

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002
FOR
AVALON TELEVISION LIMITED**



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AVALON TELEVISION LIMITED
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FOR THE YEAR ENDED 30 JUNE 2002

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AVALON TELEVISION LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2002

DIRECTORS:

J M Thoday
R Allen-Turner
L Tucker
J R Gregory

SECRETARY:

R Allen-Turner

REGISTERED OFFICE:

4a Exmoor Street
London
W10 6BD

REGISTERED NUMBER:

2856604

AUDITORS:

MGI Midgley Snelling
Registered Auditors
Brettenham House
Lancaster Place
London
WC2E 7EW

AVALON TELEVISION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2002

The directors present their report with the financial statements of the company for the year ended 30 June 2002.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the development and production of television and film projects.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

DIVIDENDS

No interim dividend was paid during the year. The directors recommend a final dividend of £2,000 per share.

The total distribution of dividends for the year ended 30 June 2002 will be £200,000.

DIRECTORS

The directors during the year under review were:

J M Thoday	
R Allen-Turner	
C Jones	- resigned 31/8/01
L Tucker	
A J Spring	
J R Gregory	- appointed 3/9/01

The beneficial interests of the directors holding office on 30 June 2002 in the issued share capital of the company were as follows:

	30.6.02	1.7.01 or date of appointment if later
Ordinary shares £1 shares		
J M Thoday	50	50
R Allen-Turner	50	50
L Tucker	-	-
A J Spring	-	-
J R Gregory	-	-

A J Spring resigned as a director of the company on 2 August 2002.

Although in previous years the directors have reported their interests to be different to those disclosed above, this disclosure was incorrect.

AVALON TELEVISION LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2002

STATEMENT OF 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 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;
- 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

The auditors, MGI Midgley Snelling, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



J R Gregory - DIRECTOR

Dated: 30/4/03

AVALON TELEVISION LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF AVALON TELEVISION LIMITED

We have audited the financial statements of Avalon Television Limited for the year ended 30 June 2002 on pages five to fourteen. These financial statements have been prepared under the historical cost convention and 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

As described on page three the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the Report of the Directors 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 United Kingdom 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 as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MGI Midgley Snelling

MGI Midgley Snelling
Registered Auditors
Brettenham House
Lancaster Place
London
WC2E 7EW

Dated: 30/4/03

AVALON TELEVISION LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2002

	Notes	2002 £	2001 £
TURNOVER		13,373,803	11,939,199
Cost of sales		12,539,423	11,405,532
GROSS PROFIT		834,380	533,667
Administrative expenses		454,753	352,505
OPERATING PROFIT	3	379,627	181,162
Interest receivable and similar income		2,372	7,308
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		381,999	188,470
Tax on profit on ordinary activities	4	122,896	62,027
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		259,103	126,443
Dividends	5	200,000	-
RETAINED PROFIT FOR THE YEAR		£59,103	£126,443

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current and previous years.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the profits for the current and previous years.

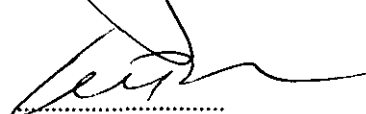
AVALON TELEVISION LIMITED

BALANCE SHEET 30 JUNE 2002

	Notes	2002 £	£	2001 £	£
FIXED ASSETS					
Tangible assets	6		4,523		18,467
Investments	7		51		51
			<u>4,574</u>		<u>18,518</u>
CURRENT ASSETS					
Stocks	8	950,523		30,368	
Debtors	9	396,523		349,931	
Cash at bank		1,946,377		1,703,783	
		<u>3,293,423</u>		<u>2,084,082</u>	
CREDITORS					
Amounts falling due within one year	10	3,095,728		1,959,434	
NET CURRENT ASSETS			<u>197,695</u>		<u>124,648</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u><u>£202,269</u></u>		<u><u>£143,166</u></u>
CAPITAL AND RESERVES					
Called up share capital	11		100		100
Profit and loss account	12		202,169		143,066
SHAREHOLDERS' FUNDS	14		<u><u>£202,269</u></u>		<u><u>£143,166</u></u>

ON BEHALF OF THE BOARD:


