YORKSHIRE TYNE TEES TELEVISION HOLDINGS plc

ANNUAL REPORT & ACCOUNTS

For the twelve month period ended 31 December 1996

A07 *AVFQCWHZ* 438
COMPANIES HOUSE 12/06/97

The opening of the 'world's largest television studio' by the Prime Minister, The Rt. Hon. John Major, MP.

CONTENTS

CHAIRMAN'S STATEMENT	Page 2
YORKSHIRE-TYNE TEES TELEVISION PROGRAMMES	Page 6
OPERATING AND FINANCIAL REVIEW	Page 18
BIOGRAPHIES OF EXECUTIVE DIRECTORS	Page 20
BIOGRAPHIES OF NON-EXECUTIVE DIRECTORS	Page 21
DIRECTORS AND ADVISERS	Page 22
REPORT OF THE DIRECTORS	Page 23
CORPORATE GOVERNANCE	Page 27
REPORT OF THE REMUNERATION COMMITTEE	Page 29
REPORT OF THE AUDITORS	Page 34
CONSOLIDATED PROFIT AND LOSS ACCOUNT	Page 35
CONSOLIDATED BALANCE SHEET	Page 36
BALANCE SHEET	Page 37
CONSOLIDATED CASH FLOW STATEMENT	Page 38
ACCOUNTING POLICIES	Page 39
NOTES TO THE ACCOUNTS	Page 41
FINANCIAL TIMETABLE	Page 52
FIVE YEAR SUMMARY	Page 53
NOTICE OF ANNUAL GENERAL MEETING	Page 54

CHAIRMAN'S STATEMENT

Ward Thomas

The past year has been a very successful one for the Company – with record profits and record programme success.

I am pleased to be able to announce that profit before tax has risen from £21.6 million in 1995 to £30.2 million in 1996, an increase of 40%. As a result, your Directors recommend a final dividend of 11.2 pence per share. Together with the interim dividend of 6.8 pence this makes a total dividend for the year of 18 pence, compared with 14 pence in the previous year.

Once again this result has been achieved by stringent cost controls combined with strong programme output, with programme revenues up 9% and costs, excluding licence fee, being held steady in spite of an increase in programme activity.

Programme success and profitability are inextricably linked in a company which is one of the major providers of programmes for both Channel 3 and Channel 4. ITV breaks down into two camps – Publisher Contractor and the older established Producer Contractor of which category we are long standing members. Without programmes you do not have an audience: maintaining several streams of successful programmes requires an experienced and talented corps of producers and an inherent production ethos in the organisation. That is what attracts talent – actors, actresses, writers and directors who have confidence in the Company and entrust their reputation to it every time they agree to participate in a new series.

CHAIRMAN'S STATEMENT

As the number of channels throughout the world multiplies we are finding an increasing market for our skills and our programme product. Programme making will continue to be our prime development, and I anticipate that expansion in that direction will take up all our skills, energy and financial resources in the coming years.

As part of that development plan we recently opened a new studio in Leeds with a floor area of 24,000 square feet. This is certainly by far the largest television studio in this country, and probably the world, and its size will make a great contribution to production capacity, efficiency and profit. The Prime Minister kindly performed the opening ceremony and was introduced to the customers of the Woolpack, and the mysteries of line dancing performed on the *Emmerdale* set.

Emmerdale has been the most successful soap in terms of audience growth year on year. It has increased from two to three episodes per week and all three episodes now figure regularly in the ITV top ten ratings. We also produced three of the year's top five drama series – *A Touch of Frost*, *Heartbeat* and the *Catherine Cooksons*. I think it is truly noteworthy that it is now quite usual to find that four of the programmes in the weekly Channel 3 top ten and five in the weekly Channel 4 top ten were produced by your Company.

Our factual programmes also feature strongly in the network schedule: *3D* continues its successful weekly run and we continue to be a major contributor to *Network First*. Additionally we have provided programmes for many other channels, including BSkyB, the Discovery Channel and Carlton Select.

During the course of 1996 we also revamped our regional programmes in both Yorkshire and Tyne Tees which we increasingly refer to as Channel 3 North East because the company coverage now extends far beyond the limited area described by that company's original title. Between them the two companies produce over 1,000 hours per year of programming of special appeal to their local audiences and it is rewarding to see the new formats proving highly successful, and winning a consistent majority share of audience. It was particularly pleasing to see Tyne Tees receive the Royal Television Society's award for the Best Regional Television News Programme in Britain. For many years the BBC's local programme in the North East had attracted the larger share of audience – a situation which has now been reversed and the RTS award was a timely recognition of what has been achieved.

Film programming for the US market continues to develop and six commissions are now in hand for major American clients. Additionally, we and other ITV companies will be making cinema quality films which will have a guaranteed airing on ITV, and with this in mind we have associated

ourselves with a grouping which will seek funding from the financial pool to be created by the National Lottery.

While funding from the Lottery would be helpful it should be remembered that not only do we fund our own productions, but also we finance many other productions and this is part of the collaborative process that allows us to acquire access to such noteworthy drama productions as *The Governor* – and the forthcoming *Midsomer Murders* from Bentley Productions. The financing process not only secures invaluable programming but is a profitable activity, because we regularly provide facilities and administrative services for such programmes.

Our educational multimedia joint venture with International Thomson continues to develop satisfactorily. With the benefit of its new Chief Executive and our investment in CD-ROM development capacity, the operation is being expanded in an integrated fashion across television, video, CD-ROM and print. We continue to be confident that this will be a worthwhile development. Many others in the CD industry have been experiencing a very difficult time – perhaps because too many sprang up too quickly. We are strictly focused on the education market and as the computer screen plays an ever increasing role in the curriculum, we believe there will be a flourishing market for our product as long as we concentrate on quality and the themes that education requires.

We have a very effective manning arrangement; our studio and production facilities are tightly scheduled and as a result we are able to make available surplus time to outside users. This facility hire business is proving to be a valuable earner, with recent outside users including the BBC, United News and Media, Paradine Productions and Action Time.

Advertising sales have been disappointing – falling to 10.31% of total ITV advertising revenue – more than £12 million below expectations at the start of the year. It was a year in which the advertising pattern became very distorted by virtue of the fact that one major advertiser significantly reduced expenditure for the greater part of the year and there was an extremely large upsurge in telecommunications advertising in the south.

Both these adverse impacts have now been much reduced as the advertiser in question is increasing spend again and the telecommunications campaign has moved north. Revenue growth of more than 5% in the first quarter of 1997 allows us to have greater confidence that across the year the forecast of a 10.9% share of ITV revenue by Laser, our sales agents, will in fact be achieved. There are incentives for Laser to beat this target and penalties in the event of a shortfall.

CHAIRMAN'S STATEMENT

Nevertheless, the present position is not satisfactory, and I am determined that our share must be restored to the levels achieved over very many years in the past. The region is prospering thanks to major inward investment and there is no logical reason why we should not regain lost ground. Consequently we are discussing with Laser the idea of marketing the total north as a single region – to encourage the advertiser to use the total northern area and to simplify some aspects of handling and transmitting commercials. We expect to come to a decision shortly, and I will be able to announce our future plans by the time of the Annual General Meeting in May.

Going into 1997, costs are under strict control and the only cost element to show a significant year on year increase is the Licence Fee which is subject to the effect of the Retail Price Index. The amount of our indexed increase is greater than the total fixed licence fee of some other companies, and I think this is a monstrous injustice by any standard. We have lobbied consistently for the present system to be replaced by our Level Playing Field concept and it is encouraging to see that this concept is increasingly accepted as a sensible way to move forward. The first special tax to be applied to commercial television in this country was introduced by Selwyn Lloyd, the then Chancellor of the Exchequer, in the 1961 Budget, and was termed Television Advertisement Duty. I believe that if Government went back to square one and reapplied such a duty to all commercial broadcasters we would have a regime which was not only even-handed, but would leave producers such as ourselves with the resources to develop their programming to the benefit of the national economy and the viewing public. Importantly this would result in no loss of revenue to the Treasury, but would bring major benefits to your Company.

The Company is in good heart – we have excellent staff and management and we thank them for their sterling work in the past year. With rising advertising revenue and share, a strong forward order book for programming and costs under firm control, I am confident that your Company can look forward to continuing growth in the current year.

Ward Thomas

Ward Thomas

Chairman and Chief Executive

10 March 1997

PC Nick Rowan and the new love of his life, schoolteacher Jo Weston, confidently steered the sixth series of *Heartbeat* into its familiar dominating position.

The series comfortably beat off all opposition, on occasion pipping *Coronation Street* to top slot with the highest audience of the week. On average, 17 million viewers sat down to watch every Sunday night the series was on air – an amazing 60% of the total audience available to both commercial channels and the BBC.

The programme's spectacular success was echoed in the performance of *Heartbeat* series five which was repeated during the year and gained average audiences of 7.7 million against first runs of highly competitive shows on other channels.

Heartbeat's compelling soundtrack received particular endorsement during the year: the '20 Love Songs' album earned a platinum disc with more than 35,000 sales.

Emmerdale

"During 1996, *Emmerdale* has improved on every count – ratings, share and audience appreciation – and increased its average figures by 1.4 million. More significantly, it has delivered to ITV that most desirable commodity – younger, upmarket viewers." *Dorothy Hobson, Daily Telegraph.*

The television industry's research figures bear this out: they prove that *Emmerdale* was indeed ITV's biggest success story of 1996.

The programme's share of audience went up significantly in every single region last year, including London. A remarkable achievement unmatched by its competitors. Unique among the soap genre, *Emmerdale's* audience profile has become younger and more upmarket. And on every occasion *Emmerdale* went head to head with BBC rival *EastEnders* it was the runaway choice of the viewers.

Such success led to a commission for a third weekly episode and several one-hour specials, including an *Emmerdale* 'week' in April 1997 – an apt anniversary present for a soap which will then be celebrating its 25th year, and a treat for its ever growing band of fans.

To satisfy the increasing appetite for the show, a new *Emmerdale* studio – at 24,000 square feet, the largest in the UK and probably the world – was opened by the Prime Minister the Rt. Hon. John Major MP at the beginning of 1997.

The immense popularity of Dame Catherine Cookson's books was once agai reflected in huge audiences for the *Cookson Dramas* broadcast on ITV this yea Two mini-series, *The Tide Of Life* and *The Girl*, continued the pattern of quality productions and top-ratings with average peak-time audiences of 12 and 13 millio respectively.

And three more were filmed during the year; *The Wingless Bird*, *The Moth* an *The Rag Nymph*.

The universal appeal of these engaging and intricate tales grows as the Cookso catalogue expands, with programme sales following the successful path of the origina books across the world.

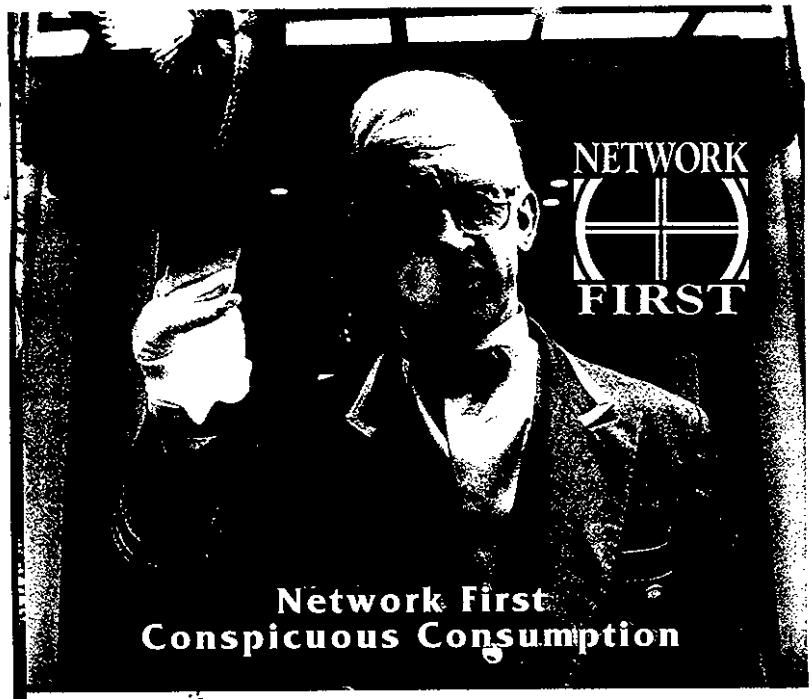
Cookson Drama

A TOUCH OF FROST

David Jason: honoured for lifetime achievement.
National Television Awards 1996.

The fourth series of *A Touch of Frost* brok records: audiences averaging 17.2 million ue it the 'most-watched' drama series trans on British television during 1996.

Da Jason's ng strength and integrity have made th character o Inspector Jack Frost totally absorbing d persuasive – coupled with well-crafted stories and first class supporting team, the series this year recorded some of the highest audience appreciation figures was nominated for a BAFTA Award.



Network First
Conspicuous Consumption

Sunday Live

Network First
Stolen Brides

The factual team once again set the pace in 1996 with mo exclusive stories and high ratings.

Two Yorkshire Television documentaries were the mos watched single *Network Firsts* on ITV. Another achieved tl best audience share of the year.

Highlights of the year included the extraordinary stoı of Karen Lawson, told in *Miss Popular's Crack City; Sile Victims: The Untold Story of The Yorkshire Ripper* receive national headlines; and *The Killing of Kathleen Waugh*, tl story of the unsolved murder of a mentally handicappe woman.

