

UK Gold Holdings Limited
(formerly Cheltrading 143 Limited)

Directors' report and financial statements

31 December 1997

Registered number 3298738



Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities	3
Auditors' report to the members of UK Gold Holdings Limited	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Reconciliation of net cash flow to movement in net debt	8
Notes	9

Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 1997.

Incorporation and change of name

The company was incorporated on 3 January 1997 as Cheltrading 143 Limited. On 5 March 1997, the name of the company was changed to UK Gold Holdings Limited.

Principal activity

The principal activity of the company is to hold an indirect investment in UK Gold Broadcasting Limited, operator of 'UK Gold', a general entertainment TV channel which broadcasts via cable and satellite.

Results and business review

On 25 April 1997, United Artists Investments Limited (a wholly owned subsidiary of Flextech plc) and BBC Worldwide Limited (a wholly owned subsidiary of the BBC), completed arrangements to establish the company as a joint venture in which each hold 50% of the equity share capital.

Flextech plc acquired the remaining equity share capital of UK Gold Television Limited ("UK Gold") which it did not already own, from Cox Communications Inc., Thames Television Limited and BBC Worldwide Investments Limited. This amounted to 75% of the equity of the company, bringing Flextech's shareholding to 100%.

Flextech plc then sold 65% of the share capital of UK Gold to the company. A put and call option was granted over the remaining 35% equity.

The results for the period ended 31 December 1997 and the financial position of the group at that date are set out on pages 5 and 6 of the financial statements.

Preference dividends of £913,408 were paid during the period ended 31 December 1997.

Directors and directors' interests

The directors who held office during the period were as follows:

Stoorne Incorporations Limited	(appointed 3 January 1997; resigned 14 March 1997)
Stoorne Services Limited	(appointed 3 January 1997; resigned 14 March 1997)
RJ Emery	(appointed 24 April 1997; resigned 31 March 1998)
PB Harman	(appointed 13 March 1997)
RDE Luard	(appointed 13 March 1997; deceased 15 August 1998)
MW Luiz	(appointed as alternate for RDE Luard on 16 April 1997; ceased 15 August 1998)
R Phillis	(appointed 24 April 1997; resigned 30 November 1997)
AN Singer	(appointed 13 March 1997)
MC Young	(appointed 24 April 1997)

The following directors have been appointed or resigned since the year end:

PR Teague	(appointed 26 March 1998)
RJ Emery	(appointed 1 April 1998)
P Phippen	(appointed 1 April 1998; resigned 30 June 1998)
AR Gavin	(appointed 6 August 1998)
MW Luiz	(appointed 29 September 1998)

Directors' report

Directors and directors' interests *(continued)*

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

MW Luiz
Secretary



The Quadrangle
Imperial Square
Cheltenham
Gloucestershire
GL50 1YX

30 October 1998

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 the group and of the profit or loss of the group 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;
- . 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 group 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 the group 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 group and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of UK Gold Holdings Limited

We have audited the financial statements on pages 5 to 23

Respective responsibilities of directors and auditors

As described on page 3 the group'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 group'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 and the group as at 31 December 1997 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

30 October 1998

Consolidated profit and loss account

for the period ended 31 December 1997

	<i>Note</i>	1997 £'000
Turnover		
Cost of sales	<i>1</i>	25,920 (12,416)
Gross profit		<hr/> 13,504
Distribution expenses	<i>2</i>	(7,986)
Administration expenses	<i>2</i>	(4,978)
Operating profit		<hr/>
Interest receivable and similar income	<i>3</i>	540
Interest payable and similar charges	<i>4</i>	312 (5,663)
Loss on ordinary activities before taxation		<hr/>
Tax on loss on ordinary activities	<i>5-7</i> <i>8</i>	(4,811) -
Loss for the period		<hr/>
Preference dividends - non equity	<i>9</i>	(4,811) (913)
Retained loss for the period	<i>17</i>	<hr/> <hr/> (5,724)

All turnover and operating profit arose from continuing operations.

There are no recognised gains or losses for the current financial period other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

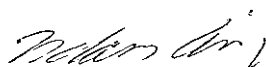
There is no difference between profit on a historical cost basis and that shown in the profit and loss account.

