

Channel 5 Television Group Limited

Registered No. 3012148

DIRECTORS

G Dyke (Chairman)
D Elstein
D Harte
R Sautter
D Shorthouse
J Willis

SECRETARY

C Campbell

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

Midland Bank plc
69 Pall Mall
London SW1 7EY

SOLICITORS

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

REGISTERED OFFICE

22 Long Acre
London WC2E 9LY



DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £182,826,662 (1996 – £86,547,282). The directors do not recommend payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The group's principal activities are commercial broadcasting and the provision of technical and engineering services to the television industry.

FUTURE DEVELOPMENTS

Of critical importance during 1998, will be increasing audience numbers and expanding the provision of technical and engineering services.

DISABLED EMPLOYEES

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

EMPLOYEE INVOLVEMENT

The board values two-way communication between senior management and employees at all levels. In order to achieve this, regular meetings are held with employees at departmental level and company meetings are held periodically with senior management. Employees are encouraged to present their suggestions and views on the group's performance in these meetings.

DIRECTORS AND THEIR INTERESTS

The directors of the company are shown on page 1. The following directors resigned or were appointed during the year.

C Hollick	(resigned 18 December 1997)
I Ritchie	(resigned 30 April 1997)
F Kayser	(resigned 15 September 1997)
R Sautter	(appointed 15 September 1997)
F Barlow	(resigned 21 February 1997)

As at 31 December 1997, none of the directors had an interest in the share capital of the company.

J Willis was appointed a director on 12 January 1998.

Channel 5 Television Group Limited

DIRECTORS' REPORT

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



Secretary

27 FEB 1998

Channel 5 Television Group Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Channel 5 Television Group Limited

We have audited the accounts on pages 6 to 23, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

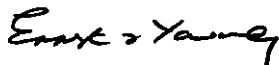
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1997 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script, appearing to read 'Ernst & Young'.

Ernst & Young
Chartered Accountants
Registered Auditor
London

27 FEB 1998

Channel 5 Television Group Limited

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	Notes	1997 £000	1996 £000
TURNOVER		84,258	—
Cost of sales		237,535	78,531
		(153,227)	(78,531)
Administration expenses		(13,874)	(7,269)
Loss from interest in associated undertaking		(492)	—
OPERATING LOSS	3	(167,643)	(85,800)
Interest receivable		1,880	904
Interest payable	6	(16,640)	(1,651)
		(14,760)	(747)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(182,403)	(86,547)
Tax on loss on ordinary activities	7	—	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(182,403)	(86,547)
Minority interest		(424)	—
LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING		(182,827)	(86,547)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £000	1996 £000
Loss for the year attributable to members of the parent undertaking	(182,827)	—
Gain on the sale of a minority interest investment in a subsidiary undertaking	484	—
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	(182,343)	—

Channel 5 Television Group Limited

GROUP BALANCE SHEET

at 31 December 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	9	16,102	10,855
Investments	10	(492)	—
		<u>15,610</u>	<u>10,855</u>
CURRENT ASSETS			
Stocks	11	78,401	10,266
Debtors due within one year	12	45,993	4,117
Debtors due after one year	12	49,685	—
Investments	13	23,024	27,464
Cash at bank and in hand		7,309	—
		<u>204,412</u>	<u>41,847</u>
CREDITORS: amounts falling due within one year	14	95,194	43,141
		<u>109,218</u>	<u>(1,294)</u>
NET CURRENT ASSETS/(LIABILITIES)			
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>124,828</u>	<u>9,561</u>
CREDITORS: amounts falling due after more than one year	15	(377,605)	(80,000)
		<u>(252,777)</u>	<u>(70,439)</u>
MINORITY INTEREST			
Equity		53	—
Non equity		58	—
		<u>(5)</u>	<u>—</u>
		<u>(252,782)</u>	<u>(70,439)</u>
CAPITAL AND RESERVES			
Called up share capital	17	—	—
Share premium account	18	17,321	17,321
Profit and loss account	18	(270,103)	(87,760)
		<u>(252,782)</u>	<u>(70,439)</u>

Director



27 FEB 1998

Channel 5 Television Group Limited

BALANCE SHEET at 31 December 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Investments	10	736	—
CURRENT ASSETS			
Debtors	12	290,864	71,755
Investments	13	19,701	27,464
Cash at bank and in hand		2,603	22
		313,168	99,241
CREDITORS: amounts falling due within one year	14	21,549	4,331
NET CURRENT ASSETS		291,619	94,910
TOTAL ASSETS LESS CURRENT LIABILITIES		292,355	94,910
CREDITORS: amounts falling due after more than one year	15	(277,022)	(80,000)
		15,333	14,910
CAPITAL AND RESERVES			
Called up share capital	17	—	—
Share premium account	18	17,321	17,321
Profit and loss account	18	(1,988)	(2,411)
		15,333	14,910

