

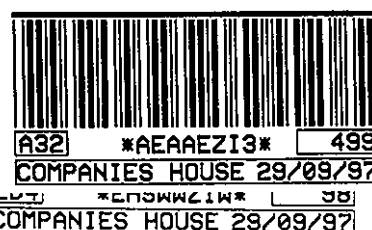
**FUJISANKEI COMMUNICATIONS  
INTERNATIONAL, INC.**

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

Financial Statements

December 31, 1996 and 1995

(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, 1996 and 1995, 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, 1996 and 1995, 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 20, 1997

*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, 1996 and 1995

Assets	<u>1996</u>	<u>1995</u>
Current assets:		
Cash and cash equivalents	\$ 6,256,864	4,825,766
Accounts receivable, less allowance for doubtful accounts of \$1,095,484 in 1996 and \$319,717 in 1995	1,125,599	2,107,570
Due from parent and affiliates	1,259,490	224,860
Prepaid expenses	146,236	111,704
Prepaid income taxes	-	537,552
Deferred income taxes (note 6)	929,736	393,257
Other current assets	<u>391,830</u>	<u>184,245</u>
Total current assets	10,109,755	8,384,954
Investment in securities (note 2)	714,373	729,673
Property and equipment, net (note 3)	3,368,228	3,718,822
Program sales rights (note 4)	203,129	529,395
Deferred income taxes (note 6)	670,341	497,824
Other assets	<u>278,490</u>	<u>507,099</u>
	\$ <u>15,344,316</u>	<u>14,367,767</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	2,337,402	1,917,352
Income tax payable	239,586	-
Other current liabilities	<u>99,670</u>	<u>73,999</u>
Total current liabilities	<u>2,676,658</u>	<u>1,991,351</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>5,167,658</u>	<u>4,876,416</u>
Total stockholder's equity	12,667,658	12,376,416
Commitments and contingent liabilities (note 7)		
	\$ <u>15,344,316</u>	<u>14,367,767</u>

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, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Revenues (note 5):		
News services	\$ 19,426,598	18,139,097
Broadcasting	12,463,458	12,402,544
Products	<u>3,764,033</u>	<u>3,394,657</u>
Total revenues	<u>35,654,089</u>	<u>33,936,298</u>
Costs (notes 4 and 5):		
News services	7,814,867	6,434,089
Broadcasting	10,777,964	10,725,270
Products	<u>3,434,787</u>	<u>3,040,457</u>
Total costs	<u>22,027,618</u>	<u>20,199,816</u>
Gross profit	13,626,471	13,736,482
Selling, general and administrative expenses (notes 7 and 8)	<u>12,856,000</u>	<u>12,924,807</u>
Operating income	<u>770,471</u>	<u>811,675</u>
Other income (deductions):		
Interest income	153,939	80,676
Interest expense	(49,755)	(45,693)
Loss on foreign currency transactions	(34,921)	(75,731)
Other, net	<u>266,871</u>	<u>(233,394)</u>
Income before income taxes	<u>336,134</u>	<u>(274,142)</u>
	1,106,605	537,533
Income taxes (note 6)	<u>785,363</u>	<u>437,387</u>
Net income	321,242	100,146
Retained earnings at beginning of year	4,876,416	4,806,270
Cash dividend	<u>(30,000)</u>	<u>(30,000)</u>
Retained earnings at end of year	\$ <u>5,167,658</u>	<u>4,876,416</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS  
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Statements of Cash Flows

Years ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Cash flows from operating activities:		
Net income	\$ 321,242	100,146
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,111,594	1,382,853
Allowance for program sales rights	150,000	150,000
Gain on sales and disposal of property and equipment	(26,525)	(14,045)
Provision for bad debts	775,767	(392,449)
Provision for deferred income taxes	(708,996)	181,047
Write-down of investment in security	15,300	—
Changes in assets and liabilities:		
Accounts receivable	206,204	1,171,791
Due from parent and affiliates	(1,034,630)	3,797,049
Inventories	—	778,918
Prepaid expenses	(34,532)	444,473
Prepaid income taxes	537,552	(537,552)
Other current assets	(207,585)	393,771
Other assets	228,609	(30,034)
Accounts payable and accrued expenses	420,050	(1,985,805)
Income tax payable	239,586	(658,998)
Other current liabilities	<u>25,671</u>	<u>(6,270)</u>
Net cash provided by operating activities	<u>2,019,307</u>	<u>4,774,895</u>
Cash flows from investing activities:		
Proceeds from sales of property and equipment	199,000	23,465
Additions to property and equipment	<u>(757,209)</u>	<u>(196,968)</u>
Net cash used in investing activities	<u>(558,209)</u>	<u>(173,503)</u>
Cash flows from financing activities:		
Decrease in notes payable to banks	—	(3,000,000)
Dividend paid	<u>(30,000)</u>	<u>(30,000)</u>
Net cash used in financing activities	<u>(30,000)</u>	<u>(3,030,000)</u>
Net increase in cash and cash equivalents	1,431,098	1,571,392
Cash and cash equivalents at beginning of year	<u>4,825,766</u>	<u>3,254,374</u>
Cash and cash equivalents at end of year	\$ <u>6,256,864</u>	<u>4,825,766</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>49,755</u>	<u>45,693</u>
Income taxes	\$ <u>717,221</u>	<u>1,455,680</u>

See accompanying notes to financial statements.