Consolidated balance sheet

at 31 December 1997

	Note	1997 £'000	£'000
Fixed assets			
Tangible assets	10		110
Investments	11		3
			<hr/>
Current assets			113
Programming inventory	12	11,449	
Debtors	13	5,885	
Cash at bank and in hand		5,280	
		<hr/>	
Creditors: amounts falling due within one year	14	22,614	
		(13,814)	
		<hr/>	
Net current assets		8,800	
		<hr/>	
Debtors: amounts falling due after more than one year	13	1,922	
		<hr/>	
			10,722
			<hr/>
Total assets less current liabilities			10,835
			<hr/>
Creditors: amounts falling due after more than one year	15		(130,344)
			<hr/>
Net liabilities			(119,509)
			<hr/>
Total shareholders' funds			
Equity share capital	16		2
Profit and loss account	17		(152,348)
			<hr/>
Equity shareholders' deficit			(152,346)
Non-equity share capital	16		33,750
Profit and loss account	17		(913)
			<hr/>
Total shareholders' deficit			(119,509)
			<hr/>

This balance sheet was approved by the board of directors on 30 October 1998 and were signed on its behalf by:




AN Singer
Director

Company balance sheet

at 31 December 1997

	Note	£'000	1997 £'000
Fixed assets			
Investments	11		135,000
Current assets			
Debtors	13	-	
Cash at bank and in hand		10	
		10	
Creditors: amounts falling due within one year	14	(1,316)	
Net current liabilities		(1,306)	
Debtors: amounts falling due after more than one year	13	3,267	
			1,961
Total assets less current liabilities			136,961
Creditors: amounts falling due after more than one year	15	(108,465)	
Net assets			28,496
Total shareholders' funds			
Equity share capital	16		2
Profit and loss account	17		(4,343)
Equity shareholders' deficit			(4,341)
Non-equity share capital	16		33,750
Profit and loss account	17		(913)
Total shareholders' funds			28,496

These financial statements were approved by the board of directors on 30 October 1998 and were signed on its behalf by:


AN Singer
Director

Consolidated cash flow statement

for the period ended 31 December 1997

	<i>Note</i>	1997 £'000	£'000
Net cash inflow from operating activities	20		3,195
Return on investments and servicing of finance			(4,517)
Capital expenditure and financial investment			(96)
Acquisitions and disposals	18		946
Net cash outflow before financing			(472)
Financing			
Issue of ordinary share capital		2	
Issue of unsecured loan stock		5,750	
			5,752
Increase in cash in the period	21		5,280

Reconciliation of net cash flow to movement in net debt

for the period ended 31 December 1997

	1997 £'000
Increase in cash in the period	5,280
Cash inflow from increase in debt	(5,750)
Loans acquired with subsidiary	(21,460)
Loans issued for acquisition of UK Gold	(54,000)
Put and call option issued for acquisition of UK Gold	(47,250)
Amortisation of discount on put and call option	(1,463)
Movement in net debt in the period	(124,643)
Net funds at beginning of period	-
Net debt at 31 December 1997	(124,643)

The acquisition of the UK Gold Television group is a non cash transaction as detailed in note 18.

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 group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have been prepared on a going concern basis which assumes that the support of the ultimate joint venture parent, upon which the company presently relies, will continue in the foreseeable future.

The company was incorporated on 3 January 1997 and as a result there are no corresponding amounts for the preceding financial year.

The company has taken advantage of the exemption under section 230 of the Companies Act 1985 and is not publishing its own profit and loss account.

The loss of the company for the period is disclosed in note 17 to the financial statements.

Group accounts

Consolidated financial statements have been prepared for the group which incorporate the financial statements of UK Gold Television Limited and its subsidiary undertakings. The results of these subsidiary undertakings acquired during the year are included from the effective date of acquisition, using the acquisition method of accounting. Goodwill arising on consolidation (representing the excess of the fair value of the consideration over the fair value of the separable net assets acquired) is written off against reserves on consolidation.

Fixed assets and depreciation

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

Fixtures, fittings, tools and equipment	-	3-5 years
---	---	-----------

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

Programming inventory

Programming inventory is stated at the lower of cost and net realisable value. Programming inventory is the amount payable under licence agreements on agreed purchases and is written off on a straight line basis over the number of transmissions.

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

The Group provides for deferred tax only where there is a reasonable probability that a liability will arise in the foreseeable future.

Turnover

Turnover represents net advertising and subscription revenue (excluding value added tax) from cable and satellite operators and fees for related services entirely within the UK.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions

The Group does not operate a pension scheme but pays defined contributions into individual pension schemes.

The amount charged against profits represents the contributions payable to those schemes in respect of the accounting period.

2 Exceptional items

During November 1997, UK Gold was re-launched under the umbrella brand "UKTV".

