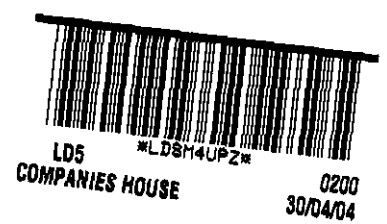


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**REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003  
FOR  
AVALON TELEVISION LIMITED**



**AVALON TELEVISION LIMITED**  
**CONTENTS OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2003**

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**AVALON TELEVISION LIMITED**  
**COMPANY INFORMATION**  
**FOR THE YEAR ENDED 30 JUNE 2003**

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**DIRECTORS:**

J M Thoday  
R Allen-Turner  
L Tucker  
J R Gregory  
G Perkins

**SECRETARY:**

R Allen-Turner

**REGISTERED OFFICE:**

4a Exmoor Street  
London  
W10 6BD

**REGISTERED NUMBER:**

2856604

**AUDITORS:**

MGI Midgley Snelling  
Registered Auditors  
Brettenham House  
Lancaster Place  
London  
WC2E 7EW

**AVALON TELEVISION LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 30 JUNE 2003**

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The directors present their report with the financial statements of the company for the year ended 30 June 2003.

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of the development and production of television and film projects.

**REVIEW OF BUSINESS**

The results for the year and financial position of the company are as shown in the annexed financial statements.

**DIVIDENDS**

An interim dividend of £2,666 per share was paid on 30 June 2003. The directors recommend that no final dividend be paid.

The total distribution of dividends for the year ended 30 June 2003 will be £266,666.

**DIRECTORS**

The directors during the year under review were:

J M Thoday	
R Allen-Turner	
L Tucker	
A J Spring	- resigned 2/8/02
J R Gregory	

The beneficial interests of the directors holding office on 30 June 2003 in the issued share capital of the company were as follows:

	30/6/03	1/7/02
<b>Ordinary shares £1 shares</b>		
J M Thoday	50	50
R Allen-Turner	50	50
L Tucker	-	-
J R Gregory	-	-

**STATEMENT OF 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;
- 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.

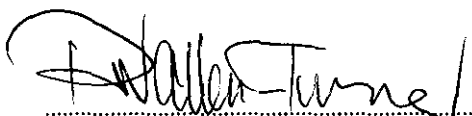
**AVALON TELEVISION LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 30 JUNE 2003**

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**AUDITORS**

The auditors, MGI Midgley Snelling, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

**ON BEHALF OF THE BOARD:**

A handwritten signature in dark ink, appearing to read 'R Allen-Turner', is written over a horizontal dotted line.

R Allen-Turner - Secretary

Date: 30/4/04

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF  
AVALON TELEVISION LIMITED**

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We have audited the financial statements of Avalon Television Limited for the year ended 30 June 2003 on pages five to fifteen. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described on page two the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. We also report to you if, in our opinion, the Report of the Directors 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 with the company is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*MGI Midgley Snelling*

MGI Midgley Snelling  
Registered Auditors  
Brettenham House  
Lancaster Place  
London  
WC2E 7EW

Date: 30/4/04

**AVALON TELEVISION LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 30 JUNE 2003**

	Notes	30/6/03 £	30/6/02 £
<b>TURNOVER</b>		<b>12,878,831</b>	13,373,803
Cost of sales		<u>11,933,514</u>	<u>12,470,482</u>
<b>GROSS PROFIT</b>		<b>945,317</b>	903,321
Administrative expenses		<u>648,817</u>	<u>523,694</u>
<b>OPERATING PROFIT</b>	3	<b>296,500</b>	379,627
Interest receivable and similar income		<u>42,862</u>	<u>2,372</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>339,362</b>	381,999
Tax on profit on ordinary activities	4	<u>101,702</u>	<u>122,896</u>
<b>PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION</b>		<b>237,660</b>	259,103
Dividends	5	<u>266,666</u>	<u>200,000</u>
<b>(DEFICIT)/RETAINED PROFIT FOR THE YEAR</b>		<u><b>(29,006)</b></u>	<u>59,103</u>

**CONTINUING OPERATIONS**

None of the company's activities were acquired or discontinued during the current and previous years.

