

Mill Film Limited

**Directors' report and financial
statements**

Registered number 3123160

31 December 2002



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Officers and professional advisers

Directors

Timothy Burke	(resigned 22 June 2003)
Anthony Hunt	(resigned 8 August 2002)
Patrick Joseph	
Gerard McCormack	(resigned 31 January 2003)
Craig Mitchell	(appointed 18 September 2003)
Karl Mooney	(resigned 23 May 2003)
James Morris	(resigned 10 May 2003)
Robin Shenfield	
Roy Trosh	
Malcolm Wooldridge	(appointed 17 April 2002, resigned 20 December 2002)
Neil Hughes	(appointed 17 April 2002, resigned 20 September 2002)

Secretary

Gerard McCormack	(resigned 31 January 2003)
Rod Dawson	(appointed 1 February 2003)

Registered office

40-41 Great Marlborough Street
London W1F 7JQ

Bankers

Royal Bank of Scotland plc
Corporate & Commercial Banking
2 Waterhouse Square
138-142 Holborn
London EC1N 2TH

Solicitors

Dickson Minto
Royal London House
22/25 Finsbury Square
London EC2A 1DS

Auditors

KPMG LLP
PO Box 695
8 Salisbury Square
London EC4Y 8BB

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The company provides post-production services to the film industry.

Results and business review

During the year the directors of the company decided to discontinue operations in Mill Film Limited. The financial volatility of Mill Film was inhibiting its immediate parent, The Mill (Facility) Limited, from capitalising on growth opportunities in the advertising business. As part of the restructuring following discontinuance the company has provided against intercompany balances with other group companies. In addition, the immediate parent has waived outstanding balances with the company. The remaining tangible fixed assets and trade of the company were transferred to the immediate parent on 31 December 2002 at fair value.

The financial statements have therefore not been prepared on a going concern basis but have been prepared on the basis of break up values. Non-current assets have been reclassified as current assets, stated at the lower of cost and net realisable value and provision has been made for future foreseeable trading losses to the extent they are not offset by future trading profits.

The results for the period are set out on page 5 of the financial statements. The directors are unable to recommend the payment of a dividend (2001: £nil).

Post balance sheet event

On 15 April 2003, the company acquired three subsidiaries from Beam.tv Limited (*formerly The Magic Holding Company Limited*); Mill Film Shepperton Limited (*formerly The Magic Camera Company Limited*); Magic Effects Limited; and The Magic Models Company Limited. These subsidiaries are non trading in 2003.

Directors and directors' interests

The directors who served during the year and to the date of this report are shown on page 1.

None of the directors had an interest in the share capital of the company at any time in the year.

The directors' beneficial interests in the shares of Mill Digital Media Limited are disclosed in the directors' report for that company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Craig Mitchell
Director

40-41 Great Marlborough Street
London
W1F 7JQ

24 OCTOBER 2003

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 as at the end of the financial year and of the profit or loss for that year. 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

As explained in note 1 to the financial statements, the directors do not believe that the going concern basis is appropriate and consequently, these financial statements have been prepared on the basis of break up values.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of Mill Film Limited

We have audited the financial statements on pages 5 to 18, which as described in note 1, have not been prepared on a going concern basis.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 1985. 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 with the company 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 affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

29 October 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	3	7,865	10,121
Cost of sales		(3,993)	(5,331)
Gross profit		3,872	4,790
Administrative expenses		(3,126)	(3,039)
Operating profit		746	1,751
Loss on termination of discontinued operations	2	(2,426)	-
Interest payable and similar charges	6	(75)	(801)
(Loss)/profit on ordinary activities before taxation	4	(1,755)	950
Tax charge on (loss)/profit on ordinary activities	7	(12)	(564)
(Loss)/profit on ordinary activities after taxation	17	(1,767)	386

All of the above results are derived from discontinued operations.

The company had no recognised gains or losses other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

The historical cost profit/(losses) in the current and prior year are the same as those reported above.

The notes on pages 8 to 18 form part of the financial statements.

Balance sheet

at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	8	-	4,177
Investments	9	-	565
		<hr/>	<hr/>
		-	4,742
Current assets			
Stocks and work in progress	10	2	7
Debtors:			
- due within one year	11	27	824
- due after one year	11	-	3,954
Cash at bank and in hand		163	177
		<hr/>	<hr/>
		192	4,962
Creditors: amounts falling due within one year	12	(210)	(712)
		<hr/>	<hr/>
Net current (liabilities)/assets			
- due within one year		(18)	296
- due after one year		-	3,954
		<hr/>	<hr/>
		(18)	4,250
		<hr/>	<hr/>
Total assets less current liabilities		(18)	8,992
Creditors: amounts falling due after more than one year	13	-	(7,374)
Provisions for liabilities and charges	14	(131)	-
		<hr/>	<hr/>
Net (liabilities)/assets		(149)	1,618
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	16	-	-
Share premium account	17	5,650	5,650
Profit and loss account	17	(5,799)	(4,032)
		<hr/>	<hr/>
Total shareholders' (deficit)/funds - equity		(149)	1,618
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 24 OCTOBER 2003 and were signed on its behalf by:



Craig Mitchell
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2002

	2002 £000	2001 £000
(Loss)/profit for the financial year	(1,767)	386
New share capital subscribed (net of issue costs)	-	5,650
	<hr/>	<hr/>
Net (reduction in)/addition to shareholders' funds	(1,767)	6,032
Opening shareholders' funds	1,618	(4,418)
	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(149)	1,618
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under historical cost accounting rules.

