Startling Music Limited

Report and Financial Statements

31 January 2005

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Ernst & Young

Directors
H L Gerrard
B V Grakal

Secretary
J G Hemingway

Auditors
Ernst & Young LLP
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Directors' report

The directors present their report and financial statements for the year ended 31 January 2005.

Results and dividends

The profit for the year, after taxation, amounted to £480,036. 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.

The company performed as anticipated during the year and no change to the company's 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

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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 period. 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.

Independent auditors' report

to the members of Startling Music Limited

We have audited the company's financial statements for the year ended 31 January 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 16. 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 2005 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

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Profit and loss account
for the year ended 31 January 2005

	Notes	2005 £	2004 £
Turnover	2	851,706	1,077,497
Cost of sales		–	(114,213)
Gross profit		851,706	963,284
Administrative expenses		(213,661)	(206,763)
Other operating income		24,000	24,000
Operating profit	3	662,045	780,521
Interest receivable	5	23,781	48,754
Profit on ordinary activities before taxation		685,826	829,275
Tax on profit on ordinary activities	6	(205,790)	(248,770)
Profit on ordinary activities for the financial year		480,036	580,505
Dividends:			
ordinary dividends on equity shares	7	–	(850,000)
Retained profit/(loss) for the financial year		480,036	(269,495)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £480,036 attributable to the shareholders for the year ended 31 January 2005 (2004 - profit of £580,505).

Balance sheet
at 31 January 2005

	Notes	2005 £	2004 £
Fixed assets			
Intangible assets	8	–	–
Tangible assets	9	3,916	4,607
Investments	10	1	1
		3,917	4,608
Current assets			
Debtors	11	813,540	668,546
Cash at bank and in hand		462,811	1,371,455
		1,276,351	2,040,001
Creditors: amounts falling due within one year	12	686,397	1,930,774
Net current assets		589,954	109,227
Total assets less current liabilities		593,871	113,835
Capital and reserves			
Called up share capital	13	2	2
Profit and loss account	14	593,869	113,833
Equity shareholders' funds	14	593,871	113,835

H L Gerrard
Director

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Notes to the financial statements
at 31 January 2005

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.

Fixed assets
All fixed assets are initially recorded at cost.

Intangible fixed 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.

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.

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.

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 exception:

- 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.

Notes to the financial statements
at 31 January 2005

1. Accounting policies (continued)
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 receivable for the year from continuing activities.

An analysis of turnover by geographical market is given below:

		2005	*2004*
		£	*£*
Promotional fees and other income	- United Kingdom	674,175	875,000
Royalties	- United Kingdom and rest of the world	177,531	202,497
		851,706	1,077,497

3. Operating profit
This is stated after charging:

	2005	*2004*
	£	*£*
Auditors' remuneration - audit services	8,000	8,000
Directors' emoluments	–	–
Depreciation of owned fixed assets	691	812
Amortisation	–	114,214
	691	115,026
Net loss on foreign currency translation	–	116

Notes to the financial statements
at 31 January 2005

4. Staff costs

	2005 £	2004 £
Wages and salaries	10,000	10,000
Social security costs	673	689
	10,673	10,689

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

	2005 No.	2004 No.
Office and management	2	2
Other	1	1
	3	3

5. Interest receivable

	2005 £	2004 £
Bank interest receivable	23,781	43,588
Interest on overpayment of corporation tax	–	5,166
	23,781	48,754

6. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005 £	2004 £
Current tax:		
UK corporation tax	63,206	127,553
Group relief payment	142,584	121,217
Total current tax (note 6(b))	205,790	248,770

(b) Factors affecting current tax charge

(The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2004 - 30%).

The differences are reconciled below:

	2005 £	2004 £
Profit on ordinary activities before taxation	685,826	829,275
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	205,748	248,782
Capital allowances in advance of depreciation	42	(12)
Total current tax (note 6(a))	205,790	248,770

Notes to the financial statements
at 31 January 2005

6. Taxation (continued)

(c) Factors that may affect future tax charges

The company has a deferred tax liability of £599 (2004 - £614) in respect of accelerated capital allowances which has not been recognised in the financial statements on the grounds that it is not material.

