

CHANNEL FOUR INTERNATIONAL LIMITED

Registered number: 2797368

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998



CHANNEL FOUR INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

Ownership

Channel Four International Limited (the Company) is a wholly owned subsidiary of Channel Four Television Corporation (the Corporation).

Principal activities

The Company manages the worldwide distribution and exploitation of film and programme rights acquired by the Corporation. On 1 June 1998, the international film exploitation business was transferred to Film Four Limited. No assets or liabilities were transferred and no consideration was received.

The Company has appointed sub-agents to sell television rights in certain territories. It liases with, and accounts to, independent producers and third parties for their share of distribution income.

The Company pays fees to the Corporation for the rights which are licensed by the Corporation to the Company.

Results and dividends

The directors consider the results for the year to be satisfactory.

The Company generated turnover of £16,439,000 in 1998. £2,726,000 was payable to independent producers and third parties as their share of the distribution income. Direct costs of sales amounted to £3,502,000. £6,634,000 was payable to the Corporation for the rights which the Company manages. After other sales and administrative costs, the Company retained a profit after tax for the period of £1,041,000 which has been transferred to reserves.

The directors do not recommend payment of a dividend.

Year 2000 and Euro

The Company does not expect that the year 2000 or implementation of the Euro will have any significant direct effects on its financial condition.

CHANNEL FOUR INTERNATIONAL LIMITED

Directors

The directors of the Company during the period were as follows:

Present

Michael Jackson	Chairman	
David Scott		
Andrew Brann		
R Bernard Macleod	Managing Director	(appointed 16 July 1998)
Jackie Grove	Finance Director	(appointed 19 March 1998)
Janet Walker		(appointed 23 April 1998)
Jo Rosenfelder	Director of Commercial Affairs	(appointed 17 December 1998)
Tim Gardam		(appointed 17 December 1998)
Barbara Bellini Witkowski		(appointed 18 February 1999)

Past

Andy Barnes		(resigned 15 September 1998)
Richard Hurst	Director of Business Affairs	(resigned 17 July 1998)
Bill Stephens	Director of Sales	(resigned 19 March 1998)
Stephen Mowbray	Director of Sales	(appointed 19 March 1998, resigned 17 December 1998)

None of the directors had any interests in the Company's shares. All of the directors are employees of the Corporation.

Directors' and officers' liability insurance

The directors consider that it is appropriate, with the increasing volume and complexity of legislation, that liability insurance should be available to directors and officers and a policy has been effected.

Employment policy

The Company has no employees. Its activities are carried out by employees of the Corporation who are seconded to the Company.

Employment policies and procedures for employee involvement and consultation are set out in the annual report and financial statements of the Corporation.

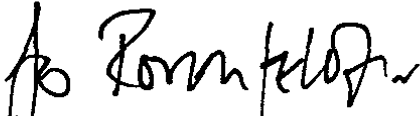
CHANNEL FOUR INTERNATIONAL LIMITED

Auditors

Special notice in accordance with Sections 379 and 388(3), Companies Act 1985 will be given to the Members of an intention to move the following resolution at the next Annual General Meeting:-

“That PricewaterhouseCoopers be re-appointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Coopers & Lybrand), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors”.

By order of the Board

A handwritten signature in black ink, appearing to read 'Jo Rommelfoer', is written over the printed name of the Company Secretary.

Company Secretary

17 March 1999

CHANNEL FOUR INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

CHANNEL FOUR INTERNATIONAL LIMITED

**REPORT OF THE AUDITORS TO THE MEMBERS OF
CHANNEL FOUR INTERNATIONAL LIMITED**

Auditors' report to the members of Channel Four International Limited

We have audited the financial statements on pages 6 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements as described on page 4. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit 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 at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
17 March 1999

CHANNEL FOUR INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT

Year to 31 December	Notes	1998 £000	1997 £000
Turnover	1	16,439	31,339
Continuing operations		14,155	14,883
Discontinued operations		2,284	16,456
Cost of sales	2	(12,862)	(25,718)
Gross profit		3,577	5,621
Administrative expenses		(2,108)	(2,408)
Continuing operations		(1,723)	(1,517)
Discontinued operations		(385)	(891)
Profit on ordinary activities before taxation	3 and 4	1,469	3,213
Continuing operations		1,663	1,808
Discontinued operations		(194)	1,405
Taxation	5	(428)	(1,093)
Retained profit for the year	9	1,041	2,120

On 1 June 1998, the international film exploitation business was transferred to Film Four Limited. All other activities are continuing.

The Company has no recognised gains or losses other than the profit for the year and therefore no statement of total recognised gains or losses is presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 8 to 12 form part of these financial statements.

Report of the auditors - page 5.

CHANNEL FOUR INTERNATIONAL LIMITED

BALANCE SHEET

At 31 December		1998	1997
	Notes	£000	£000
Current assets			
Programme Rights	6	975	-
Debtors	7	10,158	9,439
Current liabilities			
Creditors	8	(5,732)	(5,079)
Net current assets		<u>5,401</u>	<u>4,360</u>
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account	9	5,400	4,359
Equity shareholders' funds		<u>5,401</u>	<u>4,360</u>

Michael Jackson  Chairman

David Scott  Director

These financial statements were approved by the Board of Directors on 17 March 1999.