**TOTAL RECOGNISED GAINS AND LOSSES**

The company has no recognised gains or losses other than the profits for the current and previous years.

The notes form part of these financial statements

**AVALON TELEVISION LIMITED**

**BALANCE SHEET  
30 JUNE 2003**

		30/6/03		30/6/02	
	Notes	£	£	£	£
<b>FIXED ASSETS</b>					
Tangible assets	6		-		4,523
Investments	7		51		51
			<u>51</u>		<u>4,574</u>
<b>CURRENT ASSETS</b>					
Stocks	8	58,235		950,523	
Debtors	9	777,175		396,523	
Cash at bank and in hand		2,499,885		1,946,377	
		<u>3,335,295</u>		<u>3,293,423</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	10	3,162,083		3,095,728	
<b>NET CURRENT ASSETS</b>			<u>173,212</u>		<u>197,695</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>173,263</u>		<u>202,269</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	11		100		100
Profit and loss account	12		173,163		202,169
<b>SHAREHOLDERS' FUNDS</b>	13		<u>173,263</u>		<u>202,269</u>

**ON BEHALF OF THE BOARD:**

.....  
J M Thoday - Director

Approved by the Board on 30/4/04 .....

The notes form part of these financial statements



**AVALON TELEVISION LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2003**

	Notes	30/6/03 £	30/6/02 £
<b>Net cash inflow from operating activities</b>	1	672,179	300,118
<b>Returns on investments and servicing of finance</b>	2	42,862	2,372
<b>Taxation</b>		(161,533)	(59,896)
<b>Increase in cash in the period</b>		<u>553,508</u>	<u>242,594</u>
<hr/>			
<b>Reconciliation of net cash flow to movement in net funds</b>	3		
Increase in cash in the period		<u>553,508</u>	<u>242,594</u>
Change in net funds resulting from cash flows		<u>553,508</u>	<u>242,594</u>
<b>Movement in net funds in the period</b>		<u>553,508</u>	<u>242,594</u>
<b>Net funds at 1 July</b>		<u>1,946,377</u>	<u>1,703,783</u>
<b>Net funds at 30 June</b>		<u>2,499,885</u>	<u>1,946,377</u>

The notes form part of these financial statements

**AVALON TELEVISION LIMITED**

**NOTES TO THE CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2003**

**1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	30/6/03 £	30/6/02 £
Operating profit	296,500	379,627
Depreciation charges	4,523	13,944
Decrease/(Increase) in stocks	892,288	(920,155)
Increase in debtors	(380,652)	(46,592)
(Decrease)/Increase in creditors	(140,480)	873,294
<b>Net cash inflow from operating activities</b>	<u><u>672,179</u></u>	<u><u>300,118</u></u>

**2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT**

	30/6/03 £	30/6/02 £
<b>Returns on investments and servicing of finance</b>		
Interest received	<u>42,862</u>	<u>2,372</u>
<b>Net cash inflow for returns on investments and servicing of finance</b>	<u><u>42,862</u></u>	<u><u>2,372</u></u>

**3. ANALYSIS OF CHANGES IN NET FUNDS**

	At 1/7/02 £	Cash flow £	At 30/6/03 £
Net cash:			
Cash at bank and in hand	<u>1,946,377</u>	<u>553,508</u>	<u>2,499,885</u>
	<u>1,946,377</u>	<u>553,508</u>	<u>2,499,885</u>
<b>Total</b>	<u><u>1,946,377</u></u>	<u><u>553,508</u></u>	<u><u>2,499,885</u></u>

*The notes form part of these financial statements*

**AVALON TELEVISION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2003**

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**1. ACCOUNTING POLICIES**

**Basis of preparing the financial statements**

The financial statements have been prepared in accordance with applicable accounting standards.

**Accounting convention**

The financial statements have been prepared under the historical cost convention.

**Turnover and revenue recognition**

Turnover represents net invoiced sales of services, excluding value added tax.

