4 VENTURES LIMITED

Directors' report and financial statements

Registered number 4106849

For the year ended 31 December 2006

Contents

Directors' report

The directors present their report and the financial statements of 4 Ventures Ltd ("the Company") for the year ended 31 December 2006

Ownership

The Company is a wholly owned subsidiary of Channel Four Television Corporation ("the Corporation")

Business review

The Company carries on activities which are incidental and conducive to the operation of the Corporation

The Company's principal activities were free to air and subscription based entertainment and film channels, commercial activities, such as merchandising, DVD sales, interactive video-on-demand and on-line activities, creative services, and the provision of studio and post-production facilities

During the year the subscription based film channel Film4 was launched free to air on Freeview and in November the company established an early position in on-demand viewing through the launch of 4oD

Effective on 31 October 2006, the Company disposed of its ownership interest in Ostrich Media Ltd Further, on 18 December 2006, the Company directors resolved to dispose of the Company's commercial learning operation, 4 Learning, and on 31 March 2007 agreement was reached to merge the learning operation with Espresso Education, part of Espresso Broadband Ltd

The directors continue to monitor performance on an ongoing basis and the company is expected to meet its future financial obligations

Financial performance and key performance indicators

The financial performance of the company has been reviewed in line with its operating segments

4 Channels
Revenues have grown year on year from £88 0m in 2005 to £128 6m in 2006 Despite a 5 1% year on year decline in the TV advertising market, revenues from E4 and More 4 have both grown in 2006 following the free-to-air launch of E4 in May 2005 and the channel launch of More 4 in October 2005 Film 4 operated as a pay-TV channel with revenue derived from subscriptions, up to July 2006 when it was launched free-to-air with an advertising funding model Revenues from the sponsorship of programmes and films have grown on all channels

Although there has been additional expenditure in programming to drive higher audience figures and advertising revenues, increased transmission costs and marketing costs for the Film 4 launch, the operating loss for the segment fell to £17 6m in 2006 (2005 £34 8m)

4 Rights
Revenues have increased to £36 6m in 2006 (2005 £23 8m) The segment, which exploits programme rights through the distribution of various consumer products, such as DVDs, has benefited from the decision in 2005 to bring DVD production and distribution in-house A significant increase in the number of DVD titles released, together with growth in revenues from programme-related events have offset a reduction in education-related products from the Company's 4 Learning activities caused by a reduction in the overall domestic learning market Pre-year end, it was announced that the Company was to dispose of its commercial learning activities

The reduction in operating profit year on year is principally driven by 4 Learning performance Increased profits driven by in-house DVD sales have been offset by reductions in other product lines

New Media
Revenues have increased to £50 6m in 2006 (2005 £24 5m) This has been driven by increased advertising revenues due to a stronger online market and an increase in underlying broadband usage, together with higher income generated from premium-rate telephony services associated with certain of the Corporation's programmes After taking into account third party costs payable to producers from telephony revenues, operating profits increased to £13 5m (2005 £0 3m)

Other

Other includes the provision of post production and studio facilities, creative design and production services, with the launch in the year of an on-demand viewing proposition (4oD) Revenue growth has been driven by the growth in internal design agency, 4 Creative, and from new ventures Costs associated with developing 4oD and new 4 Radio services account for the increase in operating loss to £10 1m (2005 £2 3m)

Key risks

The key risks facing the Company have been identified by operating segment where applicable and then for the Company where they apply in general

4 Channels

4 Channels operates free to air and entertainment channels on digital transmission platforms Revenue is primarily derived from the selling of advertising slots before and during programmes and from sponsorship campaigns associated with programmes Advertising and sponsorship on the channels is sold and collected by the Corporation on behalf of the Company

Key to delivering audiences to drive advertising revenues is the programming and associated marketing on each channel This is centrally co-ordinated by the Corporation so that each channel targets its core audience with relevant programming and with marketing campaigns that maintain a strong brand Costs for the provision of marketing services are recharged to the Company

Responsibility for transmission of the channels is also undertaken by the Corporation, with the costs recharged to the Company based on transmission hours

4 Rights

The Company is responsible for exploiting secondary programme rights through the distribution of various consumer products acquired separately by the Corporation when it commissions programmes for its UK terrestrial audience, in addition to investing to source rights which may be unconnected to any Corporation activity