Network First
Psychosurgery

Network First
Miss Popular's Crack City

3D

Julia Somerville

3D with Julia Somerville remained at the forefront of factual coverage with its report on stalking victim Tracey Sant. It also hit the headlines with a shocking special on the scandal of people driving under the influence of drugs.

Sunday Live undertook an ambitious outside broadcast live from Belfast in its penultimate show. The event – a rally for peace on behalf of the youth of Ireland – included live performances from Ireland's top entertainers and was fronted by Gloria Hunniford and Eamonn Holmes. *Jimmy's* ran for 26 weeks on Sky Television in tandem with local screening. The satellite company also screened repeats of some of the more memorable episodes from previous series. And one of our big successes on Channel 4 was the six-part *Seasiders* – a real-life *Hi-De-Hi* – which was the best watched series in its slot for 1996.

3D
The Gift

3D
The Reptile House

3D
Runaways

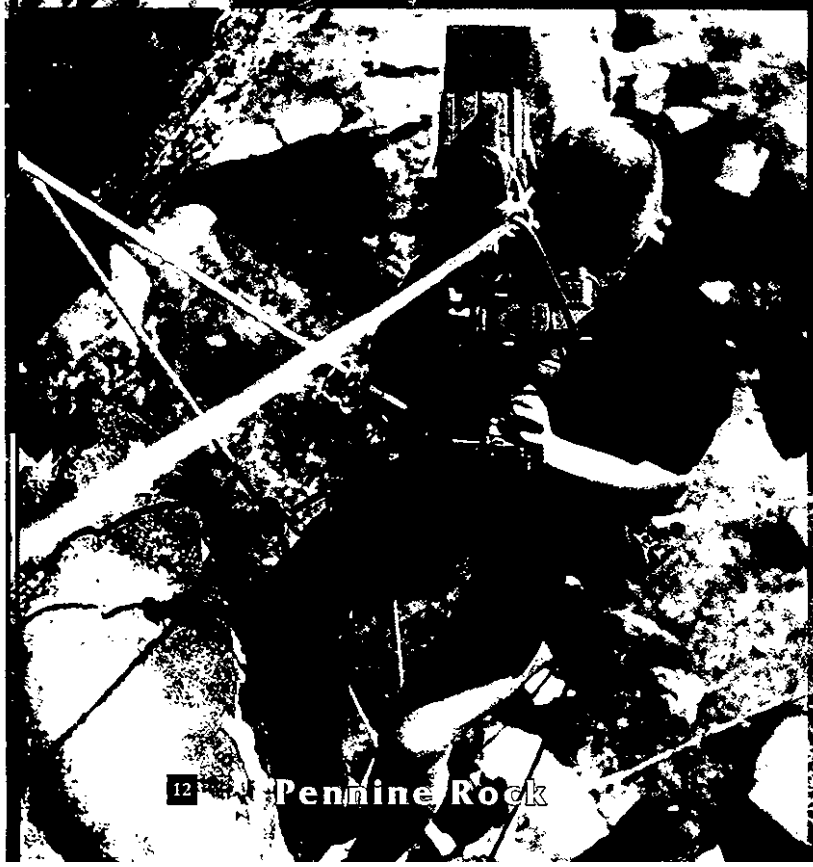
The year saw dramatic and highly successful changes to the regional programme schedules.

In Yorkshire a new nightly magazine show, *Tonight*, was introduced to follow the long-established news programme *Calendar* and now gives viewers a top quality and fully comprehensive one-hour regional service in early peak time.

Meanwhile, Tyne Tees Television relaunched itself on-screen as Channel 3 North East with the introduction of *North East Tonight with Mike Neville*. Mike 'came home' from our BBC rivals to anchor this one-hour flagship of news and current affairs. He scored an immediate ratings hit and the programme lost no time in earning one of the very highest accolades in regional broadcasting when the Royal Television Society voted it 'Best Regional Television Programme in Britain' at its 1996 Gala Awards night in London.

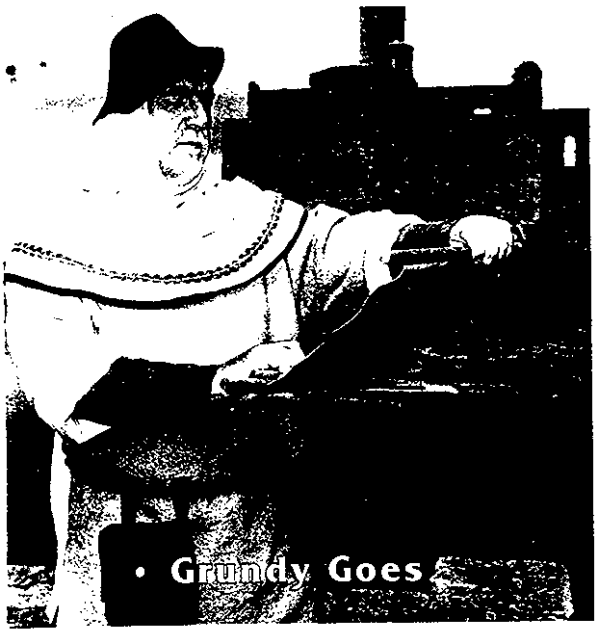
Around The House

It's A Vet's Life



Pennine Rock

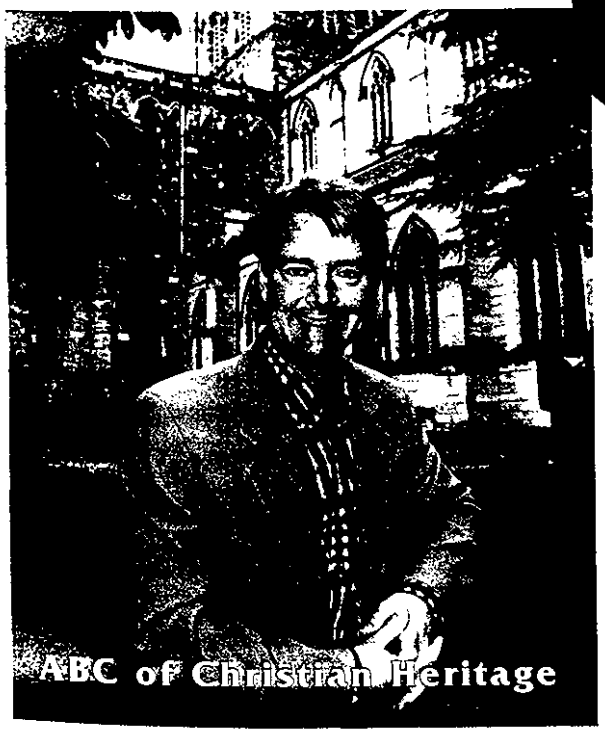
Dales Diary



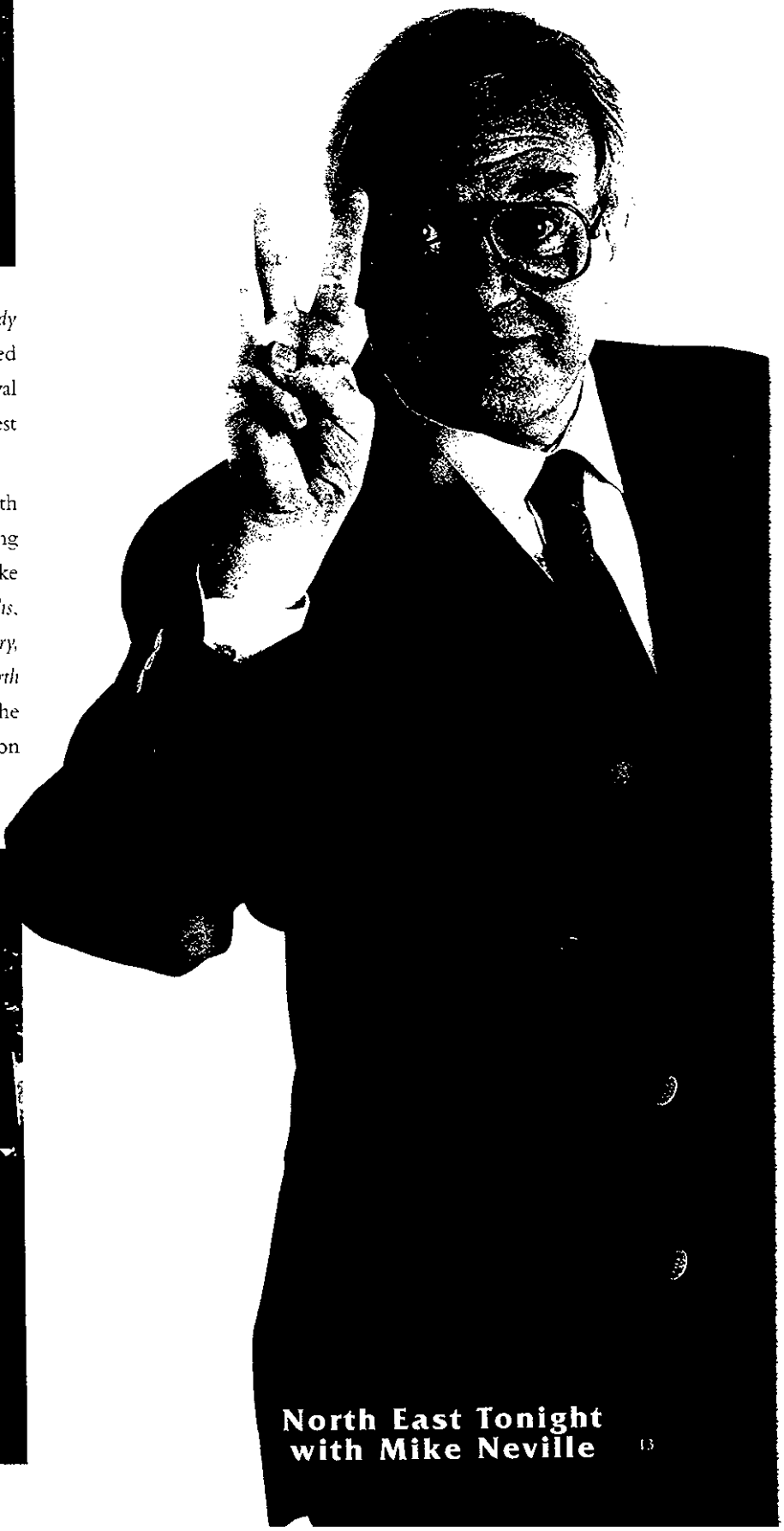
• Grundy Goes

Further honours during the year were won by *Grundy Goes* in which local historian John Grundy uncovered the region's architectural wealth and earned the Royal Television Society North East Centre's award for best factual programme.

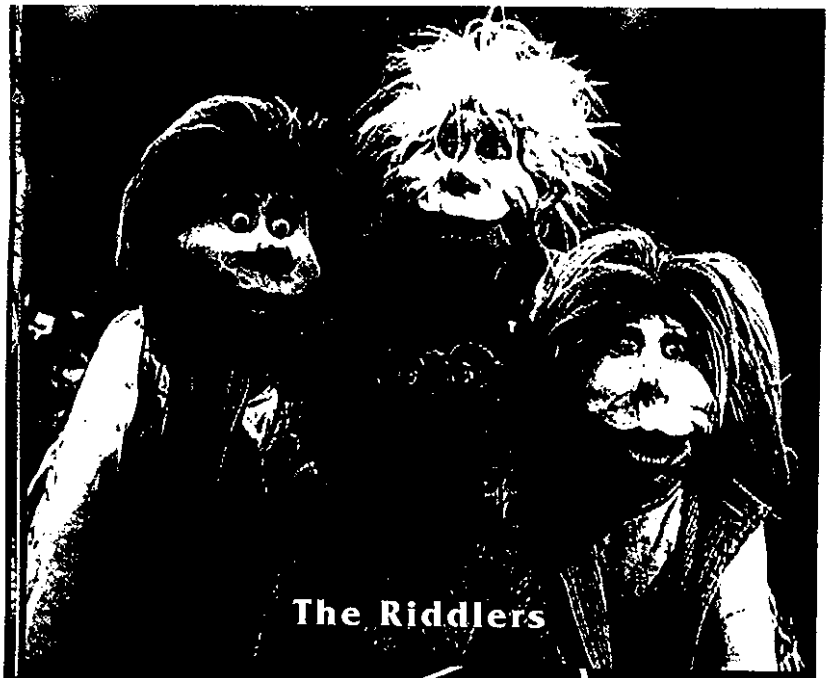
1996 was marked in both Yorkshire and the North East by an especially wide range of stimulating and entertaining programmes. New programmes, like *Pennine Rock, The Football Show* and *Laughs at the Baths*, together with established favourites like *Dales Diary, ABC of Christian Heritage, It's A Vet's Life* and *The North East Match* created a mix piquant enough to satisfy the appetite of every one of the eight and a half million viewers within the combined transmission area.