*Turnover is recognised on the basis of the proportion of the production which has been produced and has been delivered (or is substantially complete) at the balance sheet date. If the production is a series of episodes that is partially complete, turnover is accrued on the basis of the costs expended, to the extent that those costs are covered by the production contract or recoverable from third parties.*

**Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment        - 25% on cost

**Work in progress**

Where pre-production costs have been incurred prior to the main production process, these costs are carried as work in progress in the balance sheet to the extent that they are expected to be covered by a production contract or recoverable from third parties.

**Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

**Pensions**

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

**Consolidation**

The financial statements contain information about Avalon Television Limited as an individual company and do not contain consolidated financial information as the parent of the group. The company is exempt under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the group it heads qualifies as a medium group.

**Advances**

The company receives advances to finance specific projects which are treated as current liabilities. The company takes these advances to the credit of the profit and loss account when the project is taken into production or when it is not expected to progress to production within the foreseeable future.

**2. STAFF COSTS**

	30/6/03	30/6/02
	£	£
Wages and salaries	465,506	591,212
Social security costs	49,342	60,870
Other pension costs	3,240	3,127
	<u>518,088</u>	<u>655,209</u>

**AVALON TELEVISION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 30 JUNE 2003**

**2. STAFF COSTS - continued**

The average monthly number of employees during the year was as follows:

	30/6/03	30/6/02
Administration	4	4
Production	14	14
	<u>18</u>	<u>18</u>

**3. OPERATING PROFIT**

The operating profit is stated after charging:

	30/6/03	30/6/02
	£	£
Depreciation - owned assets	4,523	13,944
Auditors remuneration	8,365	7,000
	<u>12,888</u>	<u>20,944</u>
Directors' emoluments	92,379	53,680
	<u>105,267</u>	<u>74,624</u>

**4. TAXATION**

**Analysis of the tax charge**

The tax charge on the profit on ordinary activities for the year was as follows:

	30/6/03	30/6/02
	£	£
Current tax:		
UK corporation tax	103,068	122,000
(Over)/Under provision in previous years	(1,366)	896
Total current tax	<u>101,702</u>	<u>122,896</u>
Tax on profit on ordinary activities	<u>101,702</u>	<u>122,896</u>

**AVALON TELEVISION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 30 JUNE 2003**

**4. TAXATION - continued**

**Factors affecting the tax charge**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	30/6/03 £	30/6/02 £
Profit on ordinary activities before tax	<u>339,362</u>	<u>381,999</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 - 30%)	101,809	114,600
Effects of:		
Depreciation in excess of Capital Allowances	189	2,627
Expenses not deductible for tax purposes	1,070	3,408
Adjustments to tax charge in respect of prior periods	(1,366)	896
Overprovision of UK Corporation Tax charge for the year	-	1,365
Current tax charge	<u>101,702</u>	<u>122,896</u>

**5. DIVIDENDS**

	30/6/03 £	30/6/02 £
Equity shares:		
Interim	266,666	-
Final	-	200,000
	<u>266,666</u>	<u>200,000</u>

**6. TANGIBLE FIXED ASSETS**

	Computer equipment £
<b>COST</b>	
At 1 July 2002 and 30 June 2003	<u>55,776</u>
<b>DEPRECIATION</b>	
At 1 July 2002	51,253
Charge for year	4,523
At 30 June 2003	<u>55,776</u>
<b>NET BOOK VALUE</b>	
At 30 June 2003	<u>-</u>
At 30 June 2002	<u>4,523</u>

**AVALON TELEVISION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 30 JUNE 2003**

**7. FIXED ASSET INVESTMENTS**

	<b>Shares in group undertakings £</b>
<b>COST</b>	
At 1 July 2002 and 30 June 2003	<u>51</u>
<b>NET BOOK VALUE</b>	
At 30 June 2003	<u>51</u>
At 30 June 2002	<u>51</u>

Fixed asset investments represents a 51% investment in the ordinary share capital of Brightwater Productions Limited, which develops and produces radio projects. The company was dormant during the year and at 30th June 2003 the aggregate amount of share capital and reserves amounted to a deficit of £5,210.

