Registered no: 3196204

MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

Annual report

for the period from 22 March 1997 to 31 March 1998

MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

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31 March 1998

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MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

Directors and advisers

Chief executive

F C Lowry

Executive directors

K R Cawood
R Maclachlan

Secretary and registered office

R Maclachlan
20 Lincoln's Inn Fields
LONDON
WC2A 3ES

Registered Auditors

PricewaterhouseCoopers
1 Embankment Place
LONDON
WC2N 6NN

Solicitors

Dibb Lupton Alsop
125 London Wall
LONDON
EC2Y 5AE

Bankers

Midland Bank plc
26 Broad Street
READING
Berkshire
RG1 2BU

Directors' report for the period from 22 March 1997 to 31 March 1998

The directors present their report and the audited financial statements for the period ended 31 March 1998.

Change of name

On 1 April 1997 the company changed its name from WSCO Limited to Merlin Communications International Limited.

Principal activities

The principal activities of the company are and will continue to be the operation and maintenance of radio broadcast and data distribution facilities together with the design and building of those facilities.

Review of business and future developments

The profit and loss account for the period is set out on page 5.

The company acquired assets from the BBC World Service on 27 March 1997 for a total of £20,304,000. The directors consider the first year's trading to be satisfactory and expect the current levels of growth to be sustained for the foreseeable future.

The directors have considered the risks and uncertainties associated with the potential computer problems that may occur at the start of a new century - the 'Year 2000' problem. A project has been implemented to identify all of the equipment and technical facilities that the company utilises which could be affected by the Year 2000 problem. Testing of the equipment and confirmation that it is capable of operating in the new century will then be carried out. The project is scheduled for completion by April 1999. The total cost for this exercise cannot currently be quantified.

Dividends

The directors have proposed a dividend of £1,401,000 for the period ended 31 March 1998.

MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

Directors

The directors of the company who served during the period were:

	Date of appointment	Date of resignation
J S Younger	19 December 1996	26 March 1997
R P Baker-Bates	19 December 1996	26 March 1997
R W Phillips	19 December 1996	26 March 1997
F C Lowry	26 March 1997	
K R Cawood	26 March 1997	
L Hayon	26 March 1997	7 October 1998
P R Gordon	26 March 1997	31 January 1998
R Maclachlan	6 July 1998	

Directors' interests

The directors did not hold any interests in the share capital of the company on 22 March 1997 or 31 March 1998.

The interests of the directors in the shares of the holding company are disclosed in the accounts of Merlin Communications Group Limited.

Directors' responsibilities statement

The directors are required by UK company law to prepare financial statements for each financial period that 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 of the company for that period.

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 period ended 31 March 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 taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

Coopers & Lybrand were appointed as the company's auditors during the period. The auditors merged with Price Waterhouse on 1 July 1998 as a result of which Coopers & Lybrand resigned as auditors and the new firm, PricewaterhouseCoopers, were appointed by the Board to fill the casual vacancy and a resolution to appoint the auditors was passed at the Annual General Meeting.

By order of the board

Director
15/12/1998

Report of the auditors to the members of MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

We have audited the financial statements on pages 5 to 19 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 3 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 at 31 March 1998 and of the profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

15 December 1998

Profit and loss account for the period ended 31 March 1998

	Notes	Results before exceptionals Period ended 31 March 1998 £'000	Exceptionals Period ended 31 March 1998 £'000	Profit and loss Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Turnover	2	40,485	-	40,485	-
Cost of sales		(28,486)	-	(28,486)	-
Gross profit		11,999	-	11,999	-
Distribution costs		(180)	-	(180)	-
Administrative expenses					
- exceptional	3	-	(1,091)	(1,091)	-
- recurring		(7,338)	-	(7,338)	-
- total		(7,338)	(1,091)	(8,429)	-
Operating profit		4,481	(1,091)	3,390	-
Interest payable	6	(1,326)	-	(1,326)	-
Interest receivable		206	-	206	-
Profit on ordinary activities before taxation	7	3,361	(1,091)	2,270	-
Tax on ordinary activities	8	(605)	-	(605)	-
Profit for the financial period		2,756	(1,091)	1,665	-
Dividends	9	(1,401)	-	(1,401)	-
Retained profit for the period		1,355	(1,091)	264	-

The above results relate to continuing activities.