ABC of Christian Heritage

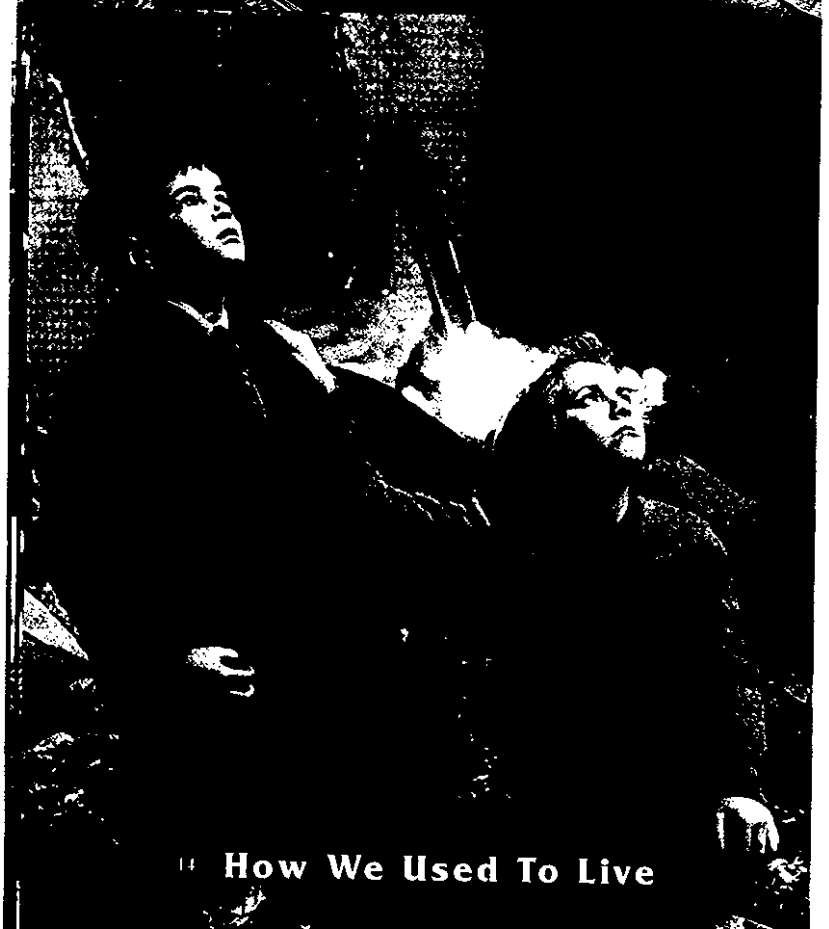


North East Tonight with Mike Neville



The Riddlers

The Big Bang



How We Used To Live

Children's output took on an international feel this ye with the new series *The Scoop* presented by form Australian soap star Dannii Minogue and popul children's presenter Sally Gray.

Dannii and Sally travelled the world from Icelar to America in this 'how do they do that?' seri which attracted a good audience. A new series w appear in 1997.

The year started with a bang – a *Big Bang* to be preci – with a new series featuring DIY science experiment presented by Gareth Jones and Kate Bellinghan Fact sheets with details of the fun experiments wer produced and more than 32,000 were sent out. Th series was recommissioned and shortlisted for an award

Adam's Family Tree, a new comedy drama series, ca well known actors including Bill Oddie, Joh Altman and Jean Alexander as long-lost relative of 12-year-old Adam, and performed well. An *The Riddlers*, for pre-school children, successfull completed its eighth series and a ninth was promptl ordered.

Following the success of *The Essential Guid to Entertainment*, Tyne Tees Children's department wer commissioned to make three more programmes i 1996, the first a live one hour special *The Essentia Guide To Summer* and two Christmas special *The Essential Guide To Parties* and *The Essential Guid to Christmas*.

The Scoop
presented by Dannii Minogue

Cross Wits

Bruce's Price Is Right

Through The Keyhole

Countdown

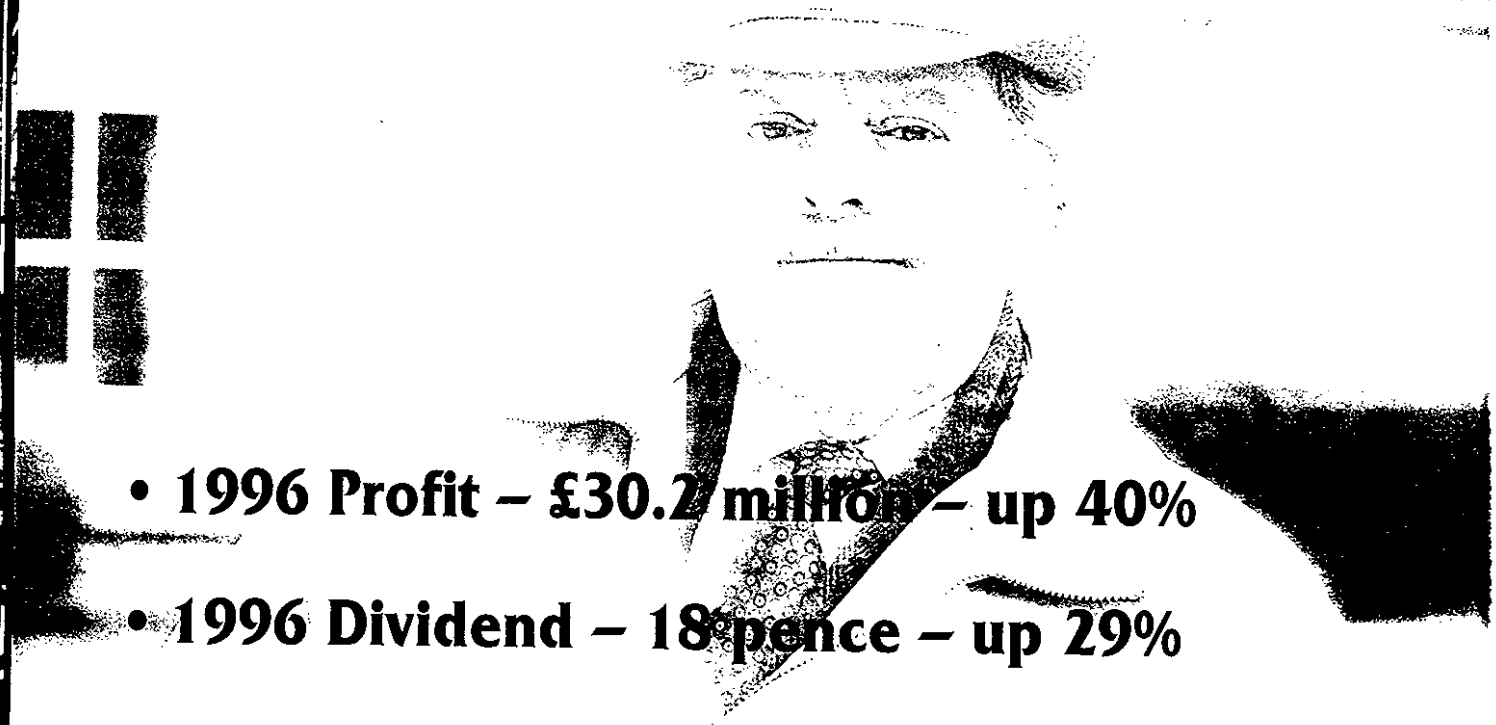
Entertainment shows continued to hold their customary high profile across the network schedule.

Top performer, unsurprisingly, was the inimitable Bruce Forsyth. His second series of *Bruce's Price Is Right* built on the first with an increase of one million viewers and a rocketing audience share. An average of more than nine million viewers tuned in nightly.

Cross Wits, presented by Tom O'Connor, held its appeal to daytime quiz fans while pre-production on a new series of *Chain Letters* went ahead with new presenter David Spikey.

Countdown scooped probably the biggest ever programme commission during the year. The show that launched Channel 4 fourteen years ago will now run five nights a week, 52 weeks a year until late 1999 – a great tribute to hosts Richard Whiteley and Carol Vorderman and the production team who together have made all five weekly shows regular Channel 4 chart-toppers.

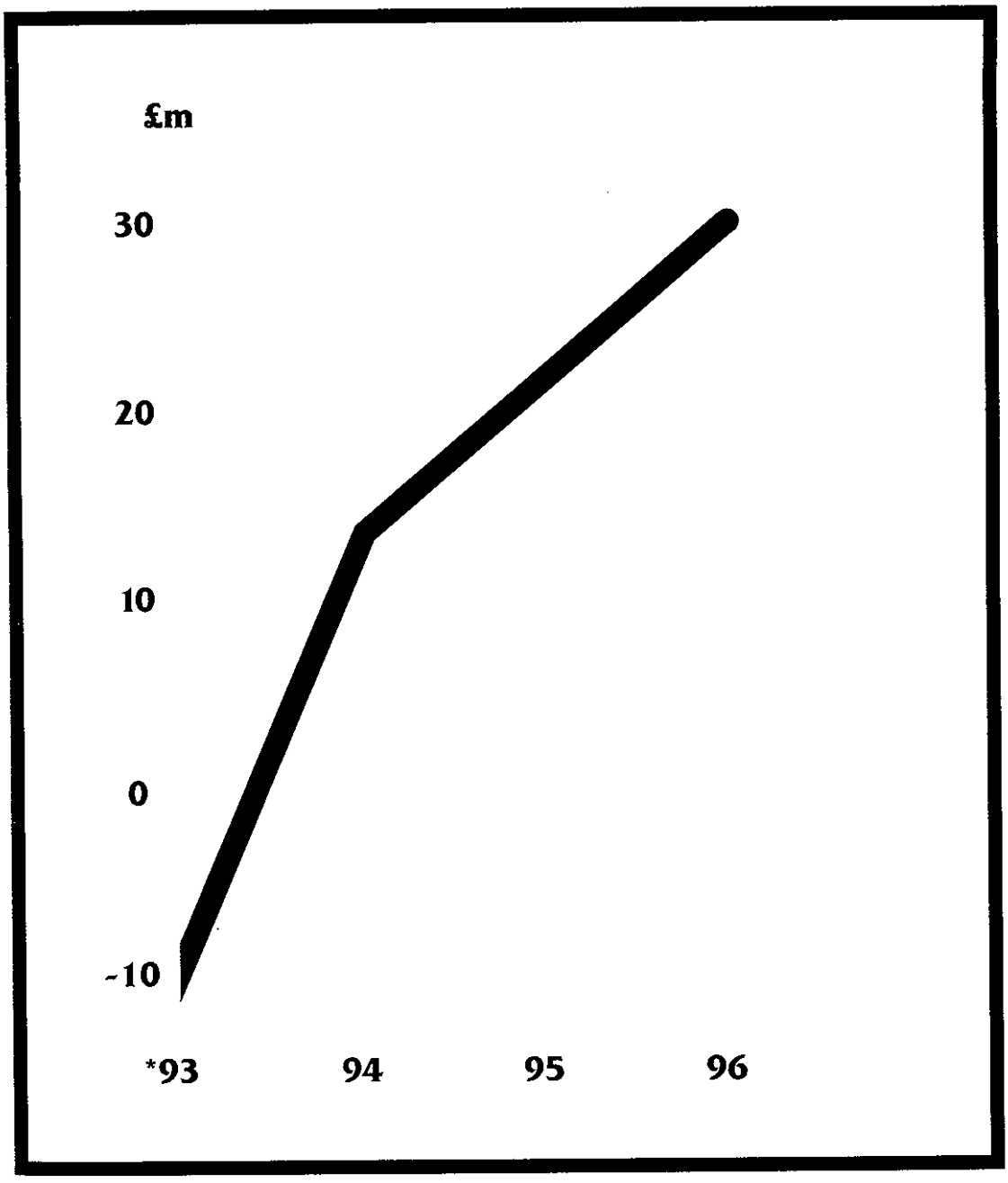
FROST GETS RESULTS



- 1996 Profit – £30.2 million – up 40%
- 1996 Dividend – 18 pence – up 29%
- Frost, Heartbeat, Emmerdale, Catherine Cookson and Countdown dominate the ratings on both Channel 3 and Channel 4
- A record year for programme commissions
- Continuing investment in greater efficiency
- The best year yet – and still improving

MAKES YOUR HEARTBEAT FASTER

YORKSHIRE-TYNE TEES TELEVISION PROFIT BEFORE TAX



**'93 represents 15 months to 31 December '93*

OPERATING AND FINANCIAL REVIEW

In his statement on pages 2 to 5 the Chairman discusses the performance of the Group over the past year together with the prospects for the future. The purpose of this review is to enable a better understanding of the financial aspects of the Group's operations.

Profit and Earnings

The profit before tax and exceptional items for 1996 amounted to £31.4 million compared with a pre-exceptional profit of £21.7 million in 1995. This resulted in an increase in earnings per share calculated on an adjusted FRS3 basis from 28.7p to 39.7p. During the year, a review was made of the Group's surplus properties and a further provision of £668,000 was made in respect of the associated rent voids. Some further redundancies were made during 1996 at a cost of £472,000, as we continued to identify any remaining non-core elements of our business.

Staff participate in the profits both through the employee share scheme and through profit related pay which was first introduced in 1995 and which has now been renewed for a third year with the overwhelming assent of employees.

Trading and Operations

Over the year, the Group's share of advertising revenue has fallen from the 10.67% achieved in 1995 to a level of 10.31%. Although this was more than offset by an increase in ITV's total revenues, this is clearly unsatisfactory. Our sales agent, Laser, has been set stringent targets for the new year and its performance against those targets will be monitored closely.

Our sales of programmes both to the ITV network and to other UK based broadcasters showed significant increases over the previous year. This confirms the continuing appeal of our productions to an industry where a growing demand for material is matched with a constant pressure on prices. The agreement for the supply of *Countdown* to Channel Four through to the end of 1999 will provide a firm basis to continue our programming strength into the future.

Our concentration on efficiency in all aspects of our business has led to staff and operating costs both showing continuing reductions over previous years.