7. Dividends

	2005	*2004*
	£	*£*
Equity dividends on ordinary shares:		
Final proposed	–	850,000

8. Intangible fixed assets

	Musical copyrights and other rights
	£
Cost:	
At 1 February 2004 and 31 January 2005	3,534,000
Amortisation:	
At 1 February 2004 and 31 January 2005	3,534,000
Net book value:	
At 1 February 2004 and 31 January 2005	–

9. Tangible fixed assets

	Office equipment
	£
Cost:	
At 1 February 2004 and 31 January 2005	13,971
Depreciation:	
At 1 February 2004	9,364
Provided during the year	691
At 31 January 2005	10,055
Net book value:	
At 31 January 2005	3,916
At 1 February 2004	4,607

Notes to the financial statements
at 31 January 2005

10. Investments

	Investments £
Cost:	
At 1 February 2004 and 31 January 2005	10,000
Amounts provided:	
At 1 February 2004 and 31 January 2005	9,999
Net book value:	
At 1 February 2004 and 31 January 2005	1

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

11. Debtors

	2005 £	*2004* £
Amounts owed by group undertakings	–	11,000
Group relief receivable	14,723	14,723
Corporation tax repayable	36,087	–
Other debtors	75,621	49,206
Prepayments and accrued income	687,109	593,617
	813,540	668,546

12. Creditors: amounts falling due within one year

	2005 £	*2004* £
Group relief payable	541,472	848,888
Amounts owed to group undertakings	11,575	11,575
Corporation tax	–	95,707
Other taxation and social security	11,618	5,282
Other creditors	105,412	98,173
Accruals and deferred income	16,320	21,149
Proposed final dividend	–	850,000
	686,397	1,930,774

13. Share capital

		Authorised
	2005 £	*2004* £
Ordinary shares of £1 each	100	100

	Allotted, called up and fully paid			
		2005		*2004*
	No.	£	*No.*	£
Ordinary shares of £1 each	2	2	2	2

Notes to the financial statements
at 31 January 2005

14. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 February 2003	2	383,328	383,330
Profit for the year	–	580,505	580,505
Dividends	–	(850,000)	(850,000)
At 31 January 2004	2	113,833	113,835
Profit for the year	–	480,036	480,036
At 31 January 2005	2	593,869	593,871

15. Related party transactions

(a) The company recharges certain administrative costs to other group undertakings. At 31 January 2005, balances outstanding with group undertakings and the amounts recharged for the period were as follows:

	Amounts recharged		*Amounts owed to/(by) Startling Music Ltd*	
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Widgeon Investments Limited	7,000	7,000	–	–
Cornwall	4,000	4,000	–	–
Belfry Investments Limited	3,000	3,000	–	11,000
Devon Holdings Limited	–	–	(11,575)	(11,575)

(b) Cornwall, Belfry Investments Limited and Widgeon Investments Limited, all intermediate parent undertakings, surrendered tax losses to the company during the year for which a group relief payment of £142,584 (2004 - £121,217) has been provided in the financial statements. Amounts payable and receivable in respect of group relief are disclosed in notes 11 and 12.

(c) Legal and professional fees totalling £17,500 (2004 - £15,000) for the year have been rendered by a firm in which Mr J G Hemingway, the company secretary, has a material interest.

(d) During the year the company received promotional fees of £674,175 (2004: £875,000) from Apple Corps Limited, a company in which the immediate parent, Widgeon Investments Limited, has a 25% shareholding. At the balance sheet date £574,475 (2004: £525,000) was outstanding and is included within prepayments and accrued income.

16. Ultimate parent undertaking

The ultimate parent undertaking at 31 January 2005 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.