

Registered No 1414045

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1997

**LUBBOCK FINE
Chartered Accountants
Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ**



**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

CONTENTS

	PAGE
Officers and advisers	1
Directors' report	2 to 4
Auditors' report	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Company balance sheet	8
Consolidated cash flow statement	9
Notes to the accounts	10 to 23
 For information of the directors only:	
Management profit and loss account	25

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

OFFICERS AND PROFESSIONAL ADVISERS

Directors:

Martin Mills
Nigel Bolt
Andrew Heath
James Wyllie

Secretary:

Nigel Bolt

Registered Office:

17-19 Alma Road
London SW18 1AA

Registered Number:

1414045 (England and Wales)

Auditors:

Lubbock Fine
Chartered Accountants
Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ

Bankers:

Coutts & Co
440 Strand
London WC1R 0QS

BEGGARS BANQUET GROUP LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

Financial Statements

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

Principal Activity

The group is principally engaged in the sale of compact discs, records and tapes and music publishing.

Review Of The Year

The group continued to trade satisfactorily during the year with turnover increasing from £12.9m to £25.6m.

Further reorganisation and expansion of the group took place during the year.

A new group company, Mantra Recordings Limited acquired the rights to the Mantra catalogue from Beggar's Banquet Records Limited.

The company acquired 81% of the shareholding in Too Pure Limited and increased its shareholding in Nation Records Limited to 33.33%.

Future Developments

In March 1998 the company further increased its shareholding in Nation Records Limited to 50%.

The directors anticipate that, although there will be a reduction in turnover, the group will continue to trade satisfactorily.

Results

The profit of the group after tax and minority interest was £2,162,516 (1996 - £705,950) details of which are given in the attached financial statements.

Dividends

Interim dividends paid are detailed in note 9 to the financial statements. The directors do not recommend payment of a final dividend for the year ended 31 December 1997.

If this recommendation is approved £1,882,516 will be added to the group's reserves.

Fixed Assets

Changes in fixed assets are shown in the notes to the financial statements.

In the opinion of the directors the market value of interests in land and buildings held as fixed assets at the balance sheet date were in excess of their book value.

BEGGARS BANQUET GROUP LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTD)

Donations

The group made charitable donations in the year totalling £3,260.

Directors' Interest

The interest of the directors in the shares of the company at the beginning and end of the year was as follows:

Beneficial holding:	31 December 1997	31 December 1996
Martin Mills	98 'A' Ordinary 100 'B' Ordinary 2 'C' Preferred (Trustee)	100 'A' Ordinary 100 'B' Ordinary -
Nigel Bolt	-	-
Andrew Heath	-	-
James Wyllie	-	-

Martin Mills also has the following interest in the shares of the subsidiary undertakings at the beginning and end of the year:

	Number of Ordinary Shares	
	31 December 1997	31 December 1996
Beggar's Banquet Records Limited	24	24
Beggar's Banquet Music Limited	24	24
Beggars Banquet Retail Limited	7,560	7,560
Beggars Banquet Limited	24	24
Beggars Banquet Communications Limited	24	-
Mantra Recordings Limited	24	24

Year 2000

The directors have undertaken a review to assess the potential impact of the Year 2000 'millennium bug' upon the group. The results of this review form the basis of an action plan to ensure that millennium compliance is achieved. During the year the costs incurred by the group in respect of the review, action plan and remedial work were not significant.

Changeover to the Euro

The directors are considering the implications of the introduction of the Euro. The group is currently taking measures to identify its likely exposure to Euro currency transactions with its customers and suppliers from 1 January 1999.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTD)

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

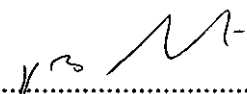
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

Lubbock Fine, have indicated their willingness to accept re-appointment as auditors to the company and the group and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Signed on behalf of the board on29.12.99.....

.....
N Bolt - Secretary

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention and the accounting policies set out on page 10 to 12.

