

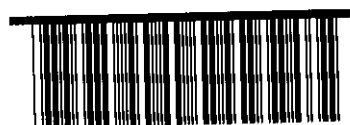
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Report and Accounts

Startling Music Limited

31 December 1998

 ERNST & YOUNG



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Startling Music Limited

Registered No. 935434

DIRECTORS

H L Gerrard

B V Grakal

SECRETARY

J G Hemingway

AUDITORS

Ernst & Young

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

90 Jermyn Street

(1st Floor)

London SW1Y 6JD

Startling Music Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £799,641.

The directors paid an interim ordinary dividend of £1,100,000 during the year. The directors do not recommend the payment of a final dividend for the year.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company are those of music publishing, the provision of promotional services and exploitation of musical copyrights and other rights and the undertaking of associated activities in the music field. No change to these activities is anticipated by the directors.

FIXED ASSETS

Changes in fixed assets during the year are disclosed in notes 6, 7 and 8 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company are listed on page 1.

Miss J V Woodgate resigned as a director on 2 July 1999. B V Grakal was appointed a director on 2 July 1999.

There are no directors' interests requiring disclosure under the Companies Act 1985.

YEAR 2000 AND ASSOCIATED DATE RELATED ISSUES

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 and associated date related issues.

Given the complexity of the problem it is not possible for any organisation to guarantee that no issues will arise because at least some level of failure may still occur. However, the Board believes that it has achieved an acceptable state of readiness and will be able to deal with any issues that may arise.

AUDITORS

In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed during 1993. Accordingly, Ernst & Young shall be deemed to be reappointed as auditors.

By order of the board

Secretary

17 January 2000

Startling Music 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 Startling Music Limited

We have audited the accounts on pages 5 to 11 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.

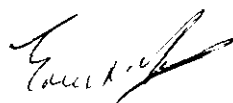
Basis of opinion

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 1998 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

18 January 1999

Startling Music Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £	1997 £
TURNOVER	2	1,780,187	1,106,810
Cost of sales		(546,400)	(4,753)
Gross profit		1,233,787	1,102,057
Administrative expenses		(281,498)	(211,593)
Other operating income		47,000	38,750
		(234,498)	(172,843)
OPERATING PROFIT		999,289	929,214
Interest receivable		121,802	244,414
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,121,091	1,173,628
Tax on profit on ordinary activities	5	(321,450)	(367,867)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		799,641	805,761
Retained profit brought forward		2,308,037	1,502,276
Dividends		(1,100,000)	—
RETAINED PROFIT CARRIED FORWARD		2,007,678	2,308,037

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit attributable to shareholders of the company of £799,641 in the year ended 31 December 1998 and the profit of £805,761 in the year ended 31 December 1997.

Startling Music Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Intangible assets	6	3,500,171	859
Tangible assets	7	2,335	5,427
Investments	8	1	1
		<u>3,502,507</u>	<u>6,287</u>
CURRENT ASSETS			
Debtors	9	331,436	408,087
Cash at bank and in hand		1,762,831	4,136,095
		<u>2,094,267</u>	<u>4,544,182</u>
CREDITORS: amounts falling due within one year	10	<u>(3,589,094)</u>	<u>(2,242,430)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,494,827)</u>	<u>2,301,752</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,007,680</u>	<u>2,308,039</u>
CAPITAL AND RESERVES			
Called up share capital	11	2	2
Profit and loss account	12	2,007,678	2,308,037
		<u>2,007,680</u>	<u>2,308,039</u>
Shareholders' funds		<u>2,007,680</u>	<u>2,308,039</u>

ERNST & YOUNG

Director

William G. Smith
17 January 2000

Startling Music Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

These accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is anticipated the timing differences will reverse.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Office equipment	–	15%
Motor vehicles	–	25%

Intangible assets

Intangible assets, which consist of musical copyrights and other rights, are stated in the balance sheet at cost less amounts charged to the profit and loss account equal to the related net income received or notified during the year.

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 transactions.

All differences are taken to the profit and loss account.

Cash flow

A cash flow statement has not been prepared as the company is a small company within the meaning of section 247 of the Companies Act 1985.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and includes royalty income received or notified during the year.

