



MAGIC EFFECTS LIMITED

Report and Financial Statements

Period from 1 June 1998 to 31 December 1998



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REPORT AND FINANCIAL STATEMENTS 1998

CONTENTS

Page

Officers and professional advisers

1

Directors' report

2

Statement of directors' responsibilities

4

Auditors' report

5

Profit and loss account

6

Balance sheet

7

Notes to the accounts

8

**REPORT AND FINANCIAL STATEMENTS 1998****OFFICERS AND PROFESSIONAL ADVISERS****DIRECTORS**

J F Granell	(resigned 2 September 1998)
A J Hunt	(resigned 2 September 1998)
Robin Shenfield	(appointed 2 September 1998)
Patrick Joseph	(appointed 23 September 1998)
David Franks	(appointed 2 September 1998)
Denise Collins	(appointed 2 September 1998)
Roger Lofting	(appointed 26 November 1998)

SECRETARY

Denise Collins (appointed 2 September 1998)

REGISTERED OFFICE

40 - 41 Great Marlborough Street
London W1V 1DA

BANKERS

Bank of Scotland
St James's Gate
14 - 16 Cockspur Street
London SW1Y 5BL

SOLICITORS

Roger Brooker & Co
70 - 72 New London Road
Chelmsford
Essex CM2 0PE

Hardwick Stallards
Centurion House
37 Jewry Street
EC2N 2ER

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the seven month period from 1 June 1998 to 31 December 1998.

This report has been prepared in accordance with the special provisions relating to small companies under Section 246 of the Companies Act 1985.

ACTIVITIES

The principal activity of the company is that of model makers for film and television photography.

REVIEW OF DEVELOPMENTS

During the period Magic Effects Limited was acquired by MDM Group Limited. Magic Effects Limited is confident that the skills that the MDM Group bring will enhance the company's capabilities to compete for film and television work world-wide.

YEAR 2000

Many computer and digital storage systems express dates using only the last two digits for the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunction and commercial disruption.

Magic Effects Limited is currently in the process of assessing the potential impact of the above on the company, its suppliers and its customers and is developing action plans designed to address the key issues in advance of critical dates and without disruption to the company's business.

Whilst no detailed cost estimates are currently available, in the directors' opinion, the incremental costs associated with Year 2000 compliance are not expected to be material.

The company, despite its own commitment to manage and mitigate risk cannot with absolute assurance quantify all financial and operational consequences related to the Year 2000 issue, given the implicit business interdependencies that exist with suppliers and other third parties, which may also be impacted by these issues.

DIVIDENDS

The directors do not propose an equity dividend for the period (1 January 1997 to 31 May 1998: £180,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the period and to date are shown on page 1.

None of the directors serving at the period end had an interest in the share capital of the company at any time in the period.

The directors' beneficial interests in the shares of MDM Group Limited, an intermediate parent company, were:

£0.01 Ordinary shares	At 1 June 1998 No.	At 31 December 1998 No.
Robin Shenfield	4,900	4,900
Patrick Joseph	4,900	4,900
David Franks	2,000	2,000
Denise Collins	2,000	2,000



DIRECTORS' REPORT (continued)

AUDITORS

Leigh Carr resigned as auditors in the period and Deloitte & Touche were appointed in their place. They have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Denise Collins
Director

23 ~~5th~~ ~~11th~~ 1999

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss 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;
- prepare the financial statements on a 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 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' REPORT TO THE MEMBERS OF

MAGIC EFFECTS LIMITED

We have audited the financial statements on pages 6 to 11 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of 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 affairs of the company as at 31 December 1998 and of its profit for the period from 1 June 1998 to 31 December 1998 and have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to small companies.

Deloitte & Touche
Chartered Accountants and
Registered Auditors

27 September 1999


PROFIT AND LOSS ACCOUNT
Period from 1 June 1998 to 31 December 1998

	Note	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
TURNOVER	1	538	2,132
Cost of sales		(443)	(1,852)
Gross profit		95	280
Administrative expenses		(88)	(127)
OPERATING PROFIT	2	7	153
Interest receivable and similiar income		1	18
Interest payable and similar charges	4	-	(2)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8	169
Tax on profit on ordinary activities	5	(2)	(39)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6	130
Dividends	6	-	(180)
RETAINED PROFIT/(LOSS) FOR THE PERIOD		6	(50)
Retained profit brought forward		2	52
RETAINED PROFIT CARRIED FORWARD		8	2

There are no recognised gains or losses for the period other than the reported profit and, as a result, no statement of total gains and losses has been prepared. There were no movements in shareholders' funds for the period other than the reported profit.