Respective responsibilities of directors and auditors

As described in the directors' report, the directors of the company 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 an 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 affairs of the company and the group at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Lubbock Fine

Chartered Accountants
Registered Auditors

Date 29.4.98

Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31 DECEMBER 1997**

	Note	1997 £	1996 £
TURNOVER	2	25,584,680	12,909,873
Cost of sales		(12,878,522)	(6,818,405)
GROSS PROFIT		<u>12,706,158</u>	<u>6,091,468</u>
Net operating expenses	3	(7,901,783)	(4,727,304)
OPERATING PROFIT	4	<u>4,804,375</u>	<u>1,364,164</u>
Loss from participating interests		(463,148)	(76,213)
Other income		243,324	256,000
Other interest receivable and similar income	5	144,408	57,020
Interest payable and similar charges	6	(9,020)	(9,713)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>4,719,939</u>	<u>1,591,258</u>
Tax on profit on ordinary activities	7	(1,610,657)	(604,918)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>3,109,282</u>	<u>986,340</u>
Minority interest		(946,766)	(280,390)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>2,162,516</u>	<u>705,950</u>
Dividend	9	(280,000)	(388,000)
RETAINED PROFIT FOR THE FINANCIAL YEAR	20	<u><u>1,882,516</u></u>	<u><u>317,950</u></u>

The group's turnover and expenses all relate to continuing operations.

**STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 1997**

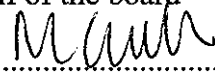
	1998 £	1997 £
Profit for the financial year	1,882,516	317,950
Exchange adjustment on consolidation	564	705
Total gains since last annual report	<u><u>1,883,080</u></u>	<u><u>318,655</u></u>

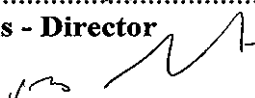
**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Tangible assets	10	879,111	666,520
Investments	12	126,241	541,558
		<u>1,005,352</u>	<u>1,208,078</u>
CURRENT ASSETS			
Stocks	13	421,437	265,261
Debtors	14	6,007,197	4,724,213
Cash at bank and in hand		3,197,613	1,157,056
		<u>9,626,247</u>	<u>6,146,530</u>
CREDITORS			
Amounts falling due within one year	15	(4,416,259)	(4,101,578)
NET CURRENT ASSETS		<u>5,209,988</u>	<u>2,044,952</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,215,340	3,253,030
CREDITORS			
Amounts falling due after one year	16	(1,959,776)	(1,356,911)
Provision for liabilities and charges	17	(331,198)	(183,253)
NET ASSETS		<u>3,924,366</u>	<u>1,712,866</u>
CAPITAL AND RESERVES			
Called up share capital	18	200	200
Group reserves	20	3,234,872	1,368,835
	19	3,235,072	1,369,035
Minority interest		689,294	343,831
		<u>3,924,366</u>	<u>1,712,866</u>
ANALYSED AS			
Equity interests		3,924,364	1,712,866
Non-Equity interests		2	-
		<u>3,924,366</u>	<u>1,712,866</u>

On behalf of the board


.....
M Mills - Director


.....
N Bolt - Director

Date:29.12.97.....

BEGGARS BANQUET GROUP LIMITED

COMPANY BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Tangible assets	11	461,513	490,129
Investments	12	237,151	139,652
		<u>698,664</u>	<u>629,781</u>
CURRENT ASSETS			
Debtors	14	2,059,900	1,044,387
Cash at bank and in hand		511,155	105,522
		<u>2,571,055</u>	<u>1,149,909</u>
CREDITORS			
Amounts falling due within one year	15	(1,545,240)	(1,420,939)
NET CURRENT ASSETS(LIABILITIES)		<u>1,025,815</u>	<u>(271,030)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,724,479	358,751
Provision for liabilities and charges	17	(6,976)	(6,976)
NET ASSETS		<u>1,717,503</u>	<u>351,775</u>
CAPITAL AND RESERVES			
Called up share capital	18	200	200
Profit and loss account		1,717,303	351,575
		<u>1,717,503</u>	<u>351,775</u>
ANALYSED AS			
Equity interests		1,717,501	351,775
Non-Equity interests		2	-
		<u>1,717,503</u>	<u>351,775</u>

On behalf of the board


.....
M Mills - Director


.....
N Bolt - Director

Date:29.12.99.....