Launch costs of £2.4m and set up costs of £1.9m have been included in distribution and administration expenses respectively.

3 Interest receivable and similar income

	1997 £'000
Interest on bank deposits	312
	<hr/> <hr/>

Notes (continued)

4 Interest payable and similar charges

	1997 £'000
Redeemable unsecured loan stock	1,548
On bank loans, overdrafts and other loans wholly repayable within five years	11
Variable rate first purchase unsecured loan stock	2,292
Variable rate unsecured loan stock	349
Amortisation of discount on put and call option	1,463
	<hr/> 5,663 <hr/>

5 Loss on ordinary activities before taxation

	Group 1997 £'000
<i>Loss on ordinary activities before taxation is stated after charging :</i>	
Auditors' remuneration:	
Audit	9
Other services	6
Depreciation:	
Owned assets	54
Amortisation of programming inventory	10,866
Loss on disposal of fixed assets	93
Operating lease rentals in respect of hire of plant and machinery	3,317
	<hr/> 3,317 <hr/>

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the group (excluding directors) during the period, analysed by category, was as follows:

	Number of employees 1997
Administration	25
	<hr/> 25

The aggregate payroll costs of these persons were as follows:

	1997 £'000
Wages and salaries	328
Social security costs	34
Other pension costs	13
	<hr/> 375

7 Remuneration of directors

Remuneration for services as directors, including pension contributions:

	1997 £'000
Compensation for loss of office	234
Bonus	21
Other salary payments	548
Pensions	88
	<hr/> 891

Other salary payments relate to share options exercised early by a UK Gold director under the phantom share option scheme, on completion of the joint venture arrangements.

	1997 £'000
Excluding pension contributions:	
Chairman	-
Highest paid director	804

Notes (continued)

8 Taxation

There is no tax liability for the period due to the availability of losses.

9 Dividends

	1997 £'000
Cumulative redeemable variable rate preference shares	879
Non-cumulative redeemable 0.25% preference shares	34
	<hr/> 913 <hr/>

The cumulative redeemable variable rate preference shares carry a dividend equal to a gross rate of 2% above the six month London Interbank Offered Rate for Sterling deposits, as published in the Financial Times.

All preference dividends were paid to Flextech plc during the period.

10 Tangible fixed assets

Group	Fixtures, fittings and motor vehicles £'000
<i>Cost</i>	
At beginning of period	-
On acquisition of subsidiary (note 18)	358
Additions in period	96
Disposals	(290)
At 31 December 1997	<hr/> 164 <hr/>
<i>Depreciation</i>	
At beginning of period	-
Charge for period	54
At 31 December 1997	<hr/> 54 <hr/>
<i>Net book value</i>	
At 31 December 1997	<hr/> <hr/> 110 <hr/> <hr/>

At the year end, the group held no assets under finance leases.

The company has no tangible fixed assets.

Notes (continued)

11 Fixed asset investments

Group

	Other investments other than loans £'000
<i>Cost</i>	
At beginning of period	-
Additions	3
	<hr/>
At 31 December 1997	3
	<hr/>
<i>Net book value</i>	
At 31 December 1997	3
	<hr/>

Subsidiary undertakings

The following companies were subsidiaries at 31 December 1997:

	Business	Class of shares	Group Holding	Country of incorporation
UK Gold Television Limited	Holding of shares in subsidiary businesses	Ordinary	65%	England and Wales
UK Gold Services Limited	Non-trading	Ordinary	65%	England and Wales
UK Gold Broadcasting Limited	Operation of a television channel	Ordinary	65%	England and Wales

UK Gold Television Limited is a subsidiary of the company. Both UK Gold Services Limited and UK Gold Broadcasting Limited are wholly owned subsidiaries of UK Gold Television Limited.

In the opinion of the directors, the investments in, and amounts due from, the company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

Company	£'000
<i>Cost</i>	
At beginning of period	-
Additions	135,000
	<hr/>
At 31 December 1997	135,000
	<hr/>
<i>Net book value</i>	
At 31 December 1997	135,000
	<hr/>

Notes (continued)

12 Programming inventory

	Group £'000
Licence fees	11,449
	<u> </u>

The company has no programming inventory.