Director



27 FEB 1998

Channel 5 Television Group Limited

GROUP STATEMENT OF CASH FLOWS for the year ended 31 December 1997

	<i>Notes</i>	<i>1997 £000</i>	<i>1996 £000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3(b)	(186,868)	(64,192)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,880	904
Interest paid		(192)	—
		<u>1,688</u>	<u>904</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(6,246)	(11,019)
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		<u>(191,426)</u>	<u>(74,307)</u>
MANAGEMENT OF LIQUID RESOURCES			
Increase/(decrease) in short term deposits	20	4,440	(27,464)
		<u>(186,986)</u>	<u>(101,771)</u>
FINANCING			
Issue of share capital		—	16,386
Issue of loan stock	20	197,080	80,000
Repayments of finance leases	20	(96)	—
Amounts paid in by shareholders awaiting allotment of shares		—	2,680
		<u>196,984</u>	<u>99,066</u>
INCREASE/(DECREASE) IN CASH	20	<u>9,998</u>	<u>(2,705)</u>

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention and on a going concern basis. The group is dependent on continuing finance being made available by its shareholders to enable it to continue trading and meet its liabilities as they fall due. The shareholders have agreed to provide sufficient funds for the company for these purposes. The directors believe that it is therefore appropriate to prepare the accounts on a going concern basis.

The accounts have been prepared in accordance with applicable accounting standards.

Basis of consolidation

The group accounts comprise the accounts for Channel 5 Television Group Limited and all of its subsidiary undertakings. No profit and loss account is presented for Channel 5 Television Group Limited as permitted by section 230 of the Companies Act 1985.

Turnover

Turnover represents amounts invoiced for advertisements transmitted and technical and engineering services supplied. Advertising income is recognised at the time of transmission. Turnover is stated exclusive of value added tax and commissions.

Acquired programme rights

The full cost of acquired programme rights is recognised as a prepayment upon signature of the relevant contract. The rights are included within stock in the balance sheet upon commencement of the licence period. Any relevant programme creditors are included in creditors (within one year and more than one year). A proportion of the asset is charged against profits on the date of each transmission.

Commissioned programmes

The cost of commissioned programmes are recognised as stock within the balance sheet either when costs are incurred (for fully funded programmes) or when completed episodes are delivered by the production company (for licensed programmes). Licensed programmes and payments made in advance of the group having availability to transmit the related programmes are treated as prepayments. The total cost is recognised in the profit and loss account on the date of first transmission.

Programme development

Development expenditure consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned is included within stock and is fully provided against. Where development expenditure leads to the commissioning of a programme, such expenditure is transferred to programme cost and the provision is released.

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

1. ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets are stated at cost together with any incidental expense of acquisition, less depreciation.

Depreciation is provided on all tangible fixed assets on a straight line basis over the course of the assets estimated useful lives assuming nil residual values:

Leasehold improvements	-	10 years
Fixtures and fittings	-	5-10 years
Computer hardware and software	-	5-10 years
Technical equipment	-	5-10 years

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The company does not operate its own pension scheme. The company pays contributions into employees own personal schemes at various rates up to a maximum of 13% of their gross salary. The contributions are charged to the profit and loss account as they become payable.

Deferred taxation

Deferred taxation is provided for using the liability on all timing differences, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or the contracted rate if the transaction is covered by a forward exchange contract.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date or if appropriate, at the forward contract rate. Any recognised gain or loss is taken to the profit and loss account.

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

2. SEGMENTAL ANALYSIS

The group operates in two principal areas of activity that of television broadcasting and the provision technical and engineering services. The company operates solely in the United Kingdom.

