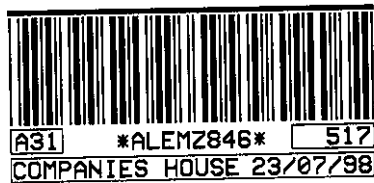


BMG EURODISC LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 JUNE 1997

Registered Number: 1326236



BMG EURODISC LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 30 June 1997.

ACTIVITIES

The principal activity of the company continues to be the production and promotion of recordings by international recording artists.

BUSINESS REVIEW AND RESULTS

The company made a loss for the year after taxation of £2,166,969 (1996: loss £281,151). The directors do not recommend the payment of a dividend (1996: £Nil). Retained losses transferred to reserves amounted to £2,166,969 (1996: £281,151).

On 1 November 1996, the company sold its interest in Sugar Records Limited.

FUTURE PROSPECTS

The directors are cautiously optimistic that the company will trade profitably within the foreseeable future.

DIRECTORS

The directors who served during the year were:

J Preston	(resigned 30 January 1998)
R Bala	
M Stanton	(resigned 1 November 1997)
S Robinson	(appointed 1 November 1997)

At the year end none of the directors held any beneficial interest in the shares or options of the company (1996: Nil).

DIRECTORS' LIABILITY INSURANCE

During the year the company maintained liability insurance for its directors as permitted by Section 310(3) of the Companies Act 1985.

BMG EURODISC LIMITED

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 and loss of the company for that period. In preparing those financial statements, the directors are required to:

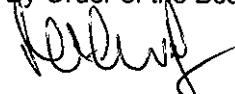
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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.

AUDITORS

Price Waterhouse have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



EJP Wareham
Secretary

30 June 1998

Price Waterhouse



REPORT OF THE AUDITORS TO THE MEMBERS OF BMG EURODISC LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention to the accounting policies set out on pages 6 to 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

30 June 1998

BMG EURODISC LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1997

	Notes	<u>1997</u> £	<u>1996</u> £
TURNOVER	2	20,948,155	14,856,385
Cost of sales		<u>(12,588,646)</u>	<u>(9,931,885)</u>
GROSS PROFIT		8,359,509	4,924,500
Distribution costs		(5,942,408)	(4,300,650)
Administrative expenses		<u>(4,878,729)</u>	<u>(797,805)</u>
OPERATING LOSS	4	(2,461,628)	(173,955)
Interest receivable and similar income		2,161	4,573
Interest payable and similar charges	3	<u>(48,691)</u>	<u>(188,771)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,508,158)	(358,153)
Tax on loss on ordinary activities	6	<u>341,189</u>	<u>77,002</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(2,166,969)</u>	<u>(281,151)</u>
RETAINED LOSS FOR THE YEAR TRANSFERRED TO RESERVES	15	<u>(2,166,969)</u>	<u>(281,151)</u>

Turnover and loss on ordinary activities before taxation for the period relates exclusively to continuing operations.

All gains and losses have been recognised in arriving at the loss for the year.

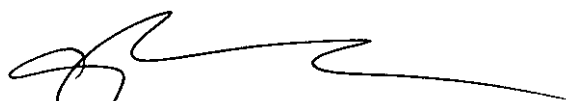
The notes on pages 6 to 13 form part of these financial statements.

BMG EURODISC LIMITED

BALANCE SHEET - 30 JUNE 1997

	Notes	<u>30 June 1997</u>		<u>30 June 1996</u>	
		£	£	£	£
FIXED ASSETS					
Investments	7		1,197		1,197
CURRENT ASSETS					
Stocks	8	148,530		114,199	
Debtors	9	9,109,448		8,794,080	
Cash at bank and in hand		<u>-</u>		<u>129,613</u>	
		9,257,978		9,037,892	
CREDITORS (amounts falling due within one year)	10	<u>(13,644,947)</u>		<u>(11,257,892)</u>	
NET CURRENT LIABILITIES			<u>(4,386,969)</u>		<u>(2,220,000)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(4,385,772)</u>		<u>(2,218,803)</u>
EQUITY CAPITAL AND RESERVES					
Called up share capital	11	3,000,000		3,000,000	
Profit and loss account	15	<u>(7,385,772)</u>		<u>(5,218,803)</u>	
EQUITY SHAREHOLDERS' FUNDS	14		<u>(4,385,772)</u>		<u>(2,218,803)</u>

Approved by the board on 30 June 1998



S Robinson
DIRECTOR

The notes on pages 6 to 13 form part of these financial statements.