13 Debtors

	Group 1997 £'000	Company 1997 £'000
Amounts falling due within one year		
Trade debtors	3,721	-
Amounts owed by fellow joint venture undertaking	352	-
Prepayments and accrued income	1,812	-
	<u> </u>	<u> </u>
Amounts falling due after more than one year	5,885	-
Amounts owed by ultimate joint venture parent	1,922	-
Amounts owed by fellow joint venture undertakings	-	3,267
	<u> </u>	<u> </u>
	7,807	3,267
	<u> </u>	<u> </u>

14 Creditors: amounts falling due within one year

	Group 1997 £'000	Company 1997 £'000
Trade creditors	8,879	-
Amounts owed to ultimate joint venture parent and fellow joint venture undertakings	489	328
Other creditors including taxation and social security:		
Taxation and social security	459	-
Accruals and deferred income	2,951	-
Obligations under finance leases	48	-
Accrued interest on variable rate first purchase unsecured loan stock	988	988
	<u> </u>	<u> </u>
	13,814	1,316
	<u> </u>	<u> </u>

Notes (continued)

15 Creditors: amounts falling due after more than one year

	Group 1997 £'000	Company 1997 £'000
Trade creditors	377	-
Amounts owed to fellow joint venture undertakings	-	2
Redeemable unsecured loan stock	21,460	-
Variable rate first purchase unsecured loan stock	36,000	36,000
Second purchase unsecured loan stock	18,000	18,000
Deferred consideration	48,713	48,713
Variable rate unsecured loan stock	5,750	5,750
Obligations under finance leases	44	-
	<hr/> 130,344 <hr/>	<hr/> 108,465 <hr/>

Redeemable unsecured loan stock is redeemable when sufficient funds are available and on shareholders' approval after 30 June 1995. Interest is payable at the higher of 10.5% per annum and the National Westminster bank base rate.

The variable rate first purchase unsecured loan stock, the second purchase unsecured loan stock and the variable rate unsecured loan stock are repayable out of "available cash" in accordance with the terms of a Shareholders' Agreement between the company and the shareholders. This agreement details the order of repayment of debt by the company. Repayment will only take place once a specified level of interest has been paid by the company to Flextech, and accordingly it is not possible to determine the maturity profile of this debt as required by Financial Reporting Standard 4. In the opinion of the directors, none of the debt will fall due for repayment within twelve months of the balance sheet date.

The variable rate first purchase unsecured loan stock and the variable rate unsecured loan stock bear interest at 2% above the six month London Interbank Offered Rate for sterling deposits, as published in the Financial Times. The second purchase unsecured loan stock is non-interest bearing.

The deferred consideration arises in respect of the call option exercisable by the company with respect to 35% of the shares of UK Gold, as detailed in note 18. This amount includes amortisation from the date of acquisition to 31 December 1997 of the discount applied to the option price.

The maturity of obligations under finance leases is as follows:

	Group 1997 £'000
Within one year	54
In the second to fifth years	46
	<hr/> 100
Less future finance charges	(8)
	<hr/> 92 <hr/>

Notes (continued)

16 Called up share capital

	1997 £'000
<i>Authorised, allotted and fully paid:</i>	
Equity share capital	
1,000 ordinary shares of £1 each (divided into 500 'A' shares and 500 'B' shares)	1
1,000 deferred ordinary shares of £1 each	1
	<hr/> 2
Non-equity share capital	
20,000,000 non-cumulative redeemable 0.25% preference shares of £1 each	20,000
13,750,000 cumulative redeemable variable rate preference shares of £1 each	13,750
	<hr/> 33,750

The company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each. On incorporation, the two subscribers of the Memorandum of Association were entered in the Register of Members, each holding 1 share.

On 13 April 1997, the company issued 498 shares at £1 each.

On 24 April 1997:

- the authorised share capital was increased to £33,752,000 by the creation of 1,000 deferred ordinary shares of £1 each, 20,000,000 non-cumulative redeemable 0.25% preference shares of £1 each and 13,750,000 cumulative redeemable variable rate preference shares of £1 each.
- the 500 ordinary shares of £1 each in issue and the 500 unissued ordinary shares of £1 each were re-designated as 'A' ordinary shares of £1 each and 'B' ordinary shares of £1 each respectively.
- the company issued 1,000 deferred ordinary shares of £1 each, 20,000,000 non-cumulative redeemable 0.25% preference shares of £1 each and 13,750,000 cumulative redeemable variable rate preference shares of £1 each.

Notes (continued)

16 Called up share capital (continued)

Rights attaching to each class of share are summarised below:

Save as summarised below, the holders of the 'A' ordinary shares and the 'B' ordinary shares rank *pari passu* in all respects.

