

**REGISTRAR OF
COMPANIES**

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2361527

Telstar Video Entertainment Limited

Report and Financial Statements

Year Ended

30 September 1999



BDO

BDO Stoy Hayward
Chartered Accountants

TELSTAR VIDEO ENTERTAINMENT LIMITED

Annual report and financial statements for the year ended 30 September 1999

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Directors

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Directors

G Watson
J H McKimmie

Secretary and registered office

S A Flamank, 19-23 Wimbledon Bridge, London, SW19 7NH.

Company number

2361527

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1M 1DA.

Bankers

Barclays Bank Plc, PO Box 90, 357 Strand, London, WC2R 0NX.

TELSTAR VIDEO ENTERTAINMENT LIMITED

Report of the directors for the year ended 30 September 1999

The directors present their report together with the audited financial statements for the year ended 30 September 1999.

Results and dividends

The profit and loss account is set out on page 4 and shows the profit for the year.

The directors do not recommend the payment of any dividend (1998 - £Nil). The loss after taxation of £50,561 (1998 – profit of £130,360) has been transferred to reserves.

Principal activities and trading review

The company's principal activity is the publication and sale of pre-recorded videos and the exploitation of publishing rights owned by the company.

The directors consider the result for the year and the position at the year end to be satisfactory.

Year 2000

The company does not appear to have been affected by any of the anticipated problems associated with the Year 2000. However the directors will continue to monitor the company's systems and in the event of any problems have plans in place to minimise any impact.

Directors and their interests

The directors of the company during the year were:

B F Watts	(resigned 20 December 1999)
G Watson	(appointed 8 July 1999)

J H McKimmie was appointed as a director on 20 December 1999.

None of the directors had any interest in the ordinary share capital of the company.

B F Watts is also a director of the ultimate parent company, The Telstar Entertainment Group plc, and his interests in the share capital of that company are shown in its financial statements.

TELSTAR VIDEO ENTERTAINMENT LIMITED

Report of the directors for the year ended 30 September 1999 *(Continued)*

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



S A Flamank

Secretary

Date

2/3/2000

TELSTAR VIDEO ENTERTAINMENT LIMITED

Report of the auditors

To the shareholders of Telstar Video Entertainment Limited

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1999 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD
*Chartered Accountants
and Registered Auditors*
London

31 March 2000

TELSTAR VIDEO ENTERTAINMENT LIMITED**Profit and loss account for the year ended 30 September 1999**

	Note	1999 £	1998 £
Turnover	2	1,710,706	2,941,287
Cost of sales		(1,171,053)	(2,081,893)
Gross profit		539,653	859,394
Distribution costs		(91,111)	(124,033)
Administration expenses		(474,832)	(554,354)
Operating (loss)/profit	4	(26,290)	181,007
Interest receivable	5	6,492	8,817
Interest payable	6	(30,763)	(59,464)
(Loss)/profit on ordinary activities before and after taxation		(50,561)	130,360
Accumulated loss brought forward		(598,951)	(729,311)
Accumulated loss carried forward		(649,512)	(598,951)

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

There are no movements on shareholders' funds apart from the profit for the year.

The notes on pages 6 to 11 form part of these financial statements.

TELSTAR VIDEO ENTERTAINMENT LIMITED

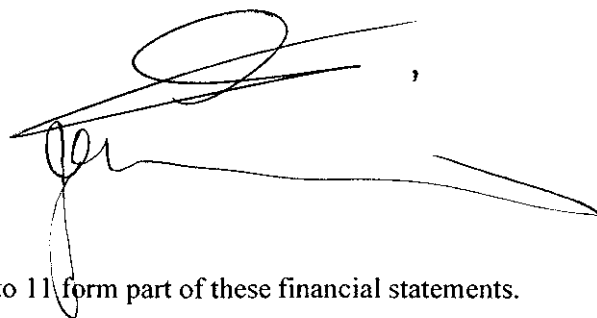
Balance sheet at 30 September 1999

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	8	48,936	67,614
Current assets			
Stocks	9	71,568	53,420
Debtors	10	253,292	455,909
Cash at bank and in hand		16,812	72,492
		<u>341,672</u>	<u>581,821</u>
Creditors: amounts falling due within one year	11	<u>(1,038,418)</u>	<u>(1,238,888)</u>
Net current liabilities		<u>(696,746)</u>	<u>(657,067)</u>
Total assets less current liabilities		<u>(647,810)</u>	<u>(589,453)</u>
Creditors: amounts falling due after more than one year	12	<u>(1,602)</u>	<u>(9,398)</u>
		<u>(649,412)</u>	<u>(598,851)</u>
Capital and reserves			
Called up share capital	13	100	100
Profit and loss account		(649,512)	(598,951)
Shareholders' funds - equity		<u>(649,412)</u>	<u>(598,851)</u>

The financial statements were approved by the Board on

31/3/2000

J H McKimmie
Director



The notes on pages 6 to 11 form part of these financial statements.

TELSTAR VIDEO ENTERTAINMENT LIMITED

Notes forming part of the financial statements for the year ended 30 September 1999

1 Accounting policies

The financial statements have been prepared under the historical cost convention using the following principal accounting policies:

Going concern

In preparing the financial statements on a going concern basis, the directors have received assurances that financial support from the company's parent company will continue to be available to enable the company to continue operationally. The directors believe that it is appropriate for the financial statements to be prepared on a going concern basis having considered all the evidence available.

