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Subafilms Limited

Report and Accounts

31 December 1998

 ERNST & YOUNG



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
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

National Westminster Bank PLC
Piccadilly and New Bond Street Branch
PO Box 2AG
63 Piccadilly
London W1A 2AG

REGISTERED OFFICE

27 Ovington Square
London SW3 1LJ

 **ERNST & YOUNG**

DIRECTORS' REPORT

The directors present their report and audited accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £290,690 (1997 - loss of £408,083).

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 1998</i>	<i>At 1 January 1998</i>
	<i>Ordinary shares</i>	<i>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.

YEAR 2000 AND ASSOCIATED DATE RELATED ISSUES

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 and associated date related issues.

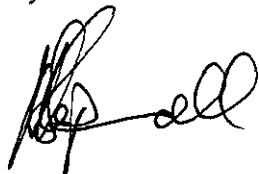
Given the complexity of the problem it is not possible for any organisation to guarantee that no issues will arise because at least some level of failure may still occur. However, the Board believes that it has achieved an acceptable state of readiness and is pleased to report that no issues have arisen.

DIRECTORS' REPORT

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

A handwritten signature in black ink, appearing to be 'J. P. All', written over a horizontal line.

For and on behalf of
Standby Films Limited

Secretary

9 October 2000

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 6 to 11, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

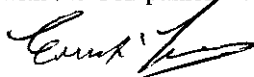
Basis of opinion

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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

9 October 2000

Subafilms Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £	1997 £
TURNOVER	2	710,734	11,594
Administrative expenses		(408,000)	(30,239)
		<u>302,734</u>	<u>(18,645)</u>
Increase in provisions	6	(33,440)	(30,758)
Amortisation of films rights		(666,164)	(647,890)
OPERATING LOSS	3	(396,870)	(697,293)
Interest receivable	4	105,978	111,721
		<u>(290,892)</u>	<u>(585,572)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on loss on ordinary activities	5	202	177,489
		<u>(290,690)</u>	<u>(408,083)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION			
Retained profit brought forward		386,746	794,829
		<u>96,056</u>	<u>386,746</u>
RETAINED PROFIT CARRIED FORWARD			



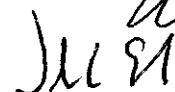
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £290,690 in the year ended 31 December 1998 and the loss of £408,083 in the year ended 31 December 1997.

Subafilms Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Investments:			
Long term finance loans less provision	6	2	2
Film rights	7	624,650	1,282,052
		<u>624,652</u>	<u>1,282,054</u>
CURRENT ASSETS			
Debtors:			
Finance loans less provisions	6	-	-
Other debtors		61,399	4,101
Due from affiliated companies	6	270,478	273,478
Corporation tax recoverable		207,471	184,011
Cash at bank		1,276,018	1,504,136
		<u>1,815,366</u>	<u>1,965,726</u>
CREDITORS: amounts falling due within one year	8	<u>(2,307,204)</u>	<u>(2,824,276)</u>
NET CURRENT LIABILITIES		<u>(491,838)</u>	<u>(858,550)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>132,814</u>	<u>423,504</u>
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	9	(36,666)	(36,666)
		<u>96,148</u>	<u>386,838</u>
CAPITAL AND RESERVES			
Called up share capital	10	92	92
Profit and loss account	11	96,056	386,746
		<u>96,148</u>	<u>386,838</u>
Shareholders' funds			


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) Directors 
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9 October 2000

NOTES TO THE ACCOUNTS
at 31 December 1998

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 impairment in value.

Film rights are amortised under the cost recovery method.

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, which is stated net of value added tax, 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 LOSS

- (a) This is stated after charging/(crediting):

	1998	1997
	£	£
Directors' remuneration (see below)	-	12,500
Auditors' remuneration	3,000	3,000
Foreign exchange loss/(gain)	17,629	(51,028)
	<u> </u>	<u> </u>

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1998

3. OPERATING LOSS (continued) (b) Directors' remuneration:

	1998	1997
	£	£
Other emoluments	-	12,500

4. INTEREST RECEIVABLE

	1998	1997
	£	£
Amounts receivable from affiliated companies	33,440	30,758
Bank deposits	72,331	80,963
Other interest	207	-
	<u>105,978</u>	<u>111,721</u>

5. TAX ON LOSS ON ORDINARY ACTIVITIES

	1998	1997
	£	£
Based on the loss for the year:		
Corporation tax	-	-
Adjustment in respect of prior years:		
Loss carry back to prior years	-	177,470
Other	202	19
	<u>202</u>	<u>177,489</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.

	1998	1997
	£	£
Long term finance loans	689,449	674,527
Less: Provision	(689,447)	(674,525)
	<u>2</u>	<u>2</u>
Current finance loans	888,003	869,485
Less: Provision	(888,003)	(869,485)
	<u>-</u>	<u>-</u>
Amount due from affiliated companies	<u>270,478</u>	<u>273,478</u>

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1998

7. FILM RIGHTS

	£
Cost:	
At 1 January 1998	1,929,942
Additions during the year	8,762
	<u>1,938,704</u>
Amortisation:	
At 1 January 1998	647,890
Charge for the year	666,164
	<u>1,314,054</u>
Net book value:	
At 31 December 1998	<u>624,650</u>
At 1 January 1998	<u>1,282,052</u>

8. CREDITORS: amounts falling due within one year

	1998	1997
	£	£
Other creditors	323,265	234,276
Due to affiliated company	1,983,939	2,590,000
	<u>2,307,204</u>	<u>2,824,276</u>

9. DEFERRED TAXATION

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

	1998	1997
	£	£
Interest on finance loans not taxable until received	<u>36,666</u>	<u>36,666</u>

10. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1998	1997	1998	1997
	No.	No.	£	£
Ordinary shares of 50p each	<u>200</u>	<u>200</u>	<u>92</u>	<u>92</u>

Subafilms Limited

NOTES TO THE ACCOUNTS at 31 December 1998

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total £
At 1 January 1997	92	794,829	794,921
Loss for the year	-	(408,083)	(408,083)
At 1 January 1998	92	386,746	386,838
Loss for the year	-	(290,690)	(290,690)
At 31 December 1998	92	96,056	96,148

12. RELATED PARTY TRANSACTIONS

(a) Amounts charged in the profit and loss account include fees for the promotional services of the beneficial shareholders (Mr G Harrison, Sir J P McCartney, Mr R Starkey and Mrs Y O Lennon) amounting to £25,000 each.

(b) At 31 December 1998, the company owed Apple Corps Limited, a company owned by one or more of the shareholders of Subafilms Limited, a net amount of £1,886,980 (1997 - £2,490,041). It also had a receivable of £173,519 from Apple Films Limited, another company owned by one or more of the shareholders of Subafilms Limited.