

**FUJISANKEI COMMUNICATIONS
INTERNATIONAL, INC.**
(a wholly owned subsidiary of
Fujisankei Communications Group, Inc.)

Financial Statements

December 31, 1994

(With Independent Auditors' Report Thereon)

NM



345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Fujisankei Communications International, Inc.:

We have audited the accompanying balance sheet of Fujisankei Communications International, Inc. (a wholly owned subsidiary of Fujisankei Communications Group, Inc.) as of December 31, 1994, and the related statements of income and retained earnings and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in Japan.

March 20, 1995

KPMG Peat Marwick LLP



**FUJISANKEI COMMUNICATIONS
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Balance Sheet

December 31, 1994

Assets

Current assets:

Cash and cash equivalents	\$ 3,254,374
Accounts receivable, less allowance for doubtful accounts of \$712,166	2,886,912
Due from affiliates	4,021,909
Inventories	778,918
Prepaid expenses	556,177
Deferred income taxes (note 6)	738,728
Other current assets	<u>578,016</u>
Total current assets	12,815,034

Investment in securities (note 2)	729,673
Property and equipment, net (note 3)	4,528,864
Program sales rights (note 4)	1,064,658
Deferred income taxes (note 6)	418,819
Other assets	<u>477,065</u>

\$ 20,034,113

Liabilities and Stockholder's Equity

Current liabilities:

Notes payable to banks, unsecured, due January 31, 1995, interest at approximately 6.5%	3,000,000
Accounts payable and accrued expenses	3,903,157
Advances received from customers	64,177
Income tax payable	658,998
Deferred tax liabilities (note 6)	85,419
Other current liabilities	<u>16,092</u>
Total current liabilities	7,727,843

Stockholder's equity:

Common stock, \$100,000 par value. Authorized, issued and outstanding 75 shares	7,500,000
Retained earnings	<u>4,806,270</u>
Total stockholder's equity	12,306,270

Commitments and contingent liabilities (notes 7 and 8)

\$ 20,034,113

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
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Statement of Income and Retained Earnings

Year ended December 31, 1994

Revenue (note 5):		
News services	\$	18,878,474
Broadcasting		21,873,265
Products		<u>5,115,052</u>
Total revenue		<u>45,866,791</u>
Cost (notes 5 and 9):		
News services		6,871,124
Broadcasting		16,138,570
Products		<u>6,062,243</u>
Total cost		<u>29,071,937</u>
Gross profit		16,794,854
Selling, general and administrative expenses		<u>15,936,259</u>
Operating income		<u>858,595</u>
Other income (deduction):		
Interest income		27,566
Interest expense		(90,047)
Loss on foreign currency transactions		223,877
Gain on sales of program production department of its foreign branch in London (note 5)		2,555,566
Program sales rights written off		(890,251)
Other, net (note 9)		<u>(584,020)</u>
		<u>1,242,691</u>
Income before income taxes		2,101,286
Income taxes (note 6)		<u>1,845,350</u>
Net income		<u>255,936</u>
Retained earnings at beginning of year		4,580,334
Cash dividend		<u>(30,000)</u>
Retained earnings at end of year	\$	<u><u>4,806,270</u></u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
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Statement of Cash Flows

Year ended December 31, 1994

Cash flows from operating activities:	
Net income	\$ 225,936
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization expense	1,244,164
Loss on disposition of program sales rights	890,251
Loss on disposition of property and equipment	27,520
Provision for bad debts	397,662
Provision for deferred income taxes	(459,202)
Changes in assets and liabilities:	
Accounts receivable	(2,038,048)
Due from affiliates	(4,021,909)
Inventories	(309,280)
Prepaid expenses	871,697
Prepaid income taxes	793,246
Other current assets	(150,135)
Other assets	(60,061)
Accounts payable and accrued expenses	1,120,758
Due to affiliates	(1,344,902)
Advances received from customers	(5,608)
Income tax payable	658,998
Other current liabilities	(96,344)
Net cash used in operating activities	<u>(2,255,257)</u>
Cash flows from investing activities:	
Decrease in investment in securities	5,000
Proceeds from disposition of property and equipment	114,985
Additions to property and equipment	(374,195)
Additions to program sales rights	<u>(325,512)</u>
Net cash used in investing activities	<u>(579,722)</u>
Cash flows from financing activities:	
Proceeds from notes payable to banks	<u>3,000,000</u>
Net cash provided by financing activities	<u>3,000,000</u>
Net increase in cash and cash equivalents	165,021
Cash and cash equivalents at beginning of year	<u>3,089,353</u>
Cash and cash equivalents at end of year	\$ <u><u>3,254,374</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	\$ <u><u>90,047</u></u>
Income taxes	\$ <u><u>1,380,000</u></u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS
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Notes to Financial Statements

December 31, 1994

(1) Summary of Significant Accounting Policies

(a) Organization

Fujisankei Communications International, Inc. (the "Company") was incorporated in the State of New York on October 1, 1986. The Company is a wholly owned subsidiary of FCG Estates, Inc., which name was changed to Fujisankei Communications Group, Inc. (the "Parent"), a Japanese corporation, as of July 1, 1992.

In 1986, the Company established domestic branches in Los Angeles, Honolulu and Washington, D.C., and opened foreign branches in Tokyo and London in 1987; Paris, Bonn, Rome and Cairo in 1988; Brussels in 1990; and Berlin in 1991.

In 1993, the Company closed its foreign branch in Bonn. In 1994, the Company closed its foreign branches in Tokyo and Berlin.

