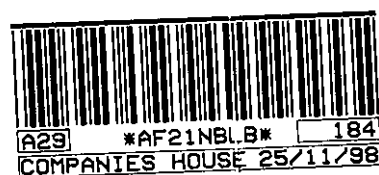


**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**
(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Financial Statements

December 31, 1997 and 1996

(With Independent Auditors' Report Thereon)





345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Fujisankei Communications International, Inc.:

We have audited the accompanying balance sheets of Fujisankei Communications International, Inc. (a wholly owned subsidiary of Fuji Television Network, Inc.) as of December 31, 1997 and 1996, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

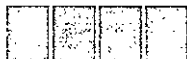
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1(b), these financial statements were prepared on the basis of accounting principles generally accepted in Japan, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fujisankei Communications International, Inc. as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in Japan.

February 18, 1998

KPMG Peat Marwick LLP



Member Firm of KPMG International

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Balance Sheets

December 31, 1997 and 1996

Assets	<u>1997</u>	<u>1996</u>
Current assets:		
Cash and cash equivalents	\$ 4,728,405	6,256,864
Accounts receivable, less allowance for doubtful accounts of \$1,138,484 in 1997 and \$1,095,484 in 1996	1,840,653	1,125,599
Due from parent and affiliates	659,434	1,259,490
Prepaid expenses	972,665	146,236
Prepaid income taxes	64,977	—
Deferred income taxes (note 6)	1,090,142	929,736
Other current assets	<u>108,028</u>	<u>391,830</u>
Total current assets	9,464,304	10,109,755
Investment in securities (note 2)	714,373	714,373
Property and equipment, net (note 3)	4,503,500	3,368,228
Program sales rights (note 4)	53,070	203,129
Deferred income taxes (note 6)	701,336	670,341
Other assets	<u>268,142</u>	<u>278,490</u>
	\$ <u>15,704,725</u>	<u>15,344,316</u>
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable and accrued expenses	2,170,648	2,337,402
Income tax payable	—	239,586
Other current liabilities	<u>303,644</u>	<u>99,670</u>
Total current liabilities	<u>2,474,292</u>	<u>2,676,658</u>
Stockholder's equity:		
Common stock, \$100,000 par value. Authorized, issued and outstanding 75 shares	7,500,000	7,500,000
Retained earnings	<u>5,730,433</u>	<u>5,167,658</u>
Total stockholder's equity	13,230,433	12,667,658
Commitments and contingent liabilities (note 7)		
	\$ <u>15,704,725</u>	<u>15,344,316</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Statements of Income and Retained Earnings

Years ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Revenues (note 5):		
News services	\$ 19,833,981	19,426,598
Broadcasting	13,352,995	12,463,458
Products	<u>4,094,921</u>	<u>3,764,033</u>
Total revenues	<u>37,281,897</u>	<u>35,654,089</u>
Costs (notes 4 and 5):		
News services	8,016,262	7,814,867
Broadcasting	11,382,188	10,777,964
Products	<u>3,749,345</u>	<u>3,434,787</u>
Total costs	<u>23,147,795</u>	<u>22,027,618</u>
Gross profit	14,134,102	13,626,471
Selling, general and administrative expenses (notes 7 and 8)	<u>12,212,319</u>	<u>12,856,000</u>
Operating income	<u>1,921,783</u>	<u>770,471</u>
Other income (deductions):		
Interest income	117,552	153,939
Interest expense	(8,047)	(49,755)
Loss on foreign currency transactions	(240,732)	(34,921)
Other, net	<u>25,437</u>	<u>266,871</u>
Income before income taxes	<u>(105,790)</u>	<u>336,134</u>
Income taxes (note 6)	1,815,993	1,106,605
Net income	<u>1,223,218</u>	<u>785,363</u>
Net income	<u>592,775</u>	<u>321,242</u>
Retained earnings at beginning of year	5,167,658	4,876,416
Cash dividend	<u>(30,000)</u>	<u>(30,000)</u>
Retained earnings at end of year	\$ <u>5,730,433</u>	<u>5,167,658</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Statements of Cash Flows