Staff numbers have consolidated at around the levels achieved in 1995. However, we were able to offer staff status to a number of our long-term contractors in January 1996, reversing the trend which had been developing in television, as well as in many other industries. This move not only recognised the employment law rights of such individuals, but also removed an element of uncertainty about their longer term status with the Group. This was the culmination of our programme to introduce flexible working practices within the Group to enable us to be totally responsive to changes in production demands. It has allowed us to produce considerable additional output with broadly similar manning levels to the previous year. As the accounts show, approximately 30% of our total staff numbers are now employed on a short-term contract basis; many have been engaged as a result of the commissioning of the third weekly episode of *Emmerdale*.

Taxation and Dividends

The effective rate of taxation for the year is fractionally above the mainstream corporation tax rate of 33%. Overall, the level of profit has meant that the impact of disallowable expenditure has been reduced and this in turn has been virtually eliminated by the utilisation of capital losses brought forward together with the availability of deferred tax relief for which no asset had been recognised in earlier years.

As explained in the Chairman's half year statement, the levels of the interim and final dividends have been adjusted so as to give a better balanced distribution pattern across the year although our overall dividend policy is unchanged and the total dividend of 18p per share remains twice covered.

Investments

1996 saw the implementation of the decision to move *Emmerdale* from its established production location to a new dedicated facility in Leeds, close to the main studio complex. At a cost of some £2.5 million this project involved a complete upgrading of both the technical and general production facilities and its commissioning was timed to meet the introduction of the third weekly episode of the programme. In the spring of 1997 we expect to commence the construction of dedicated outdoor facilities for the production of *Emmerdale*, the cost of which is included in capital commitments totalling £3.5 million.

The other significant investment during the year was the subscription for £4 million preference shares in Yorkshire International Thomson Multimedia Limited (YITM). £1.5 million of the investment was made in cash in order to allow YITM to increase its working capital and the balance will be provided in the form of programmes, production facilities and advertising as required over the next five years. An equivalent investment, with a similar cash element, was made by International Thomson, our partner in the enterprise.

Over recent years the Group has provided access to the ITV network for independent producers. During 1995, and increasingly in 1996, we have also provided the funding for these productions with repayment coming on the sale of the programme to the network. These funding arrangements frequently have been combined with an agreement to supply production and post production facilities which increase the basic profit contribution.

Cash Flow

Other than for the management of our exposure to foreign currencies, we have not needed to utilise our overdraft facilities during the year and all cash requirements, including capital expenditure and other investments, have been met from our own accumulated resources.

N. Castro

N. Castro

Nicholas Castro
Group Financial Director
10 March 1997

BIOGRAPHIES OF DIRECTORS

EXECUTIVE DIRECTORS

Ward Thomas

Aged 73, was appointed Chairman and Chief Executive of the Company in November 1993, having been appointed a director in September 1992.

He has had a long career in television, having been successively managing director of Grampian Television, founder managing director of Yorkshire Television and chairman and chief executive of Trident Television plc.

Bruce Gyngell

Aged 67, was appointed as Group managing director of the Company in May 1995. He is also chairman of BRITE, the joint distribution company of Yorkshire, Tyne Tees, Granada and LWT.

Prior to his appointment, he was executive chairman of Nine Network Australia and remains a director of the parent company, Publishing and Broadcasting Limited. He was previously chairman and managing director of TV-am, chairman of the Australian Broadcasting Tribunal and managing director of ATV Limited.

John Calvert

Aged 59, he joined Yorkshire Television in 1988 as director of personnel. In March 1993 he was appointed managing director of Tyne Tees Television and a director of the Company. He retires in June of this year.

Since moving to Newcastle, he has been appointed a trustee of the Cleveland Community Foundation, to the board of the Northern Sinfonia and the board of Newcastle Initiative. He is also chairman of the Newcastle Education Business Partnership, a member of Council of North East Chamber of Commerce and a governor of Newcastle College.

Nick Castro

Aged 45, was appointed Group financial director in May 1994 from KPMG, where he was a London-based consulting partner, specialising in financial management and corporate restructuring. Prior to joining KPMG in 1984, he had financial controllerships with the South African Breweries group and Tate & Lyle plc. He qualified as a chartered accountant with Coopers & Lybrand.

BIOGRAPHIES OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Sir Ralph Carr-Ellison

Aged 71, was appointed a director of the Company in September 1992. He is chairman of Tyne Tees Television Holdings P.L.C. and Tyne Tees Television Limited, of which he has been a director since 1965. He is Lord Lieutenant of Tyne and Wear, a member of the Court of the University of Newcastle upon Tyne and is a vice president, and formerly chairman, of The Automobile Association.

Robert Dickinson

Aged 62, was appointed a director of the Company in September 1992. He is a director of Tyne Tees Television Holdings P.L.C. and has been a director of Tyne Tees Television Limited since 1967. He is chairman of the Company's Audit Committee and a member of the Remuneration Committee.

He is senior partner of Dickinson Dees, solicitors, in Newcastle. He is also chairman of the Northern Rock Building Society, Grainger Trust PLC and Northern Investors Co PLC, a local director of Barclays Bank PLC and a director of a number of other companies.

Kenneth Dixon

Aged 67, was appointed a director of the Company in May 1989 and of Yorkshire Television Limited in June 1989. He is chairman of the Company's Remuneration Committee and a member of the Audit Committee.

He was chairman of Rowntree plc from 1981 to 1989, and deputy chairman of Bass PLC from 1990 to 1996. He is currently a part-time member of The British Railways Board, chairman of the Council of the University of York and a trustee of the Joseph Rowntree Foundation.

Stephen Hall

Aged 63, he has been a director of the Company since June 1986 and of Yorkshire Television Limited since December 1973. He is a member of the Company's Audit Committee and of the Remuneration Committee.

He is a non-executive director of Hiscox plc. From 1962 to 1993 he was a partner in Ernst & Young, chartered accountants, and from August 1993 to December 1994 director of finance at Lloyds of London. He is chairman of the company which acts as trustee of the Yorkshire-Tyne Tees Television Pension Scheme and of the trustees of the Group's Employee Share Schemes.

Sir Paul Nicholson

Aged 59, was appointed a director of the Company in September 1992. He has been a director of Tyne Tees Television Holdings P.L.C. and of Tyne Tees Television Limited since 1981. He is a member of the Company's Audit Committee.

He is Lord-Lieutenant of County Durham, executive chairman of Vaux Group plc and chairman of the Tyne and Wear Development Corporation. He is a director of Northern Development Company Limited, a past president of the North East Chamber of Commerce, a past chairman of the Northern Region of the CBI and a vice-president (former chairman) of the Brewers and Licensed Retailers Association.

Victor Watson

Aged 68, was appointed a director of the Company in May 1989, having been a director of Yorkshire Television Limited since February 1987. He was appointed chairman of Yorkshire Television Limited in October 1993. He is a member of the Company's Remuneration Committee.

He is a director of a number of other companies and is the President of the Institute of Packaging.

DIRECTORS AND ADVISERS

Directors

Ward Thomas CBE, DFC, CdeG	*Group Chairman and Chief Executive*
Bruce Gyngell	*Group Managing Director and Chief Executive, Yorkshire Television Limited*
John Calvert	*Deputy Chairman, Tyne Tees Television Limited*
Nicholas Castro	*Group Financial Director*
Sir Ralph Carr-Ellison TD, Hon DCL*	*Chairman, Tyne Tees Television Limited*
Robert Dickinson DL*	
Kenneth Dixon CBE, DL*	
Stephen Hall*	
Sir Paul Nicholson DL*	
Victor Watson CBE, DL*	*Chairman, Yorkshire Television Limited*

(*Non-executive Directors)

Audit Committee

Robert Dickinson (Chairman)
Kenneth Dixon
Stephen Hall
Sir Paul Nicholson

Remuneration Committee

Kenneth Dixon (Chairman)
Robert Dickinson
Stephen Hall
Victor Watson

Nomination Committee

Ward Thomas (Chairman)
Bruce Gyngell
Sir Ralph Carr-Ellison
Robert Dickinson
Kenneth Dixon
Stephen Hall
Sir Paul Nicholson
Victor Watson

Registered Office and Number

The Television Centre,
Leeds LS3 1JS

Registered No. 1542206
Tel: 0113 243 8283

Merchant Bankers

J Henry Schroder & Co Limited,
120 Cheapside, London EC2V 6DS

Stockbrokers

Cazenove & Co,
12 Tokenhouse Yard, London EC2R 7AN

NatWest Wood Mackenzie & Co Limited,
135 Bishopsgate,
London EC2M 3HR

Auditors

KPMG Audit Plc,
1 The Embankment, Neville Street,
Leeds LS1 4DW

Bankers

Midland Bank PLC,
PO Box 105, 33 Park Row,
Leeds LS1 1LD

Solicitors

Linklaters & Paines,
Barrington House, 59/67 Gresham Street,
London EC2V 7JA

Registrars

The Royal Bank of Scotland plc,
Securities Services – Registrars,
PO Box No 82, Caxton House,
Redcliffe Way, Bristol BS99 7NH
Tel: 0117 930 6666

Company Secretary

Simon Carlton

REPORT OF THE DIRECTORS

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

1. Principal activities

The Company acts as the holding company of a group whose main class of business is the production and broadcasting of television programmes and the sale of television advertising.

The Company's wholly-owned subsidiary undertakings, Yorkshire Television Limited and Tyne Tees Television Limited, both incorporated in the UK, hold the licences granted by the Independent Television Commission, to provide the Channel 3 service for the Yorkshire and North East of England regions respectively. The licences came into effect from 1 January 1993 and are for a period of ten years.

2. Review of development of business

A review of the Group's progress, outlining developments during the year, is provided in the Chairman's Statement on page 2 and in the Operating and Financial Review on page 18.

3. Dividend

The directors propose a final dividend of 11.2p, payable on Tuesday, 13 May 1997 to members on the register at close of business on Friday, 11 April 1997. Together with the interim dividend of 6.8p per share, paid on 9 October 1996, this makes a total dividend for the year of 18.0p per share, compared with 14.0p for the year to 31 December 1995.

4. Share capital

4.1 Issues

Details of all shares issued during the year ended 31 December 1996 are set out in note 19 to the accounts on page 49.

4.2 Employee Share Schemes 1984 and 1995

The final appropriation of shares under the Yorkshire Television Employee Share Scheme 1984 ("the 1984 Scheme"), a scheme approved under the terms of the Finance Act 1978 and operating under the terms of a trust deed and scheme rules dated 16 August 1984 was made to the trustees of the 1984 Scheme following the 1995 Annual General Meeting. No further shares have been issued under its provisions. The 1984 Scheme, however, still continues in full force and effect in relation to shares already appropriated. As at 31 December 1996 the trustees of the 1984 Scheme held 62,934 ordinary shares of 25p each in the Company on behalf of participating members.

The first appropriation to the trustee of the Yorkshire-Tyne Tees Television Employee Share Scheme 1995 ("the 1995 Scheme"), a scheme approved under the terms of the Income and Corporation Taxes Act 1988 and operating under the terms of a trust deed and scheme rules dated 27 June 1995, was made following last year's Annual General Meeting. As at 31 December 1996 the trustee of the 1995 Scheme held 86,913 ordinary shares on behalf of participating members. It is intended to make a further appropriation to the trustee of the 1995 Scheme following the 1997 Annual General Meeting.

4.3 Tyne Tees Television Share Incentive Scheme

The Tyne Tees Television Share Incentive Scheme is an approved Scheme under the terms of the Finance Act 1978. During 1995 all remaining ordinary shares held by the trustees of the Scheme were released to participating members.

4.4 Yorkshire-Tyne Tees Television Executive Share Option Scheme 1995

Details of options granted, exercised and outstanding under the above scheme are shown in note 19 to the accounts on page 50 and details of options currently held by the executive directors are set out in section 11 of the Report of the Remuneration Committee on page 33.

4.5 Warrants

On 7 August 1992 the Company issued, free of charge, 9,889,361 warrants to shareholders on the basis of 7 warrants for every 25 ordinary shares of 25p each held. Each warrant entitles the holder to subscribe for one ordinary share at the price of 200p (subject to adjustment). The warrants are exercisable in each year on the eleventh business day following either the Company's preliminary announcement of its annual results or the announcement of its interim results. Notice of exercise of warrants has to be given to the Company's registrar within the ten business days following any such announcement. The warrants expire on 7 November 1997.

As at 31 December 1996 4,153,092 warrants had been exercised and 5,736,269 warrants remained in issue.

4.6 Substantial shareholdings

Except for the holdings of ordinary shares listed below, the directors have not been notified of any person holding 3% or more of the issued share capital of the Company as at 10 March 1997.

	Number of shares	Percentage held
LWT (Holdings) Limited	7,161,890	12.97
MAI Media Holdings Limited	7,034,000	12.74
Allquiet Investments Limited *	4,566,410	8.27
Granada Group plc	3,158,110	5.72
Littledown Nominees Limited	2,539,976	4.60
Nutraco Nominees Limited	2,398,384	4.34

* Allquiet Investments Limited is a deadlocked joint venture company jointly owned by Granada Group plc and Lazard Brothers & Co Ltd.

5. Directors

The directors are named on page 22, all of whom held office throughout the year.

In accordance with Article 99(A) of the Articles of Association, Robert Dickinson and Sir Paul Nicholson retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 99(B) of the Articles of Association, (as proposed to be adopted at the Annual General Meeting of the Company as noted in section 9 of this report), Ward Thomas and Sir Ralph Carr-Ellison retire and, being eligible, offer themselves for re-election.