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997

1 ACCOUNTING POLICIES

(1) Accounting convention and Accounting Standards

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt from the requirements of Financial Reporting Standard 1, Cash Flow Statements, being a wholly owned subsidiary of Bertelsmann AG, a company incorporated in Germany and which prepares consolidated financial statements in English containing a consolidated cash flow statement dealing with the cash flows of the group.

(2) Consolidation

As provided under Section 228 of the Companies Act 1985, BMG Eurodisc Limited is exempt from the requirement to prepare group accounts. The financial statements therefore present information concerning the company only and not the group.

(3) Investments

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

(4) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents production costs charged by manufacturers.

(5) Deferred taxation

Deferred taxation is provided, under the liability method, on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(6) Foreign currency

Normal trading activities denominated in foreign currencies are recorded in sterling at exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(7) Turnover

Turnover comprises the value of sales (excluding VAT and net of trade discounts) of goods sold in the normal course of business and royalty income.

(8) Distribution costs

Distribution costs include marketing and selling costs.

(9) Royalty advances and recording costs

Advances paid to artists in respect of future royalties together with recording costs recoverable from future royalties are carried forward as an asset pending recovery through royalties earned on future record sales. Where full recovery is uncertain, these costs are written down to estimated recoverable amounts.

(10) Pension costs

The company pays an agreed percentage of annual basic salary into individual employee Personal Pension Plans.

(11) Leased assets

Operating lease payments are charged to the profit and loss account when incurred.

2 TURNOVER

Turnover is generated from the production and promotion of recordings by international recording artists.

Geographical analysis of turnover:

	<u>1997</u>	<u>1996</u>
	£	£
United Kingdom	18,806,364	13,779,385
Rest of the World	<u>2,141,791</u>	<u>1,077,000</u>
	20,948,155	14,856,385
	<u> </u>	<u> </u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

3 INTEREST PAYABLE

	<u>1997</u>	<u>1996</u>
	£	£
Bank loans, overdrafts and other loans repayable within five years	<u>48,691</u>	<u>188,771</u>

4 OPERATING LOSS

Operating loss is stated after charging:

	<u>1997</u>	<u>1996</u>
	£	£
Staff costs:		
Wages and salaries	894,054	774,382
Social security costs	84,816	75,588
Other pension costs	12,842	21,493
Auditors' remuneration	16,800	16,800
Operating lease rentals	219,000	267,761
Provision for amounts owed by group undertakings	<u>1,578,000</u>	<u>-</u>

Average number of persons employed during the year:

	<u>1997</u>	<u>1996</u>
	Number	Number
Sales and distribution	19	17
Administration	<u>4</u>	<u>5</u>
	23	22
	<u>==</u>	<u>==</u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

5 DIRECTORS' EMOLUMENTS

The directors receive emoluments from the Company for their services to both the Company and other subsidiaries in the group. The proportion of their emoluments relating to the management of the affairs of the Company were as follows:

	<u>1997</u> £	<u>1996</u> £
Aggregate emoluments	378,223	364,197
Pension scheme contributions	<u>47,710</u>	<u>57,463</u>

Retirement benefits are accruing to 3 directors (1996: 3) under a money purchase benefits scheme.

HIGHEST PAID DIRECTOR

	<u>1997</u> £	<u>1996</u> £
Total amount of emoluments	272,600	272,307
Pension scheme contributions	<u>39,918</u>	<u>50,633</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	<u>1997</u> £	<u>1996</u> £
United Kingdom corporation tax credit at 31% (1996 : 33%) on the taxable profit for the year	341,189	77,577
Adjustments to prior year provisions	<u>-</u>	<u>(575)</u>
	<u>341,189</u>	<u>77,002</u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

7 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	<u>1997</u>	<u>1996</u>
	£	£
Shares in group undertakings at cost	1,197	66,168
Provision for permanent diminution in value	<u>-</u>	<u>(64,971)</u>
	1,197	1,197
	<u><u>1,197</u></u>	<u><u>1,197</u></u>
<u>Subsidiary undertakings</u>		

The company has the following subsidiary undertakings which are all incorporated in Great Britain:

	<u>Status</u>	<u>% Holding</u>
Final Vinyl Limited	Operating	75%
Ariola Music Limited	Dormant	100 %
BMG Ariola Records Limited	Dormant	100 %
BMG Arista Records Limited	Dormant	100 %

As the company is a wholly owned subsidiary of Bertelsmann UK Limited, which is incorporated in Great Britain, no consolidated financial statements have been prepared.

