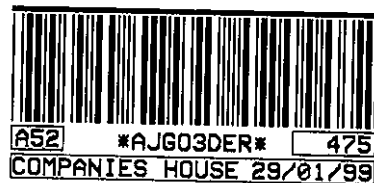


Report and Accounts

Apple Publishing Limited

31 December 1997



EY ERNST & YOUNG

Apple Publishing Limited

Registered No. 916422

DIRECTORS

J L Eastman
H L Gerrard
G Harrison
Mrs Y O Lennon

SECRETARY

Standby Films Limited

AUDITORS

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

BANKERS

National Westminster Bank PLC
1 New Bond Street
London W1A 2JH

REGISTERED OFFICE

27 Ovington Square
London SW3 1LJ

Apple Publishing Limited

DIRECTORS' REPORT

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

RESULTS AND DIVIDENDS

The trading profit for the year, after taxation amounted to £194,950 (1996 – £261,109).

The directors recommend the payment of an interim ordinary dividend for the year of £180,000.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activities are the acquisition and exploitation of the copyright of musical works. No changes in these activities are proposed.

DIRECTORS AND THEIR INTERESTS

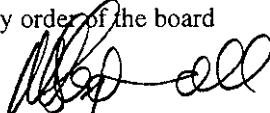
The directors who served during the year and their interests in the share capital of the company were as follows:

	<i>At 31 December 1997 Ordinary shares</i>	<i>At 1 January 1997 Ordinary shares</i>
J L Eastman	—	—
H L Gerrard	—	—
G Harrison	25	25
Mrs Y O Lennon	25	25


AUDITORS

In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 16 December 1997. Accordingly, Ernst & Young will be deemed to be reappointed as auditors.

By order of the board


For and on behalf of
Standby Films Limited

Secretary

27 January 1999


Apple Publishing 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 profit or loss of the company 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Apple Publishing Limited

We have audited the accounts on pages 5 to 9 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 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.

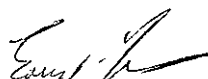
Basis of opinion

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 company'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 as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

27 January 1999

Apple Publishing Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1997

	Notes	1997 £	1996 £
TURNOVER	2	409,757	631,188
Direct costs		(220,726)	(352,431)
Gross profit		189,031	278,757
Administrative expenses (net credit)		34,030	63,896
OPERATING PROFIT	3	223,061	342,653
Interest receivable		54,699	53,768
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		277,760	396,421
Tax on profit on ordinary activities	4	(82,810)	(135,312)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		194,950	261,109
Dividends		(180,000)	(250,000)
Retained profit brought forward		26,573	15,464
RETAINED PROFIT CARRIED FORWARD		41,523	26,573

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £194,950 in the year ended 31 December 1997 and of £261,109 in the year ended 31 December 1996.

Apple Publishing Limited

BALANCE SHEET

at 31 December 1997

	Notes	1997 £	1996 £
CURRENT ASSETS			
Debtors –			
Due from affiliated companies less provision of £77,694 (1996 – £116,620)		25	25
Tax recoverable	5	107,500	118,454
Prepayments and accrued income		1,943	2,661
Cash at bank		669,671	1,030,253
		<u>779,139</u>	<u>1,151,393</u>
CREDITORS: amounts falling due within one year	6	<u>(737,516)</u>	<u>(1,123,842)</u>
NET CURRENT ASSETS		41,623	27,551
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	7	–	(878)
		<u>41,623</u>	<u>26,673</u>
CAPITAL AND RESERVES			
Called up share capital	8	100	100
Profit and loss account	9	41,523	26,573
Shareholders' funds	9	<u>41,623</u>	<u>26,673</u>

Directors

27 January 1999

Apple Publishing Limited

NOTES TO THE ACCOUNTS at 31 December 1997

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

All differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided using the liability method 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.

Affiliated companies

In these accounts companies are described as affiliated to Apple Publishing Limited if:

- (a) they have the same shareholders or ultimate shareholders as Apple Publishing Limited; or
- (b) the company is owned by one or more of the shareholders of Apple Publishing Limited.

2. TURNOVER

Turnover from continuing activities comprises royalty income and licence fees, exclusive of VAT, which are accounted for in the year in which they are received or notified to either the company or Apple Music Publishing Co Inc.

It is the opinion of the directors that, in view of the nature of the company's business, the markets in which it operates do not differ substantially from each other and are therefore treated as one market for the purposes of disclosing the particulars of turnover in these accounts.

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1997 £	1996 £
Auditors' remuneration	6,000	6,000
Decrease in provision against amounts due from affiliated companies	(38,926)	(88,136)
Exchange (gain)/loss	(5,697)	11,518
	<u> </u>	<u> </u>

None of the directors received any remuneration from the company during the year.

There were no employees other than the directors during the year.

Apple Publishing Limited

NOTES TO THE ACCOUNTS at 31 December 1997

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on the profit for the year:

	1997 £	1996 £
Corporation tax	87,600	135,062
Deferred taxation	(878)	250
	<u>86,722</u>	<u>135,312</u>
Corporation tax overprovided in previous years	(3,912)	—
	<u>82,810</u>	<u>135,312</u>

5. TAX RECOVERABLE

Included in the tax recoverable balance is an amount of £45,000 (1996 – £62,500) due for recovery more than twelve months after the balance sheet date.

6. CREDITORS: amounts falling due within one year

	1997 £	1996 £
Trade creditors	124,118	387,526
Due to affiliated companies	43,757	37,757
Current corporation tax	138,563	222,579
Other taxes	—	36
Accruals	1,078	944
Proposed dividends	430,000	475,000
	<u>737,516</u>	<u>1,123,842</u>

7. DEFERRED TAXATION

	1997 £	1996 £
Full provision has been made as follows:		
Interest receivable not taxed until received	—	878
	<u>—</u>	<u>878</u>

8. SHARE CAPITAL

	1997 No.	Authorised 1996 No.	Allotted, called up and fully paid 1997 £	1996 £
Ordinary shares of £1 each	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Apple Publishing Limited

NOTES TO THE ACCOUNTS at 31 December 1997

9. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 January 1996	100	15,464	15,564
Profit for the year	–	261,109	261,109
Dividends	–	(250,000)	(250,000)
At 1 January 1997	100	26,573	26,673
Profit for the year	–	194,950	194,950
Dividends	–	(180,000)	(180,000)
At 31 December 1997	100	41,523	41,623

10. RELATED PARTY TRANSACTIONS

During the year the company provided for royalties to Apple Music Publishing Co. Inc. amounting to £44,623 (1998 – £76,617), a company which has the same ultimate shareholders as the company. At 31 December 1997 Apple Music Publishing Co. Inc. owed the company £77,694 (1996 – £116,620) which was fully provided for.