The service contract of Ward Thomas is for a fixed term expiring May 1998. Robert Dickinson, Sir Paul Nicholson and Sir Ralph Carr-Ellison do not have service contracts with the Company or any of its subsidiary undertakings.

The executive directors of the Company are employed under the terms of service contracts with either the Company or Yorkshire Television Limited.

6. Directors' interests

The beneficial and family interests of directors in the shares and warrants of the Company and details of options granted to directors are set out in sections 10 and 11 of the Report of the Remuneration Committee.

7. Employees - consultation and involvement

The Group's team briefing system continues to provide employees with information on developments in all areas of the Group on a monthly basis. This is supplemented by a comprehensive communications system including Company meetings, notice boards and a house information system in Leeds.

Joint committees, which include staff representation, continue to meet regularly to consider health and safety and equal opportunities issues.

On 1 September 1996 the assets and liabilities of the Group's two pension funds merged together into one fund, the Yorkshire-Tyne Tees Television Pension Scheme. Performance of the fund is communicated to members in the trustee company's annual report and each member also receives an individual benefit statement. The board of the trustee company responsible for administration of the Pension Scheme includes both staff members and representatives from existing pensioners.

8. Disabled persons

The Group gives full and fair consideration to applications for employment received from people with disabilities having regard to their particular aptitudes and abilities and has consistently promoted positive policies on disability. When disablement occurs during the course of employment, the Group will, wherever possible, provide alternative or restructured employment and/or training. The Group will endeavour to provide, wherever practicable, modification to equipment and aids for employment and has invested considerable capital expenditure in the provision of access and toilet facilities for disabled people.

The Group liaises closely with the Employment Service Planning, Assessment and Counselling Teams and is an active member of the Broadcasters' Forum on Disability and the Northern Employers Association on Disability Issues.

9. Special business

There are a number of items of special business to be proposed at the Annual General Meeting on 9 May 1997. These relate to changes to the Company's Articles of Association and to the directors' authority to issue shares.

So far as the changes to the Articles are concerned, it is proposed to make changes as follows:

(a) to provide that all directors shall be required to retire, by rotation, removing the previous exclusions from this requirement (Resolution 8(a)); and

(b) to provide that any director over the age of 70 shall be required to seek re-election every year (Resolution 8(b)).

So far as the directors' authority to issue shares is concerned, two resolutions are proposed:

Resolution 6 renews the directors' authority to allot unissued shares for a period up to the date of the Company's Annual General Meeting in 1998 or 9 August 1998, whichever is the earlier. The aggregate nominal value of shares which can be allotted under the authority is limited to £4,602,719 which is one third of the total issued share capital as at 10 March 1997. Except for shares issued upon the exercise of warrants or options, the directors have no current intention of exercising this authority.

If new shares are to be allotted and paid for in cash, section 89(1) of the Companies Act 1985 requires that the new shares are offered first to existing shareholders in proportion to their shareholdings at that time. Such an offer is known as a rights issue and the existing shareholders' rights to be offered shares first are known as pre-emption rights.

There may be situations where it is in the interest of the Company for the directors to be able to allot new shares for cash other than by way of a rights issue. This cannot be done under the Companies Act 1985 unless the existing shareholders have first waived their pre-emption rights. Resolution 7 in conjunction with Article 11(B) of the Company's Articles of Association permits these rights to be waived over new shares having a maximum aggregate nominal value of £690,408, which was equivalent to 5% of the Company's issued ordinary share capital as at 10 March 1997. The limit of 5% protects the interest of existing shareholders as their proportional interest cannot be reduced by more than 5% without their consent.

10. Donations

During the year ended 31 December 1996 the Group made charitable and arts and sciences donations of £341,000 (1995: £312,000). The Group made no political contribution in either period.

11. Creditor payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions.

12. Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By Order of the Board

S. Carlton S. Carlton

Simon Carlton
Secretary

10 March 1997

CORPORATE GOVERNANCE

Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 34, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

As required by company law, the directors have prepared accounts giving a true and fair view of the state of affairs of the Company and of the Group at the end of the financial period and of the profit or loss for that period.

In preparing the accounts, which have been produced on a going concern basis, the directors have adopted suitable accounting policies and applied them consistently, made judgements that are reasonable and prudent and have complied with all applicable accounting standards.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Compliance

The Company has taken due notice of, and has taken steps to comply with, the Code of Best Practice recommended by the Cadbury Committee on the Financial Aspects of Corporate Governance ("the Code"). The Company has complied with the Code throughout the period.

Board of Directors

At the date of this report, the Board consists of the Group Chairman and Chief Executive together with three executive and six non-executive directors. The Board meets at least ten times during the year and has responsibility for overall Group strategy, acquisition and divestment policy, approval of budgets and major capital expenditure projects. It monitors financial performance against budget at each meeting. Other matters reserved for the Board include the approval of financial statements and circulars issued on behalf of the Company, recommendations for changes in share capital, and alterations to the Articles of Association, the appointment of directors and the remuneration of non-executive directors.

Audit Committee

The members of the Audit Committee are Robert Dickinson (Chairman), Kenneth Dixon, Stephen Hall, and Sir Paul Nicholson, all of whom are non-executive directors. The duties of the Committee are set out in written terms of reference and relate principally to accounting matters, internal financial control and reviews of published financial statements prior to their approval by the Board. Meetings are held at least twice a year and are also normally attended by the Chief Executive, the Group Financial Director and a representative of the external auditors. At least once a year, the Committee meets the external auditors without executive Board members present.

Nomination Committee

The Nomination Committee sits on an ad hoc basis under the chairmanship of the Group Chairman and Chief Executive and comprises in addition all the non-executive directors together with the Group Managing Director. The purpose of the Committee is to review and assess the suitability of candidates and to make proposals to the Board for the appointment of executive and non-executive directors.

Remuneration Committee

The members of the Remuneration Committee are Kenneth Dixon (Chairman), Robert Dickinson, Victor Watson and Stephen Hall, all of whom are non-executive directors. Under its terms of reference, the Committee meets at least three times a year and is responsible for reviewing and giving approval to the service contracts and the remuneration, in whatever form, of the executive directors of the Company and of its two main operating subsidiaries. The Report of the Remuneration Committee is set out on pages 29 to 33.

Internal Financial Control

The directors acknowledge that it is their responsibility to establish and maintain appropriate systems of internal financial control. The systems are designed to ensure that the Group's assets are safeguarded against material loss and that transactions are properly authorised, recorded and reported. Such systems can provide only reasonable and not absolute assurance against material financial misstatement or loss. The Audit Committee has reviewed and considered the effectiveness of the systems of internal financial control currently in operation.

Key elements of the systems of internal financial control are as follows:

- a framework of strict authorisation, approval and control levels within which senior management operates. The framework reflects both the Group's organisational structure and business objectives and the regulatory regime for broadcasting in which the Group operates;
- experienced and suitably qualified staff take responsibility for important business functions. Attainment of the required standard of performance is monitored during the appraisal process;
- the Group maintains a strict budgetary control system. All items of income and expenditure are subject to budgetary review, with a formal Group budget, analysed by managerial responsibility, being approved by the Board in December. Actual results are reported monthly and variances from budget investigated promptly. Forecasts are prepared quarterly or as circumstances dictate. This framework allows management to monitor the business activity, to assess risk and to determine progress towards financial objectives for the year and the medium term;
- a capital investment committee, which includes a Board representative, is responsible for co-ordinating the development of a long term capital programme, submitting it to the Board for approval, and for evaluating each significant capital proposal against pre-determined investment criteria;
- the Group does not maintain an internal audit function. However, as the airtime sales operations are undertaken by a third party organisation, the Group has implemented a review system of that organisation's own controls, using an independent consultant appointed by the Group;
- the Board's Audit Committee reviews reports from management and from the external auditors, prepared in the course of their audit, so as to provide a reasonable level of assurance that control procedures are in place and are being followed.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Auditors' Opinion on Corporate Governance

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the directors' statements above on internal financial control and going concern, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. The auditors have carried out their review in accordance with the relevant Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

REPORT OF THE REMUNERATION COMMITTEE

1. Membership of the Remuneration Committee

The members of the Remuneration Committee are named in the statement on corporate governance on page 27.

2. Compliance

The Company has adopted the provisions of the Code of Best Practice ("the Code") issued by the Study Group on Directors' Remuneration ("the Greenbury Committee"). The constitution and operation of the Committee are in compliance with the principles which are now incorporated in Section A of the best practice provisions derived from the Code and annexed to the Stock Exchange Listing Rules. The Committee confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in determining the remuneration packages for directors in 1996. The Auditors' Report on the financial statements set out on page 34 confirms that the scope of that report covers the disclosures contained in this report that are specified for review by the London Stock Exchange.

3. Policy on Remuneration of Executive Directors and Senior Executives

It is the aim of the Remuneration Committee to enable the Group to attract and retain executive directors and senior executives of the right calibre and to motivate and reward their performance appropriately.

4. The Main Components of Remuneration Packages

The remuneration packages for executive directors may include any of the following components: basic salary, annual bonus, performance related pay, share options and benefits in kind. In determining the remuneration packages for individual directors the Remuneration Committee is required to consider the terms of service and the remuneration provided in other similar organisations for comparable duties.

The basic salary for each director is set by the Remuneration Committee on appointment and is reviewed annually taking into account the individual's responsibilities and performance.

Where appropriate, executive directors may be nominated by the Board for participation in any current senior executive bonus scheme under which, subject to the achievement of certain pre-defined performance criteria, annual bonuses may be paid. Such schemes must be renewed annually. In 1996, the Remuneration Committee approved a management incentivisation scheme under which the levels of bonus were dependent on the savings achieved by executive management against that year's budget. Nicholas Castro was included in this scheme.

Executive directors are encouraged to participate in any general profit related pay schemes which are registered with the Inland Revenue and which are provided for the Group's permanent employees as a whole.

The executive share option scheme which was approved at the Annual General Meeting on 12 May 1995, was designed to foster a common interest in the performance of the Group's shares and is linked to long term performance over a three year period. Although the initial performance condition requires a certain level of growth in the adjusted earnings per share, the Remuneration Committee may select different performance targets for the future.

5. Policy on External Appointments

Executive directors are not permitted to accept any outside business involvement in either an executive or a non-executive role without the consent of the Board. Consent would not be given for appointments with competing companies or in respect of which any conflict of interest might arise.

6. Group Policy on Contracts of Service

The service contracts of executive directors and certain senior executives include a notice period of twenty four months and there are no current plans to reduce that period as it is believed that a rolling two year contract is in line with the market sector. Exceptionally, Bruce Gyngell was appointed in May 1995 for an initial three year period reducing after two years to a rolling one year contract. Ward Thomas is on a fixed term contract expiring May 1998.

7. Group Pensions Policy regarding Executive Directors

The Group's policy is to offer membership of the Yorkshire-Tyne Tees Television Pension Scheme to all qualifying employees. Subject to age, executive directors participate in the Scheme on the same basis as other employees.

The Scheme is a funded, final salary, occupational pension scheme. Its main features are a pension at normal retirement date of up to two thirds of final pensionable salary dependent on length of service; life assurance cover of four times pensionable salary; pensions payable in the event of ill health; and spouse's pensions on death. Bonuses do not qualify as pensionable salary.

The Group also operates a funded, money purchase supplementary pension scheme which is used to augment the pensions benefits of directors and, in particular, aims to provide additional pension up to the statutory limit in cases where directors and senior executives have inadequate qualifying service in the main Group Scheme.

Both schemes are approved by the Inland Revenue as exempt approved pension schemes and all scheme benefits are subject to Inland Revenue limits.

REPORT OF THE REMUNERATION COMMITTEE

continued

8. Directors' Remuneration

	Basic Salary £'000	Fees £'000	Benefits £'000	Profit Related Pay £'000	Annual Bonus £'000	Total Emoluments (excluding pensions) 1996 £'000	1995 £'000	Pensions 1996 £'000	1995 £'000
Executive									
Ward Thomas	234	–	2	7	–	**243**	275	–	–
Bruce Gyngell (appointed 12 May 1995)	299	–	5	4	–	**308**	191	–	–
John Calvert	120	–	14	6	–	**140**	144	**77**	83
Nicholas Castro	133	–	6	6	32	**177**	173	**20**	19
Executive directors who retired in the previous financial period	–	–	–	–	–	**–**	152	–	27
Non-executive									
Sir Ralph Carr-Ellison	–	24	–	–	–	**24**	24	–	–
Robert Dickinson	–	15	–	–	–	**15**	15	**4**	4
Kenneth Dixon	–	15	–	–	–	**15**	15	–	–
Stephen Hall	–	15	–	–	–	**15**	15	–	–
Sir Paul Nicholson	–	12	–	–	–	**12**	12	–	–
Victor Watson	–	15	–	–	–	**15**	15	–	–
Non-executive director who retired in the previous financial period	–	–	–	–	–	**–**	5	–	–
Total	786	96	27	23	32	**964**	1,036	**101**	133
Total 1995	735	101	51	11	138	1,036			

Benefits incorporate all assessable tax benefits arising from employment by the Group, and relate mainly to the provision of a company car. In the case of John Calvert the amount shown above also includes the cost of mortgage interest support which is paid as part of his taxed emoluments. This arrangement ceased in March 1996.

Until proposed guidance from the Faculty and Institute of Actuaries is adopted as mandatory under the Stock Exchange Listing Rules, the figures for pensions shown above are the associated amounts charged against profit in the relevant financial periods.