Years ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Net income	\$ 592,775	321,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	787,106	1,111,594
Allowance for program sales rights	127,281	150,000
Loss (gain) on sales and disposal of property and equipment	29,034	(26,525)
Provision for bad debts	43,000	775,767
Provision for deferred income taxes	(191,401)	(708,996)
Write-down of investment in security	—	15,300
Changes in assets and liabilities:		
Accounts receivable	(758,054)	206,204
Due from parent and affiliates	600,056	(1,034,630)
Prepaid expenses	(826,429)	(34,532)
Prepaid income taxes	(64,977)	537,552
Other current assets	283,802	(207,585)
Other assets	10,348	228,609
Accounts payable and accrued expenses	(166,754)	420,050
Income tax payable	(239,586)	239,586
Other current liabilities	<u>203,974</u>	<u>25,671</u>
Net cash provided by operating activities	<u>430,175</u>	<u>2,019,307</u>
Cash flows from investing activities:		
Proceeds from sales of property and equipment	—	199,000
Additions to property and equipment	<u>(1,928,634)</u>	<u>(757,209)</u>
Net cash used in investing activities	<u>(1,928,634)</u>	<u>(558,209)</u>
Cash flows from financing activities:		
Dividend paid	<u>(30,000)</u>	<u>(30,000)</u>
Net (decrease) increase in cash and cash equivalents	(1,528,459)	1,431,098
Cash and cash equivalents at beginning of year	<u>6,256,864</u>	<u>4,825,766</u>
Cash and cash equivalents at end of year	\$ <u>4,728,405</u>	<u>6,256,864</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>8,047</u>	<u>49,755</u>
Income taxes	\$ <u>1,746,870</u>	<u>717,221</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Notes to Financial Statements

December 31, 1997 and 1996

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Fujisankei Communications International, Inc. (the "Company"), a wholly owned subsidiary of Fuji Television Network, Inc., a Japanese corporation, was incorporated in the State of New York on October 1, 1986 to gather overseas news for the parent and affiliated companies and to involve program production and broadcasting, international program sales and acquisitions, public relations and the analysis of overseas investment opportunities in the area of film, music, publishing and art. In addition, the Company works very closely with the parent company providing integral cooperation in the fields of marketing, event planning and overseas filming coordination.

(b) Principles of Presentation

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in Japan. The primary difference from those prepared on the basis of accounting principles generally accepted in the United States is accounting for the translation of property and equipment and program sales rights denominated in foreign currencies (see note 1(f)). Management of the Company has decided to include the statements of cash flows and certain notes to the financial statements relating to related party transactions, investment in securities, income taxes and pension plan, all of which are not required disclosures under accounting principles generally accepted in Japan.

(c) Cash Equivalents

Cash equivalents of \$4,507,788 and \$2,760,900 at December 31, 1997 and 1996, respectively, consist of time deposits. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Depreciation and Amortization

Depreciation of property and equipment is provided over the estimated useful lives, which range from 3 to 18 years, using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the assets.

(e) Program Sales Rights

Program sales rights are purchased and enable the Company to sell certain television programs. Such rights are amortized based on 80% of current gross revenues.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
Fuji Television Network, Inc.)

Notes to Financial Statements, Continued

(1), Continued

(f) Foreign Currency Translation

All assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year-end rates of exchange except for property and equipment and program sales rights, which are translated at historical rates. Income and expense accounts are translated at exchange rates prevailing at the time the income was earned or expense incurred.

(g) Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109), which is a generally accepted accounting principle in the United States. Under the assets and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Investment in Securities

The components of investments in securities, at cost, are as follows:

	<u>1997</u>	<u>1996</u>
Interest of 2.4% in Japan Satellite TV	\$ 560,333	560,333
Interest of 7.5% in Fujisankei California Entertainment, Inc.	150,000	150,000
Other	<u>4,040</u>	<u>4,040</u>
	<u>\$ 714,373</u>	<u>714,373</u>

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
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Notes to Financial Statements, Continued

(3) Property and Equipment

A summary of property and equipment, at cost, is as follows:

	<u>1997</u>	<u>1996</u>
Land	\$ 1,107,219	859,600
Buildings	2,660,123	1,590,400
Studio and technical equipment	4,166,962	4,075,573
Furniture and fixtures	1,976,417	1,840,526
Leasehold improvements	2,479,634	2,157,162
Automobiles	<u>100,385</u>	<u>99,380</u>
	12,490,740	10,622,641
Less accumulated depreciation and amortization	<u>7,987,240</u>	<u>7,254,413</u>
Property and equipment, net	\$ <u>4,503,500</u>	<u>3,368,228</u>

(4) Program Sales Rights

Accumulated amortization of program sales rights as of December 31, 1997 and 1996 was \$1,594,412 and \$1,571,634, respectively. In 1997, the Company recognized an additional allowance for program sales rights of \$127,281, which is included in the cost of broadcasting. In 1996, the Company disposed certain program sales rights in the amount of \$42,115 due to maturity of a contract term, which was fully amortized at the time of disposition. As of December 31, 1997, program sales rights amounting to \$53,070 were net of allowance for program sales rights in the amount of \$427,281.