.....
J M Thoday - DIRECTOR


.....
L Tucker - DIRECTOR

Approved by the Board on 30/4/03

The notes form part of these financial statements

AVALON TELEVISION LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2002

	Notes	2002 £	2001 £
Net cash inflow/(outflow) from operating activities	1	300,118	(339,286)
Returns on investments and servicing of finance	2	2,372	7,308
Taxation		(59,896)	(6,477)
Capital expenditure and financial investment	2	-	(51)
Increase/(Decrease) in cash in the period		<u>£242,594</u>	<u>£(338,506)</u>
<hr/>			
Reconciliation of net cash flow to movement in net funds	3		
Increase/(Decrease) in cash in the period		<u>242,594</u>	<u>(338,506)</u>
Change in net funds resulting from cash flows		<u>242,594</u>	<u>(338,506)</u>
Movement in net funds in the period		242,594	(338,506)
Net funds at 1 July		<u>1,703,783</u>	<u>2,042,289</u>
Net funds at 30 June		<u>£1,946,377</u>	<u>£1,703,783</u>

The notes form part of these financial statements

AVALON TELEVISION LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2002

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	379,627	181,162
Depreciation charges	13,944	13,944
(Increase)/Decrease in stocks	(920,155)	24,335
(Increase)/Decrease in debtors	(46,592)	3,267,450
Increase/(Decrease) in creditors	<u>873,294</u>	<u>(3,826,177)</u>
Net cash inflow/(outflow) from operating activities	<u>300,118</u>	<u>(339,286)</u>

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2002 £	2001 £
Returns on investments and servicing of finance		
Interest received	<u>2,372</u>	<u>7,308</u>
Net cash inflow for returns on investments and servicing of finance	<u>2,372</u>	<u>7,308</u>
Capital expenditure and financial investment		
Purchase of fixed asset investments	<u>-</u>	<u>(51)</u>
Net cash outflow for capital expenditure and financial investment	<u>-</u>	<u>(51)</u>

3. ANALYSIS OF CHANGES IN NET FUNDS

	At 1/7/01 £	Cash flow £	At 30/6/02 £
Net cash:			
Cash at bank	<u>1,703,783</u>	<u>242,594</u>	<u>1,946,377</u>
	<u>1,703,783</u>	<u>242,594</u>	<u>1,946,377</u>
Total	<u>1,703,783</u>	<u>242,594</u>	<u>1,946,377</u>

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared in accordance with applicable accounting standards.

Accounting convention

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

Turnover and revenue recognition

Turnover represents net invoiced sales of services, excluding value added tax.

Turnover is recognised on the basis of the proportion of the production which has been produced and has been delivered (or is substantially complete) at the balance sheet date. If the production is a series of episodes that is partially complete, turnover is accrued on the basis of the costs expended, to the extent that those costs are covered by the production contract or recoverable from third parties.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment - 25% on cost

Work in progress

Where pre-production costs have been incurred prior to the main production process, these costs are carried as work in progress in the balance sheet to the extent that they are expected to be covered by a production contract or recoverable from third parties.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

Consolidation

The financial statements contain information about Avalon Television Limited as an individual company and do not contain consolidated financial information as the parent of the group. The company is exempt under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the group it heads qualifies as a medium group.

Advances

The company receives advances to finance specific projects which are treated as current liabilities. The company takes these advances to the credit of the profit and loss account when the project is taken into production or when it is not expected to progress to production within the foreseeable future.

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

2. STAFF COSTS

	2002 £	2001 £
Wages and salaries	591,212	755,220
Social security costs	60,870	76,939
Other pension costs	3,127	-
	<u>655,209</u>	<u>832,159</u>

The average monthly number of employees during the year was as follows:

	2002	2001
Administration	4	3
Production	14	16
	<u>18</u>	<u>19</u>

3. OPERATING PROFIT

The operating profit is stated after charging:

	2002 £	2001 £
Hire of plant and machinery	3,219	-
Depreciation - owned assets	13,944	13,944
Auditors remuneration	7,000	6,000
	<u>53,680</u>	<u>70,462</u>
Directors' emoluments	<u>53,680</u>	<u>70,462</u>

4. TAXATION

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

	2002 £	2001 £
Current tax:		
UK corporation tax	122,000	59,000
Under provision in previous year	896	3,027
Total current tax	<u>122,896</u>	<u>62,027</u>
Tax on profit on ordinary activities	<u>122,896</u>	<u>62,027</u>

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

5. DIVIDENDS

	2002 £	2001 £
Equity shares: Final	<u>200,000</u>	<u>-</u>

6. TANGIBLE FIXED ASSETS

	Computer equipment £
COST:	
At 1 July 2001 and 30 June 2002	<u>55,776</u>
DEPRECIATION:	
At 1 July 2001	37,309
Charge for year	<u>13,944</u>
At 30 June 2002	<u>51,253</u>
NET BOOK VALUE:	
At 30 June 2002	<u>4,523</u>
At 30 June 2001	<u>18,467</u>