9. Termination Payments to Directors

On 20 April 1995, the service contract of John Fairley was terminated and he resigned as a director; following legal advice the sum of £148,000 was paid to Mr Fairley in compensation for the termination of his contract. The service contract of Ralph Coyle, who resigned as a director on 10 November 1995, was also terminated and he received a payment in compensation amounting to £70,000. Both directors were permitted the continued use of their existing company cars for a period following their leaving for a total leasing cost to the Company of £21,258. Although these costs were taken up in full in the accounts for the year ended 31 December 1995, the associated payments were not completed by that date and continued into the period covered by this report. None of the costs are included in the schedule of directors' emoluments.

10. Directors' Interests

The beneficial and family interests of directors who served during the year in the shares and warrants of the Company are as follows:

	At 31 December 1996				
	Ordinary Shares of 25p			Warrants	
	Issued	Under Option	Employee Share Scheme	Issued	Employee Share Scheme
Ward Thomas	41,800	–	474	–	–
Bruce Gyngell	–	150,000	–	–	–
John Calvert	3,581	136,204	634	183	–
Nicholas Castro	4,000	107,000	365	–	–
Sir Ralph Carr-Ellison	2,653	–	–	–	–
Robert Dickinson	19,618	–	–	–	–
Sir Paul Nicholson	2,492	–	–	–	–
Victor Watson	3,400	–	–	–	–

	At 1 January 1996				
	Ordinary Shares of 25p			Warrants	
	Issued	Under Option	Employee Share Scheme	Issued	Employee Share Scheme
Ward Thomas	41,800	–	–	–	–
Bruce Gyngell	–	150,000	–	–	–
John Calvert	168	136,204	3,697	–	183
Nicholas Castro	4,000	107,000	–	–	–
Sir Ralph Carr-Ellison	2,653	–	–	–	–
Robert Dickinson	19,618	–	–	–	–
Sir Paul Nicholson	2,492	–	–	–	–
Victor Watson	2,000	–	–	1,400	–

Shares and warrants shown under the heading of employee share scheme are held by the trustees of the Group's employee share schemes on behalf of directors as participating employees.

As at 31 December 1996 Robert Dickinson had a non-beneficial interest in 20,000 shares of 25p each (20,000 as at 1 January 1996).

No other director had any beneficial or non-beneficial interest in the shares of the Company at any time during the year and during the period from 31 December 1996 to 10 March 1997 no changes took place in the beneficial or family interests of the directors.

11. Directors' Options

The options held by directors over ordinary shares of 25p each during the year were as follows:

	As at 1 Jan 1996	Change over the year	As at 31 Dec 1996	Scheme	Exercise Price (p)	Earliest Date for Exercise	Latest Date for Exercise
Bruce Gyngell	150,000	–	150,000	A	610.5	1/1/99	6/12/05
John Calvert	6,852	–	6,852	B	217.0	4/1/92	3/1/99
	90,252	–	90,252	C	290.0	21/1/92	20/3/99
	20,000	–	20,000	B	130.5	12/2/96	11/2/03
	19,100	–	19,100	B	179.5	24/5/96	23/5/03
	136,204	–	136,204				
Nicholas Castro	35,000	–	35,000	B	307.5	14/6/97	13/6/04
	72,000	–	72,000	A	610.5	1/1/99	6/12/05
	107,000	–	107,000				

The options were held under the terms of the following schemes:

A. Yorkshire-Tyne Tees Television Executive Share Option Scheme 1995
B. Yorkshire Television Executive Share Option Scheme 1984/94
C. Yorkshire Television Share Option Scheme 1989

No options were exercised or granted during the year.

The options held by John Calvert under the terms of the Yorkshire Television Share Option Scheme 1989 are over issued shares held in trust on his behalf. These shares were issued prior to 7 August 1992 and consequently have 25,270 warrants attaching to them. These warrants will accrue to Mr Calvert provided he exercises the options prior to 7 November 1997, the date on which the warrants expire.

The market price of the shares of the Company at 1 January 1996 was 684p per share and on 31 December 1996 the market price was 1,232.5p. The lowest quoted market value of the shares during the year was 683p and the highest was 1,315p.

During the period from 31 December 1996 to 10 March 1997 no changes took place in respect of any options over shares in the Company held by directors.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings and share options.

12. Other Contracts

The Board is not aware of any other contract (other than service contracts) in relation to the Company, or any of its subsidiary undertakings, in which any director has, or has had, a material interest.

Kenneth Dixon

KHM Dixon
Chairman – Remuneration Committee
10 March 1997

REPORT OF THE AUDITORS

to the members of Yorkshire-Tyne Tees Television Holdings plc

We have audited the accounts on pages 35 to 52. We have also examined the amounts disclosed relating to emoluments, share options and long term incentive scheme interests of the directors which form part of the Report of the Remuneration Committee on pages 29 to 33.

Respective responsibilities of directors and auditors

As described on page 27 the Company's directors are responsible for the preparation of 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 Group'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 and the Group as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
Leeds
LS1 4DW

10 March 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	Note	1996 £'000	1995 £'000
Turnover from continuing activities	1	270,842	261.773
Cost of sales and transmissions		108,569	105.809
Gross profit		162,273	155.964
Other operating expenses	2		
Excluding ITC licence payments and exceptional costs		68,050	71.749
ITC licence payments	3	66,031	64.198
Exceptional costs	2	1,140	848
Total operating expenses		135,221	136.795
Operating profit	2		
Excluding ITC licence payments		93,083	83.367
ITC licence payments	3	(66,031)	(64.198)
Total operating profit		27,052	19.169
Exceptional profit on disposal of Group undertaking	4	–	821
Income from interests in associated undertakings		1,465	936
Profit on ordinary activities before interest		28,517	20.926
Net interest receivable and similar items	5	1,706	718
Profit on ordinary activities before taxation		30,223	21.644
Tax on profit on ordinary activities	7	9,985	7.047
Profit for the financial year	8	20,238	14.597
Dividends paid and proposed	9	10,000	7.212
Retained profit for the financial year	20	10,238	7.385
Earnings per share	10		
FRS 3		38.2p	28.6p
Adjusted FRS 3		39.7p	28.7p
Fully diluted FRS 3		34.5p	25.8p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses in either of the years shown above other than those set out in the profit and loss account.

STATEMENT OF HISTORICAL COST PROFIT

The historical profits for the years ended 31 December 1996 and 31 December 1995 are the same as (or not materially different from) the profits reported above.

CONSOLIDATED BALANCE SHEET

as at 31 December 1996

	Note	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Fixed assets					
Tangible assets	11		26,002		24,013
Programme rights	12		692		942
Investments	13		5,744		586
			32,438		25,541
Current assets					
Film rights		19,535		21,727	
Stocks	14	10,883		13,937	
Debtors	15	53,663		44,761	
Short term deposits and liquid investments	16	18,923		17,959	
Cash at bank and in hand	16	15,484		11,776	
		118,488		110,160	
Creditors – amounts falling due within one year	17	60,362		60,496	
Net current assets			58,126		49,664
Total assets less current liabilities			90,564		75,205
Creditors – amounts falling due after more than one year	17		7,535		10,460
Net assets			83,029		64,745
Capital and reserves					
Called up share capital	19		13,808		12,893
Share premium account	20		12,629		5,498
Other reserves	20		150		150
Profit and loss account	20		56,442		46,204
Equity shareholders' funds	21		83,029		64,745

The accounts on pages 35 to 52 were approved by the Board on 10 March 1997 and were signed on its behalf by:

Ward Thomas

Ward Thomas
Chairman and Chief Executive

N. Castro

Nicholas Castro
Group Financial Director

N Castro

Ward Thomas

BALANCE SHEET

as at 31 December 1996

	Note	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Fixed assets					
Investments	13		13,981		13,981
Current assets					
Debtors	15	27,060		17,283	
Cash at bank and in hand		1		1	
		27,061		17,284	
Creditors – amounts falling due within one year	17	6,739		5,752	
Net current assets			20,322		11,532
Net assets			34,303		25,513
Capital and reserves					
Called up share capital	19		13,808		12,893
Share premium account	20		12,629		5,498
Profit and loss account	20		7,866		7,122
Equity shareholders' funds			34,303		25,513

The accounts on pages 35 to 52 were approved by the Board on 10 March 1997 and were signed on its behalf by:

Ward Thomas

Ward Thomas
Chairman and Chief Executive

N. Castro

Nicholas Castro
Group Financial Director

N. Castro

Ward Thomas

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Net cash inflow from operating activities (note 2)		22,916		18,731
Return on investments and servicing of finance				
Interest received	1,839		1,537	
Gains on liquid investments	396		–	
Dividends received from associated undertakings	160		152	
Interest paid	(128)		(153)	
Interest element of finance lease rental payments	(422)		(648)	
Net cash inflow for returns on investments and servicing of finance		1,845		888
Taxation				
UK corporation tax paid		(6,774)		(2,407)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(6,587)		(4,554)	
Sale of tangible fixed assets	277		82	
Net cash outflow for capital expenditure and financial investment		(6,310)		(4,472)
Acquisitions and disposals				
Investment in associated undertaking	(4,000)		–	
Disposal of investments	–		1,302	
Acquisition of subsidiaries (net of cash balances)	–		23	
Net cash (outflow)/inflow for acquisitions and disposals		(4,000)		1,325
Equity dividends paid		(9,119)		(4,293)
Net cash (outflow)/inflow before use of liquid resources and financing		(1,442)		9,772
Management of liquid resources				
Sale/(purchase) of government securities	9,743		(9,743)	
Purchase of corporate loan notes	(6,707)		(3,216)	
Short term deposits	(4,000)		(5,000)	
Net cash outflow from the management of liquid resources		(964)		(17,959)
Financing				
Issue of shares	8,046		1,833	
Capital element of finance lease repayments	(1,971)		(1,831)	
Net cash inflow from financing		6,075		2
Increase/(decrease) in net cash in the year (note 16)		3,669		(8,185)

The Group includes as liquid resources short term cash deposits, short dated government stocks and corporate bonds.

The consolidated cash flow statement for the year ended 31 December 1996 has been prepared in accordance with Financial Reporting Standard No.1 (Revised) and the comparative figures for the year ended 31 December 1995 have been restated accordingly.

ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The Group accounts consolidate the results of Yorkshire-Tyne Tees Television Holdings plc and all of its subsidiary companies and include the Group's share of the results of its associated undertakings. The results of all Group companies are included up to 31 December. Goodwill on acquisition is written off directly against reserves. In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account dealing with the results of the Company only has not been presented.

Turnover

Turnover is stated exclusive of VAT and consists of television advertising revenue, programme sales and other sales and income.

Income from the sale of programmes to the ITV network is recognised in the month in which the transmission was originally scheduled. Income from other programme sales is recognised on delivery of the material, on commencement of the licence period or in accordance with the terms of the programme supply contract, as appropriate.

Associated undertakings

An associated undertaking is one, not being a subsidiary undertaking, in which the Group has a long term interest and over which it exercises significant influence.

Programmes, programme rights, film rights and other stocks

Programmes completed but not transmitted or delivered, and programmes in the course of production, are valued at cost excluding overheads. Acquired programme rights and film rights are valued at cost. Where appropriate, provision is made against programmes, programme rights and film rights to write them down to their net realisable value. Technical and sundry stocks are valued at the lower of cost and net realisable value.

Acquired programme rights are amortised on a straight line basis over their estimated useful lives. The costs of other programme sales are written off in full in line with the income recognised in the period.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or at forward contract rates as appropriate. Transactions in foreign currencies are translated at the rates of exchange ruling at the date of the transaction. Exchange gains and losses arising from trading operations are included in the results for the year.

ACCOUNTING POLICIES

continued

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	40 years
Leasehold land and buildings	Lesser of life of lease and 50 years
Technical plant and equipment	5-10 years
Fixtures and fittings	10 years
Motor vehicles	4 years
Computers	3-5 years

No depreciation is provided on freehold land or on assets in the course of construction.

Leases

Assets acquired under finance leases are capitalised and are subsequently dealt with under the same accounting policies as other tangible fixed assets. Future obligations under finance leases are included in creditors net of finance charges allocated to future periods. Finance charges are allocated to accounting periods to produce a constant periodic rate of charge on the outstanding balance at the end of each accounting period. Expenditure on leases other than finance leases is charged to the profit and loss account on an accruals basis.

Deferred taxation

Deferred taxation is calculated using the liability method and is provided on all timing differences to the extent that they are expected to crystallise within the foreseeable future. Where a deferred tax asset arises, the balance is written off to the profit and loss account unless the asset is recoverable without replacement, in which case it is carried forward as a debtor.

Pension costs

Defined benefit pension costs are assessed in accordance with the advice of the Group's actuaries and are accounted for on the basis of charging the cost of pensions over the employees' working lives. Variations from the regular cost (as defined by Statement of Standard Accounting Practice No. 24) are spread over the average remaining working lifetime of the current members of the schemes as a constant reduction in the cost expressed as a percentage of total pensionable salaries. Further details are given in note 25.