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

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial period	**1,665**	-
Dividends and appropriations	**(1,401)**	-
	264	-
New share capital issued - including share premium	**10,204**	-
Net addition to shareholders' funds	**10,468**	-
Opening shareholders' funds	-	-
Closing shareholders' funds	**10,468**	-

MERLIN COMMUNICATIONS INTERNATIONAL LIMITED

Balance sheet at 31 March 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	10	**2,198**	-
Tangible assets	11	**14,816**	-
		17,014	-
Current assets			
Stocks	12	**1,969**	-
Debtors: amounts falling due after more than one year	13	**5,156**	-
Debtors: amounts falling due within one year	13	**7,627**	-
Cash at bank and in hand		**2,313**	-
		17,065	-
Creditors: amounts falling due within one year	14	**(13,511)**	-
Net current assets		**3,554**	-
Total assets less current liabilities		**20,568**	-
Creditors: amounts falling due after more than one year	15	**(10,100)**	-
Net assets		**10,468**	-
Capital and reserves			
Called up share capital	18	**1,000**	-
Share premium	20	**9,204**	
Profit and loss account	20	**264**	-
Equity shareholders' funds		**10,468**	-

The financial statements on pages 5 to 19 were approved by the board of directors on 15/12/98 and were signed on its behalf by:

Director **Director** Kevin R. Cancord

Notes to the financial statements for the period from 22 March 1997 to 31 March 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Cash flow statement

In accordance with exemptions given in FRS1 (revised) the company has not prepared a cash flow statement since it is a wholly owned subsidiary of a parent undertaking whose consolidated financial statements are publicly available.

Goodwill

Goodwill arising on acquisitions represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisition is capitalised and then eliminated by amortisation through the profit and loss account over its estimated useful economic life of 20 years.

Tangible fixed assets and other intangible fixed assets

The cost of fixed assets is their purchase cost or fair value on acquisition, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over their expected useful economic lives. The principal annual rates used for this purpose are as follows:

	%
Freehold buildings	4
Plant and equipment	8 or 5
Motor vehicles	25
Office fixture and fittings	10
Computer equipment	20

Freehold land is not depreciated.

Long-term contracts

Turnover on long-term contracts is recognised according to the stage reached in the contract. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long-term contract balances.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at operating profit.

Turnover

Turnover, which excludes value added tax, and trade discounts, represents the invoiced value of transactions, and operating and maintenance project work and services supplied.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions and other post-retirement benefits.

Pension costs and other post-retirement benefits

The company operates a defined benefit pension scheme which is contracted out of the state scheme. The funds have been valued at the beginning of the period by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. It is the intention of the company to perform a similar review every three years. In the intervening years the actuary will review the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The cost of providing other post-retirement benefits is recognised on a basis similar to that adopted for pensions.

Related party transactions

Financial Reporting Standard 8 'Related party transactions' requires the disclosure of the details of material transactions between the reporting entity and related parties. The company has taken advantage of exemptions under Financial Reporting Standard 8 not to disclose transactions with group companies.

2 Turnover

The analysis by class of business of the company's turnover, is set out below:

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Class of business		
Transmission services	**21,063**	-
Operations and maintenance	**15,891**	-
Project management	**2,914**	-
Satellite services	**-**	-
Other	**617**	-
	40,485	-

The company's turnover by destination is as follows:

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
United Kingdom	**37,463**	-
Europe	**357**	-
North America	**1,198**	-
Far East	**1,467**	-
	40,485	-

All turnover originates in the United Kingdom.

3 Exceptional administrative expenses

Exceptional administrative costs of £1,091,000 relate to redundancy and restructuring costs incurred.

