



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, 2000 and 1999, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 accounting principles generally accepted 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

KPMG LLP

February 28, 2001



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**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**

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

Balance Sheets

December 31, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and cash equivalents (note 1 (c))	\$ 7,568,756	6,607,590
Short-term investments	715,594	460,547
Accounts receivable, less allowance for doubtful accounts of \$106,614 in 2000 and \$1,096,485 in 1999	1,259,299	1,383,491
Prepaid expenses	1,347,574	1,143,971
Prepaid income taxes	622,372	334,641
Deferred income taxes (note 5)	808,616	1,178,501
Other current assets	231,864	134,223
Total current assets	12,554,075	11,242,964
Investment in securities (note 2)	570,169	570,169
Property and equipment, net (note 3)	3,026,663	4,056,360
Deferred income taxes (note 5)	610,011	691,290
Other assets	389,773	383,147
	4,596,616	5,700,966
	\$ 17,150,691	16,943,930
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,095,375	1,012,595
Due to parent and affiliates	245,197	984,611
Other current liabilities	250,105	272,210
Total current liabilities	1,590,677	2,269,416
Stockholder's equity:		
Common stock, \$100,000 par value. Authorized, issued and outstanding 75 shares	7,500,000	7,500,000
Retained earnings	8,060,014	7,174,514
Total stockholder's equity	15,560,014	14,674,514
Commitments and contingent liabilities (note 6)		
	\$ 17,150,691	16,943,930

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**
(A Wholly Owned Subsidiary of
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Statements of Income and Retained Earnings

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Revenues (note 4):		
News services	\$ 19,929,453	19,131,442
Broadcasting	12,333,492	11,484,176
Products	<u>4,353,352</u>	<u>5,352,576</u>
Total revenues	<u>36,616,297</u>	<u>35,968,194</u>
Costs (note 4):		
News services	8,504,651	7,381,474
Broadcasting	11,123,249	9,983,380
Products	<u>3,964,946</u>	<u>4,864,867</u>
Total costs	<u>23,592,846</u>	<u>22,229,721</u>
Gross profit	13,023,451	13,738,473
Selling, general, and administrative expenses (notes 6 and 7)	<u>10,904,676</u>	<u>11,501,931</u>
Operating income	<u>2,118,775</u>	<u>2,236,542</u>
Other income (deductions):		
Interest income	317,396	188,159
Interest expense	(10,714)	(34,593)
Loss on foreign currency transactions	(207,129)	(253,119)
Gain on sale and disposal of property and equipment, net	169,846	—
Other, net (note 4)	<u>130,974</u>	<u>90,361</u>
Income before income taxes	<u>400,373</u> <u>2,519,148</u>	<u>(9,192)</u> <u>2,227,350</u>
Income taxes (note 5)	<u>1,562,248</u>	<u>1,513,451</u>
Net income	<u>956,900</u>	<u>713,899</u>
Retained earnings at beginning of year	7,174,514	6,498,115
Cash dividend	<u>(71,400)</u>	<u>(37,500)</u>
Retained earnings at end of year	<u>\$ 8,060,014</u>	<u>7,174,514</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**
(A Wholly Owned Subsidiary of
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Statements of Cash Flows

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Net income	\$ 956,900	713,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	736,521	639,130
Loss on disposal of property and equipment	9,956	40,264
Gain on sale and disposal of property and equipment	(179,802)	—
Allowance for doubtful accounts	(989,871)	(58,392)
Deferred income taxes	451,164	71,599
Changes in assets and liabilities:		
Accounts receivable	1,114,063	(576,916)
Prepaid expenses	(203,603)	(163,706)
Prepaid income taxes	(287,731)	(334,641)
Other current assets	(97,641)	(10,402)
Other assets	(6,626)	81,431
Accounts payable and accrued expenses	82,780	(66,140)
Due to parent and affiliates	(739,414)	66,174
Income tax payable	—	(372,502)
Other current liabilities	(22,105)	2,907
Net cash provided by operating activities	<u>824,591</u>	<u>32,705</u>
Cash flows from investing activities:		
Additions to property and equipment	(840,978)	(313,939)
Increase in short-term investments	(255,047)	(460,547)
Proceeds from sale of property and equipment	1,304,000	—
Net change in investment in securities	—	144,204
Net cash provided by (used in) investing activities	<u>207,975</u>	<u>(630,282)</u>
Cash flows from financing activities:		
Dividend paid	(71,400)	(37,500)
Net increase (decrease) in cash and cash equivalents	961,166	(635,077)
Cash and cash equivalents at beginning of year	<u>6,607,590</u>	<u>7,242,667</u>
Cash and cash equivalents at end of year	<u>\$ 7,568,756</u>	<u>6,607,590</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>10,714</u>	<u>34,593</u>
Income taxes	\$ <u>1,398,815</u>	<u>1,816,202</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, 2000 and 1999