NOTES TO THE ACCOUNTS

1. Turnover from continuing activities

nover, all of which originates in the United Kingdom, excludes value added tax and comprises:

	1996 £'000	1995 £'000
Advertising revenue	171,078	169,075
Sales of programmes:		
ITV Network	61,544	58,791
Channel Four	6,141	3,175
Other UK	4,692	3,994
Overseas – North America	703	558
– Other	4,452	4,571
Sundry income	22,232	21,609
	270,842	261,773

2. Other operating expenses and operating profit

	1996 £'000	1995 £'000
Other operating expenses comprise:		
C licence payments (note 24)	66,031	64,198
Rentals payable to the ITC and NTL	4,474	4,299
Staff costs (note 6)	34,137	35,602
Allocation to employee share scheme	1,261	902
Operating costs	28,178	30,946
Exceptional costs (see below)	1,140	848
	135,221	136,795

f the exceptional costs in the year ended 31 December 1996, £472,000 relates to further redundancies necessitated by changes to the Group's managerial and operational structure together with an additional provision of £668,000 required following a review of the Group's surplus properties and their foreseeable rental commitments, net of recoveries. The exceptional costs in the previous year arose wholly in connection with redundancies.

	1996 £'000	1995 £'000
Operating costs include the following:		
Depreciation of tangible fixed assets	4,485	4,638
Amortisation of programme rights	250	250
Auditors' remuneration – audit	83	82
– non audit (auditors and their associates)	108	169
Operating lease charges:		
land and buildings	1,828	1,776
equipment	359	416
Profit on sale of tangible fixed assets	(164)	(65)

Operating profit is reconciled to net cash flow from operating activities as follows:

	1996 £'000	1995 £'000
Operating profit	27,052	19,169
Effect of foreign exchange rate changes	(26)	28
Depreciation charge	4,485	4,658
Amortisation of programme rights	250	250
Profit on sale of tangible fixed assets	(164)	(65)
Provisions against associated undertakings released	(350)	–
Decrease in film rights	2,192	346
Decrease/(increase) in stocks	3,054	(1,202)
Increase in debtors	(9,969)	(3,846)
Decrease in creditors	(3,608)	(607)
Net cash inflow from operating activities	22,916	18,731

3. Treasury licence payments

The Group makes its licence payments in two parts. The first is an index linked 'cash bid' for each of the two broadcasting licences held by the Group. The second part is a payment of a predetermined fixed percentage of qualifying revenue, the 'PQR', derived from each of the Group's licences. The rate is 7% for the licence held by Yorkshire Television Limited and 2% for the licence held by Tyne Tees Television Limited. Qualifying revenue comprises advertising revenue and income from sponsorships and amounted to £173,078,000 in 1996 (1995: £170,832,000).

4. Profit on disposal of Group undertaking

In the year ended 31 December 1995 the Group disposed of its 20% interest in Show Presentation Services Limited, an equipment hire company.

5. Net interest receivable and other similar items

	1996 £'000	1995 £'000
Interest payable on bank overdrafts and loans due within five years	(128)	(153)
Finance charges on finance leases	(422)	(648)
	(550)	(801)
Gains on the sale of liquid investments	396	–
Interest receivable	1,860	1,519
	1,706	718

NOTES TO THE ACCOUNTS

continued

6. **Emoluments**

Staff costs during the year, including directors' remuneration but excluding the cost of artistes, comprised:

	1996 £'000	1995 £'000
Wages and salaries	30,237	31,443
Social security costs	2,302	2,428
Other pension costs	1,598	1,731
	34,137	35,602

The average numbers of persons employed by the Group in the year were:

	1996	1995
Permanent employees	791	672
Contract staff	301	415
	1,092	1,087

Directors' remuneration paid during the year, including pension fund contributions, comprised:

	1996 £'000	1995 £'000
As directors	96	101
As executives:		
Salary	786	735
Bonuses	32	138
Profit related pay	23	11
Pension fund contributions	101	133
Other benefits	27	51
	1,065	1,169
Compensation payments to former directors for loss of office	–	218
	1,065	1,387

More detailed information concerning directors' emoluments, shareholdings and options is shown in the Report of the Remuneration Committee on pages 29 to 33.

(c) The number of directors whose emoluments, excluding pension contributions, fell within the following ranges were:

	1996	1995
Up to £5,000	–	1
£10,001 – £15,000	2	5
£15,001 – £20,000	3	–
£20,001 – £25,000	1	1
£55,001 – £60,000	–	1
£90,001 – £95,000	–	1
£140,001 – £145,000	1	1
£170,001 – £175,000	–	1
£175,001 – £180,000	1	–
£190,001 – £195,000	–	1
£240,001 – £245,000	1	–
£275,001 – £280,000	–	1
£305,001 – £310,000	1	–

Included in the above ranges are:	1996 £'000	1995 £'000
Chairman and Chief Executive	243	275
Highest paid director (1995: Chairman and Chief Executive)	308	275

No pension contributions are payable in respect of either the Chairman and Chief Executive or the highest paid director.

7. Tax on profit on ordinary activities

	1996 £'000	1995 £'000
Corporation tax at 33%	9,445	6,535
Deferred taxation (note 18)	42	368
Under/(over) provision of corporation tax in previous years	1	(233)
Share of associated undertakings' tax charges	497	377
	9,985	7,047

8. Result for the financial year

The profit for the financial year dealt with in the accounts of the Company is £10,744,000 (1995: £13,851,000).

9. Dividends

	1996		1995	
	Pence per share	£'000	Pence per share	£'000
Interim dividend paid	6.8	3,749	3.7	1,907
Final dividend proposed	11.2	6,186	10.3	5,305
	18.0	9,935	14.0	7,212
Excess of the final dividend paid for 1995 over the amount provided (see below)		65		–
		10,000		7,212

Warrants exercised following the announcement of the results for the year ended 31 December 1995 qualified for the final dividend paid in respect of that year. These warrants, together with share options exercised between the year end and the dividend record date, gave rise to the underprovision shown above.

10. Earnings per share

Calculations of earnings per share, in accordance with Financial Reporting Standard No. 3, are based on the profit for the year of £20,238,000 (1995: £14,597,000) and on the weighted average of ordinary shares in issue during the year numbering 52,934,107 (1995: 51,037,422). A reconciliation of earnings per share on this basis to an adjusted figure intended to give a consistent core measure of historical performance is as follows:

	1996 Pence	1995 Pence
FRS 3	38.2	28.6
Part disposal of Group undertaking	–	(1.6)
Exceptional costs (see note 2)	1.5	1.7
Adjusted FRS 3	39.7	28.7
Fully diluted FRS 3	34.5	25.8

The calculation of the fully diluted earnings per share is based on £21,252,000 (1995: £15,738,000), being the profit for the year after adding the interest income, net of tax, which would have arisen had all the outstanding warrants and share options under the Group's various schemes been exercised on the first day of the year and the proceeds invested in 2½% Consolidated Stock on that date. The amount so derived has been divided by the weighted average of the total number of shares numbering 61,622,748 (1995: 61,048,457) assumed to be in issue as described above.

11. Tangible fixed assets

	Freehold land and buildings £'000	Long leasehold property £'000	Short leasehold property £'000	Plant and equipment Technical £'000	Plant and equipment Other £'000	Total £'000
Cost						
At 1 January 1996	4,531	11,733	1,818	57,528	11,109	86,719
Additions	549	418	2,072	3,353	195	6,587
Disposals	(95)	–	–	(374)	(149)	(618)
At 31 December 1996	**4,985**	**12,151**	**3,890**	**60,507**	**11,155**	**92,688**
Depreciation						
At 1 January 1996	1,693	1,177	1,282	48,458	10,096	62,706
Charge for the year	251	313	87	3,427	407	4,485
Disposals	–	–	–	(374)	(131)	(505)
At 31 December 1996	**1,944**	**1,490**	**1,369**	**51,511**	**10,372**	**66,686**
Net book amounts						
At 31 December 1996	**3,041**	**10,661**	**2,521**	**8,996**	**783**	**26,002**
At 31 December 1995	2,838	10,556	536	9,070	1,013	24,013

Plant and equipment includes assets acquired under finance leases in respect of which, at 31 December 1996, the net book amount was £3,063,000 (1995: £5,514,000) after charging £1,423,000 (1995: £1,911,000) depreciation for the year.

Included within additions to short leasehold property are assets in the course of construction amounting to £2,050,000 which have not been depreciated.

Freehold land to a value of £416,000 is not subject to depreciation.

12. Programme rights

Programme rights comprise rights acquired at a cost of £2,505,000 less accumulated amortisation charges of £1,813,000. Amortisation charges in the year amounted to £250,000 (1995: £250,000).

13. Investments

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
Shares in subsidiary undertakings	–	13,981	–	13,981
Interests in associated undertakings	5,717	–	559	–
Other investments other than loans	27	–	27	–
	5,744	13,981	586	13,981

Shares in subsidiary undertakings

The following principal operating subsidiaries at 31 December 1996 are all wholly owned, are engaged in television and related activities within the United Kingdom and are registered in England and Wales:

Held by the Company

Tyne Tees Television Holdings P.L.C.
Yorkshire Television Limited
Yorkshire-Tyne Tees Television Enterprises Limited

Held by other subsidiaries

Tyne Tees Television Limited
Walshys Facilities Limited
Chevron Music Publishing Limited
Griffin Productions Limited
Television Music Limited

Interests in associated undertakings

	Group company investments £'000	Group share of retained profits less goodwill £'000	Group loans £'000	Group total £'000
At 1 January 1996	208	351	–	559
Release of provisions	50	–	300	350
Investment (see below)	4,000	–	–	4,000
Results for the year after taxation	–	968	–	968
Dividends received	–	(160)	–	(160)
At 31 December 1996	4,258	1,159	300	5,717

	Percentage of ordinary share capital held %	Principal business
Principal operating associates are:		
Educational Television Company Limited	21	Educational programming
Three on Four Limited	33	Television facilities
Yorkshire International Thomson Multimedia Limited (YITM)	50	Supply of educational material
British International Television Enterprises Limited	50	Programme distribution

The amounts due to and from those undertakings in which the Group has a participating interest are shown in notes 5 and 17.

During the year the Group subscribed for 4,000,000 £1 preference shares in YITM at par. Consideration consisted of £1,500,000 in cash together with the commitment to provide programming, production resources and other services to the value of £2,500,000 over a five year period. This commitment is included in other creditors in note 17.

The principal country of operation of all associated undertakings is the United Kingdom and they are all registered in England and Wales.

Other investments other than loans

The Group holds the following unlisted investments which the directors estimate to be worth in total not less than their net book value at 31 December 1996:

	Percentage held %	1996 Group £'000	1996 Company £'000	1995 Group £'000	1995 Company £'000
Independent Television Facilities Centre Limited	14.5	7	–	7	–
Oracle Teletext Limited	13.0	20	–	20	–
		27	–	27	–

14. Stocks

	1996 £'000	1995 £'000
Completed programmes and programmes in the course of production	10,440	13,258
Technical and sundry stocks	443	679
	10,883	13,937

15. Debtors

	1996 Group £'000	1996 Company £'000	1995 Group £'000	1995 Company £'000
Amounts falling due within one year:				
Trade debtors	30,564	–	25,108	–
Amounts owed by Group undertakings	–	26,225	–	15,978
Amounts owed by undertakings in which the Group has a participating interest	873	–	766	–
Other debtors	304	264	599	270
Programme funding advances	6,047	–	2,682	–
Advance corporation tax recoverable	40	18	597	–
Prepayments and accrued income including deferred tax (note 18)	14,688	–	13,470	–
	52,516	26,507	43,222	16,248
Amounts falling due after more than one year:				
Deferred tax (note 18)	594	–	504	–
Advance corporation tax recoverable	553	553	1,035	1,035
	1,147	553	1,539	1,035
Total debtors	53,663	27,060	44,761	17,283

16. Net funds

	1996 £'000	1995 £'000
Net funds comprise:		
Cash at bank, on call and in hand	15,484	11,776
Overdrafts	(22)	(9)
Net cash	15,462	11,767
Short term deposits and liquid investments	18,923	17,959
Finance lease obligations, being net debt	(3,983)	(5,954)
	30,402	23,772
and have changed as follows:		
Increase/(decrease) in net cash in the year	3,669	(8,185)
Cash flow from changes in net debt	1,971	1,831
Cash flow from changes in liquid resources	964	17,959
Change in net funds resulting from cash flows	6,604	11,605
Translation differences	26	(28)
Movement in net funds in the year	6,630	11,577
Net funds at 1 January 1996	23,772	12,195
Net funds at 31 December 1996	30,402	23,772

17. Creditors

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year:				
Bank overdraft	22	–	9	–
Payments received on account	1,981	–	1,338	–
Trade creditors and film rights	7,906	–	11,478	–
Amounts owed to undertakings in which the Group has a participating interest	950	–	57	–
Dividends payable	6,186	6,186	5,305	5,305
Corporation tax	8,998	553	7,372	447
Other taxation and social security payable	5,738	–	5,841	–
Other creditors (see note 13)	4,846	–	3,078	–
Lease obligations	1,545	–	1,972	–
Accruals and deferred income	22,190	–	24,046	–
	60,362	6,739	60,496	5,752
Amounts falling due after more than one year:				
Deferred instalments for film rights	5,097	–	6,478	–
Lease obligations (one to two years)	1,059	–	1,543	–
Lease obligations (two to five years)	1,379	–	2,439	–
	7,535	–	10,460	–

Movements in lease obligations during the year can be summarised as follows:

	1996 £'000	1995 £'000
At 1 January 1996	5,954	7,785
Capital element of repayments	(1,971)	(1,831)
At 31 December 1996	3,983	5,954

NOTES TO THE ACCOUNTS

continued

18. Deferred taxation

	1996		1995	
	Full potential amount £'000	Asset carried forward £'000	Full potential amount £'000	Asset carried forward £'000
Capital allowances on:				
Tangible fixed assets	736	–	1,057	–
Film rights	497	–	545	–
Short term timing differences:				
Interest receivable	–	–	(11)	(11)
Finance leases	303	–	483	–
Pension provisions	1,079	–	1,199	–
Reorganisation provisions	594	594	504	504
Other	82	66	223	209
	3,291	660	4,000	702

The deferred tax asset of £660,000 (1995: £702,000) is included in prepayments (note 15).