Loss on ordinary activities before tax and net assets are analysed as follows:

Area of activity

	Television broadcasting		Technical and engineering services		Total	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
TURNOVER						
Total sales	84,226	—	38,102	—	122,328	—
Inter segment sales	—	—	(38,070)	—	(38,070)	—
Sales to third parties	84,226	—	32	—	84,258	—
PROFIT/(LOSS)						
Segment loss	(100,445)	(19,063)	(65,442)	(66,286)	(165,887)	(85,349)
Common costs	—	—	—	—	(1,570)	(451)
Operating loss	(100,445)	(19,063)	(65,442)	(66,286)	(167,457)	(85,800)
Segment loss on ordinary activities before taxation:						
Common net interest payable					(14,946)	(747)
Group loss on ordinary activities					(182,403)	(86,547)
NET LIABILITIES:						
Net liabilities by segment	(127,348)	(19,063)	(140,025)	(66,286)	(267,373)	(85,349)
Common net assets					14,596	14,910
Minority interest					(5)	—
Total net liabilities					(252,782)	(70,439)

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

2. SEGMENTAL ANALYSIS (continued)

	1997 £000	1996 £000
Common net assets/(liabilities) comprise:		
Intercompany	289,834	70,650
Other debtors	1,029	1,105
Investments	19,701	27,464
Cash at bank and in hand	2,603	22
Creditors	(2,680)	-
Accruals	(18,869)	(4,331)
Loan stock	(277,022)	(80,000)
	<u>14,596</u>	<u>14,910</u>

3. OPERATING LOSS

(a) This is stated after charging:

	1997 £000	1996 £000
Depreciation	1,490	164
Auditors' remuneration – audit services	25	20
– non audit services	1,181	-
Operating leases – buildings	196	-
– other	16,593	500
	<u>16,593</u>	<u>500</u>

(b) Reconciliation of operating loss to net cash outflow from operating activities:

	1997 £000	1996 £000
Operating loss	(167,643)	(85,800)
Depreciation	1,490	164
Loss from interest in associated undertaking	492	-
Increase in debtors	(91,561)	(4,111)
Increase in creditors	138,479	35,821
Increase in stocks	(68,135)	(10,266)
Profit on disposal	10	-
Net cash outflow from operating activities	<u>(186,868)</u>	<u>(64,192)</u>

4. DIRECTORS' EMOLUMENTS

	1997 £000	1996 £000
Emoluments	696	423
Company contributions paid to individuals' personal pension schemes	30	28
Compensation for loss of office	260	-
	<u>986</u>	<u>451</u>

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

4. DIRECTORS' EMOLUMENTS (continued)

The amounts in respect of the highest paid director, including pension contributions, are as follows:

	1997 £000	1996 £000
Emoluments	451	250

5. STAFF COSTS

	1997 £000	1996 £000
Wages and salaries	42,526	28,630
Social security costs	4,016	2,336
Other pension costs	545	276
	47,087	31,242

The average number of employees during the year was as follows:

	No.	No.
Programmes	22	14
Technical	2,356	3,116
Sales	52	20
Administration	92	28
	2,522	3,178

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £000	1996 £000
Bank loans and overdraft	124	68
Loan stock	16,516	1,583
	16,640	1,651

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no corporation tax charge for the year.

There are tax losses carried forward, the amount of which are to be agreed with the Inland Revenue and may be subject to claims for consortium relief.

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The profit dealt with in the accounts of the parent undertaking was £422,726 (1996 – loss of £1,198,709).

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

9. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Leasehold improvements £000</i>	<i>Equipment, fixtures and fittings £000</i>	<i>Computer hardware and software £000</i>	<i>Total £000</i>
Cost or valuation:				
At 1 January 1997	1,290	2,965	6,764	11,019
Additions	392	505	5,851	6,748
Disposals	—	(10)	—	(10)
At 31 December 1997	1,682	3,460	12,615	17,757
Depreciation:				
At 1 January 1997	32	32	100	164
Provided during the year	200	318	973	1,491
Disposals	—	—	—	—
At 31 December 1997	232	350	1,073	1,655
Net book value:				
At 31 December 1997	1,450	3,110	11,542	16,102
At 1 January 1997	1,258	2,933	6,664	10,855

Included in the amounts for equipment, furniture and fittings above are the following amounts relating to assets acquired under hire purchase contracts:

	<i>1997 £000</i>	<i>Group 1996 £000</i>
Cost:		
Additions	385	—
At 31 December 1997	385	—
Depreciation:		
Depreciation provided during the year	48	—
At 31 December 1997	48	—
Net book value:		
At 31 December 1997	337	—

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

10 INVESTMENTS

Group

*Associated
undertaking
1997
£000*

Additions

Share of loss retained by associated undertaking

—
(492)

(492)

Company

*Subsidiary
undertaking
£000*

*Other
£000*

*Total
£000*

Cost:

At 1 January 1997

Additions

—

74

—

662

—

736

At 31 December 1997

74

662

736

The company wholly owns the following subsidiary undertakings:

Name of company

Nature of business

Channel 5 Broadcasting Limited

Television broadcasting

Channel 5 Engineering Services Limited

Technical engineering services

Channel 5 Music Limited

Non-trading

Channel 5 Text Limited

Holding company

Group

A subsidiary undertaking of the parent has a 50% share in Sky 5 Text Limited which broadcasts the text service on Channel 5.

