Merlin Entertainments Developments Limited

Directors' report and financial statements

04598949

29 February 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 29 February 2004.

Principal activities

The company's principal activity is the provision of development services to other Group Companies.

The summary of the company's results for the year are given on page 4. The directors are satisfied with the company's performance during the year.

Directors and directors' interests

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

NJ Varney
AC Carr

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

The interests of the directors in the shares of the ultimate parent company are disclosed in the directors' report of that company.

Employees

Regular informal meetings are held between management and employees in order to keep employees informed on current developments within the company and to take account of their views in making decisions likely to affect their interests. In addition a quarterly newsletter is produced.

Disabled persons

The company makes no differentiation between able bodied and disabled persons in terms of recruitment, training and career progression. The company will make every effort to continue the employment and training of those persons who become disabled while employed by the company.

Auditors

KPMG LLP resigned as auditors on 3 February 2004. Deloitte & Touche LLP were appointed as auditors on 3 February 2004 and resigned on 27 April 2004. KPMG LLP were appointed as auditors on 27 April 2004. In accordance with section 384 of the Companies Act 1985, a resolution to re-appoint KPMG LLP as auditors will be proposed at the Annual General Meeting.

By order of the board

AC Carr
Secretary

22 December 2004

Market Close
Poole
Dorset
BH15 1NQ

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 of the profit or loss 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; 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Dukes Keep
Marsh Lane
Southampton SO14 3EX
United Kingdom

Report of the independent auditors to the members of Merlin Entertainments Developments Limited

We have audited the financial statements on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 29 February 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
December 23, 2004

Profit and loss account
for the year ended 29 February 2004

	Note	2004 £	2003 £
Turnover	*1*	**266,664**	59,300
Cost of sales		-	-
Gross profit		**266,664**	59,300
Administrative expenses		**(309,373)**	(50,770)
Operating (loss)/profit		**(42,709)**	8,530
Net interest payable	*4*	**(18,497)**	(214)
(Loss)/profit on ordinary activities before taxation	*2*	**(61,206)**	8,316
Tax on ordinary activities	*5*	**29,213**	(22,273)
Retained loss on ordinary activities after taxation and for the financial year	*12*	**(31,993)**	(13,957)

The retained loss for the year reported above all relates to continuing operations.

There are no recognised gains or losses other than the loss for the year above. There is also no difference between the loss on ordinary activities before taxation and the retained loss for the financial period stated above, and their historical equivalents.

Balance sheet
at 29 February 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	6		**46,737**		57,422
Current assets					
Debtors	7	**508,930**		124,609	
Cash at bank		**7,346**		8,101	
		516,276		132,710	
Creditors: amounts falling due within one year	8	**(98,426)**		(130,685)	
Net current assets			**417,850**		2,025
Total assets less current liabilities			**464,587**		59,447
Creditors: amounts falling due after more than one year	*9*		**(510,000)**		(70,000)
Provisions for liabilities and charges	*10*		**(535)**		(3,402)
Net liabilities			**(45,948)**		(13,955)
Capital and reserves					
Called up share capital	*11*		**2**		2
Profit and loss account	*12*		**(45,950)**		(13,957)
Deficit on Equity shareholder's funds	*13*		**(45,948)**		(13,955)

These financial statements were approved by the board of directors on 22 December 2004 and were signed on its behalf by:

AC Carr
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 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 company will continue trading, as a result of receiving assurances from the ultimate parent undertaking. This undertaking has confirmed its willingness to support the company for the foreseeable future to enable it to continue to trade and settle all liabilities as they fall due.

If the company were unable to trade, adjustments may have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify fixed assets as current assets.

Cash flow statement

Under Financial Reporting Standard 1 (Revised 1996) 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.

Related party transactions

As the company is a wholly owned subsidiary of Merlin Entertainments Group International Limited, 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 Merlin Entertainments Group International Limited, within which this company is included, can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

Fixed assets and depreciation

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

Plant and machinery - 5% to 25% per annum

Taxation

The charge for taxation is based on the profit 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.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the delivery of all aspects of the Merlin Group's development programme.

Turnover consists of annual flat rate retainers, site find fees and flat rate annual management fees charged to other Group companies.