(5) Related Party Transactions

The Company collects, produces and provides news and other information from various countries to the parent and affiliated companies. The Company also produces TV programs for the parent and affiliated companies.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
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Notes to Financial Statements, Continued

(5), Continued

Revenue and costs relating to the Company's transactions with the parent and affiliated companies are summarized as follows:

	<u>1997</u>	<u>1996</u>
Revenues:		
News services	\$ 19,778,618	19,426,598
Broadcasting	7,329,692	5,547,035
Products	<u>3,785,780</u>	<u>3,513,238</u>
	\$ <u>30,894,090</u>	<u>28,486,871</u>
Costs:		
News services	53,620	109,526
Broadcasting	1,023,654	1,368,908
Products	<u>105,743</u>	<u>189,285</u>
	\$ <u>1,183,017</u>	<u>1,667,719</u>

(6) Income Taxes

The difference between the actual total income tax expense and Federal income taxes computed at the statutory rate of 34% is accounted for as follows:

	<u>1997</u>		<u>1996</u>	
	<u>Amount</u>	<u>% of pretax income</u>	<u>Amount</u>	<u>% of pretax income</u>
Computed "expected" tax expense	\$ 617,438	34.0%	\$ 376,246	34.0%
Increase in income taxes resulting from:				
State and local taxes, net of Federal income tax benefit	178,448	9.8	146,872	13.3
Foreign taxes, net of Federal income tax benefit	101,558	5.6	99,748	9.0
Expenses not deductible for tax purposes	248,155	13.7	244,154	22.1
Overaccrual in prior year	—	—	(118,182)	(10.7)
Other	<u>77,619</u>	<u>4.3</u>	<u>36,525</u>	<u>3.3</u>
	\$ <u>1,223,218</u>	<u>67.4%</u>	\$ <u>785,363</u>	<u>71.0%</u>

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

(A Wholly Owned Subsidiary of
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Notes to Financial Statements, Continued

(6), Continued

Components of income tax expense are as follows:

	1997			1996		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 946,888	(147,920)	798,968	959,557	(547,861)	411,696
Foreign	153,875	—	153,875	151,134	—	151,134
State and local	<u>313,856</u>	<u>(43,481)</u>	<u>270,375</u>	<u>383,668</u>	<u>(161,135)</u>	<u>222,533</u>
	<u>\$ 1,414,619</u>	<u>(191,401)</u>	<u>1,223,218</u>	<u>1,494,359</u>	<u>(708,996)</u>	<u>785,363</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 1997 and 1996 are presented below:

	<u>1997</u>	<u>1996</u>
Deferred tax assets:		
Current:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 500,933	514,567
Donation	374,991	305,270
Other	<u>214,218</u>	<u>138,733</u>
	1,090,142	958,570
Noncurrent:		
Property and equipment, principally due to differences in depreciation	<u>701,336</u>	<u>670,341</u>
Total gross deferred tax assets	1,791,478	1,628,911
Less valuation allowance	<u>—</u>	<u>—</u>
	1,791,478	1,628,911
Deferred tax liabilities:		
Unrealized foreign exchange gain and other	<u>—</u>	<u>(28,834)</u>
Net deferred tax assets	\$ <u>1,791,478</u>	<u>1,600,077</u>

No valuation allowance was recorded for deferred tax assets as of December 31, 1997 and 1996 since management believes that the Company will realize the benefit of these deductible temporary differences based on the level of historical and future taxable income.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

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Notes to Financial Statements. Continued

(7) Commitments and Contingent Liabilities

Rent expense was approximately \$1,426,000 and \$1,601,000 for the years ended December 31, 1997 and 1996, respectively.

The Company has entered into noncancelable operating leases principally for office space. Future minimum lease payments are as follows:

<u>Year ending December 31</u>	<u>Amount</u>
1998	\$ 1,107,647
1999	1,031,635
2000	929,824
2001	891,883
2002	739,241
Thereafter	<u>1,165,915</u>
Total	\$ <u>5,866,145</u>

As of December 31, 1997, the Company had unused letters of credit of \$116,720.

(8) Pension Plan

On January 1, 1993, the Company established a contributory 401(k) plan. The plan covers substantially all employees except those who are transferred from the parent on temporary assignments in the U.S. Under the plan, participants may contribute a portion of their salary and are immediately vested for the employee portion. The Company's contribution to the plan includes a matching contribution (generally 50% of the first 7% of compensation deferred under the plan). The Company's contribution charged to operating expenses amounted to \$38,339 and \$34,616 in 1997 and 1996, respectively.