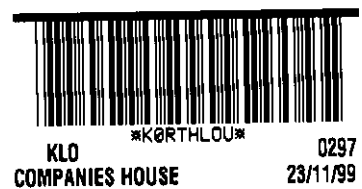


NGC Network (UK) Limited

Directors' report and financial statements

31 December 1997

Registered number 3324932



Directors' report and financial statements

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Directors' report

The directors present their first report and the audited financial statements for the 10 month period ended 31 December 1997.

Principal activities

The company was incorporated on 27 February 1997 as a holding company for an investment in NGC-UK Partnership. The partnership, which began to trade on 1 July 1997 operates and transmits the documentary programme channel the National Geographic Channel, which was launched on 1 September 1997. These financial statements cover the period from incorporation to 31 December 1997.

Business review

The loss for the period is shown on page 6.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' and directors' interests

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

Eden Corporate Services Limited	(appointed 27 February 1997; resigned 27 May 1997)
T Kelly	(appointed 27 May 1997)
S Borke	(appointed 27 May 1997)
S Goldfarb	(appointed 27 May 1997; resigned 5 October 1999)
L Soffer	(appointed 27 May 1997; resigned 31 October 1997)
E Sami	(appointed 28 May 1997; resigned 5 October 1999)
R Allen	(appointed 12 December 1997)
L Rutkowski	(appointed 5 October 1999)
A Lack	(appointed 5 October 1999)
D Zaslav	(appointed 5 October 1999)

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

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

Going concern

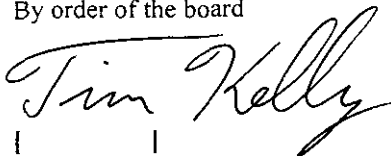
These financial statements have not been prepared on a going concern basis. This is explained further in note 1 to the financial statements.

Directors' report *(continued)*

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG will therefore continue in office.

By order of the board


| |
Director

3rd Floor
1 Trevelyan Square
Boar Lane
Leeds
West Yorkshire
LS1 6HP

22 November 1999

Statement of directors' responsibilities

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of the affairs of the Company and of the profit or loss of the company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent;
- prepare accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in note 1 of the financial statements the directors do not believe the going concern basis to be appropriate and these financial statements have not been prepared on that basis.

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 accounts 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.



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London
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Report of the auditors to the members of NGC Network (UK) Limited

We have audited the financial statements on pages 6 to 11, which, as described in note 1, have not been prepared on a going concern basis.

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, except that the scope of our work was limited as explained below. 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 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. However, the evidence available to us was limited because the records which would enable a proper allocation of activity before and after 31 December 1997 had not been kept, and in consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding proper cut-off of activity between periods. Any adjustment in respect of this would have a consequential significant effect on the loss for the period and the net assets at the end of it.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by financial statements

As described in note 1, the company's share of the total net assets of NGC-UK Partnership, a joint arrangement, have been included in the balance sheet as a debtor, in contravention of Financial Reporting Standard 9, which requires that the share of assets and liabilities be incorporated on a line by line basis.

Because of the significance of the above matters, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 or of its loss for the period from 27 February 1997 (the date of incorporation) to 31 December 1997. In all other aspects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985.

Report of the auditors to the members of NGC Network (UK) Limited *(continued)*

In respect alone of the limitation on our work relating to proper cut-off of activity between periods:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- in our opinion proper accounting records were not maintained.

KPMG

KPMG

Chartered Accountants

Registered Auditors

23 November 1999

Profit and loss account

for the 10 month period ended 31 December 1997

	Note	10 month period ended 31 December 1997 £000
Turnover	<i>1</i>	1,656
Cost of sales		(2,257)
		<hr/>
Gross loss		(601)
Administrative expenses		(2,091)
		<hr/>
Operating loss		(2,692)
Other interest receivable and similar income	<i>4</i>	24
Interest payable and similar charges	<i>5</i>	(23)
		<hr/>
Loss on ordinary activities before and after taxation retained for the period	<i>2,3,6</i>	(2,691)
		<hr/> <hr/>

The loss for the financial period was the only recognised gain or loss in that period. There is no difference between the loss reported above and the loss as reported on an unmodified historical cost basis. Accordingly, no note of historical cost profit and losses has been prepared.

All of the reported turnover and operating loss is derived from continuing operations.

Balance sheet
at 31 December 1997

	<i>Note</i>	31 December 1997 £000
Current assets		
Debtors	7	336
Creditors: amounts falling due within one year	8	(2,665)
Net liabilities		<u>(2,329)</u>
Capital and reserves		
Called up share capital	9	362
Profit and loss account	10	(2,691)
Shareholders' deficit - equity interests	11	<u>(2,329)</u>

These financial statements were approved by the board of directors on 22 November 1997 and were signed on its behalf by:


Director

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 accounts have been prepared under the historical cost accounting convention.

