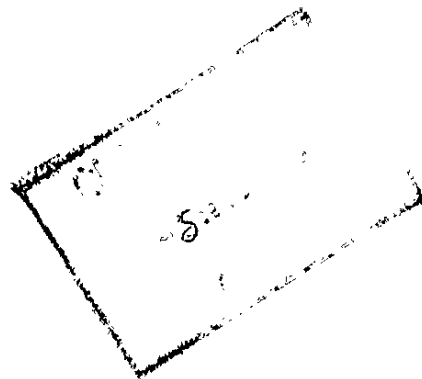


**Deloitte
Haskins+Sells**

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BBC ENTERPRISES LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986

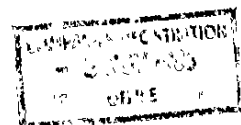


LBC ENTERPRISES LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986

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BBC ENTERPRISES LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the financial statements for the year ended 31st March, 1986.

RESULTS FOR THE YEAR

The profit for the year after taxation was £1,663,665 which will be added to reserves. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITIES

The company trades as a joint producer of television programmes and sells the rights to show such programmes worldwide.

Other principal activities are the worldwide distribution of other BBC television programmes, the manufacture and distribution of audio tapes under the BBC label and home video tapes, character and other merchandising including BBC Microcomputers, the hire of technical production facilities, the mounting of public exhibitions related to BBC programmes and the sale of computer software.

ACQUISITIONS AND MERGERS

On 21st April 1986 the company acquired the remaining 98% of the stock of Lionheart Television International Inc., a corporation registered in Delaware U.S.A. whose principal activity is the distribution of television programmes in North America. Lionheart is already licenced to distribute BBC material in that territory and will continue to do so.

On 3rd May 1986 the activities of BBC Publications, a division of the BBC, were merged with BBC Enterprises Ltd business to form three operating divisions specialising in Programme Sales, Consumer Products and Journals.

The directors are confident that the rationalisation of the combined trading activities will enable accelerated growth to be achieved in existing and future business areas.

EMPLOYEES AND HEALTH AND SAFETY

It is the company policy to provide equal opportunities to all its staff on the basis of ability and objectivity, including full consideration to registered disabled persons.

Employees are encouraged to participate and be involved in the performance of the company through regular consultative meetings, handbooks, newspapers and noticeboards.

BBC ENTERPRISES LIMITED

REPORT OF THE DIRECTORS (continued)

DIRECTORS

The Directors who served during the year are:

W.F. Cotton (Chairman until 3rd March 1986 and thereafter Vice Chairman)
M. Checkland (Vice Chairman until 3rd March 1986 and thereafter Chairman)
G.B. Parkin (Managing Director)
R. Gibbs
J.F. Keeble
B.A. Jennings

On 18th April 1986 K. N. Wright was appointed Finance Director and S. Innes a non-executive director.

DIRECTORS INTERESTS

No Director had any interest in the share capital of the company at 1st April 1985 or 31st March 1986.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

Charitable and political contributions amounted to nil (1985 nil)

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Deloitte, Haskins and Sells as auditors to the company will be put to the annual general meeting.

BY ORDER OF THE BOARD




J.F. KEEBLE
Secretary

21st July 1986

AUDITORS' REPORT TO THE MEMBERS OF
BBC ENTERPRISES LIMITED

We have audited the financial statements on pages 4 to 14 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31st March 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

DELOITTE HASKINS & SELLS

Chartered Accountants
London

21st July, 1986

BBC ENTERPRISES LIMITED

STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The company prepares its financial statements on the historical cost basis of accounting.

FOREIGN CURRENCY AMOUNTS

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Any gains or losses on translation are credited or charged to the profit and loss account.

TURNOVER

Turnover represents revenues from the sale of programmes on behalf of the BBC, and from the sale of joint productions, records and video cassettes, royalties from character and other merchandising including BBC Microcomputer and computer software, income from the film library, exhibitions and the hire of facilities.

TANGIBLE FIXED ASSETS

Fixed assets are stated at cost, other than assets costing less than £100 which are written off in the year of acquisition. Depreciation of plant, furniture and fittings is calculated to write off the cost of the assets by equal instalments over their estimated economic lives at appropriate rates between two and five years. Depreciation on buildings has been calculated on the straight line basis over an estimated life of forty years.

INVESTMENT IN PROGRAMMES FOR FUTURE SALE

Investment in programmes for future sale are stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. The amortisation is charged against income over the average marketable life, which is estimated to be five years. The value of 'Investment in Programmes for Future Sale' has been reduced by the value of programmes over five years old that have been fully amortised.