The main risk associated with this business model is that the Company will not recoup investment expenditure made to acquire rights To mitigate this, before an investment is made it is subject to an investment appraisal and formal approval based on forecast sales These sales forecast and investment carrying values are then reviewed on a quarterly basis In the Company's financial statements, rights are stated at the amount advanced less provision for any excess over the value of the rights held and the revenues title is anticipated to earn The main assumptions employed to estimate future revenues are minimum contracted revenues and sales forecasts by title

The costs associated with each title, being principally amounts due to producers, artists and residual shares are contractually defined and so can be accrued title by title based on latest sales forecasts

The level of manufactured DVD stock is reviewed quarterly and written-down if sales forecasts indicate a risk of impairment

Revenues and costs associated with licensed publications, magazines and events are contractually defined and monitored on an ongoing basis, with the exception of the "Taste of" festivals, where the Company holds 50% of the share capital in Taste of London Ltd, the company that organises the events

New Media

Revenues generated from online advertising space are sold and collected by the Corporation on behalf of the Company The costs of hosting websites and maintaining security on which advertising space is sold are incurred by the Corporation and recharged to the Company

Revenues from the provision of premium-rate telephony services are reported to the Company by the service provider and invoiced and collected on the Company's behalf by the Corporation in line with contractually defined terms The Corporation also manages the payment of producer share amounts to the relevant production company based on contracted terms

Other
Strategic business plans of developing new ventures for the Company, expansion onto New Media platforms or growth for 4 Channels or 4 Rights is subject to approval by the Corporation's Board, the operations of which are outlined in the consolidated financial statements of the Corporation Costs are then incurred by the Company or on its behalf by the Corporation, and monitored against approved business plans

Company Risks
The Company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, and interest rate risk As a wholly owned subsidiary, the management of these risks in controlled through the financial risk management policies of the Corporation which are outlined in the consolidated financial statements of the Corporation

Results and dividends

The company generated turnover of £227 0 million in 2006 (2005 £144 7 million) Direct costs of transmissions and sales amounted to £224 8 million (2005 £169 2 million) The Company made a loss after tax for the year of £10 0 million (2005 loss of £16 1 million) The directors do not recommend the payment of a dividend (2005 nil)

Directors

The directors who held office during the year and to the date of this report were as follows

Andy Duncan

Anne Bulford

Rod Henwood

All of the directors are employees of the Corporation

Employees

The Company has no employees Its activities are carried out by employees of the Corporation who are seconded to the Company

Charitable contributions

The Company made £1 9 million of charitable donations during the year For the first time, a charity payment was made for each vote cast relating to Big Brother with charity donations for the seventh series totalling £1 3 million paid to three charities The remainder, £0 6 million (2005 £0 5 million) was raised from voting in the 2006 series of Celebrity Big Brother and donated to other charities

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he and she ought to have taken as a director to make himself and herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

Paola Tedaldi
Company Secretary

124 Horseferry Road
London SW1P 2TX

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

KPMG

KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of 4 Ventures Limited

We have audited the financial statements of 4 Ventures Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

30 October 2007

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and Loss Account
for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Turnover	1	**227.0**	144 7
Cost of transmission and sales		**(224 8)**	(169 2)
Gross profit/(loss)		**2 2**	(24 5)
Administrative expenses		**(12 3)**	(7 7)
Operating loss		**(10.1)**	(32 2)
Loss on disposal of subsidiary	7	**(0 5)**	-
Loss on ordinary activities before interest and taxation	1,2	**(10 6)**	(32 2)
Income from shares in group undertakings	4	**-**	6 9
Interest payable and similar charges	5	**(2.9)**	(0 6)
Loss on ordinary activities before taxation	2	**(13.5)**	(25 9)
Tax on loss on ordinary activities	6	**3 5**	9 8
Loss for the financial year		**(10 0)**	(16 1)

The Company had no recognised gains or losses other than the loss for the year and therefore no statement of total recognised gains or losses is presented

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents

The notes on pages 10 to 17 are an integral part of these financial statements

Balance Sheet
as at 31 December 2006

	Note	2006 £m	2005 £m
Fixed assets			
Investments	7	2.4	1 0
Current assets			
Stock and work in progress	8	29.5	21 8
Debtors	9	40.8	24 9
		70.3	46 7
Creditors amounts falling due within one year	10	(110 2)	(75 2)
Net current liabilities		(39 9)	(28 5)
Net liabilities		(37.5)	(27 5)
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	(37 5)	(27 5)
Shareholders' deficit		(37 5)	(27 5)

These financial statements were approved by the Board of directors on 29/10/07 and were signed on its behalf by