**8. STOCKS**

	<b>30/6/03 £</b>	<b>30/6/02 £</b>
Work-in-progress	<u>58,235</u>	<u>950,523</u>

**9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>30/6/03 £</b>	<b>30/6/02 £</b>
Trade debtors	85,799	226,035
Other debtors	319,797	101,866
Prepayments and accrued income	371,579	68,622
	<u>777,175</u>	<u>396,523</u>

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>30/6/03 £</b>	<b>30/6/02 £</b>
Trade creditors	1,919,053	792,423
Tax	62,169	122,000
Social security and other taxes	68,250	17,633
Other creditors	396,370	285,128
Accruals and deferred income	716,241	1,878,544
	<u>3,162,083</u>	<u>3,095,728</u>

**AVALON TELEVISION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 30 JUNE 2003**

**11. CALLED UP SHARE CAPITAL**

Authorised:				
Number:	Class:	Nominal value:	30/6/03	30/6/02
			£	£
100,000	Ordinary shares	£1	<u>100,000</u>	<u>100,000</u>

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	30/6/03	30/6/02
			£	£
100	Ordinary shares	£1	<u>100</u>	<u>100</u>

**12. RESERVES**

	<b>Profit and loss account</b>
	<b>£</b>
At 1 July 2002	<b>202,169</b>
Deficit for the year	<b>(29,006)</b>
At 30 June 2003	<b><u>173,163</u></b>

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>30/6/03</b>	<b>30/6/02</b>
	<b>£</b>	<b>£</b>
Profit for the financial year	<b>237,660</b>	<b>259,103</b>
Dividends	<b>(266,666)</b>	<b>(200,000)</b>
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(29,006)</b>	<b>59,103</b>
Opening shareholders' funds	<b><u>202,269</u></b>	<b><u>143,166</u></b>
<b>Closing shareholders' funds</b>	<b><u>173,263</u></b>	<b><u>202,269</u></b>
Equity interests	<b><u>173,263</u></b>	<b><u>202,269</u></b>

**AVALON TELEVISION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 30 JUNE 2003**

**14. CASH AT BANK AND IN HAND**

	2003	2002
	£	£
Amounts held on deposit	9,395,539	9,744,913
Less: associated finance lease liabilities	(9,395,539)	(9,744,913 )
	<u>                    </u>	<u>                    </u>
Amounts held in programme production trust accounts	366,892	(301,126 )
Other cash at bank and in hand	2,132,993	2,247,503
	<u>                    </u>	<u>                    </u>
	<u>2,499,885</u>	<u>1,946,377</u>

Amounts held on deposit arise as a result of sale and leaseback transactions and comprise monies to provide for the discharge of future leasing liabilities disclosed above.

*In the two years ended 30th June 2002 the company entered into several sale and finance leaseback transactions. It is the opinion of the directors that this type of transaction does not dispose of the risks and rewards of the ownership of the production, and as such the transaction is not recognised as a sale and subsequent leaseback.*

The directors are recognising the transaction's fees, and associated costs over the useful life of the production, which the directors estimate to be less than one year. The directors have deposited the proceeds from the sale in a trust account with a bank. This bank account may only be used to pay off the lease payments.



# AVALON TELEVISION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 30 JUNE 2003

### 15. RELATED PARTY DISCLOSURES

The company is controlled by J M Thoday and R Allen-Turner who each hold 50% of the company's issued share capital.

J M Thoday, R Allen-Turner, A J Spring and J R Gregory are also directors of Avalon Management Group Limited, Avalon Public Relations Limited and Avalon Promotions Limited. J M Thoday has a controlling interest in the share capital of each of these companies.

J M Thoday and R Allen-Turner are also directors of Brightwater Productions Limited.

J M Thoday, R Allen-Turner, and J R Gregory are also directors of Avalon Motion Pictures Limited. The company is controlled by J M Thoday and R Allen-Turner who each hold 50% of the company's issued share capital.

During the year the company had the following transactions with these companies:-

	Sales to/ (purchases from)
	£
Avalon Management Group Limited	8,973
	(7,320,478)
Avalon Promotions Limited	(17,063)
Avalon Public Relations Limited	(191,839)

At the balance sheet date the following balances existed:

	Debtors £	Creditors £
Avalon Management Group Limited	-	1,507,803
Avalon Promotions Limited	-	6,758
Avalon Public Relations Limited	-	36,775
Brightwater Productions Limited	-	39,390
Avalon Motion Pictures Limited	59,534	-