The movement in deferred taxation may be analysed as follows:

	£'000
At 1 January 1996	702
Profit and loss account (note 7)	(42)
At 31 December 1996	660

19. Share capital

	1996		1995	
	Ordinary 25p shares	£'000	Ordinary 25p shares	£'000
Authorised	76,000,000	19,000	76,000,000	19,000
Allotted, called up and fully paid	55,232,635	13,808	51,571,792	12,893

During the year the following allotments of ordinary 25p shares were made:

(a) 3,492,930 shares for a total consideration of £6,986,000 on the exercise of share warrants;

(b) 75,000 shares for a total consideration of £118,000 on the exercise of options granted under the Yorkshire Television Share Option Scheme 1984/94;

(c) 6,000 shares for a total consideration of £37,000 on the exercise of options granted under the Yorkshire-Tyne Tees Television Executive Share Option Scheme 1995;

(d) 86,913 shares for a total consideration of £905,000 issued under the terms of the Yorkshire-Tyne Tees Television Employee Share Scheme, 1995.

NOTES TO THE ACCOUNTS

continued

At 31 December 1996, options outstanding over the Company's shares were as follows:
Options granted under the Yorkshire Television Executive Share Option Scheme 1984/94

	Number of shares	Option price per share
4 January 1989	6,852	217.0p
12 February 1993	20,000	130.5p
24 May 1993	19,100	179.5p
31 January 1994	80,000	233.5p
14 June 1994	35,000	307.5p

Options granted under the Yorkshire-Tyne Tees Television Executive Share Option Scheme 1995

	Number of shares	Option price per share
7 December 1995	524,000	610.5p

The above options are exercisable under normal circumstances between three and ten years after the date of each grant.

The Yorkshire Television Share Scheme Company Limited, as trustee of the Yorkshire Television Share Option Scheme 1989, holds 90,252 issued ordinary shares of 25p each over which the Board of the Company has consented to options at an option price of 290p per share under the terms of the trust deed and rules dated 20 March 1989. These options remained in being at 31 December 1996 and under normal circumstances may be exercised between three and ten years after the date of the grant.

In 1992 the Company issued 9,889,361 warrants, each of which gave the holder the right to subscribe for an ordinary share of 25p in the Company at a cash price of 200p. These warrants are exercisable in two specific periods each year and expire on 7 November 1997. At 31 December 1996 5,736,269 of these warrants remained outstanding.

20. Reserves

	Share premium account Group and Company £'000	Unrealised profit reserve Group £'000	Profit and loss account Group £'000	Profit and loss account Company £'000
At 1 January 1996	5,498	150	46,204	7,122
Retained profit for the financial year	–	–	10,238	744
Premium on shares issued during the year	7,131	–	–	–
At 31 December 1996	**12,629**	**150**	**56,442**	**7,866**

The cumulative amount of goodwill on consolidation arising on the acquisition of subsidiary undertakings which has been written off against reserves as at 31 December 1996 is £23,023,000 (1995: £23,023,000).

NOTES TO THE ACCOUNTS

continued

21. Reconciliation of movement in equity shareholders' funds

	1996 £'000	1995 £'000
At 1 January 1996	64,745	55,597
Profit for the financial year	20,238	14,597
Dividends	(10,000)	(7,212)
	10,238	7,385
Goodwill written off	–	(70)
Shares issued	8,046	1,833
Movements in the year	18,284	9,148
At 31 December 1996	83,029	64,745

22. Future capital expenditure

At 31 December 1996 the Group had approved but uncommitted capital expenditure projects amounting to £5,532,000 (1995: £3,382,000).

23. Contingent liabilities

The Company is a member of a group registration for VAT purposes under which, at 31 December 1996, there was a contingent liability of £6,491,000 (1995: £6,101,000).

24. Leasing commitments

At 31 December 1996 the Group had commitments in respect of operating leases to make payments totalling £2,607,000 (1995: £2,698,000) over the next year on leases expiring as follows:

	1996		1995	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	–	98	–	111
Between two and five years	222	384	81	502
After more than five years	1,903	–	2,004	–
	2,125	482	2,085	613

Under the terms of its Channel 3 licences which came into effect from 1 January 1993, the Group is required to pay an annual cash bid of £53 million, indexed for inflation, to the Independent Television Commission.

25. Pensions

Until 31 August 1996 the Group operated two main defined benefit pension schemes, providing benefits based on final pensionable salary, which covered the majority of its permanent employees. The schemes were fully funded (with the exception of reinsured lump sum death benefits and the reinsured death in service pension in the Tyne Tees Television scheme) and were contracted out of the State Earnings Related Pension Scheme. The assets were held in separate trustee administered funds.

Both schemes were valued by, and the pensions cost assessed in accordance with the advice of, independent qualified actuaries. The pension cost for the Yorkshire Television scheme has been assessed using the projected unit method and the pension cost for the Tyne Tees scheme has been assessed using the attained age method. Details of the two schemes, the Yorkshire Television scheme (YTV) and the Tyne Tees Television scheme (TTTV), are given below:

	YTV	TTTV
Last actuarial valuation	31 March 1995	1 October 1994
Principal assumptions in last valuation		
Investment yield excess over general salary inflation	2%	2%
Investment yield excess over pension increases	4.5%	6%
Estimate of market value of scheme's assets at last investigation	£127.0 million	£44.8 million
Actuarial value as a % of accrued benefits to members after allowing for expected future increases in earnings	114%	106%

On 1 September 1996, following receipt of all the necessary consents, the two schemes were merged. With effect from that date, all the members of the Tyne Tees scheme became members of the Yorkshire Television scheme and the assets of the two schemes were combined under the new name of the Yorkshire-Tyne Tees Television Pension Scheme. The calculation bases for contributions and, with the exception of the introduction of a provision for a restricted limited price indexation for the calculation of pension increases in payment, retirement and death benefits remained unchanged. No actuarial valuation of the combined scheme has yet been made.

The total pension cost of the schemes for the year ended 31 December 1996 was £1,388,000 (1995: £1,474,000). A provision of £3,269,000 (1995: £3,631,000) is included in creditors (note 17) in respect of pension contributions.

FINANCIAL TIMETABLE

Ex-Dividend date	Monday, 7 April 1997.
Record date	Friday, 11 April 1997.
Annual General Meeting	Friday, 9 May 1997.
Dividend Payment date	Tuesday, 13 May 1997.
Interim Announcement	Tuesday, 2 September 1997.

The financial timetable does not form part of the notes to the accounts.

FIVE YEAR SUMMARY

	12 mos to Dec 96 £'000	12 mos to Dec 95 £'000	12 mos to Dec 94 £'000	3 mos to Dec 93 £'000	12 mos to Sep 93 £'000	12 mos to Sep 92 £'000
Income						
Advertising revenue	**171,078**	169,075	154,666	33,381	150,445	145,772
Other trading income	**22,232**	21,609	20,263	3,419	14,837	12,784
Programme sales	**77,532**	71,089	69,737	16,097	71,530	51,536
Net interest receivable/(payable)	**1,706**	718	(369)	67	1,402	1,382
Exceptional profit on disposal of investments	**–**	821	2,948	–	–	–
Income from interests in associated undertakings	**1,465**	936	538	59	109	1,088
	274,013	264,248	247,783	53,023	238,323	212,562
Expenditure						
Operating and programme costs	**172,145**	173,259	167,568	40,065	178,764	153,712
Exceptional costs	**1,140**	848	976	–	8,816	2,772
Transmitter rental	**4,474**	4,299	4,391	1,170	5,808	7,310
Channel Four subscription	**–**	–	–	–	7,618	25,740
Profit before licence payments	**96,254**	85,842	74,848	11,788	37,317	23,028
Levy	**–**	–	(587)	(800)	109	7,063
Levy on exceptional items	**–**	–	–	–	–	(693)
Cash bid and PQR	**66,031**	64,198	62,449	15,067	45,086	–
Profit/(loss) before taxation	**30,223**	21,644	12,986	(2,479)	(7,878)	16,658
Taxation	**9,985**	7,047	3,524	(870)	(2,326)	6,656
Taxation on exceptional items	**–**	–	–	–	–	(686)
Profit/(loss) for the financial period	**20,238**	14,597	9,462	(1,609)	(5,552)	10,688
Dividends	**10,000**	7,212	2,437	–	1,199	5,430
Profit/(loss) retained for the financial period	**10,238**	7,385	7,025	(1,609)	(6,751)	5,258
Assets employed						
Fixed assets	**32,438**	25,541	26,007	28,201	29,253	27,043
Net current assets	**58,126**	49,664	41,513	28,528	29,589	34,761
	90,564	75,205	67,520	56,729	58,842	61,804
Long term liabilities	**7,535**	10,460	11,923	9,986	9,502	7,286
Net assets	**83,029**	64,745	55,597	46,743	49,340	54,518
Key ratios (pence)						
Earnings/(loss) per ordinary share	**38.2**	28.6	18.8	(3.3)	(11.1)	28.6
Dividends per ordinary share	**18.0**	14.0	4.8	–	3.3	12.0
Net assets per share	**150.3**	125.5	109.5	92.7	97.8	109.9

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of Yorkshire-Tyne Tees Television Holdings plc will be held at The Television Centre, Leeds LS3 1JS on Friday, 9 May 1997 at noon, for the following purposes:

As ordinary business

1. To receive and consider the report of the directors and the statement of accounts for the year ended 31 December 1996 and the report of the auditors thereon.
2. To declare a final dividend.
3. To re-elect as directors, in accordance with Article 99(A) of the Articles of Association, the following directors who retire by rotation and, being eligible, offer themselves for re-election: Robert Dickinson and Sir Paul Nicholson.
4. Subject to and with effect from the passing of Resolution No 8 set out in the Notice convening the Meeting, to re-elect as directors in accordance with Article 99(B) of the Articles of Association the following directors, who retire by reason of age and, being eligible. offer themselves for re-election: Ward Thomas and Sir Ralph Carr-Ellison.
5. To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting, at which accounts are laid before the Company, at remuneration to be fixed by the directors.

As special business

To consider and, if thought fit, to pass the following resolutions as special resolutions:

6. THAT the authority and power to allot shares conferred on the directors by Article 11(B) of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 1998, or on 9 August 1998, whichever is the earlier, and that for such "prescribed period" the "prescribed amount" shall be £4,602,719.
7. THAT for the purposes of Article 11(B) of the Company's Articles of Association "the Section 89 amount" shall be £690,408.
8. THAT the Articles of Association of the Company be amended as follows:
   (a) by renumbering the existing Article 99 as 99(A) and deleting the second sentence of that clause and replacing it with the following:
   "Provided that no Director who is required to retire annually by reason of Article 99(B) shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire under this Article."
   (b) by inserting a new Article 99(B) as follows:
   "At each Annual General Meeting any Director who shall have attained the age of 70 at the date of the Meeting shall be required to retire by reason of age but shall be entitled to seek re-election for the period until the following Annual General Meeting."

By Order of the Board

S. Carlton

S. Carlton
Secretary

S. Carlton

The Television Centre
Leeds LS3 1JS
14 March 1997

NOTICE OF ANNUAL GENERAL MEETING

continued

Notes:

1. An explanation of Resolutions 6, 7 and 8 to be proposed at the meeting is given under the heading "Special Business" on pages 25 and 26 of the Directors' Report.
2. Only those members who are on the register of members of the Company 48 hours before the time for holding the Meeting or adjourned Meeting or (in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting) for the taking of the poll, shall be entitled to attend and vote at the Meeting, adjourned Meeting or poll.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member.
4. A form of proxy for use at the Meeting is enclosed and, if used, must be lodged at the office of the Registrars of the Company at least 48 hours before the time for holding the Meeting or adjourned Meeting or (in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting) for the taking of the poll at which it is to be used. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.
5. The register of the interests of the Directors in the share capital and warrants of the Company is available for inspection during normal business hours at the registered office of the Company on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the conclusion of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for a period of at least 15 minutes prior to the Meeting and during the Meeting.
6. Any member who has sold or transferred his shares in the Company should pass this document and its enclosures to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

YORKSHIRE
TYNE TEES
TELEVISION
HOLDINGS plc

Yorkshire Television Limited
The Television Centre Leeds LS3 1JS
Tel: 0113 243 8283 Fax: 0113 244 5107

Tyne Tees Television Limited
The Television Centre City Road
Newcastle upon Tyne NE1 2AL
Tel: 0191 261 0181 Fax: 0191 261 2302

Yorkshire-Tyne Tees Television Holdings plc
15/16 Bloomsbury Square
London WC1A 2LJ
Tel: 0171 312 3700 Fax: 0171 242 2441

Black Velvet Band **takes Nick Berry to exciting locations in South Africa. Set for transmission in 1997.**

Yorkshire-Tyne Tees Television Holdings plc
The Television Centre Leeds LS3 1JS
Registered No. 1542206 England Registered Office: The Television Centre Leeds LS3 1JS