Anne Bulford
Director

Notes
(forming part of the financial statements)

Basis of preparation

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

At 31 December 2006 the Company had net liabilities of £37 5 million (2005 £27 5 million) The Company has received assurances from its parent that it will continue to provide financial support, for a minimum of twelve months from the date of the approval of these financial statements, to enable the Company to meet its liabilities as they fall due

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements These financial statements present information about the Company as an individual undertaking and not about its group

Under FRS 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 the Channel Four Television Corporation, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group or investees of the group qualifying as related parties The consolidated financial statements of the Corporation, within which this Company is included, can be obtained from the address given in note 14

Where the Company is party to a joint arrangement which is not an entity, its share of the income and expenditure, assets, liabilities and cash flows have been included in these financial statements

Accounting policies

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

Turnover

Advertising revenue is recognised on transmission of the advertisement and is stated net of advertising agency commission and value added tax

Subscription fee revenue is recognised over the period of the subscription

Revenue from sponsors of the Company's programmes and films is recognised in line with the transmission schedule for each sponsorship campaign

Revenue from merchandising, DVD and video sales, book and music publishing is recognised over the period in which the rights are exploited

Revenue from premium rate telephony services is recognised in line with contestant call volumes

Other revenue, principally from the provision of creative services and studio facilities, is recognised when the relevant service has been provided

Taxation

The charge for taxation is based on the profit or 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

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 contracted rate or 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

Stocks and work in progress

Stocks are valued at the lower of cost or net realisable value

Programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for programmes and films which are unlikely to be transmitted or sold Direct cost is defined as payments made or due to programme suppliers

Development expenditure, consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned, is included in broadcast programme and film rights after making provision for any development expenditure that is not expected to lead to a commissioned programme

The cost of broadcast programme and film rights is wholly written off on first transmission, except for certain feature films, which are written off over more than one transmission in line with expected revenue

Developed film rights are stated at direct cost incurred up to the balance sheet date Provision is made for any excess over the value of the film held in stock and the revenues the film is anticipated to earn The main assumptions employed to estimate future revenues are minimum contracted revenues and sales forecasts by territory

Film rights are amortised in the profit and loss account in the proportion that the revenue bears in the year to the estimated ultimate revenue after provision for any anticipated shortfall

Fixed asset investments

Fixed asset investments are stated at cost, less any provision for impairment Investments, in which the group has a continuing interest, and which are jointly controlled by the group and one or more other parties, are treated as joint ventures and are accounted for using the gross equity method

1 Analysis of turnover and operating loss on ordinary activities before interest and taxation

	2006 Turnover £m	2005 Turnover £m
By activity		
4 Channels	**128 6**	88 0
4 Rights	**36 6**	23 8
New Media	**50 6**	24 5
Other	**11.2**	8 4
	227 0	144 7

	2006 Operating profit/(loss) £m	2005 Operating profit/(loss) £m
By activity		
4 Channels	**(17 6)**	(34 8)
4 Rights	**3 6**	4 6
New Media	**13 5**	0 3
Other	**(10 1)**	(2 3)
	(10 6)	(32 2)

4 Ventures has four business segments – 4 Channels, 4 Rights, New Media and Other – which operate commercial activities which are incidental and conducive to the operation of Channel 4

- 4 Channels operates free to air and subscription film and entertainment channels
- 4 Rights exploits programme rights through the distribution of various consumer products such as DVDs
- New Media provides internet advertising, telephony services, and support to the Corporation
- Other includes the provision of post production and studio facilities, creative design and production services and the recently launched 4oD and 4 Radio businesses

2 Loss on ordinary activities before taxation

	2006 £000	2005 £000
Loss on ordinary activities before taxation is stated after charging:		
Broadcast development	700	365
Write-off of loan to subsidiary undertaking	1,102	0
Auditors' remuneration audit services	18	18

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information required has been disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Channel Four Television Corporation

3 Remuneration of directors

The directors and staff of the Company are employees of, and remunerated by, the Corporation, which recharges their salaries to the Company Amounts applicable to the directors of the Company for service to the Company, excluding pension contributions, were

	2006 £000	2005 £000
Salary	280	288
Benefits	10	8
Total emoluments	290	296

The charge to the Company for emoluments of the highest paid director was £185,168 (2005 £119,585) No directors were accruing benefits under the defined benefit scheme