Notes *(continued)*

1 **Accounting policies** (continued)

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

2 (Loss)/profit on ordinary activities before taxation

	2004	2003
	£	£
Loss/(profit) on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets		
Owned	11,444	1,345

No audit fee is paid by the company as this is borne by Merlin Entertainments (Sea Life) Limited.

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2004	2003
Management	**10**	9

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	**77,536**	90,041
Social security costs	**24,422**	9,490
Pension costs	**21,071**	4,089
	123,029	103,620

The directors received no remuneration from the company during the year *(2003: £Nil)*. The directors are paid by the immediate parent undertaking and their remuneration is disclosed in that entity's financial statements.

Notes *(continued)*

4 Net interest payable

	2004	2003
	£	£
Interest payable on group loans	**18,497**	214

5 Taxation

	2004	2003
	£	£
UK corporation tax		
Current tax (credit)/charge on income for the period	**(26,346)**	18,871
Deferred tax		
Origination of timing differences	**(2,867)**	3,402
Tax (credit)/charge on profit on ordinary activities	**(29,213)**	22,273

The current tax charge for the year is lower than *(2003: higher than)* the standard rate of corporation tax in the UK of 30% *(2003: 30%)*. The differences are explained below:

	2004	2003
	£	£
(Loss)/profit on ordinary activities before taxation	**(61,206)**	8,316
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2003: 30%)*	**(18,362)**	2,495
Effects of:		
Expenses not deductible for tax purposes	**270**	-
Depreciation in excess of capital allowances	**8,990**	(868)
Other timing differences	**(17,244)**	17,244
Current tax (credit)/charge	**(26,346)**	18,871

Notes *(continued)*

6 Tangible fixed assets

	Land and buildings	Plant and machinery	Total
	£	£	£
Cost			
At 1 March 2003	8,840	49,927	58,767
Additions	-	759	759
At 29 February 2004	8,840	50,686	59,526
Depreciation			
At 1 March 2003	-	1,345	1,345
Charge for the year	1,101	10,343	11,444
At 29 February 2004	1,101	11,688	12,789
Net book value			
At 29 February 2004	**7,739**	**38,998**	**46,737**
At 28 February 2003	8,840	48,582	57,422

7 Debtors

	2004	2003
	£	£
Amounts owed by group undertakings	**363,130**	27,848
Other debtors	**137,333**	94,387
Prepayments and accrued income	**8,467**	2,374
	508,930	124,609

8 Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	**14,491**	8,305
Amounts owed to group undertakings	**20,194**	87,775
Other taxes and social security	**6,219**	-
Accruals and deferred income	**57,522**	34,605
	98,426	130,685

Notes *(continued)*

9 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Amounts owed to group undertakings	**510,000**	70,000

Interest on long term amounts owed to group undertakings is charged at 5% *(2003:5%)*. The loan is not repayable until at least 2009.

10 Provisions for liabilities and charges

Deferred taxation	**Deferred Taxation £**
At beginning of year	**3,402**
(Released)/charged to the profit and loss account	**(2,867)**
At end of year	**535**

The amounts provided for deferred taxation are set out below:

	2004 £	2003 £
Difference between accumulated depreciation and amortisation and capital allowances	535	3,402
	535	3,402

The deferred tax assets shown in 2004 and 2003 above have been recognised because it is reasonable to expect that these will be suitable taxable profits arising from which the future reversal of the underlying timing differences can be deducted.

11 Called up share capital

	2004 £	2003 £
Authorised		
Equity: Ordinary shares of £1 each	**2**	2
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	2	2

Notes *(continued)*

12 Reserves

	Profit and loss account £
At beginning of year	(13,957)
Retained loss for the year	(31,993)
At end of year	**(45,950)**

13 Reconciliation of movement in shareholders' deficit

	£
At beginning of year	(13,955)
Retained loss for the year	(31,993)
At end of year	**(45,948)**

14 Ultimate parent company and ultimate controlling party

Until 16 February 2004, the ultimate holding company was Merlin Entertainments Group Limited, a company registered in England and Wales. On 16 February 2004, Merlin Entertainments Group Limited was purchased by Merlin Entertainments Group International Limited, a company registered in England and Wales and therefore Merlin Entertainment Group International Limited became the ultimate parent company. The consolidated accounts of Merlin Entertainments Group International Limited within which this company is included, can be obtained from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

The immediate parent company is Merlin Entertainments Group Limited.