STOCKS

Stocks comprising raw film, blank tape, video tape, records, and work in progress are stated at the lower of cost and net realisable value except that a government grant in respect of the Domesday Project has been deducted from the work in progress value.

DEFERRED TAXATION

Deferred taxation has been provided at 31st March 1986, at expected applicable rates, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes, except to the extent that it is, in the opinion of the directors, reasonable to assume that the timing differences will not reverse in the future so as to give rise to a tax liability.

BBC ENTERPRISES LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 1986

	<u>Notes</u>	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
TURNOVER	1	37,268,891	35,286,973
Cost of sales		19,618,746	17,040,252
GROSS PROFIT		17,650,145	18,246,721
Distribution expenses		(9,305,186)	(9,929,073)
Administrative and Other expenses		(6,419,894)	(3,502,444)
Bank interest receivable		287,424	108,935
Interest payable	2	(14,244)	(395,053)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	2,198,245	4,529,086
Tax on profit on ordinary activities	5	(534,580)	(1,129,856)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>£ 1,663,665</u>	<u>£ 3,399,230</u>

BBC ENTERPRISES LIMITEDBALANCE SHEET AS AT 31ST MARCH 1986

	<u>Notes</u>	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
FIXED ASSETS			
Tangible assets	6	7,879,487	8,032,196
Investment in programmes for future sale	7	14,472,121	13,055,927
Investment in American distributor	8	52,156	52,156
		<u>22 403,764</u>	<u>21,140,279</u>
CURRENT ASSETS			
Stock	9	2,518,163	1,469,907
Debtors	10	13,447,192	10,718,467
Cash at bank and in hand		7,966,237	149,641
		<u>23,931,592</u>	<u>12,338,015</u>
CREDITORS: amounts falling due within one year	11	30,943,949	18,830,928
NET CURRENT LIABILITIES		<u>(7,012,357)</u>	<u>(6,492,913)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,391,407	14,647,884
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	12	(5,127,627)	(6,047,251)
NET ASSETS		<u>£10,263,780</u>	<u>£8,600,115</u>
CAPITAL AND RESERVES			
Called up share capital	13	250,000	250,000
Profit and loss account	14	10,013,780	8,350,115
		<u>£10,263,780</u>	<u>£8,600,115</u>

The financial statements on pages 4 to 14 were approved by the board of directors on 21st July 1986 and were signed on its behalf by:

K.N. WRIGHT

J.F. KEEBLE



Directors

BBC ENTERPRISES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31ST MARCH 1986

	<u>1986</u>	<u>1985</u>
	£	£
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	2,198,245	4,529,086
Adjustments for items not involving the movement of funds:		
Depreciation of tangible fixed assets	1,316,727	1,096,218
Amortisation of programmes for future sale	5,124,080	4,393,380
Loss on sale of fixed assets	8,979	49,329
Unrealised loss/(gain) on exchange	403,376	(146,738)
Funds generated from operations	9,051,407	9,921,275
Proceeds on sale of fixed assets	14,231	20,155
TOTAL SOURCE OF FUNDS	<u>9,065,638</u>	<u>9,941,430</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	1,187,228	1,032,919
Taxation paid	768,314	1,454,239
Investment in programmes for future sale	6,540,274	7,434,402
Investment in American Distributor	-	52,156
Repayment of loan from BBC	-	8,750,000
TOTAL APPLICATION OF FUNDS	<u>8,495,816</u>	<u>18,723,716</u>
NET SOURCE/(APPLICATION) OF FUNDS	<u>£ 569,822</u>	<u>£ (8,782,286)</u>
THE NET SOURCE/(APPLICATION) OF FUNDS IS REPRESENTED BY THE FOLLOWING INCREASE/(DECREASE) IN WORKING CAPITAL		
Increase in Stock	1,048,256	323,655
Increase in Debtors	3,144,475	288,258
Increase in creditors	(2,186,061)	(991,492)
Increase in amount owed to BBC	(10,563,547)	(6,302,828)
	<u>(8,556,877)</u>	<u>(6,682,407)</u>
MOVEMENT IN NET LIQUID FUNDS		
Increase/(Decrease) in cash in hand	1,253,927	(290,640)
Decrease/(Increase) in bank overdraft	322,477	(662,248)
Decrease/(Increase) in short-term loans	1,000,000	(1,000,000)
Increase/(Decrease) in bank deposits	6,550,295	(146,991)
	<u>9,126,699</u>	<u>(2,099,879)</u>
INCREASE/(DECREASE) IN WORKING CAPITAL	<u>£ 569,822</u>	<u>£ (8,782,286)</u>