Going concern

The financial statements have not been prepared on a going concern basis as the company ceased operations in December 2002 and therefore have been prepared on the basis of break up values. Non-current assets have been reclassified as current assets stated at the lower of cost and net realisable value, and provision has been made for future foreseeable trading losses to the extent they are not offset by future trading profits.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Mill Digital Media Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Mill Digital Media Limited, within which this company is included, can be obtained from the address given in note 21.

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts as it is a subsidiary of Mill Digital Media Limited, a UK company producing consolidated financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

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

Lease improvements	-	5% per annum
Equipment	-	20% per annum
Furniture and fittings	-	20% per annum

Notes (continued)

1 Accounting policies (continued)

Investments

Investments are held at cost less provision for impairment.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase price. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and/or disposal. Provision is made for obsolete and slow moving items.

Turnover

The amount of profit attributable to the stage of completion of a contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous periods (excluding value added tax). Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments of account billed. Payments on account (in excess of amounts either matched with turnover or offset against work in progress) are included within creditors.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term.

Notes (continued)

1 Accounting policies (continued)

Pensions

The company's ultimate parent company operates a defined contribution scheme for its employees and also makes contributions to certain individuals' personal pension plans. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions are charged to the profit and loss account as they are incurred.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

2 Loss on termination of discontinued operations

	2002 £000	2001 £000
Amounts written off fixed assets	1,813	-
Staff redundancies	486	-
Vacant property provision	300	-
Other	160	-
Profit on disposal of fixed assets	(315)	-
Waiver of amounts owed to group undertakings	(18)	-
	<hr/> 2,426 <hr/>	<hr/> - <hr/>

As a result of the directors' decision to discontinue operations in the company, significant costs were incurred as detailed above.

Notes (continued)

3 Analysis of turnover

An analysis of turnover by geographical market is given below:

	2002 £000	2001 £000
United Kingdom	7,849	5,539
United States of America	8	4,582
Europe	8	-
	<u>7,865</u>	<u>10,121</u>

An analysis of turnover by class of business has not been given as the directors consider the company to have one principal activity.

4 (Loss)/profit on ordinary activities before taxation

	2002 £000	2001 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging the following:</i>		
Depreciation on:		
- owned assets	1,103	1,287
- leased assets	294	179
Operating lease rentals:		
- property	221	141
	<u>221</u>	<u>141</u>

The auditors' remuneration for the current and prior year was paid by The Mill (Facility) Limited, another group company.

Notes (continued)

5 Information regarding directors and employees

The average numbers of persons (including directors) employed by the company in the year, analysed by category, were as follows:

	2002 No.	2001 No.
Administration	6	7
Production & Operations	31	28
	<hr/> 37	<hr/> 35

Payroll costs incurred during the year in respect of these employees (including directors) were as follows:

	2002 £000	2001 £000
Wages and salaries	1,711	1,705
Social security costs	180	182
Other pension costs	102	110
	<hr/> 1,993	<hr/> 1,997

Directors' remuneration during the year amounted to:

	2002 £000	2001 £000
Emoluments	350	442
Pension contributions	25	39
	<hr/> 375	<hr/> 481

Three of the directors did accrue retirement benefits under a money purchase scheme (2001: three).

The total emoluments of the highest paid director were £170,871 (2001: £157,490), and company pension contributions of £13,030 (2001: £17,460) were made to a money purchase scheme on his behalf.

6 Interest payable and similar charges

	2002 £000	2001 £000
Group company loans	-	762
Interest on finance leases	75	39
	<hr/> 75	<hr/> 801

Notes (continued)

7 Taxation

Analysis of charge in period.

	2002	2001
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	(332)	(12)
Receipts from/(payments to) other group companies in respect of group relief	332	(14)
Tax adjustment from prior period	12	-
	<hr/>	<hr/>
Total current tax credit/(charge)	12	(26)
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences	(24)	(538)
	<hr/>	<hr/>
	(24)	(538)
	<hr/>	<hr/>
Tax charge on (loss)/profit on ordinary activities	(12)	(564)
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002	2001
	£000	£000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(1,755)	950
	<hr/>	<hr/>
Current tax credit/(charge) at 30% (2001: 30%)	527	(285)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(9)	(7)
Depreciation for period in excess of capital allowances	(850)	(94)
Utilisation of tax losses	-	354
(Payments to)/receipts from other group companies in respect of group relief	-	14
Group relief receivable from/(surrenderable to) other group companies	332	(14)
Other	-	6
Tax adjustment from prior period	12	-
	<hr/>	<hr/>
Total current tax credit/(charge) (see above)	12	(26)
	<hr/>	<hr/>

Factors that may affect future tax charge

As a result of the decision to discontinue the company's operations there are no further capital investment plans and no future tax charges are expected. The company's remaining assets and their tax written down value as at 31 December 2002 have been transferred to the parent company, The Mill (Facility) Limited. No capital allowances are therefore expected to be claimed by the company in the future.