The notes on pages 8 to 12 form part of these financial statements.

Report of the auditors - page 5.

CHANNEL FOUR INTERNATIONAL LIMITED

PRINCIPAL ACCOUNTING POLICIES for the year ended 31 December 1998

Basis of accounting

The financial statements have been prepared under the historical cost convention. The financial statements meet the requirements of the Companies Act 1985 and are in accordance with applicable UK accounting standards.

Accounting policies

A summary of the more important accounting policies, all of which have been applied consistently, is set out below.

Sale of programme and film rights

Profit is recognised on contracts for the sale of rights of completed films and programmes as payments under the contracts become due.

Investment income

Income due from investments in other programmes and films is recognised upon notification of that income.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date. Any resultant gain or loss on exchange is shown as part of the profit or loss for the period.

Cashflow statement and related party disclosures

The Company is a wholly-owned subsidiary of the Corporation and is included in the consolidated financial statements of the Corporation, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (revised 1996). The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Corporation's group.

Related party transactions

With the exception of the disclosure in note 12, the Company has taken advantage of the exemption in Financial Reporting Standard No 8 from disclosing related party transactions on the grounds that the relevant transactions have been disclosed in the consolidated accounts of the Corporation.

CHANNEL FOUR INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 1998

1. Turnover

Turnover, excluding value added tax, principally arises from the sale of and investment in programmes and films.

The geographical analysis of turnover is as follows:

£000	1998			1997		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
USA	687	207	894	786	3,765	4,551
Europe	3,905	913	4,818	2,083	6,192	8,275
Rest of the world	2,906	1,050	3,956	4,969	3,857	8,826
Exports	7,498	2,170	9,668	7,838	13,814	21,652
UK sales and other income	6,657	114	6,771	7,045	2,642	9,687
	14,155	2,284	16,439	14,883	16,456	31,339

2. Cost of sales

£000	1998			1997		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Direct costs	3,138	364	3,502	3,481	1,745	5,226
Share of income due to independent producers and third parties	1,663	1,063	2,726	2,097	4,533	6,630
Rights payments due to the Corporation	5,968	666	6,634	5,980	7,882	13,862
	10,769	2,093	12,862	11,558	14,160	25,718

CHANNEL FOUR INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1998

3. Remuneration of the directors and employees

The directors and staff of the Company are employees of, and are remunerated by, the Corporation, which renders a management charge to the Company for their services. Amounts applicable to the directors of the Company for service to the Company, excluding pension contributions, were;

	1998	1997
	£000	£000
Total emoluments	220	268
Compensation for loss of office	38	-
	<u>258</u>	<u>268</u>
Highest paid director - emoluments	<u>90</u>	<u>98</u>

The directors of Channel Four International Ltd are eligible for membership of the Channel Four Television Staff Pension Plan. This is a defined benefit scheme and six directors were members of the scheme as at 31 December 1998 (1997 – three). The accrued pension of the highest paid director under the defined benefit scheme at 31 December 1998 was £5,567.

4. Fees in respect of services provided by the auditors were:

	1998	1997
	£000	£000
Statutory audit	<u>9</u>	<u>8</u>

CHANNEL FOUR INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1998**

5. Taxation

	1998	1997
	£000	£000
UK corporation tax @ 31% (1997: 31.5%):		
Current year	469	1,075
Prior year	(41)	18
Double tax relief	(369)	(538)
	<u>59</u>	<u>555</u>
Overseas taxation	369	538
	<u>428</u>	<u>1,093</u>

6. Programme Rights

	1998	1997
	£000	£000
Programme rights	<u>975</u>	<u>-</u>

Sales generated from the exploitation of the programme rights may result in certain of the rights not being realised within one year.

7. Debtors

	1998	1997
	£000	£000
Trade debtors	2,897	5,441
Prepayments and accrued income	195	738
Amounts owed by fellow subsidiary	-	1,565
Amounts owed by parent undertaking	7,066	1,695
	<u>10,158</u>	<u>9,439</u>

CHANNEL FOUR INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1998**

8. Creditors - amounts payable within one year

	1998	1997
	£000	£000
Other taxation and social security	63	204
Accruals	4,404	4,338
Amounts owed to fellow subsidiaries	1,165	-
United Kingdom corporation tax	100	537
	<u>5,732</u>	<u>5,079</u>

9. Reconciliation of profit and loss account and shareholders' funds

	Profit and loss account	Shareholders' funds
	£000	£000
At 1 January 1998	4,359	4,360
Profit for the year	1,041	1,041
At 31 December 1998	<u>5,400</u>	<u>5,401</u>

10. Ultimate parent company

The Company is a wholly owned subsidiary of the Corporation which is a body incorporated under the terms of the Broadcasting Act 1990.

Copies of the parent's financial statements may be obtained from The Secretary, Channel Four Television Corporation, 124 Horseferry Road, London SW1P 2TX.

11. Share capital

The authorised and allotted share capital consists of 1,000 ordinary shares of £1 each. All shares are fully paid.

12. Related party transactions

Bernard Macleod (Managing Director of Channel 4 International from December 1 1998) acted as a consultant prior to his employment with Channel 4 International. Staff costs in relation to this service amounted to £41,000 (National Insurance, £4,000).