Startling Music Limited

Report and Financial Statements

31 January 2003

ERNST & YOUNG

Registered No: 935434

Directors
H L Gerrard
B V Grakal

Secretary
J G Hemingway

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

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90 Jermyn Street
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London
SW1Y 6JD

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Directors' report

The directors present their report and financial statements for the year ended 31 January 2003.

Results and dividends

The profit for the year, after taxation, amounted to £355,750. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activities of the company during the year were 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.

Directors

The directors who served the company during the year were as follows:

H L Gerrard
B V Grakal

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

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 LLP shall be deemed to be reappointed as auditors.

On behalf of the board

H L Gerrard
Director

November 21, 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements 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 year. In preparing those financial statements, 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 financial statements 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 financial statements 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.

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Independent auditors' report
to the members of Startling Music Limited

We have audited the company's financial statements for the year ended 31 January 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Independent auditors' report

to the members of Startling Music Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 January 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

24 November 2003

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Profit and loss account
for the year ended 31 January 2003

	Notes	*2003* £	*2002* £
Turnover	2	1,137,766	4,442,255
Cost of sales		(459,680)	(1,072,221)
Gross profit		678,086	3,370,034
Administrative expenses		(212,798)	(198,279)
Other operating income		24,000	24,000
Operating profit	3	489,288	3,195,755
Interest receivable	5	53,169	209,604
Profit on ordinary activities before taxation		542,457	3,405,359
Tax on profit on ordinary activities	6	(186,707)	(1,021,490)
Profit on ordinary activities after taxation		355,750	2,383,869
Dividends:			
ordinary dividends on equity shares		–	(4,600,000)
Retained profit/(loss) for the financial year		355,750	(2,216,131)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £355,750 attributable to the shareholders for the year ended 31 January 2003 (2002 - profit of £2,383,869).

Balance sheet
at 31 January 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	7	114,214	573,892
Tangible assets	8	5,419	6,373
Investments	9	1	1
		119,634	580,266
Current assets			
Debtors	10	269,960	514,891
Cash at bank		1,261,972	5,920,539
		1,531,932	6,435,430
Creditors: amounts falling due within one year	11	1,268,236	6,988,116
Net current assets/(liabilities)		263,696	(552,686)
Total assets less current liabilities		383,330	27,580
Capital and reserves			
Called up share capital	12	2	2
Profit and loss account	13	383,328	27,578
Equity shareholders' funds	13	383,330	27,580

H L Gerrard
Director
November 21,
2003

Notes to the financial statements
at 31 January 2003

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention.

Cash flow statement
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.

Musical copyrights and other rights
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.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Fixed assets
All fixed assets are initially recorded at cost.

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

Office equipment	-	15% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments
Investments are stated at cost less provision for any impairment in value.

The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements
at 31 January 2003

1. Accounting policies (continued)
Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

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

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

All differences are taken to the profit and loss account.

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 from continuing activities.

An analysis of turnover by geographical market is given below:

		2003	*2002*
		£	*£*
Promotional fees and other income	- United Kingdom	653,125	3,750,000
Royalties	- United Kingdom and rest of the world	484,641	692,128
	- United States and Canada	–	127
		1,137,766	4,442,255

Notes to the financial statements
at 31 January 2003

3. Operating profit

This is stated after charging:

	2003 £	2002 £
Auditors' remuneration - audit services	8,000	8,000
Directors' emoluments	–	–
Depreciation of owned fixed assets	954	1,124
Amortisation	459,678	1,068,119
Net loss on foreign currency translation	2,847	–

Legal and professional fees totalling £16,000 (2002- £16,000) for the year have been rendered by a firm in which, Mr J G Hemingway, the company secretary, has a material interest.