Notes (continued)

8 Tangible assets

	Leasehold improvements £000	Equipment £000	Furniture and fittings £000	Total £000
Cost				
At 31 December 2001	1,219	7,383	235	8,837
Additions	-	627	-	627
Transfer to group undertakings	(1,219)	(7,710)	(235)	(9,164)
Disposals	-	(300)	-	(300)
At 31 December 2002	-	-	-	-
Accumulated depreciation				
At 31 December 2001	290	4,234	136	4,660
Charge for the year	61	1,314	22	1,397
Charge on termination of operations	-	1,813	-	1,813
Transfer to group undertakings	(351)	(7,067)	(158)	(7,576)
Disposals	-	(294)	-	(294)
At 31 December 2002	-	-	-	-
Net book value				
At 31 December 2002	-	-	-	-
At 31 December 2001	929	3,149	99	4,177

The net book value of fixed assets includes £nil in respect of equipment held under finance leases (2001: £1,069,000). As a result of the decision to discontinue the company's operations, the directors decided that the remaining assets should be transferred to the parent company, The Mill (Facility) Limited, on 31 December 2002. The fair value of assets transferred was £1,903,000.

9 Investments

	Shares in group Undertakings £000
Cost:	
At beginning of year	565
Debt forgiveness	(565)
At end of year	-

The company holds two (2001: two) £1 ordinary shares at cost in Mill LA Limited, representing a 100% interest in that company. Mill LA Limited is incorporated in England and Wales.

Notes (continued)

9 Investments (continued)

The share premium arising on the investment in Mill LA Limited was never settled in cash, instead it was represented by an intercompany amount payable to Mill LA Limited to the same value. This debt of £565,000 was waived by Mill LA Limited in the year, and the debt forgiveness has therefore been offset against the corresponding investment in the balance sheet.

10 Stocks and work in progress

	2002 £000	2001 £000
Tape stocks for resale	2	7

11 Debtors

	2002 £000	2001 £000
<i>Amounts due within one year:</i>		
Trade debtors	23	392
Deferred tax asset (see note 15)	-	24
Amounts owed by group undertakings	-	400
Other debtors	1	6
Prepayments and accrued income	3	2
	27	824
<i>Amounts due after more than one year:</i>		
Amounts owed by group undertakings	-	3,954
	27	4,778

12 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Obligations under finance leases	-	232
Trade creditors	104	85
Corporation tax	-	12
Other creditors	22	16
Accruals and deferred income	84	367
	210	712

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	2002	2001
	£000	£000
Obligations under finance leases (due within 2-5 years)	-	932
Amounts due to group undertakings	-	6,442
	<hr/>	<hr/>
	-	7,374
	<hr/>	<hr/>

14 Provisions for liabilities and charges

	Discontinued operation £000
At 1 January 2002	-
Amounts due to related parties	60
Redundancy costs	71
	<hr/>
At 31 December 2002	131
	<hr/>

15 Deferred tax

The elements of deferred taxation are as follows:

	2002	2001
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	-	24
	<hr/>	<hr/>
Deferred tax asset (see note 11)	-	24
	<hr/>	<hr/>

16 Called up share capital

	2002	2001
	£	£
<i>Authorised</i>		
1,000 (2001: 1,000) ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
3 (2001: 3) ordinary shares of £1 each	3	3
	<hr/>	<hr/>

Notes (continued)

17 Share premium and reserves

	Share premium account £000	Profit and loss account £000
Balance at 1 January 2002	5,650	(4,032)
Loss for the year	-	(1,767)
At 31 December 2002	5,650	(5,799)

18 Obligations under operating leases

The company is committed to make the following payments under operating leases in respect of land and buildings for the forthcoming year:

	2002 £000	2001 £000
Leases which expire:		
After five years	-	178

19 Contingencies

The company has granted a fixed and floating charge over its assets in favour of the group's bankers. As at 31 December 2002, the amount owed to the bank by the group was £8,677,000 (2001: £8,900,000).

20 Capital commitments

As at 31 December 2002, the Company did not have any contracted capital expenditure (2001: £nil).

21 Ultimate parent company

The company's immediate parent company is The Mill (Facility) Limited. The company's ultimate parent company is Mill Digital Media Limited.

Copies of the accounts of The Mill (Facility) Limited, Mill Digital Media Limited, the immediate and ultimate parent companies respectively, both incorporated in England and Wales, are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

Notes *(continued)*

22 Post balance sheet event

On 15 April 2003, the company acquired three subsidiaries from Beam.tv Limited (*formerly The Magic Holding Company Limited*): Mill Film Shepperton Limited (*formerly The Magic Camera Company Limited*); Magic Effects Limited; and The Magic Models Company Limited. These subsidiaries are non trading in 2003.