The company is a joint venture between NGTV International Limited ('NGTV') and International General Electric (USA) Limited, ('IGE') formed for the purpose of holding an investment in NGC-UK Partnership ('the Partnership'). The company is a non-operating entity which invests funds received from its partners into its investment in the Partnership in accordance with the Partnership funding requirements. Neither NGTV nor IGE will provide an undertaking to provide financial and other support to the company for the foreseeable future. In view of this and the balance sheet position disclosed, these financial statements have not been prepared on a going concern basis. No adjustments were necessary to the amounts at which the remaining net liabilities are included in these financial statements. No provision has been made for liquidation costs, as in the opinion of the directors, due to the nature of the company, these would not be material.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

In accordance with Financial Reporting Standard 9 Associates and Joint Ventures ("FRS 9"), the company's share of the income and expenditure of NGC-UK Partnership has been included in the profit and loss account of the company on a line by line basis. At 31 December 1997, the accounting records of NGC-UK Partnership did not provide sufficient detail to allow the company's share of assets and liabilities to be extracted on a line by line basis. Therefore the balance sheet has not been prepared in accordance with FRS 9.

The effect of non-compliance with FRS 9 cannot be quantified.

Foreign currencies

Trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates as of 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.

Turnover

Turnover represents the company's share of the turnover of NGC-UK Partnership, shown net of VAT and derived from the provision of goods and services to customers of the Partnership.

Taxation

Deferred taxation has been calculated using the liability method. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Notes (continued)

2 Loss on ordinary activities before and after taxation

	1997
<i>Loss on ordinary activities before and after taxation is stated after charging:</i>	£000
Auditors' remuneration:	
Audit	10
	<u>10</u>

3 Remuneration of directors

None of the directors received any remuneration from the company during the period. There were no employees, other than the directors, during the period.

4 Other interest receivable and similar income

	1997
	£000
Bank interest	24
	<u>24</u>

5 Interest payable and similar charges

	1997
	£000
On all other loans	23
	<u>23</u>

All of the interest was payable to related undertakings.

6 Taxation

Due to the trading losses incurred during the period, no liability to corporation tax arises. Tax losses carried forward have been estimated at £2,692,000.

7 Debtors

	1997
	£000
Share of total net assets of joint arrangement	336
	<u>336</u>

Notes (continued)

8 Creditors: amounts falling due within one year

	1997 £000
Bank loans and overdrafts	1
Other creditors	2,641
Accruals and deferred income	23
	<hr/> 2,665 <hr/>

Other creditors comprise £1,448,000 of loans from shareholders. £603,000 of the loan accrues interest at 9% per annum. The remaining £845,000 is non-interest bearing. The loans are unsecured and have no fixed repayment date.

9 Called up share capital

	1997 £000
<i>Authorised:</i>	
Equity: 2,000,000 Ordinary shares of £1 each	2,000
	<hr/>
<i>Allotted, called up and fully paid:</i>	
Equity: 362,002 Ordinary shares of £1 each	362
	<hr/>

During the period, 362,002 ordinary shares were issued at the nominal value of £1 per share. During the year ended 31 December 1998, a further 874,828 ordinary £1 shares were issued at nominal value, in accordance with the terms of the Shareholders' Agreement dated 27 May 1997, in order to provide funding for NGC-UK Partnership.

10 Reserves

	Profit and loss account £000
Retained loss for the period	(2,691)
	<hr/>

Notes (continued)

11 Reconciliation of movement in shareholders' deficit

	1997 £000
Shares issued during period	362
Retained loss for the period	(2,691)
	<hr/>
Shareholders' deficit at 31 December 1997	(2,329) <hr/>

12 Commitments

According to the terms of the Partnership Deed dated 2 June 1997, the company is committed to providing NGC-UK Partnership with funding to a maximum of £5,500,000.

At 31 December 1997, the company had already transferred £1,810,000 to the partnership. The balance of £3,690,000 is unprovided in the financial statements, but if required, will be raised through the issue of ordinary shares and loans from shareholders, in accordance with the terms of the Shareholders' Agreement, dated 27 May 1997.

13 Year 2000

The directors consider that the Year 2000 issue will not have a significant impact on the company's business and operations. The costs associated with Year 2000 compliance are not considered by the directors to be significant and hence have not been quantified.

14 Related party disclosures

As the company's shareholders each own 50% of the equity shares, there is no single controlling party.

The two equity shareholders are:

- NGTV International Limited, a company incorporated in England and
- International General Electric (USA) Limited, a company incorporated in England.

The company is a 50% partner in NGC-UK Partnership, a joint venture with BSkyB Nature Limited. The company has been apportioned 50% of NGC-UK Partnership's profit and loss account for the period, except where items specifically relate to the company. As explained in note 1, the company has been apportioned 50% of the total net assets of NGC-UK Partnership, represented by a debtor balance of £336,000 at 31 December 1997 (see note 7).