To the extent that there are profits available for distribution, the holders of the non-cumulative redeemable 0.25% preference shares ("non-cumulative preference shares") shall be entitled to a fixed non-cumulative cash dividend ("non-cumulative preference dividend") at the rate inclusive of any associated tax credit of 0.25 pence per share per annum.

The holders of the cumulative redeemable variable rate preference shares ("preference shares") shall be entitled to a cumulative cash dividend ("preference dividend") of a sum inclusive of the associated tax credit equal to 2% above LIBOR of the aggregate of the nominal value of the preference shares in issue plus the amount of the arrears of the preference dividend. To the extent that any amount of preference dividend cannot be paid on one of the dates set out for payment in the Articles of Association, it shall be paid on the next date for payment on which there are distributable profits available for the purpose in priority to any other payments then due.

After payment of the non-cumulative preference dividend and the preference dividend and any arrears thereof the profits of the company available for distribution shall be distributed amongst the holders of the ordinary shares. The deferred ordinary shares shall rank *pari passu* with the ordinary shares for distribution of profits of the company in any year in which the sums payable to the ordinary members exceeds £1,000,000 an ordinary share.

On return of assets on liquidation, reduction of capital or otherwise, the surplus assets of the company remaining after payment of its liabilities shall be applied:

- first, in paying to the holders of the non-cumulative preference share arrears of non-cumulative preference dividends;
- secondly, in paying to the holder of the preference shares an amount equal to the subscription price (inclusive of any premium) paid or credited as paid for such shares together with a sum equal to arrears and accruals of preference dividends;
- thirdly, in paying to the holders of the ordinary shares pro rata an amount equal to twice the subscription price (inclusive of any premium) paid or credited as paid on 'A' ordinary shares and 'B' ordinary shares;
- fourthly, in paying to the holders of the non-cumulative preference shares an amount equal to the subscription price (inclusive of any premium) paid or credited as paid for such shares;
- fifthly, in paying to the holders of the ordinary shares an aggregate premium of £1,000,000,000 for each class of such shares;
- sixthly, in paying to the holders of the deferred ordinary shares any amount paid or credited as paid on such shares;
- seventhly, in distributing pro-rata any surplus remaining to the holders of ordinary shares.

Notes (continued)

16 Called up share capital (continued)

The company can at any time after 18 months after 25 April 1997 redeem some or all of the preference shares.

The company shall redeem the non-cumulative preference shares on 1 January 2030.

Only the holders of the 'A' ordinary shares and the 'B' ordinary shares are entitled to voting rights at meetings of the members. The holders of a majority of 'A' ordinary shares also have the right to appoint and remove 'A' shareholder directors and the holders of a majority of 'B' ordinary shares have the rights to appoint and remove 'B' shareholder directors.

17 Reserves

Group	Equity £'000	Non-equity £'000	Total £'000
At beginning of period	-	-	-
Goodwill on acquisition of subsidiary undertakings	(147,537)	-	(147,537)
Loss for the period	(4,811)	-	(4,811)
Preference dividend paid	-	(913)	(913)
At 31 December 1997	<u>(152,348)</u>	<u>(913)</u>	<u>(153,261)</u>

The company's loss for the period (after payment of preference dividends of £913,000) was £4,343,000.

18 Acquisitions

On 25 April 1997, the company completed arrangements to acquire 65% of the equity of UK Gold Television Limited ("UK Gold") from Flextech plc and United Artists Investment Limited ("Flextech") for a total consideration of £87.75 million, which was satisfied by the issue of £54 million of loan stock, and £33.75 million of redeemable preference shares.

Flextech and the company also entered into put and call option agreements with respect to the shares of UK Gold retained and beneficially owned by Flextech through its subsidiary, Flextech Satellite Investments Limited (formerly Cox Programming Limited).

Under the call arrangement, the company may acquire the remaining shares following the second anniversary of the initial share transfer. The purchase price would be £52.51 million which would be satisfied by the issue of loan stock in the company, unless another form of consideration is agreed by the parties.

If the call is not exercised then, under the put arrangement, on the fifth anniversary of the initial transfer, Flextech may require that the company acquires the retained shares for the greater of £66.22 million or the fair value of such shares. Due to the commercial terms within the put and call option it has been assumed for accounting purposes that the option is exercised and hence UK Gold has been accounted for as a 100% subsidiary of the company.

Both Flextech and BBC Worldwide Limited own 500 ordinary shares in the company, and each plays an active role in setting the operating policies of the entity.