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 1997**

	Note	1997	1996
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	21a	3,416,094	599,183
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received and other income	387,732	313,020	
Interest paid	(9,020)	(9,713)	
		378,712	303,307
TAXATION			
UK Corporation tax paid including advance corporation tax		(580,644)	(199,784)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	(385,230)	(183,776)	
Receipts from sale of tangible fixed assets	29,250	18,262	
Payments to acquire participating interest	(20,000)	-	
		(375,980)	(165,514)
ACQUISITIONS AND DISPOSALS		(77,500)	-
EQUITY DIVIDENDS PAID		(790,000)	(429,400)
INCREASE IN CASH	21c	<u>1,970,682</u>	<u>107,792</u>

BEGGARS BANQUET GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year and also have been consistently applied within the same accounts.

Basis of Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

The effect of events in relation to the year ended 31 December 1997 which occurred before the date of approval of the financial statements by the Board of Directors, have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 December 1997 and of the results for the year ended on that date.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary undertakings made up to 31 December 1997.

- i No profit and loss account is presented for Beggars Banquet Group Limited as permitted by section 230 of the Companies Act 1985.
- ii The results and net assets of the group's share of participating interest investments are accounted for on an equity basis from the date of acquisition.
- iii Goodwill, being the difference between consideration over the fair value on acquisition of subsidiary undertakings, arising on consolidation is written off immediately against reserves. Negative goodwill is credited to a consolidation reserve.

Deferred Income

Deferred income represents non-returnable advances on royalties receivable from other record companies. These advances are credited to revenue as the royalty income arises or where the probability of future income in respect thereof is remote.

Advances To Artistes

Advances to artistes represents advances made direct to artistes together with recording or other costs made on behalf of artistes, under contract. These advances, which are only recoverable against future royalties, are charged to revenue as they are recouped or where the probability of future recoupment in respect thereof is unlikely.

Advances to Writers

These advances, which are only recoverable against future royalties, are charged to revenue as they are recouped or where the probability of future recoupment in respect thereof is unlikely.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

ACCOUNTING POLICIES (continued)

Depreciation And Amortisation

Depreciation and amortisation has been provided to write off tangible fixed assets over their estimated useful lives at the following rates:

Freehold property	- 2% on cost
Leasehold property	- In equal annual instalments over the period of the lease.
Fixtures, fittings and office equipment	- 20% and 25% per annum on a reducing balance method.
Computer equipment	- 25% per annum on a reducing balance method.
Motor vehicles	- 25% per annum on a reducing balance method.

Investment Properties

In accordance with standard accounting practice, investment properties are revalued annually on an open market value basis and the aggregate surplus or deficit is transferred to an investment revaluation reserve. No depreciation or amortisation is provided in respect of freehold investment properties and leasehold properties with a period of over 20 years unexpired on the leases.

The directors believe that the accounting policy is necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot be separately identified or quantified.

Foreign Currencies

- i) Results and assets and liabilities of the U.S. subsidiary are converted to sterling at the rate of exchange ruling at the date of the balance sheet. Exchange differences on consolidation are dealt with through reserves.
- ii) Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances are translated into sterling at the exchange rate ruling on the balance sheet date. Differences arising on exchange are dealt with through the profit and loss account.

Stocks

Stocks have been valued on an average cost basis at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred Taxation

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounting purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may crystallise.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

ACCOUNTING POLICIES (continued)

Operating Leases

Leasing and rental costs are charged to operating profits as they arise.

Pension Costs

Pension scheme contributions are charged to operating profits as they arise and in accordance with the scheme rules set out in note 23.

2. TURNOVER

Turnover is the amount derived from the provision of goods and services falling within the group's ordinary activities, after deduction of trade discounts, value added tax and any other taxes based on turnover.

The turnover attributable to the principal activities of the group is as follows:

	1997	1996
	£	£
Sales and distribution of compact discs, records and tapes	18,017,628	6,934,840
Royalties receivable	7,567,052	5,975,033
	<u>25,584,680</u>	<u>12,909,873</u>
Turnover is analysed by geographical markets, as follows:		
U.K.	17,658,646	7,797,909
Europe	3,177,906	2,552,959
North America	3,567,030	2,005,646
Others	1,181,098	553,359
	<u>25,584,680</u>	<u>12,909,873</u>

3. NET OPERATING EXPENSES

	1997	1996
	£	£
Distribution costs	4,652,101	1,984,027
Administrative expenses	3,249,682	2,743,277
	<u>7,901,783</u>	<u>4,727,304</u>