All activities derive from continuing operations.



**BALANCE SHEET
31 December 1998**

	Note	31 December 1998 £'000	31 May 1998 £'000
FIXED ASSETS			
Tangible assets	7	28	31
CURRENT ASSETS			
Debtors	8	56	13
Cash at bank and in hand		20	4
		<u>76</u>	<u>17</u>
CREDITORS: amounts falling due within one year	9	<u>(95)</u>	<u>(45)</u>
NET CURRENT LIABILITIES		<u>(19)</u>	<u>(28)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9</u>	<u>3</u>
CAPITAL AND RESERVES			
Called up share capital	10	1	1
Profit and loss account		8	2
EQUITY SHAREHOLDERS' FUNDS		<u>9</u>	<u>3</u>

These accounts have been prepared in accordance with the special provisions relating to small companies under Section 246 of the Companies Act 1985.

These financial statements were approved by the Board of Directors on ~~23 SEPTEMBER~~ 1999.

Signed for on behalf of the Board of Directors

Denise Collins
Director



NOTES TO THE ACCOUNTS

Period from 1 June 1998 to 31 December 1998

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of preparation – going concern

The accounts are prepared under the assumption that the company will receive the ongoing support of its intermediate parent company, The Mill (Facility) Limited.

Turnover

Turnover represents amounts derived from the provision of model makers for film and television photography special effects services excluding value added tax and trade discounts.

Tangible assets

Depreciation is provided at rates calculated to write off the cost less estimated residual value, of each asset, over its expected useful life. The rates of depreciation are as follows:

Photographic equipment	15% reducing balance
Fixtures	15% reducing balance
Motor vehicles	25% reducing balance

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

2. OPERATING PROFIT

	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
Operating profit is stated after charging:		
Depreciation	3	7
Operating lease rentals:		
- Property	-	8
Auditors' remuneration:		
- Audit fee	1	4
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NOTES TO THE ACCOUNTS

Period from 1 June 1998 to 31 December 1998

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Particulars of employees (including directors) are shown below:

Staff costs incurred during the period in respect of these employees were:

	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
Wages and salaries	-	75
Social security costs	-	7
	<u>-</u>	<u>82</u>
Directors' emoluments during the period amounted to :		
Emoluments	-	46
	<u>-</u>	<u>46</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
On bank overdrafts	-	2
	<u>-</u>	<u>2</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
Group relief receivable	2	39
	<u>2</u>	<u>39</u>



NOTES TO THE ACCOUNTS

Period from 1 June 1998 to 31 December 1998

6. DIVIDENDS

	1 June 1998 to 31 December 1998 £'000	1 January 1997 to 31 May 1998 £'000
Interim paid	-	180

7. TANGIBLE ASSETS

	Photographic equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 June 1998	8	31	7	46
At 31 December 1998	8	31	7	46
Accumulated depreciation				
At 1 June 1998	2	9	4	15
Charge for the period	1	2	-	3
At 31 December 1998	3	11	4	18
Net book value				
At 31 December 1998	5	20	3	28
At 1 June 1998	6	22	3	31

8. DEBTORS

	31 December 1998 £'000	31 May 1998 £'000
Trade debtors	1	-
Amounts due from fellow subsidiary	45	-
Advance corporation tax recoverable	10	12
Prepayments	-	1
	56	13



NOTES TO THE ACCOUNTS

Period from 1 June 1998 to 31 December 1998

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 1998 £'000	31 May 1998 £'000
Trade creditors	-	36
Amounts owed to intermediate parent company	83	-
Corporation tax	1	5
Other taxes and social security	11	-
Accruals	-	4
	<u>95</u>	<u>45</u>

10. CALLED UP SHARE CAPITAL

	1998 No.	1998 £
£1 ordinary shares:		
Authorised:		
At 31 May 1998 and 31 December 1998	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid:		
At 31 May 1998 and 31 December 1998	<u>950</u>	<u>950</u>

11. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions under FRS 8 not to disclose transactions with other group companies.

12. ULTIMATE PARENT COMPANY

The company's immediate parent company is The Magic Holding Company Limited, a company incorporated in Great Britain. Copies of the group accounts of The Mill (Facility) Limited and MDM Group Limited, intermediate parent companies incorporated in Great Britain, are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

The company's ultimate parent company and controlling entity is Falmer Limited, a company registered in the Isle of Man. Falmer Limited does not produce group accounts which are publicly available.