The following subsidiary undertaking was sold during the year:

<u>Subsidiary</u>	<u>Date sold</u>
Sugar Records Limited	1 November 1996

8 STOCKS

	<u>1997</u>	<u>1996</u>
	£	£
Work in progress	-	2,130
Finished goods and goods for resale	<u>148,530</u>	<u>112,069</u>
	148,530	114,199
	<u><u>148,530</u></u>	<u><u>114,199</u></u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

9 DEBTORS

	<u>1997</u>	<u>1996</u>
	£	£
Amounts owed by group undertakings	4,658,320	4,942,868
Amounts owed by group undertakings - group relief	960,720	600,817
Prepayments and accrued income	214,503	86,073
Royalty advances	<u>3,275,905</u>	<u>3,164,322</u>
	9,109,448	8,794,080
	<u><u> </u></u>	<u><u> </u></u>

10 CREDITORS (amounts falling due within one year)

	<u>1997</u>	<u>1996</u>
	£	£
Bank loans and overdrafts	604	256,688
Trade creditors	664,182	545,761
Amounts owed to group undertakings	8,150,702	5,968,662
Corporation tax payable (including amounts due to group undertakings in respect of group relief)	204,127	204,127
Other creditors	72,700	98,376
Accruals and deferred income	<u>4,552,632</u>	<u>4,184,278</u>
	13,644,947	11,257,892
	<u><u> </u></u>	<u><u> </u></u>

11 CALLED UP SHARE CAPITAL

	<u>1997</u>	<u>1996</u>
	£	£
Authorised, allotted and fully paid:		
3,000,000 (1996: 3,000,000) ordinary shares of £1 each	<u>3,000,000</u>	<u>3,000,000</u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

12 ARTIST ADVANCE COMMITMENTS

The company contracts to pay advances and recording costs in connection with records specified in the agreements. The recording costs are dependent upon the artists' costs and are normally limited to a maximum amount. These commitments are contingent upon the production of the specified records.

13 LEASEHOLD COMMITMENTS

The company rents premises under a twenty-five year lease which expires in 2001. The annual rental on this lease is £219,000 (1996: £219,000). The rent payable under this lease is subject to review at five yearly intervals. This lease was surrendered on 9 April 1998.

14 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>1997</u> £	<u>1996</u> £
Loss for the financial year	(2,166,969)	(281,151)
Opening equity shareholders' funds	<u>(2,218,803)</u>	<u>(1,937,652)</u>
Closing equity shareholders' funds	<u>(4,385,772)</u>	<u>(2,218,803)</u>

15 PROFIT AND LOSS ACCOUNT

	<u>1997</u> £	<u>1996</u> £
Deficit at 1 July	(5,218,803)	(4,937,652)
Retained loss for the year	<u>(2,166,969)</u>	<u>(281,151)</u>
Deficit at 30 June	<u>(7,385,772)</u>	<u>(5,218,803)</u>

BMG EURODISC LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 1997 (CONTINUED)

16 ULTIMATE HOLDING COMPANY

The company's ultimate holding company and ultimate controlling party is Bertelsmann AG, a company incorporated in Germany.

The largest and smallest group for which group accounts are prepared, and of which the company is a member, is as follows:

Name	Bertelsmann AG
Country of incorporation	Germany
Address from where copies of the Group accounts can be obtained	Carl Bertelsmann Strasse 270 33311 Gütersloh Germany

17 FINANCIAL POSITION

BMG Entertainment International UK & Ireland Limited has confirmed that it is its present intention to finance the company so as to enable it to meet its liabilities as they fall due and carry on its business for the foreseeable future without significant curtailment of operations.

18 RELATED PARTY TRANSACTIONS

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Bertelsmann AG group of companies. There are no other related party transactions.