Notes (continued)

18 Acquisitions (continued)

A summary of the acquisition of UK Gold is as follows:

Assets and liabilities of UK Gold

	£'000	£'000
Fixed assets		
Tangible assets		358
Investments		3
		<hr/> 361
Current assets		
Stocks	12,025	
Debtors	8,234	
Cash at bank and in hand	946	
	<hr/> 21,205	
Creditors: amounts falling due within one year	(12,643)	
	<hr/>	
Net current assets		8,562
Total assets less current liabilities		<hr/> 8,923
Creditors: amounts falling due after more than one year		(21,460)
		<hr/>
Net liabilities		(12,537)
Goodwill arising		147,537
		<hr/>
Consideration		135,000
		<hr/>
Satisfied by:		
Issue of non-cumulative redeemable 0.25% preference shares of £1 each		20,000
Issue of cumulative redeemable variable rate preference shares of £1 each		13,750
Issue of variable rate first purchase unsecured loan stock		36,000
Issue of second purchase unsecured loan stock		18,000
Deferred consideration - put and call option		47,250
		<hr/> 135,000
		<hr/>

Notes (continued)

18 Acquisitions (continued)

There is no difference between the book value and fair value of the consideration paid by UK Gold Holdings Limited, and the book value and fair value of the acquired assets and liabilities of UK Gold.

The subsidiary undertakings acquired during the year contributed £3,195,000 to the group's net operating cash flows, paid £1,248,000 in respect of net returns on investment and servicing of finance and utilised £96,000 for capital expenditure.

Analysis of the net inflow of cash and cash equivalents in respect of UK Gold

	£'000
Cash at bank and in hand acquired	946

The summarised profit and loss account of UK Gold from 1 January 1997 up to the date of acquisition is as follows:

	£'000
Sales revenue	10,912
Net operating expenses	(9,298)
Operating profit	1,614
Net interest	(663)
Profit on ordinary activities before tax	951
Taxation	-
Profit on ordinary activities after tax	951

The loss for UK Gold for the year ended 31 December 1996 was £1,906,000.

19 Reconciliation of movement in equity shareholders' deficit

	Group £'000	Company £'000
Opening equity shareholders' deficit	-	-
Share capital issued	2	2
Goodwill arising on acquisition of subsidiaries	(147,537)	-
Loss for the period	(4,811)	(4,343)
Closing equity shareholders' deficit	(152,346)	(4,341)

Notes (continued)

20 Reconciliation of operating profit to net cash outflow from operating activities

	1997 £'000
Operating profit	540
Depreciation charge	54
Loss on disposal of fixed assets	290
Decrease in programming inventory	576
Decrease in debtors	2,677
Decrease in creditors	(942)
	<hr/>
Net cash inflow from operating activities	3,195
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21 Analysis of changes in net debt

	At beginning of period £'000	Acquisition £'000	Cash flows £'000	Other changes £'000	At 31 December 1997 £'000
Cash in hand	-	-	5,280	-	5,280
Debt due after one year					
Variable rate first purchase unsecured loan stock	-	-	-	(36,000)	(36,000)
Second purchase unsecured loan stock	-	-	-	(18,000)	(18,000)
Deferred consideration	-	-	-	(48,713)	(48,713)
Redeemable unsecured loan stock	-	(21,460)	-	-	(21,460)
Variable rate unsecured loan stock	-	-	(5,750)	-	(5,750)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	-	(21,460)	(470)	(102,713)	(124,643)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

22 Commitments

Annual commitments under operating leases for technical equipment are as follows:

	1997 £'000
Operating leases which expire:	
In second to fifth year inclusive	207
After five years	4,141
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Notes (continued)

23 Related party transactions

	1997 £'000
Income from ultimate joint venture parent	182
Cost of sales to ultimate joint venture parent	(4,070)
Administration expenses to ultimate joint venture parent	(1,591)
Management fees to ultimate joint venture parent	(2,733)
Programme payments to ultimate joint venture parent	(5,898)

Interest payable and similar payments to related parties are disclosed in note 3.

Dividends paid to related parties are disclosed in note 9.

Balances outstanding at the year end in respect of related parties are shown in notes 13 to 15.

24 Ultimate joint venture parents

The company is a joint venture owned 50% by BBC Worldwide Limited (a wholly owned subsidiary of the BBC) and 50% by United Artists Investments Limited (a wholly owned subsidiary of Flextech plc).

The accounts of both of these companies are available to the public and may be obtained from their respective registries.