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986

1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1986</u> <u>£'000</u>	<u>1985</u> <u>£'000</u>
Turnover - type of business		
Television sales	27,423	23,311
Other activities	9,846	11,976
	<u>37,269</u>	<u>35,287</u>
Turnover - geographical analysis		
	<u>1986</u> <u>£'000</u>	<u>1985</u> <u>£'000</u>
UK	9,115	10,753
Rest of World	28,154	24,534
	<u>37,269</u>	<u>35,287</u>

The analysis of profit before taxation by class of business has not been disclosed as in the opinion of the directors, this information would be prejudicial to the company's operations.

2. INTEREST PAYABLE

	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
Amounts payable to the BBC	3,128	279,927
Interest on bank loans and overdrafts repayable within 5 years	11,116	115,126
	<u>£ 14,244</u>	<u>£ 395,053</u>

3. DIRECTORS AND EMPLOYEES

	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
a) Employees		
Staff costs - wages and salaries	3,666,608	3,155,132
social security costs	254,529	233,592
other pension costs	593,538	521,476
	<u>£ 4,514,675</u>	<u>£ 3,910,200</u>

The average number of employees employed by the company during the year was 332 (1985 - 305)

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

3. DIRECTORS AND EMPLOYEES (continued)

b) Directors' emoluments	<u>1986</u> £	<u>1985</u> £
The remuneration paid to the directors of the company was:		
Fees	N11	N11
Executive emoluments	128,924	116,864
	<u>£128,924</u>	<u>£116,864</u>
Fees and emoluments (excluding pension contributions) disclosed above include amounts paid to:		
The chairman	N11	N11
The highest paid director	£36,989	£33,494
	<u>1986</u> Number	<u>1985</u> Number
The number of other directors who received fees and other emoluments (excluding pension contributions) in the following ranges		
£ 0 - £5,000	2	2
£25,001 - £30,000	1	1
£30,001 - £35,000	1	1

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1986</u> £	<u>1985</u> £
Profit on ordinary activities before taxation is stated after crediting:		
Gain on foreign currency translation	-	951,248

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)		
	<u>1986</u>	<u>1985</u>
	£	£
And after charging:		
Depreciation of tangible fixed assets	1,316,727	1,096,218
Amortisation of investment in programmes for the future sales	5,124,080	4,393,380
Remuneration of auditors	30,635	36,906
Loss on foreign currency translation	984,093	-
Exceptional item:		
By an agreement with Acorn Computers Limited dated 16th July 1986 the company agreed to reduce the royalty and interest receivable for the period 1st August 1984 to 30th June 1985. The amount of the reduction is included with 'Distribution expenses'	315,000	1,886,130
	<hr/>	<hr/>
5. TAX ON PROFIT ON ORDINARY ACTIVITIES		
	<u>1986</u>	<u>1985</u>
	£	£
Current:		
U.K. Corporation tax at 40% (1985 - 45%)	1,504,099	869,808
Deferred taxation	(723,684)	816,192
	<hr/>	<hr/>
	780,415	1,686,000
Overseas taxation	178,267	144,740
	<hr/>	<hr/>
	958,682	1,830,740
	<hr/>	<hr/>
Prior year adjustment:		
Deferred taxation	(195,940)	(114,873)
Group relief receivable	70,761	(243,697)
Corporation tax	(298,923)	(342,314)
	<hr/>	<hr/>
	(424,102)	(700,884)
	<hr/>	<hr/>
	£534,580	£1,129,856
	<hr/>	<hr/>

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

6. FIXED ASSETS

	Total	Buildings	Plant and Machinery	Fixtures, fittings, tools and equipment
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Cost				
At 1st April 1985	9,832,450	5,101,731	4,275,250	455,469
Additions	1,187,227	239,333	790,774	157,120
Disposals	(52,655)	-	(44,241)	(8,414)
At 31st March 1986	<u>10,967,022</u>	<u>5,341,064</u>	<u>5,021,783</u>	<u>604,175</u>
Accumulated depreciation				
At 1st April 1985	1,800,254	208,565	1,343,847	247,842
Charge for the year	1,316,727	133,551	990,377	192,799
Eliminated on disposal	(29,446)	-	(23,346)	(6,100)
At 31st March 1986	<u>3,087,535</u>	<u>342,116</u>	<u>2,310,878</u>	<u>434,541</u>
Net book value				
At 31st March 1986	<u>£ 7,879,487</u>	<u>£ 4,998,948</u>	<u>£ 2,710,905</u>	<u>£ 169,634</u>
At 31st March 1985	<u>£ 8,032,196</u>	<u>£ 4,893,166</u>	<u>£ 2,931,403</u>	<u>£ 207,627</u>