4 Directors' emoluments

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Aggregate emoluments	**263**	-

	Number	Number
The numbers of directors to whom retirement benefits are accruing is as follows:		
under the company's defined benefit scheme	**4**	-

Emoluments payable to the highest paid director are as follows:

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Aggregate emoluments	**85**	-
Defined benefit scheme:		
Accrued pension at year end	**1**	-

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the period was:

	Period ended 31 March 1998 Number	9 May 1996 to 21 March 1997 Number
By activity		
Management and administration	**50**	3
Operations	**239**	-
Sales and marketing	**6**	-
	295	3

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Staff costs (for the above persons)		
Wages and salaries	**6,852**	-
Social security costs	**392**	-
Other pension costs (see note 17)	**755**	-
	7,999	-

6 Interest payable and similar charges

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
On amounts owed to group undertakings	**1,326**	-
	1,326	-

7 Profit on ordinary activities before taxation

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Goodwill amortisation	116	-
Depreciation charge for the year	957	-
Auditors' remuneration for:		
Audit	37	-
Other services	39	-
Hire of other assets - operating leases	101	-

8 Tax on profit on ordinary activities

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Tax on profit on ordinary activities		
United Kingdom corporation tax at 31%		
Deferred	535	-
Overseas taxation	70	-
	605	-

There is no current corporation tax charge as the company's taxable profit has been reduced by capital allowances.

9 Dividends and appropriations

	Period ended 31 March 1998 £'000	9 May 1996 to 21 March 1997 £'000
Dividends on equity shares:		
Final proposed of 140 pence per share (1997: nil)	1,401	-

10 Intangible fixed assets

	Goodwill £'000
Cost	
Additions	2,314
Amortisation	
Charge for the period	116
Net book value	
At 31 March 1998	**2,198**

11 Tangible fixed assets

	Freehold land and buildings £'000	Vehicles plant and equipment £'000	Office fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 22 March 1997	-	-	-	-	-
Businesses acquired	3,746	11,410	42	38	15,236
Additions	-	115	13	549	677
Transfers to group undertakings	(140)	-	-	-	(140)
At 31 March 1998	**3,606**	**11,525**	**55**	**587**	**15,773**
Depreciation					
At 22 March 1997	-	-	-	-	-
Charge for the period	59	770	11	117	957
At 31 March 1998	**59**	**770**	**11**	**117**	**957**
Net book value					
At 31 March 1998	**3,547**	**10,755**	**44**	**470**	**14,816**
At 21 March 1997	-	-	-	-	-

On acquisition, the book values of fixed assets held by Merlin Communications International Limited have been adjusted to net recoverable amounts. The amounts have been arrived at by estimating future cash flows from existing business activities at the time of acquisition, net of all costs including an allocation of central overheads and discounting these to their present values, at a discount rate which reflects the weighted average cost of capital after taking into account appropriate risk. The methodology used to value fixed assets on acquisition is in accordance with Financial Reporting Standard 7.

12 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	**1,969**	-
	1,969	-

The directors estimate the replacement cost of certain specialist raw materials and consumables to exceed their balance sheet value by approximately £1.6 million.

13 Debtors

	1998 £'000	1997 £'000
Amounts falling due after more than one year		
Deferred taxation (note 16)	**5,156**	-
	5,156	-
Amounts falling due within one year		
Trade debtors	**6,759**	-
Other debtors	**179**	-
Prepayments and accrued income	**689**	-
	7,627	-
Total debtors	**12,783**	-

During the period a loan was made to K Cawood by Merlin Communications International Limited. The balance outstanding at 31 March 1998, which was also the highest balance outstanding during the period was £2,760. The loan is unsecured, bears no interest and is repayable on demand.

14 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Trade creditors	3,643	-
Amounts owed to group undertakings	1,911	-
Other taxation and social security	2,609	-
Other creditors	416	-
Corporation tax	70	-
Accruals and deferred income	4,862	-
	13,511	-

15 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owed to group undertakings	10,100	-

Interest is payable on the loan at 12%.

16 Deferred taxation

Deferred taxation accounted for in the financial statements is as follows:

	1998 £'000	1997 £'000
Deferred tax assets		
Excess of capital allowances over depreciation	5,156	-
	5,156	-

There is no unprovided deferred taxation.

The movement on deferred taxation is as follows:

	£'000
Deferred taxation arising on acquisitions (see note 19)	5,691
Charge to the profit and loss account	(535)
At 31 March 1998	5,156

17 Pension and similar obligations

The company operates a defined benefits pension scheme in the United Kingdom.