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land and some freehold buildings, evenly over their expected useful lives. It is calculated at the following rates:

Motor vehicles	-	25% reducing balance
Equipment	-	15% - 33% reducing balance

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Deferred taxation

Provision for deferred taxation is made at current rates of corporation tax where it is probable that a future liability will arise.

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Royalty advances and production costs

Royalty advances and production costs are written off in the year in which they fall due for payment.

TELSTAR VIDEO ENTERTAINMENT LIMITED

Notes forming part of the financial statements for the year ended 30 September 1999 (*Continued*)

1 Accounting policies (*Continued*)

Royalty income

Credit is taken for royalty income at the date of receipt.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Turnover

The turnover is solely attributable to the principal activity of the company and can be analysed by destinations as follows:

	1999 £	1998 £
UK	1,617,604	2,698,756
Europe	14,417	67,651
North America	-	40,121
Australasia	5,499	63,673
Rest of the World	73,186	71,086
	<hr/>	<hr/>
	1,710,706	2,941,287
	<hr/>	<hr/>

TELSTAR VIDEO ENTERTAINMENT LIMITEDNotes forming part of the financial statements for the year ended 30 September 1999 *(Continued)***3 Employees**

	1999 £	1998 £
Staff costs consist of:		
Wages and salaries	138,333	254,671
Social security costs	13,833	25,467
	<u>152,166</u>	<u>280,138</u>
The average number of employees, including directors, during the year was:	Number	Number
Management	3	6
Administration	1	2
	<u>4</u>	<u>8</u>
	£	£
Directors emoluments	44,691	-

4 Operating (loss)/profit

This has been arrived at after charging:

Depreciation - own assets	13,295	10,127
- leased assets	-	9,667
Auditors' remuneration	8,000	1,775

5 Interest receivable

Bank deposit interest	6,492	8,817
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6 Interest payable

On loans from parent company	30,763	59,464
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TELSTAR VIDEO ENTERTAINMENT LIMITED

Notes forming part of the financial statements for the year ended 30 September 1999 (*Continued*)

7 Taxation

No charge to taxation arises due to the availability of tax losses brought forward from prior years.

8 Tangible assets

	Equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At 1 October 1998	73,913	41,471	115,384
Disposals	-	(12,587)	(12,587)
	<hr/>	<hr/>	<hr/>
At 30 September 1999	73,913	28,884	102,797
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 October 1998	33,803	13,967	47,770
Provision for the year	7,915	5,380	13,295
Disposals	-	(7,204)	(7,204)
	<hr/>	<hr/>	<hr/>
At 30 September 1999	41,718	12,143	53,861
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 30 September 1999	32,195	16,741	48,936
	<hr/>	<hr/>	<hr/>
At 30 September 1998	40,110	27,504	67,614
	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £Nil (1998 - £27,504) in respect of assets held under finance leases. The related depreciation charge for the year was £Nil (1998 - £9,667).

9 Stock

	1999 £	1998 £
Finished goods held for resale	71,568	53,420
	<hr/>	<hr/>

In the directors' opinion there is no material difference between the replacement cost of stocks and the amounts stated above.

TELSTAR VIDEO ENTERTAINMENT LIMITED

Notes forming part of the financial statements for the year ended 30 September 1999 (*Continued*)

10 Debtors

	1999 £	1998 £
Trade debtors	174,494	281,443
Other debtors	15,809	3,954
Prepayments	41,205	105,519
Amounts owed by fellow subsidiary undertakings	21,784	64,993
	<u>253,292</u>	<u>455,909</u>

11 Creditors: amounts falling due within one year

Trade creditors	208,385	53,744
Tax and social security	-	18,920
Amounts owed to parent undertaking	442,366	558,283
Accruals and deferred income	379,274	534,146
Other creditors	-	55,000
Obligations under finance leases	8,393	18,795
	<u>1,038,418</u>	<u>1,238,888</u>

The amount owed to group companies is secured by a fixed and floating charge over the assets of the company.

12 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Obligations under finance leases:		
Due within one to two years	1,602	-
Due within two to five years	-	9,398
	<u>1,602</u>	<u>9,398</u>

13 Share capital

<i>Authorised, allotted, issued and fully paid</i>		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

TELSTAR VIDEO ENTERTAINMENT LIMITED

Notes forming part of the financial statements for the year ended 30 September 1999 (*Continued*)

14 Contingent liability

The company has a contingent liability in respect of being a party to a bank guarantee given to the company's bankers to secure the indebtedness to the bank of the following principal facilities:

- 1 Group overdraft facility of £3 million gross (net bank exposure, at 30 September 1999 - £2.17 million); and
- 2 A maximum loan facility of £5 million. This facility is primarily secured on a group company's trade debtors and a related insurance policy, the benefit of which has been assigned to the group's bankers. At the balance sheet date none of this facility has been drawn down.

15 Cash flow statement

The company has used the exemption under Financial Reporting Standard 1, 'Cash Flow Statements', not to prepare a cash flow statement as a consolidated cash flow statement is included in the financial statements of its ultimate parent company.

16 Ultimate parent company

The company's ultimate parent company is The Telstar Entertainment Group plc, a company incorporated in England and Wales.

17 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8, 'Related Party Transactions', not to disclose related party transactions with other group entities, on the grounds that it is a wholly owned subsidiary of a UK company which has produced consolidated financial statements, which are publicly available.