4 Income from shares in group undertakings

	2006 £m	2005 £m
Dividend from subsidiary undertakings	-	6 9

Dividend income of £6 9m was received during 2005 from Channel Four International Limited, a subsidiary undertaking

5 Interest payable and similar charges

	2006 £m	2005 £m
Interest payable on intercompany balances	(2 9)	(0 6)

6 Taxation

Analysis of credit in the year

	2006 £m	2005 £m
UK corporation tax		
Prior year	(0.1)	-
Group relief receivable from a fellow subsidiary		
Current tax	3.4	9 8
Prior year	0 3	-
Total current tax credit	3 6	9 8
Deferred tax (see note 9)		
Current year	(0.1)	-
Total deferred tax	(0.1)	-
Tax on loss on ordinary activities	3 5	9 8

Factors affecting the tax credit for the year

The current tax credit for the year is lower (2005 lower) than the standard rate of corporation tax in the UK 30% (2005 30 %) The differences are explained below

	2006 £m	2005 £m
Current tax reconciliation		
Loss on ordinary activities before tax	(13 5)	(25 9)
Current tax at 30% (2005 30 %)	4 0	7 8
Effects of		
Non-taxable income		2 0
Non-deductible expenditure	(0 7)	-
Prior year adjustments	0.3	-
Total current tax credit (see above)	3 6	9 8

Deferred taxation

An analysis of the deferred tax asset is presented in note 9

7 Fixed asset investments

	Shares in group undertakings	Participating interests	Total
	£m	£m	£m
Cost and Net Book Value			
At beginning of year	10	-	10
Additions	-	14	14
At end of year	10	14	24

The companies in which the Company's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Channel Four International Limited	England	Programme and film rights exploitation	100%
Film Four Limited	England	Film production and distribution	100%
Oneword Radio Limited	England	Digital radio channel	51%
Joint venture			
Taste of London Ltd	England	Food events	50%
Associate			
Popworld Limited	England	Pop music brand	29%

Subsidiary undertakings

Oneword Radio Limited

The company operates a digital radio channel, Oneword, on the Digital One DAB radio network

Ostrich Media Limited

On 31 October 2006, the Company disposed of its ownership in Ostrich Media Limited to iTouch Ltd for notional purchase consideration, resulting in a £0 5 million net outflow on disposal The net cash outflow from operating activities is reported in the Corporation's consolidated financial statements

Joint venture

Taste of London Ltd

On 25 August 2006, Channel 4 acquired 27,250 ordinary shares of £1, representing 50% of the share capital in Taste of London Limited from Brand Events for cash consideration of £1 4 million The company, incorporated in England, organises "Taste Of" festivals which are high-quality restaurant food and drink events

Associate

Popworld Limited

The company is incorporated in England and exploits a pop music brand

8 Stocks and work in progress

	2006 £m	2005 £m
Programme and film rights	29 5	21 8

Sales generated from the exploitation of the programme and film rights may result in certain of the rights not being realised within one year

9 Debtors

	2006 £m	2005 £m
Deferred tax asset	-	0 1
Trade debtors	21.8	11 8
Prepayments and accrued income	19 0	13 0
	40 8	24 9

A deferred tax asset has been recognised as follows

	Total £m
At 1 January 2006	0 1
Charged to the profit and loss account	(0.1)
At 31 December 2006	-

10 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Bank loans and overdrafts	-	0 1
Corporation tax	0.7	0 7
Amounts owed to group undertakings	39.4	20 3
Taxation and social security	2 6	1 1
Accruals and deferred income	67 5	53 0
	110 2	75 2

11 Called up share capital

	2006 £	2005 £
Authorised, allotted and fully paid		
1,000 Ordinary shares of £1 each	1,000	1,000

12 Reconciliation of profit and loss account and shareholders funds

	Profit and loss account £m	Shareholders funds £m
At 1 January 2006	(27 5)	(27 5)
Loss for the financial year	(10 0)	(10 0)
At 31 December 2006	**(37.5)**	**(37 5)**

13 Commitments

At 31 December 2006, committed future expenditure for programmes and films due for payment were as follows

	2006 £m	2005 £m
Within one year	51 9	42 3
After one year	82 0	28 5
	133.9	70 8

14 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of the Corporation which is the ultimate parent company and controlling party

The largest and smallest group in which the results of the Company are consolidated is that headed by the Corporation The consolidated financial statements of these groups are available to the public and may be obtained from The Corporation Secretary, Channel Four Television Corporation, 124 Horseferry Road, London SW1P 2TX