Total pension cost for the company was £755,000. Contributions outstanding at 31 March 1998 were £75,000. The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The first actuarial valuation of the scheme was at 1 July 1997. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It has been assumed that the average annual rate of return of the future investments of the scheme would be 9% per annum, that salary increases would average 7.1% per annum and that future pensions would increase at the rate of 5.1% per annum.

At 1 July 1997, the date of the first actuarial valuation, the scheme had no assets and no liabilities arising from service prior to that date, it being the first date of accrual of benefits in the scheme. At 1 July 1997, there had been no transfers of liabilities or assets from any other pension scheme, in relation to any rights of eligible employees to benefits from another pension scheme. The actuary is of the opinion that the transfer values which will be paid are expected to be sufficient to cover the value of those pension liabilities which members may opt to transfer.

The assets of the scheme are held separately from those of the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the costs of pensions over employees' expected working lives with the company.

18 Called up share capital

	1998	1997
	£	£
Authorised		
1,000,000 (1997: 100) ordinary shares of £1 each	**1,000,000**	100
	1,000,000	100
Allotted, called up and fully paid		
1,000,000 (1997: 1) ordinary shares of £1 each	**1,000,000**	1
	1,000,000	1

On 26 March 1997 the company increased its authorised share capital to 1,000,000 ordinary shares of £1 each. On 27 March 1997 999,999 of the shares were issued for a consideration of £10,204,000.

19 Acquisitions

On 27 March 1997 the company acquired certain assets and liabilities from the BBC for a total consideration of £20,304,000. The consideration was satisfied by the issue of shares and of loans.

Prior to acquisition the business activities of Merlin Communications International Limited were part of the BBC. However, only certain of the assets and liabilities of the BBC were acquired. In these circumstances, it is not practical to provide details of profits or recognised gains and losses for the business activities for financial periods before acquisition.

The acquired assets and liabilities are set out below:

	Book value £'000	Revaluation £'000	Other adjustments £'000	Fair value £'000
Tangible fixed assets	51,197	(35,961)	-	15,236
Current assets				
Stock	2,474	(548)	-	1,926
Debtors	1,088	-	5,691	6,779
Cash at bank and in hand	157	-	-	157
Total assets	**54,916**	**(36,509)**	**5,691**	**24,098**
Liabilities				
Creditors	(6,108)	-	-	(6,108)
Net assets	**48,808**	**(36,509)**	**5,691**	**17,990**
Goodwill				2,314
				20,304
Satisfied by				
Issue of shares				10,204
Loans				10,100
				20,304

The adjustment of £5,691,000 is due to the recognition of a deferred tax asset on acquisition. This has arisen as the taxable value of the fixed assets acquired is greater than the fair value of the fixed assets which has been accounted for in the consolidated balance sheet.

Goodwill

Goodwill of £2,314,000 resulting from the acquisition has been capitalised as an intangible fixed asset (see note 10).

20 Share premium and reserves

	Share premium 1998 £'000	Profit and loss account £'000
At 22 March 1997	-	-
Issue of shares	9,204	-
Retained profit for the period	-	264
At 31 March 1998	**9,204**	**264**

21 Contingent liabilities

Loans to the parent company from Midland Bank plc of £8.7 million at 31 March 1998 are secured on the fixed and current assets of the company.

There were no other contingent liabilities which in the opinion of the Directors might have a material impact on the company at 31 March 1998.

22 Financial commitments

After the balance sheet date the company entered into an annual commitment under a non - cancellable operating lease of £240,000 per annum. The lease relates to buildings and expires in 10 years.

23 Related party transactions

The BBC, which previously owned the assets of Merlin Communications International Limited, was charged £35,954,651 by the company for transmission services, facilities management and other services. The BBC charged the company £2,522,147 including costs incurred on behalf of the company, and rent. At the balance sheet date the BBC owed the company £3,015,168 and the company owed the BBC £1,726,400.

24 Ultimate parent company

The directors regard the ultimate parent company Merlin Communications Group Limited, as the ultimate controlling party. Copies of the parent's consolidated financial statements may be obtained from The Secretary, Merlin Communications Group Limited, 20 Lincoln's Inn Fields, London, WC2A 3ES.