(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 the program sales rights denominated in Japanese yen (see note 1(g)). 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 employee benefit plan, all of which are not required disclosures under accounting principles generally accepted in Japan.

Prior to 1994, the Company reported on the basis of accounting principles generally accepted in the United States. As a result of the change in accounting standards, the retained earnings at January 1, 1994 were decreased by \$313,253.

(c) Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Inventories

Inventories, which consist principally of Nintendo video game merchandise, are stated at the lower of cost or market. Cost is determined using the average cost method.

(Continued)

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Notes to Financial Statements

(1), Continued

(e) *Depreciation and Amortization*

Depreciation of property and equipment is provided over the estimated useful lives, which range from three 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.

(f) *Program Sales Rights*

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

(g) *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 that 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.

(h) *Income Taxes*

The Company applies Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109), which is a generally accepted accounting principle in the United States. Statement 109 requires a change from the deferred method of accounting for income taxes of APB Opinion No. 11 to the asset 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.

(2) *Investment in Securities*

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

Interest of 2.9% in Japan Satellite TV	\$ 560,333
Interest of 15% in Fujisankei California Entertainment, Inc.	150,000
Other	<u>19,340</u>
	<u>\$ 729,673</u>

(Continued)

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Notes to Financial Statements

(3) Property and Equipment

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

Land	\$ 898,300
Buildings	1,766,700
Studio and technical equipment	3,606,246
Furniture and fixtures	1,547,253
Leasehold improvements	2,143,196
Automobiles	<u>84,580</u>
	10,046,275
Less accumulated depreciation and amortization	<u>5,517,411</u>
Property and equipment, net	\$ <u>4,528,864</u>

(4) Accumulated Amortization of Program Sales Rights

Accumulated amortization of program sales rights as of December 31, 1994 was \$1,052,220.

(5) Related Party Transactions

The Company collects, produces and provides news and other information coming from various countries to affiliated companies. The Company also produces a TV program for an affiliated company.

Revenue and cost relating to the Company's transactions with affiliated companies are summarized as follows (rounded):

Revenue:	
News services	\$ 18,878,231
Broadcasting	11,431,179
Products	<u>713,490</u>
	\$ <u>31,022,900</u>
Cost:	
News services	—
Broadcasting	2,248,003
Products	<u>209,141</u>
	\$ <u>2,457,144</u>

(Continued)

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Notes to Financial Statements

(5), Continued

In 1994, the Company sold the program production department of its foreign branch in London to Fuji International Productions (U.K.) Limited, an affiliated company, at fair value which amounted to \$2,700,000. The excess of fair value over the Company's carrying value of the transferred assets is reported as gain on sales of the program production department of its foreign branch in London in the accompanying statement of income and retained earnings.

(6) Income Taxes

Income tax expense differs from the statutory tax rate of 34% as follows:

	<u>Amount</u>	<u>% of pretax income</u>
Computed "expected" tax expense	\$ 714,437	34.0%
Increase in income taxes resulting from:		
State and local taxes, net of Federal income tax benefit	154,466	7.3
Foreign taxes	841,591	40.0
Expenses not deductible for tax purposes	169,405	8.1
Other	<u>(34,549)</u>	<u>(1.6)</u>
	\$ <u>1,845,350</u>	<u>87.8%</u>

Components of income tax expense are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 691,011	(354,838)	336,173
Foreign	1,275,138	—	1,275,138
State and local	<u>338,403</u>	<u>(104,364)</u>	<u>234,039</u>
	\$ <u>2,304,552</u>	<u>(459,202)</u>	<u>1,845,350</u>

(Continued)

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Notes to Financial Statements

(6), Continued

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 1994 are presented below:

Deferred tax assets:	
Current:	
Accounts receivable, principally due to allowance for doubtful accounts	\$ 313,353
Inventory adjustment	122,148
Development and license fees accrual	209,044
Rent abatement	11,094
Donation	<u>83,089</u>
	738,728
Noncurrent:	
Property and equipment, principally due to differences in depreciation	<u>418,819</u>
Total gross deferred tax assets	1,157,547
Less valuation allowance	<u>—</u>
	1,157,547
Deferred tax liabilities:	
Unrealized foreign exchange gain	<u>(85,419)</u>
Net deferred tax assets	\$ <u>1,072,128</u>

(7) Commitments and Contingent Liabilities

Rent expense was approximately \$2,492,000 for the year ended December 31, 1994.

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

<u>Year</u>	<u>Amount</u>
1995	\$ 1,378,982
1996	1,387,034
1997	993,930
1998	456,481
1999	140,364
2000 and thereafter	<u>11,697</u>
Total	\$ <u>4,368,488</u>

(Continued)

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Notes to Financial Statements

(7), Continued

As of December 31, 1994, the Company had unused letters of credit of approximately \$12,214,000

(8) Employee Benefit 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. In 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 \$25,759 in 1994.

(9) Other Financial Information

As of December 31, 1994, management of the Company intended to cease its operation of sales of Nintendo video game merchandise by May 1995. Based on the assessment of future activities of the Company, management decided to recognize certain losses from the cessation of the operation as of December 31, 1994. Cost of products includes \$252,411 of unrealized loss on the lower of cost or market, \$295,000 of licensing fees for the work-in-process of the Nintendo video game which was canceled in 1995, and \$513,934 of loss from the write-down of advance royalties. Other, net includes \$475,100 of development fees and licensing fees for the work-in-process of the Nintendo video games, which the Company expects to pay under the license and distribution agreements.

In 1994, the Company wrote off the program sales rights of \$890,251 due to the fact that the Company closed its foreign branch in Tokyo.