(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 undertake program production and broadcasting, international program sales and acquisitions, public relations, and the analysis of overseas investment opportunities in the areas 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 in accounting for the translation of the financial position and results of operations of the foreign branches, which are denominated in foreign currencies (see note 1(e)).

(c) Cash Equivalents

Cash equivalents of \$6,343,119 and \$4,867,718 at December 31, 2000 and 1999, 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 the straight-line basis over the shorter of the lease term or estimated useful lives of the assets.

**FUJISANKEI COMMUNICATIONS
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Notes to Financial Statements

December 31, 2000 and 1999

(3) Property and Equipment

A summary of property and equipment, at cost, as of December 31, 2000 and 1999 is as follows:

	<u>2000</u>	<u>1999</u>
Land	\$ 859,600	1,107,219
Buildings	1,590,400	2,660,123
Studio and technical equipment	4,725,885	4,453,897
Furniture and fixtures	1,827,677	1,929,171
Leasehold improvements	2,539,032	2,601,754
Automobiles	88,956	100,385
Construction in progress	<u>2,000</u>	<u>44,960</u>
	11,633,550	12,897,509
Less accumulated depreciation and amortization	<u>8,606,887</u>	<u>8,841,149</u>
Property and equipment, net	\$ <u>3,026,663</u>	<u>4,056,360</u>

(4) 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.

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

	<u>2000</u>	<u>1999</u>
Revenues:		
News services	\$ 19,710,249	18,951,508
Broadcasting	6,069,275	5,454,597
Products	<u>4,185,699</u>	<u>5,170,152</u>
	\$ <u>29,965,223</u>	<u>29,576,257</u>
Costs:		
News services	\$ 75,540	51,951
Broadcasting	1,010,494	973,187
Products	<u>107,713</u>	<u>105,956</u>
	\$ <u>1,193,747</u>	<u>1,131,094</u>

**FUJISANKEI COMMUNICATIONS
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Notes to Financial Statements

December 31, 2000 and 1999

During 1999, an investment in Fujisankei California Entertainment, Inc., which cost \$150,000, was sold to the parent. A gain on sale of the investment of \$30,000 is included in other, net in the accompanying statements of income and retained earnings.

(5) 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:

	2000		1999	
	Amount	% of pretax income	Amount	% of pretax income
Computed "expected" tax expense	\$ 856,510	34.0%	\$ 757,299	34.0%
Increase in income taxes resulting from:				
State and local taxes, net of Federal income tax benefit	255,691	10.1	172,432	7.7
Foreign taxes, net of Federal income tax benefit	165,169	6.6	219,643	9.9
Expenses not deductible for tax purposes	177,553	7.0	182,840	8.2
Other	107,325	4.3	181,237	8.1
	<u>\$ 1,562,248</u>	<u>62.0%</u>	<u>\$ 1,513,451</u>	<u>67.9%</u>

Components of income tax expense are as follows:

	2000			1999		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ 610,049	314,532	924,581	772,746	146,652	919,398
State and local	250,779	136,632	387,411	336,313	(75,053)	261,260
Foreign	250,256	—	250,256	332,793	—	332,793
	<u>\$ 1,111,084</u>	<u>451,164</u>	<u>1,562,248</u>	<u>1,441,852</u>	<u>71,599</u>	<u>1,513,451</u>