**FUJISANKEI COMMUNICATIONS  
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Notes to Financial Statements

December 31, 1996 and 1995

**(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.

In 1995, the Company closed its foreign branch in Rome.

**(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**

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 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.

**(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  
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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>1996</u>	<u>1995</u>
Interest of 2.4% in Japan Satellite TV	\$ 560,333	560,333
Interest of 7.5% and 15% in Fujisankei California Entertainment, Inc. as of December 31, 1996 and 1995, respectively	150,000	150,000
Other	<u>4,040</u>	<u>19,340</u>
	\$ <u>714,373</u>	<u>729,673</u>

**FUJISANKEI COMMUNICATIONS  
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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>1996</u>	<u>1995</u>
Land	\$ 859,600	898,300
Buildings	1,590,400	1,766,700
Studio and technical equipment	4,075,573	3,647,999
Furniture and fixtures	1,840,526	1,655,142
Leasehold improvements	2,157,162	2,176,000
Automobiles	<u>99,380</u>	<u>84,580</u>
	10,622,641	10,228,721
Less: accumulated depreciation and amortization	<u>7,254,413</u>	<u>6,509,899</u>
Property and equipment, net	\$ <u>3,368,228</u>	<u>3,718,822</u>

**(4) Program Sales Rights**

Accumulated amortization of program sales rights as of December 31, 1996 and 1995 was \$1,571,634 and \$1,437,483, respectively. In 1996, the Company recognized an additional allowance for program sales rights of \$150,000, 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, 1996, program sales rights amounting to \$203,129 was net of allowance for program sales rights in the amount of \$300,000.

**(5) Related Party Transactions**

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

**FUJISANKEI COMMUNICATIONS  
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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>1996</u>	<u>1995</u>
Revenues:		
News services	\$ 19,426,598	18,139,097
Broadcasting	5,547,035	5,539,427
Products	<u>3,513,238</u>	<u>1,508,450</u>
	\$ <u>28,486,871</u>	<u>25,186,974</u>
Costs:		
News services	109,526	159,890
Broadcasting	1,368,908	1,768,373
Products	<u>189,285</u>	<u>812,802</u>
	\$ <u>1,667,719</u>	<u>2,741,065</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>1996</u>		<u>1995</u>	
	<u>Amount</u>	<u>% of pretax income</u>	<u>Amount</u>	<u>% of pretax income</u>
Computed "expected" tax expense	\$ 376,246	34.0%	\$ 182,761	34.0 %
Increase in income taxes resulting from:				
State and local taxes, net of Federal income tax benefit	146,872	13.3	58,148	10.8
Foreign taxes	151,134	13.7	—	—
Expenses not deductible for tax purposes	244,154	22.0	206,721	38.5
Overaccrual in prior year	(118,182)	(10.7)	—	—
Other	<u>(14,861)</u>	<u>(1.3)</u>	<u>(10,243)</u>	<u>(1.9)</u>
	\$ <u>785,363</u>	<u>71.0%</u>	\$ <u>437,387</u>	<u>81.4%</u>

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Notes to Financial Statements, Continued

**(6), Continued**

Components of income tax expense are as follows:

	1996			1995		
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 959,557	(547,861)	411,696	209,383	139,901	349,284
Foreign	151,134	—	151,134	—	—	—
State and local	<u>383,668</u>	<u>(161,135)</u>	<u>222,533</u>	<u>46,957</u>	<u>41,146</u>	<u>88,103</u>
	<u>\$ 1,494,359</u>	<u>(708,996)</u>	<u>785,363</u>	<u>256,340</u>	<u>181,047</u>	<u>437,387</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 1996 and 1995 are presented below:

	<u>1996</u>	<u>1995</u>
Deferred tax assets:		
Current:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 514,567	140,676
Donation	305,270	211,784
Other	<u>138,733</u>	<u>55,901</u>
	958,570	408,361
Noncurrent:		
Property and equipment, principally due to differences in depreciation	<u>670,341</u>	<u>497,824</u>
Total gross deferred tax assets	1,628,911	906,185
Less valuation allowance	<u>—</u>	<u>—</u>
	1,628,911	906,185
Deferred tax liabilities:		
Unrealized foreign exchange gain and other	<u>(28,834)</u>	<u>(15,104)</u>
Net deferred tax assets	<u>\$ 1,600,077</u>	<u>891,081</u>

No valuation allowance was recorded for deferred tax assets as of December 31, 1996 and 1995 since the Company's management believes that the Company will realize the benefit of these deductible temporary differences based on the level of historical and future taxable income.

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Notes to Financial Statements. Continued

**(7) Commitments and Contingent Liabilities**

Rent expense was approximately \$1,601,000 and \$1,841,000 for the years ended December 31, 1996 and 1995, 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>
1997	\$ 1,106,147
1998	869,872
1999	793,860
2000	692,049
2001	680,352
Thereafter	<u>1,190,616</u>
Total	\$ <u>5,332,896</u>

As of December 31, 1996, 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 \$34,616 and \$26,587 in 1996 and 1995, respectively.