7. FIXED ASSET INVESTMENTS

	Shares in group undertakings £
COST:	
At 1 July 2001 and 30 June 2002	<u>51</u>
NET BOOK VALUE:	
At 30 June 2002	<u>51</u>
At 30 June 2001	<u>51</u>

Fixed asset investments represents a 51% investment in Brightwater Productions Limited which develops and produces radio projects. At 30th June 2002 the aggregate amount of share capital and reserves of Brightwater Production Limited amounted to a deficit of £5,210 and the loss for the year was £3,389.

8. STOCKS

	2002 £	2001 £
Work-in-progress	<u>950,523</u>	<u>30,368</u>

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Trade debtors	226,035	5,333
Other debtors	93,899	4,675
VAT	7,967	-
Prepayments and accrued income	68,622	339,923
	<u>396,523</u>	<u>349,931</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Trade creditors	792,423	91,561
Taxation	122,000	59,000
Social security and other taxes	17,633	30,752
Other creditors	285,128	299,702
Accruals and deferred income	1,878,544	1,478,419
	<u>3,095,728</u>	<u>1,959,434</u>

11. CALLED UP SHARE CAPITAL

Authorised:			2002	2001
Number:	Class:	Nominal value:	£	£
100,000	Ordinary shares	£1	<u>100,000</u>	<u>100,000</u>

Allotted, issued and fully paid:			2002	2001
Number:	Class:	Nominal value:	£	£
100	Ordinary shares	£1	<u>100</u>	<u>100</u>

12. RESERVES

	Profit and loss account
	£
At 1 July 2001	143,066
Retained profit for the year	59,103
At 30 June 2002	<u>202,169</u>

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

13. RELATED PARTY DISCLOSURES

The company is controlled by J M Thoday and R Allen-Turner who each hold 50% of the company's issued share capital. J M Thoday, R Allen-Turner, C Jones, A J Spring and J R Gregory were also directors of Avalon Management Group Limited, Avalon Public Relations Limited and Avalon Promotions Limited. J M Thoday has a controlling interest in the share capital of each of these companies. J M Thoday and R Allen-Turner are also directors of Brightwater Productions Limited. J M Thoday, R Allen-Turner, A J Spring, and J R Gregory are also directors of Avalon Motion Pictures Limited. J M Thoday controls this company. During the year the company had the following transactions with these companies:-

	Production expenses paid via related party/ (on behalf of) £
Avalon Management Group Limited	5,554,048 (59,261)
Avalon Promotions Limited	33,716
Avalon Public Relations Limited	210,222
Brightwater Productions Limited	(8,910)

At the balance sheet date the following balances existed:

	Debtors £	Creditors £
Avalon Management Group Limited	-	389,935
Avalon Promotions Limited	-	6,354
Avalon Public Relations Limited	-	34,518
Brightwater Productions Limited	2,310	39,390
Avalon Motion Pictures Limited	10,000	-

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the financial year	259,103	126,443
Dividends	(200,000)	-
Net addition to shareholders' funds	59,103	126,443
Opening shareholders' funds	<u>143,166</u>	<u>16,723</u>
Closing shareholders' funds	<u>202,269</u>	<u>143,166</u>
Equity interests	<u>202,269</u>	<u>143,166</u>

AVALON TELEVISION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

15. CASH AT BANK AND IN HAND

	2002	2001
	£	£
Amounts held on deposit	9,744,913	2,313,974
Less: associated finance lease liabilities	<u>(9,744,913)</u>	<u>(2,313,974)</u>
	-	-
Amounts held in programme production accounts	(301,126)	1,611,030
Other cash at bank and in hand	<u>2,247,503</u>	<u>92,753</u>
	<u>1,946,377</u>	<u>1,703,783</u>

Amounts held on deposit arise as a result of sale and leaseback transactions and comprise monies to provide for the discharge of future leasing liabilities disclosed above. In the two years ended 30th June 2002 the company entered into several sale and finance leaseback transactions. It is the opinion of the directors that this type of transaction does not dispose of the risks and rewards of the ownership of the production, and as such the transaction is not recognised as a sale and subsequent leaseback. The directors are recognising the transaction's fees, and associated costs over the useful life of the production, which the directors estimate to be less than one year. The directors have deposited the proceeds from the sale in a trust account with a bank. This bank account may only be used to pay off the lease payments.