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

4. OPERATING PROFIT	1997	1996
	£	£
a) Operating profit is stated after charging:		
Directors' remuneration as executives	253,931	229,813
Auditors' remuneration	46,500	36,000
Depreciation and amortisation of owned assets	128,601	106,425
Loss on disposal of fixed assets	14,788	7,545
Operating leases – hire of equipment	1,977	2,201
Operating leases – other assets	72,881	56,898
Foreign exchange loss	22,914	294
	<u> </u>	<u> </u>
b) Directors' remuneration		
Directors' remuneration is as follows:		
Chairman and highest paid director	<u>148,898</u>	<u>148,150</u>
Other directors' remuneration is within the following bands:		
	Number	Number
Nil	1	1
£10,001 - £15,000	1	-
£20,001 - £25,000	-	1
£55,001 - £60,000	-	1
£90,001 - £95,000	1	-
	<u> </u>	<u> </u>
c) Particulars of employees		
The average number of persons employed by the group, including the directors during the year was:		
	1997	1996
Management	7	8
Administration and selling	48	35
	<u>55</u>	<u>43</u>
Their total remuneration was:	£	£
Wages and salaries	1,581,399	1,254,842
Social security costs	160,263	115,073
	<u>1,741,662</u>	<u>1,369,915</u>
There is one director to whom retirement benefits are accruing under a money purchase pension scheme in respect of qualifying services (1997 – 1).		
d)		
The total figure for operating profit includes the following amounts relating to acquisitions: Turnover £511,250, Cost of sales £285,040 and Net operating expenses £265,040.		

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1997	1996
	£	£
Bank interest receivable	139,450	55,613
Sundry interest	4,958	1,407
	<u>144,408</u>	<u>57,020</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£	£
On bank and other borrowings wholly repayable within five years	8,523	9,713
Sundry interest	497	-
	<u>9,020</u>	<u>9,713</u>

7. TAXATION

	1997	1996
	£	£
U.K. corporation tax at 31½%	1,464,361	690,669
Transfer to(from) deferred tax	147,945	(132,025)
Irrecoverable withholding tax	19,003	600
Share of participating interests' tax credits	(47,832)	(8,777)
Underprovision in previous year	27,180	54,451
	<u>1,610,657</u>	<u>604,918</u>

8. RETAINED PROFIT

Of the consolidated profit for the year an amount of £1,365,728 (1996 – loss £208,800) has been dealt with in the financial statements of the parent undertaking. The figures are stated before adjustments for inter group items.

9. DIVIDENDS

	1997	1996
	£	£
Interim dividends paid by parent undertaking	<u>280,000</u>	<u>388,000</u>

BEGGARS BANQUET GROUP LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTD)

10. TANGIBLE FIXED ASSETS - GROUP

	Freehold Property £	Investment Property £	Short Leasehold Property £	Fixtures, Fittings and Equipment £	Motor Vehicles £	Total £
Cost/Valuation						
At 1 January 1997	302,099	-	108,367	487,921	149,904	1,048,291
Additions	-	164,960	-	79,633	140,637	385,230
Disposals	-	-	-	(12,859)	(62,514)	(75,373)
At 31 December 1997	<u>302,099</u>	<u>164,960</u>	<u>108,367</u>	<u>554,695</u>	<u>228,027</u>	<u>1,358,148</u>
Depreciation						
At 1 January 1997	28,067	-	64,347	235,032	54,325	381,771
Provision for the year	6,042	-	5,994	78,926	37,639	128,601
Elimination on disposal	-	-	-	(9,204)	(22,131)	(31,335)
At 31 December 1997	<u>34,109</u>	<u>-</u>	<u>70,341</u>	<u>304,754</u>	<u>69,833</u>	<u>479,037</u>
Net Book Value						
At 31 December 1997	<u>267,990</u>	<u>164,960</u>	<u>38,026</u>	<u>249,941</u>	<u>158,194</u>	<u>879,111</u>
At 31 December 1996	<u>274,032</u>	<u>-</u>	<u>44,020</u>	<u>252,889</u>	<u>95,579</u>	<u>666,520</u>

The investment property was valued by the directors at 31 December 1997 on an open market value basis. If the property was sold at this valuation the potential tax liabilities would be £nil.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