7. INVESTMENT IN PROGRAMMES FOR FUTURE SALE

	<u>1986</u> <u>£</u>
Cost	
At 1st April 1985	23,585,686
Additions	6,540,274
Written off during the year	(412,707)
	<u>29,713,253</u>
Less: cost of programmes fully amortised as at 31st March 1986	<u>4,169,087</u>
At 31st March 1986	<u>£25,544,166</u>

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

7. INVESTMENT IN PROGRAMMES FOR FUTURE SALE (continued)

	<u>1986</u> <u>£</u>
Amortisation	
At 1st April 1985	10,529,759
Amortisation	4,871,679
Amortisation on programmes written off during the year	(160,306)
	<u>15,241,132</u>
Less: amortisation on programmes fully amortised as at 31st March 1986	4,169,087
	<u>11,072,045</u>
At 31st March 1986	
Net book value	
At 31st March 1986	<u>£14,472,121</u>
At 31st March 1985	<u>£13,055,927</u>

8. INVESTMENT IN AMERICAN DISTRIBUTOR

On 21st April 1986 the company acquired the remaining 98% of the stock of Lionheart Television International Inc., its North American distributor. The value at 31st March 1986 represents the then minority interest at cost.

9. STOCKS

	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
Raw materials and consumables	121,494	157,329
Work in progress	1,539,771	322,333
Finished goods and goods for resale	856,898	990,245
	<u>£2,518,163</u>	<u>£1,469,907</u>

10. DEBTORS

	<u>1986</u> <u>£</u>	<u>1985</u> <u>£</u>
Trade debtors	12,985,162	10,122,879
Other debtors	14,139	33,594
Prepayments and accrued income	447,891	561,994
	<u>£13,447,192</u>	<u>£10,718,467</u>

Trade debtors include debtors due after more than one year of £1,289,920 (1985: £458,031).

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

11. CREDITORS

	<u>1986</u>	<u>1985</u>
	<u>£</u>	<u>£</u>
Amounts falling due within one year:		
Bank loans and overdrafts	339,771	1,662,248
Trade creditors	6,416,333	5,161,044
Amounts owed to the BBC	20,645,571	10,011,263
Corporation tax	1,739,983	1,124,854
Accruals and deferred income	1,802,291	871,519
	<u>£30,943,949</u>	<u>£18,830,928</u>

12. DEFERRED TAXATION

	<u>1986</u>	<u>1985</u>
	<u>£</u>	<u>£</u>
The full potential liability is:		
Capital allowances on tangible fixed assets	2,006,275	2,295,837
Capital allowances on investment in programmes for future sale	3,110,606	3,727,775
Other timing differences	10,746	23,639
	<u>£ 5,127,627</u>	<u>£ 6,047,251</u>
Amount provided (the movement in the year being a transfer to profit and loss account)	<u>£ 5,127,627</u>	<u>£ 6,047,251</u>

13. CALLED UP SHARE CAPITAL

	<u>1986</u>	<u>1985</u>
	<u>£</u>	<u>£</u>
Authorised		
1,000,000 shares of £1 each	<u>£1,000,000</u>	<u>£1,000,000</u>
Allotted, called up and fully paid		
250,000 shares of £1 each	<u>£250,000</u>	<u>£250,000</u>

BBC ENTERPRISES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1986 (continued)

14. PROFIT AND LOSS ACCOUNT

	<u>1986</u> £
At 1st April 1986	8,350,115
Retained profit for the year	<u>1,663,665</u>
At 31st March 1986	<u>£10,013,780</u>

15. CAPITAL COMMITMENTS

	<u>1986</u> £	<u>1985</u> £
Contracted for but not provided for	£ 317,101	£ 176,969
Authorised but not contracted for	<u>£ 415,710</u>	<u>£ 460,257</u>

16. MERGER WITH BBC PUBLICATIONS

On 3rd May 1986 the activities of BBC Publications, a division of the BBC trading in journals and books, were merged with the company.

17. BRITISH BROADCASTING CORPORATION

The company is a wholly owned subsidiary of the British Broadcasting Corporation which is incorporated in the United Kingdom by Royal Charter.