An analysis of turnover by category and geographical market is given below:

	1998 £	1997 £
Promotional fees and other income – United Kingdom	532,581	870,667
Royalties		
– United Kingdom and rest of the world	22,160	108,270
– United States and Canada	633,286	127,873
Tour income		
– United Kingdom and Europe	592,160	–
	<u>1,780,187</u>	<u>1,106,810</u>

Startling Music Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

	1998 £	1997 £
Directors' remuneration (see below)	39,962	34,058
Auditors' remuneration	8,000	8,000
Depreciation	3,152	3,431
Amortisation	688	529
	<u> </u>	<u> </u>

(b) Directors' remuneration:

Directors' fees	39,962	34,058
	<u> </u>	<u> </u>

4. EMPLOYEES

Staff costs during the year amounted to:

	1998 £	1997 £
Wages and salaries	70,241	54,491
Social security costs	6,316	4,839
	<u> </u>	<u> </u>
	76,557	59,330
	<u> </u>	<u> </u>

The average weekly number of employees during the year, including directors, was made up as follows:

	1998 No.	1997 No.
Office and management	3	3
Other	1	1
	<u> </u>	<u> </u>
	4	4
	<u> </u>	<u> </u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge for the year comprises:

	1998 £	1997 £
Group relief payment	321,450	370,220
Adjustment in respect of earlier years:		
Corporation tax	—	(48,191)
Group relief	—	45,838
	<u> </u>	<u> </u>
	321,450	367,867
	<u> </u>	<u> </u>

Startling Music Limited

NOTES TO THE ACCOUNTS at 31 December 1998

6. INTANGIBLE FIXED ASSETS

	<i>Musical copyrights and other rights £</i>
Cost:	
At 1 January 1998	34,000
Additions	3,500,000
At 31 December 1998	3,534,000
Amortisation:	
At 1 January 1998	33,141
Provided during the year	688
At 31 December 1998	33,829
Net book value:	
At 31 December 1998	3,500,171
At 1 January 1998	859

7. TANGIBLE FIXED ASSETS

	<i>Office equipment £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
Cost:			
At 1 January 1998	7,066	9,960	17,026
Additions	60	-	60
At 31 December 1998	7,126	9,960	17,086
Depreciation:			
At 1 January 1998	3,714	7,885	11,599
Provided during the year	1,078	2,074	3,152
At 31 December 1998	4,792	9,959	14,751
Net book value:			
At 31 December 1998	2,334	1	2,335
At 31 December 1997	3,352	2,075	5,427

Startling Music Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

8. INVESTMENTS

	£
Cost:	
At 1 January 1998 and 31 December 1998	10,000
Amortisation:	
Amount provided at 1 January 1998 and 31 December 1998	9,999
Net book value:	
At 1 January 1998 and 31 December 1998	1
Investments comprise:	
Unlisted investments	1

The company holds 15% of the issued share capital of Cherokee Automated Research, a company incorporated in the United States of America.

9. DEBTORS

	1998 £	1997 £
Amount owed by group undertakings	32,738	38,208
Other debtors	106,083	5,685
Prepayments and accrued income	70,957	272,253
Corporation tax recoverable	61,297	91,941
Other taxes and social security costs	60,361	—
	<u>331,436</u>	<u>408,087</u>

10. CREDITORS: amounts falling due within one year

	1998 £	1997 £
Group relief payable	1,615,933	1,294,483
Other taxes and social security costs	39,700	—
Other creditors	1,871,258	888,992
Accruals and deferred income	62,203	58,955
	<u>3,589,094</u>	<u>2,242,430</u>

11. SHARE CAPITAL

	1998 £	1997 £
Authorised:		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	2	2

Startling Music Limited

NOTES TO THE ACCOUNTS at 31 December 1998

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 1997	2	1,502,276	1,502,278
Profit for the year	–	805,761	805,761
At 1 January 1998	2	2,308,037	2,308,039
Profit for the year	–	799,641	799,641
Dividends	–	(1,100,000)	(1,100,000)
At 31 December 1998	2	2,007,678	2,007,680

13. RELATED PARTY TRANSACTIONS

(a) The company recharges certain administrative costs to other group companies. At 31 December, balances outstanding with group undertakings and the amounts recharged for the year were as follows:

	<i>Amounts recharged</i>		<i>Amounts owed to Startling Music Ltd</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	£	£	£	£
Widgeon Investments Limited	6,500	6,500	21,223	27,208
Cornwall	3,000	3,000	8,500	5,500
Belfry Investments	3,000	3,000	3,015	5,500

(b) Cornwall surrendered tax losses to the company during the year for which a group relief payment of £321,450 (1997 – £370,220) has been provided for in the accounts.

14. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking at 31 December 1998 was Devon Holdings Limited, a company incorporated in the Bahamas.

The company's immediate parent undertaking is Widgeon Investments Limited, a company registered in England and Wales. Copies of its accounts can be obtained from the Registrar of Companies in Cardiff.