4. Staff costs

	2003 £	2002 £
Wages and salaries	10,000	10,000
Social security costs	635	650
	10,635	10,650

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

	2003 No.	2002 No.
Office and management	2	2
Other	1	1
	3	3

5. Interest receivable

	2003 £	2002 £
Bank interest receivable	53,089	209,604
Interest on tax	80	–
	53,169	209,604

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Notes to the financial statements
at 31 January 2003

6. Tax
(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2003	*2002*
	£	*£*
Current tax:		
UK corporation tax	37,578	872,774
Group relief payment	125,422	148,716
	163,000	1,021,490
Tax under provided in previous years	23,707	–
Total current tax (note 6(b))	186,707	1,021,490

(b) Factors affecting current tax charge

The differences are reconciled below:

	2003	*2002*
	£	*£*
Profit on ordinary activities before taxation	542,457	3,405,359
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	162,737	1,021,607
Capital allowances in advance of depreciation	(55)	(117)
Other	318	–
Tax underprovided in previous yers	23,707	–
Total current tax (note 6(a))	186,707	1,021,490

(c) Factors that may affect future tax charges

The company has a deferred tax liability of £602 (2002 - £547) in respect of accelerated capital allowances which has not been recognised in the financial statements on the ground that it is not material.

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Notes to the financial statements
at 31 January 2003

7. Intangible fixed assets

	Musical copyrights and other rights £
Cost:	
At 1 February 2002 and 31 January 2003	3,534,000
Amortisation:	
At 1 February 2002	2,960,108
Provided during the year	459,678
At 31 January 2003	3,419,786
Net book value:	
At 31 January 2003	114,214
At 1 February 2002	573,892

8. Tangible fixed assets

	Office equipment £
Cost:	
At 1 February 2002 and 31 January 2003	13,971
Depreciation:	
At 1 February 2002	7,598
Provided during the year	954
At 31 January 2003	8,552
Net book value:	
At 31 January 2003	5,419
At 1 February 2002	6,373

9. Investments

	Investments £
Cost:	
At 1 February 2002 and 31 January 2003	10,000
Amounts provided:	
At 1 February 2002 and 31 January 2003	9,999
Net book value:	
At 1 February 2002 and 31 January 2003	1

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

Notes to the financial statements
at 31 January 2003

10. Debtors

	2003 £	2002 £
Amounts owed by group undertakings	14,723	22,723
Other debtors	60,361	97,121
Prepayments and accrued income	194,876	395,047
	269,960	514,891

11. Creditors: amounts falling due within one year

	2003 £	2002 £
Group relief payable	1,107,671	1,717,249
Amounts owed to group undertakings	11,575	11,575
Corporation tax	10,352	446,511
Other taxation and social security	5,174	8,527
Other creditors	116,226	163,931
Accruals and deferred income	17,238	40,323
Proposed final dividend	–	4,600,000
	1,268,236	6,988,116

12. Share capital

		Authorised
	2003 £	2002 £
Ordinary shares of £1 each	100	100

	Allotted, called up and fully paid			
	2003			2002
	No.	£	No.	£
Ordinary shares of £1 each	2	2	2	2

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Profit and loss account £	Total share-holders' funds £
At 1 February 2001	2	2,243,709	2,243,711
Profit for the year	–	2,383,869	2,383,869
Dividends	–	(4,600,000)	(4,600,000)
At 31 January 2002	2	27,578	27,580
Profit for the year	–	355,750	355,750
At 31 January 2003	2	383,328	383,330

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Notes to the financial statements
at 31 January 2003

14. Related party transactions

(a) The company recharges certain administrative costs to other group undertakings. At 31 January 2003, balances outstanding with group undertakings and the amounts recharged for the period were as follows:

	Amounts recharged		*Amounts owed to/(by) Startling Music Ltd*	
	2003	*2002*	*2003*	*2002*
	£	*£*	*£*	*£*
Widgeon Investments Limited	7,000	7,000	14,723	14,723
Cornwall	4,000	4,000	–	8,000
Belfry Investments Limited	3,000	3,000	–	–
Devon Holdings Limited	–	–	(11,575)	(11,575)

(b) Cornwall and Belfry Investments Limited, both intermediate parent undertakings surrendered tax losses to the company during the year for which a group relief payment of £125,422 (2002 - £148,716) has been provided in the financial statements.

15. Ultimate parent undertaking

The ultimate parent undertaking at 31 January 2003 was Devon Holdings Limited, a company incorporated in the Bahamas.

The company's immediate parent undertaking is Widgeon Investments Limited. Copies of its financial statements can be obtained from the Registrar of Companies in Cardiff.

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