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

11. STOCKS

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Commissioned programmes – work in progress	5,586	3,293	–	–
– completed	2,087	205	–	–
Acquired programmes	70,728	6,768	–	–
	<u>78,401</u>	<u>10,266</u>	<u>–</u>	<u>–</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. DEBTORS

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Trade debtors	10,168	–	–	–
Amounts owed by subsidiary undertakings	–	–	289,835	70,650
Prepayments and accrued income	84,249	1,291	21	–
Other debtors	1,261	2,826	1,008	1,105
	<u>95,678</u>	<u>4,117</u>	<u>290,864</u>	<u>71,755</u>

Amounts falling due after more than one year including above:

	£000	£000
Prepayments and accrued income	<u>49,685</u>	<u>–</u>

Included within prepayments and accrued income is the cost of acquired programme rights for which the licence period has not commenced.

13. CURRENT ASSET INVESTMENTS

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Other investments	<u>23,024</u>	<u>27,464</u>	<u>19,701</u>	<u>27,464</u>

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

14. CREDITORS: amounts falling due within one year

		<i>Group</i>		<i>Company</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Obligations under finance leases	109	—	—	—
Bank overdraft	—	2,689	—	—
Trade creditors	48,480	5,364	—	—
Other taxes and social security costs	346	2,526	—	—
Other creditors	2,796	4,331	2,680	4,331
Accruals	43,463	28,231	18,869	—
	<u>95,194</u>	<u>43,141</u>	<u>21,549</u>	<u>4,331</u>

15. CREDITORS: amounts falling due after more than one year

		<i>Group</i>		<i>Company</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Loans	277,022	80,000	277,022	80,000
Obligations under finance leases	218	—	—	—
Trade creditors	83,868	—	—	—
Accruals	16,497	—	—	—
	<u>377,605</u>	<u>80,000</u>	<u>277,022</u>	<u>80,000</u>

16. LOANS AND OVERDRAFTS

Loans

		<i>Group</i>		<i>Company</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Not wholly repayable within five years	277,022	80,000	277,022	80,000

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

16. LOANS AND OVERDRAFTS (continued)

Loans and overdrafts

	1997	Group	1997	Company
	£000	1996	£000	1996
		£000		£000
Amounts falling due:				
In one year or less or on demand	—	2,689	—	2,689
Between one and two years	—	—	—	—
Between two and five years	—	—	—	—
In five years or more	277,022	80,000	277,022	80,000
	<u>277,022</u>	<u>82,689</u>	<u>277,022</u>	<u>82,689</u>

Details of loans not wholly repayable within five years are as follows:

	1997	Group	1997	Company
	£000	1996	£000	1996
		£000		£000
LIBOR plus 2% variable rate redeemable loan stock repayable 1 July 2006	277,022	80,000	277,022	80,000

17. SHARE CAPITAL

	1997	1997	1996	1996
	No.	£	No.	£
<i>Authorised:</i>				
Ordinary shares of £1 each	—	—	—	—
Ordinary shares of 1p each	59,000	590	59,000	590
Deferred shares of 1p each	1,000	10	1,000	10
2% redeemable cumulative preference shares	40,000	400	40,000	400
	<u>100,000</u>	<u>1,000</u>	<u>100,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of £1 each	—	—	—	—
Ordinary shares of 1p each – voting	688	7	688	7
Ordinary shares of 1p each – non-voting	2,776	28	2,776	28
Deferred shares of 1p each	214	2	214	2
2% redeemable cumulative preference shares	13,613	136	13,613	136
	<u>17,291</u>	<u>173</u>	<u>17,291</u>	<u>173</u>

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

11. SHARE CAPITAL (continued)

Preference shares

The 2% redeemable cumulative preference shares carry a dividend of 2% per annum payable on 31 December in each year and are redeemable at the option of the company providing that redemption does not result in the ITC revoking, varying or declining to renew the Licence for Channel 5 or one of the group to cease to be an Independent Producer as defined by the Broadcasting (Independent Productions) Order 1991.

The preference shares carry no voting rights at meetings and on the return of capital upon liquidation of the assets of the company, the preference shareholders have a right to receive 1p per share and accrued interest.

