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 July 1995	338	61	399
Additions	71	-	71
At 31 December 1996	409	61	470
Depreciation			
At 1 July 1995	43	20	63
Charge for the period	141	23	164
At 31 December 1996	184	43	227
Net book value			
At 31 December 1996	225	18	243
Net book value			
At 30 June 1995	295	41	336

The net book value of tangible fixed assets includes an amount of £18,000 (1995: £41,000) in respect of assets held under finance lease and hire purchase contracts.

9 Stocks

	31 December 1996 £'000	30 June 1995 £'000
Work in progress - programmes in production	2,523	1,209

10 Debtors

	1996 £'000	1995 £'000
Amounts falling due within one year		
Trade debtors	333	173
Other debtors	62	91
Prepayments and accrued income	43	8
Amounts owed by related party undertakings	32	-
	470	272

11 Creditors: amounts falling due within one year

	31 December 1996 £'000	30 June 1995 £'000
Bank overdrafts	-	36
Amounts owed to related party undertakings	413	726
Trade creditors	413	159
Accruals and deferred income	2,720	534
Obligations under finance lease and hire purchase contracts	38	12
Other creditors including taxation and social security	67	-
	<u>3,651</u>	<u>1,467</u>

12 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Falling due between two and five years		
Obligations under finance lease and hire purchase contracts	-	38
Accruals	25	16
Amounts owed to related party undertakings	2,396	691
	<u>2,421</u>	<u>745</u>

The loans from related party undertakings are secured by a fixed and floating charge over the assets of the company. Interest is charged at a rate not more than 2% above LIBOR.

13 Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential asset, are as follows:

	Amount provided		Amount unprovided	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Tax effect of timing differences because of:				
Accelerated capital allowances	-	-	8	(5)
Unutilised tax losses carried forward	-	-	887	152
	<u>-</u>	<u>-</u>	<u>895</u>	<u>147</u>

14 Pension schemes

The company participates in a pension scheme operated by the Anglia Television Group Pension Scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The contributions payable by the Company which were charged to the profit and loss account and paid in the period were £83,000.

The pension cost is assessed in accordance with the advice of an independent qualified actuary using the attained age method and is based on pension costs across the group as a whole. The latest actuarial valuation of the scheme was at 1st February 1995. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, dividend increases would be 4.5% per annum, that salary increases would average 6.5% per annum and that present pensions would increase at the rate of 5% per annum and future pensions would increase in line with the RPI.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was sufficient to cover 100% of the benefits which has accrued to members, after allowing for expected future increases in earnings. The contributions of the Company will remain at 15.2%, the employees will remain at 6% and 5% for new entrants joining after 1st February 1992.

From 1 April 1995 the Company participated in the MAI plc group money-purchase pension scheme. The contributions payable by the Company which were charged to the profit and loss account and paid in the period were £6,000.

The total pension cost for the Company was £89,000 (1995: £58,000).

15 Called up share capital

	31 December 1996	30 June 1995
	£	£
Authorised, allotted, called up and fully paid		
25,000 'A' ordinary shares of 1p each	250	250
75,000 'B' ordinary shares of 1p each	750	750
	<u>1,000</u>	<u>1,000</u>

16 Share premium account and reserves

	Share premium account £'000	Profit and loss account £'000
At 1 July 1995	299	(690)
Loss for the period	-	(2,136)
At 31 December 1996	<u>299</u>	<u>(2,826)</u>

17 Reconciliation of movements in shareholders' funds

	31 December 1996 £'000	30 June 1995 £'000
Loss for the financial period	(2,136)	(449)
Opening shareholders' funds	(390)	59
Closing shareholders' funds	<u>(2,526)</u>	<u>(390)</u>

18 Analysis of changes in financing during the period

	31 December 1996		30 June 1995	
	Share capital (including share premium) £'000	Loans and finance lease obligations £'000	Share capital (including share premium) £'000	Loans and finance lease obligations £'000
At beginning of period	300	741	300	454
Group loans	-	1,705	-	289
Repayment of principal on finance leases	-	(12)	-	(2)
At end of period	<u>300</u>	<u>2,434</u>	<u>300</u>	<u>741</u>

19 Cash and cash equivalents

	31 December 1996 £'000		30 June 1995 £'000	
Changes in the period				
At beginning of period			(31)	303
Net cash inflow/(outflow)			341	(334)
At 31 December			<u>310</u>	<u>(31)</u>

	1996 £'000	1996 Change in period £'000	1995 £'000	1995 Change in period £'000	1994 £'000
Analysis of balances					
Cash at bank and in hand	310	305	5	(298)	303
Bank overdrafts	-	36	(36)	(36)	-
At 31 December	<u>310</u>	<u>341</u>	<u>(31)</u>	<u>(334)</u>	<u>303</u>

20 Financial commitments

At 31 December 1996 the company has annual commitments under non-cancellable operating leases, expiring between two and five years, as follows:

	31 December 1996 £	30 June 1995 £
Land and buildings	5	37
Other	75	38
	<u>80</u>	<u>75</u>

21 Related party disclosures

The company has had transactions with the following related parties during the period:

Related party	Relationship	Nature of transactions	Balances owed to/(due by) the company at 31 December 1996 £	Value of transaction £
United Broadcasting & Entertainment Limited	Member of ultimate controlling party group	Management charge	(1,305)	13,054
Anglia Television Entertainment	Member of ultimate controlling party group	Shareholder funding	(200,000)	886,000
		Compound interest on funds owed by the company	(14,292)	76,453
Anglia Television Limited	Member of ultimate controlling party group	Fantomcat 2 production financing	6,683	681,783
		Payment of payroll on company's behalf	(405,876)	1,020,845
International Television Enterprises London	Ultimate parent undertaking	Advances and sales for programmes in secondary and overseas markets net of agent's commission	(357,625)	1,418,975
		Shareholder funding	(1,981,350)	650,000
		Compound interest on funds owed by the company	(199,470)	93,180
Hullabaloo Studios Limited	A director of Hullabaloo Studios Limited is the son of a director of the company	Rental payments	1,175	14,100
		Loan from the company	30,825	35,000

No other provisions were made or amounts written off during the year.

Amounts shown above as due to International Television Enterprises London are included in accruals and deferred income and trade debtors, as the parent undertaking acts only as the company's sales agent. There is no obligation on the company to repay advances as the parent undertaking carries the risk that advances will exceed sales net of commission in secondary and overseas markets, and the company carries the credit risk relating to trade debtors.

There were no other material transactions or balances with related parties during the accounting period to 31 December 1996.

22 Ultimate parent company

The directors regard International Television Enterprises London, an unlimited company registered in Great Britain, as the ultimate parent company. International Television Enterprises London had a 75% interest in the equity share capital of the company at 31 December 1996.

The directors regard United News & Media plc and Time Warner Inc, publicly quoted companies with a diverse range of shareholders, as the ultimate controlling parties, by virtue of their joint interest in the company's ultimate parent company.

Copies of the financial statements of United News & Media plc are available from the Company Secretary, United News & Media plc, Ludgate House, 245 Blackfriars Road, London, SE1 9UY.

Copies of the financial statements of International Television Enterprises London are available from 48 Leicester Square, London, WC2H 7FB.