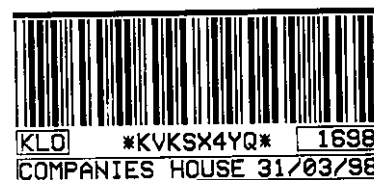


Report and Accounts
Subafilms Limited

31 December 1996



Subafilms Limited

Registered No. 787093

DIRECTORS

G Harrison
J L Eastman
H L Gerrard
Mrs Y O Lennon

SECRETARY

Standby Films Limited

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

National Westminster Bank PLC
1 New Bond Street
London W1Y 0HU

REGISTERED OFFICE

27 Ovington Square
London SW3 1LJ

Subafilms Limited

DIRECTORS' REPORT

The directors present their report and audited accounts for the year ended 31 December 1996.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £560,952 (1995 – loss of £7,852).

The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activities are the making, producing and distribution of films and videos. No changes in these activities are proposed.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the company were as follows:

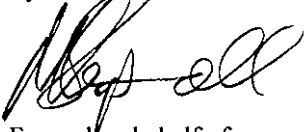
	<i>At 31 December 1996 Ordinary shares</i>	<i>At 1 January 1996 Ordinary shares</i>
G Harrison	35	35
J L Eastman	–	–
H L Gerrard	–	–
Mrs Y O Lennon	35	35

Mrs Y O Lennon and G Harrison also have an interest in the company through their respective shareholdings in Apple Corps Limited, which holds 44 ordinary shares in the company. There are no other directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 5 December 1997. Accordingly, Ernst & Young will be deemed to be reappointed as auditors.

By order of the board



For and on behalf of
Standby Films Limited

Secretary

18 March 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

REPORT OF THE AUDITORS
to the members of Subafilms Limited

We have audited the accounts on pages 5 to 10, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

19 March 1998

Subafilms Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1996

	Notes	1996 £	1995 £
TURNOVER	2	246,173	92,211
Administrative expenses		(144,311)	(101,744)
		101,862	(9,533)
Increase in provisions	6	(28,352)	(31,258)
OPERATING PROFIT/(LOSS)	3	73,510	(40,791)
Interest receivable	4	39,963	32,943
Other income – litigation proceeds		661,610	–
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		775,083	(7,848)
Tax on profit/(loss) on ordinary activities	5	(214,131)	(4)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		560,952	(7,852)
Retained profit brought forward		233,877	241,729
RETAINED PROFIT CARRIED FORWARD		794,829	233,877

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £560,952 in the year ended 31 December 1996 and the loss of £7,852 in the year ended 31 December 1995.

Subafilms Limited

BALANCE SHEET at 31 December 1996

	Notes	1996 £	1995 £
FIXED ASSETS			
Investments:			
Long term finance loans less provision	6	2	2
Film rights	7	1,929,942	2,591,559
		<u>1,929,944</u>	<u>2,591,561</u>
CURRENT ASSETS			
Debtors:			
Finance loans less provisions	6	–	79,597
Other debtors		1,286,376	13,586
Due from affiliated companies	6	276,478	288,953
Cash at bank		270,187	17,571
		<u>1,833,041</u>	<u>399,707</u>
CREDITORS: amounts falling due within one year	8	(2,931,398)	(2,757,299)
NET CURRENT LIABILITIES		<u>(1,098,357)</u>	<u>(2,357,592)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>831,587</u>	<u>233,969</u>
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	9	(36,666)	–
		<u>794,921</u>	<u>233,969</u>
CAPITAL AND RESERVES			
Called up share capital	10	92	92
Profit and loss account	11	794,829	233,877
		<u>794,921</u>	<u>233,969</u>
Shareholders' funds		<u>794,921</u>	<u>233,969</u>

Directors

18 March 1998

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1996

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Film rights

Film rights are carried at cost less any provision deemed necessary for a permanent diminution in value.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

All differences are taken to the profit and loss account.

Affiliated companies

In these accounts companies are described as affiliated to Subafilms Limited if:

- (a) they have the same shareholders or ultimate shareholders as Subafilms Limited; or
- (b) the company is owned by one or more of the shareholders of Subafilms Limited.

2. TURNOVER

Turnover comprises income from films and videos which is accounted for when the amounts would normally become due and payable to the company.

It is the opinion of the directors that, in view of the nature of the company's business, the markets in which it operates do not differ substantially from each other and are therefore treated as one market for the purposes of disclosing the particulars of turnover in these accounts.

3. OPERATING PROFIT/(LOSS)

- (a) This is stated after charging:

	1996 £	1995 £
Directors' remuneration (see below)	12,500	5,000
Auditors' remuneration	7,025	3,000
	<u> </u>	<u> </u>
(b) Directors' remuneration:		
Other emoluments	12,500	5,000
	<u> </u>	<u> </u>

In addition, amounts charged to the profit and loss account include fees for the promotional services of Mr G Harrison amounting to £12,500 (1995 – £5,000).

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1996

4. INTEREST RECEIVABLE

	1996 £	1995 £
Amounts receivable from affiliated companies	29,552	32,854
Bank deposits	10,411	89
	<u>39,963</u>	<u>32,943</u>

5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	1996 £	1995 £
Based on the profit/(loss) for the year:		
Corporation tax at 33% (1995 - 25%)	184,405	4
Deferred taxation	36,666	-
Advance corporation tax previously written off	(6,935)	-
Adjustment in respect of prior years	(5)	-
	<u>214,131</u>	<u>4</u>

6. FINANCE LOANS AND AMOUNT DUE FROM AFFILIATED COMPANIES

Amounts have been provided in respect of finance loans to affiliated companies, Apple Films Limited and Python Music Limited, to the extent that future recovery seems unlikely.

	1996 £	1995 £
Long term finance loans	660,802	648,110
Less: Provision	(660,800)	(648,108)
	<u>2</u>	<u>2</u>
Current finance loans	852,452	916,389
Less: Provision	(852,452)	(836,792)
	<u>-</u>	<u>79,597</u>
Amount due from affiliated companies	<u>276,478</u>	<u>288,953</u>

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1996

7. FILM RIGHTS

	£
Cost:	
At 1 January 1996	2,591,559
Litigation proceeds	(661,617)
	<u>1,929,942</u>
At 31 December 1996	<u>1,929,942</u>

8. CREDITORS: amounts falling due within one year

	1996 £	1995 £
Other creditors	175,926	167,276
Current corporation tax	165,472	23
Due to affiliated company	2,590,000	2,590,000
	<u>2,931,398</u>	<u>2,757,299</u>

9. DEFERRED TAXATION

Deferred taxation provided in the accounts, which represents the full potential liability, is as follows:

	1996 £	1995 £
Interest on finance loans not taxable until received	36,666	49,095
Other timing differences	—	—
Proportion of losses available	—	(49,095)
	<u>36,666</u>	<u>—</u>

10. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1996 No.	1995 No.	1996 £	1995 £
Ordinary shares of 50p each	200	200	92	92

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1996

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 January 1995	92	241,729	241,821
Loss for the year	—	(7,852)	(7,852)
At 1 January 1996	92	233,877	233,969
Profit for the year	—	560,952	560,952
At 31 December 1996	92	794,829	794,921