Deferred shares

The deferred shares do not entitle the holder to participate in the company profits. However, on the return of capital upon liquidation of the assets of the company, deferred shareholders are entitled to amounts paid up together with an amount of £1 per share after the return of capital to ordinary shareholders.

Deferred shares do not have any voting rights at meetings.

Non-voting ordinary shares

Non-voting ordinary shares rank pari passu interest as regards rights to income and capital. Deferred shareholders have the right to attend meetings but not to vote.

Analysis of changes in share capital during the year:

	1997 £	1996 £
At 1 January 1997	173	93,500
Issue of share capital	—	171
Cancellation of deferred shares	—	(93,498)
At 31 December 1997	173	173
Equity shares	35	35
Non-equity shares		
– deferred shares	2	2
– 2% cumulative redeemable preference shares	136	136
	138	138
	173	173

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

18. RESERVES

Group

	Share premium £000	Profit and loss account £000
At 1 January 1997	17,321	(87,760)
Loss for the year	—	(182,827)
Unrealised gain on sale of a minority interest in a subsidiary undertaking	—	484
At 31 December 1997	17,321	(270,103)

Company

	Share premium £000	Profit and loss account £000
At 1 January 1997	17,321	(2,411)
Profit for the year	—	423
At 31 December 1997	17,321	(1,988)

19. RECONCILIATION OF SHAREHOLDERS' FUNDS

	£000
At 1 January 1997	(70,439)
Loss for the year	(182,827)
Unrealised gain on sale of a minority interest in a subsidiary undertaking	484
	(252,782)

20. RECONCILIATION OF NET CASHFLOW TO THE MOVEMENT IN NET DEBT

Analysis of net debt

	At 1 January 1997 £000	Cash flow £000	At 31 December 1997 £000
Cash at bank and in hand	—	7,309	7,309
Overdrafts	(2,689)	2,689	—
Loans due after more than one year	(80,000)	(197,080)	(277,080)
Finance leases	—	96	96
	(82,689)	(186,986)	(269,675)
Current asset investments	27,464	(4,440)	23,024
	(55,225)	(191,426)	(246,651)

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

20. RECONCILIATION OF NET CASH FLOW TO THE MOVEMENT IN NET DEBT (continued)

Reconciliation of net cash flow to movement in net debt

	1997 £000	1996 £000
Increase/(decrease) in cash for the year	9,998	(2,705)
Cash outflow for finance leases	96	—
Cash inflow from increase in debt	(197,080)	(80,000)
Cash (inflow)/outflow from increase in liquid resources	(4,440)	27,464
MOVEMENT IN NET DEBT	(191,426)	(55,241)
NET DEBT AT 1 JANUARY	(55,225)	16
NET DEBT AT 31 DECEMBER	(246,651)	(55,225)

21. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

	1997 £000	1996 £000
Amounts payable:		
within one year	109	—
in two to five years	218	—
	327	—
Less finance charges allocated to future periods	38	—
	289	—

At 31 December 1997, the group had annual commitments under non cancellable operating leases as set

	<i>Land and buildings</i>		<i>Other</i>	
	1997 £000	1996 £000	1997 £000	1996 £000
Operating leases which expire:				
in over five years	720	720	39,252	11,195

Channel 5 Television Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

22. RELATED PARTY TRANSACTIONS

During the year the group entered into the following transactions, in ordinary course of business, with other related parties:

	<i>Interest payable to related party £000</i>	<i>Sales to related party £000</i>	<i>Purchases from related party £000</i>	<i>Amounts owed to related party £000</i>	<i>Amounts owed from related party £000</i>
<i>Related party</i>					
Pearson Television Limited					
1997	4,017	513	29,090	78,090	294
1996	378	—	—	—	—
United Television Investments Limited					
1997	4,803	149	10,822	85,658	—
1996	465	—	—	—	—
CLT UK Television Limited					
1997	4,700	25	2,682	87,764	—
1996	457	—	—	—	—
Warburg Pincus Ventures, LP					
1997	2,996			53,144	
1996	283				
Sky 5 Text Limited					
1997		57	—	—	32
1996		—	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Pearson Television Limited owns 20% of the voting shares in the company.

MAG Investments Limited owns 20% of the voting shares in the company.

CLT UK Television Limited owns 32% of the voting shares in the company

Warburg Pincus Ventures, LP owns 28% of the voting shares in the company.

The group has a 50% interest in Sky 5 Text Limited.