11. TANGIBLE FIXED ASSETS – COMPANY

	Freehold Buildings £	Leasehold Property Improve- ments £	Fixtures, Fittings and Equipment £	Motor Vehicles £	Total £
At 1 January 1997	302,099	32,820	326,452	44,206	705,577
Additions	-	-	26,435	-	26,435
At 31 December 1997	<u>302,099</u>	<u>32,820</u>	<u>352,887</u>	<u>44,206</u>	<u>732,012</u>
Depreciation					
At 1 January 1997	28,066	8,161	163,856	15,365	215,448
Provision for the year	6,042	656	41,143	7,210	55,051
At 31 December 1997	<u>34,108</u>	<u>8,817</u>	<u>204,999</u>	<u>22,575</u>	<u>270,499</u>
Net Book Value					
At 31 December 1997	<u>267,991</u>	<u>24,003</u>	<u>147,888</u>	<u>21,631</u>	<u>461,513</u>
<i>At 31 December 1996</i>	<u>274,033</u>	<u>24,659</u>	<u>162,596</u>	<u>28,841</u>	<u>490,129</u>

12. FIXED ASSET INVESTMENTS

	Participating Interests £
a) Group	
Cost	
At 1 January 1997	541,558
Share of post acquisition retained loss in the year	(415,317)
At 31 December 1997	<u>126,241</u>

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

FIXED ASSET INVESTMENTS (continued)

b) Company	Subsidiary Undertakings £	Partici- pating Interest £	Total £
At 1 January 1997	143,492	20,076	163,568
Additions	77,500	20,000	97,500
Disposal	(1)	-	(1)
At 31 December 1997	<u>220,991</u>	<u>40,076</u>	<u>261,067</u>
Depreciation			
At 1 January 1997 and 31 December 1997	<u>23,916</u>	<u>-</u>	<u>23,916</u>
Net Book Value			
At 31 December 1997	<u>197,075</u>	<u>40,076</u>	<u>237,151</u>
<i>At 31 December 1996</i>	<u>119,576</u>	<u>20,076</u>	<u>139,652</u>

At the balance sheet date the company owned the following share capital in its subsidiary undertakings and participating interests:

Name	Nature of Business	Percentage and Class
Beggars Banquet Recordings (USA) Inc.	Promotion, marketing and licensing of records	100% Ordinary
Beggars Banquet Retail Limited	Retail record sales	94.96% Ordinary
Too Pure Limited (acquired 6 March 1997)	Production and licensing of records	81% Ordinary
Beggar's Banquet Records Limited	Production and sale of records, compact discs and tapes	76% Ordinary
XL Recordings Limited	Production and sale of records, compact discs and tapes	76% Ordinary
Beggar's Banquet Music Limited	Music Publishing	76% Ordinary
Beggars Banquet Limited	Wholesale promotion and marketing	76% Ordinary
Wiiija Records Limited	Production and sale of records and music publishing	76% Ordinary

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

FIXED ASSET INVESTMENTS (continued)

Name	Nature of Business	Percentage and Class
Mantra Recordings Limited (commenced trading 1 January 1997)	Production and sale of records, compact discs and tapes	76% Ordinary
Beggars Banquet Communications Limited (acquired 7 April 1997)	Property investment	76% Ordinary
4 A.D. Limited	Production and sale of records, compact discs and tapes	50% Ordinary
4 A.D. U.S. Inc	Promotion and marketing	50% Ordinary

All of the above companies are registered in England and Wales, except for 4 A.D. U.S. Inc. and Beggars Banquet Records (USA) Inc. which were registered in USA.

The company owns more than 20% of the issued share capital of the following company:

Name	Nature of Business	Country of Registration	Shares held Percentage and Class	
Nation Records Limited	Production and sale of records and music publishing	England and Wales	33.33%	Ordinary
		Aggregate amount of capital and reserves		Profit(loss) for the year
		31.3.1998	31.3.1997	31.3.1998
		£	£	£
Nation Records Limited		<u>6,221</u>	<u>8,708</u>	<u>(2,487)</u>
				<u>21,534</u>

13. STOCKS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Finished goods for resale	<u>421,437</u>	<u>265,261</u>	<u>-</u>	<u>-</u>

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

14. DEBTORS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Trade debtors	2,441,536	2,727,210	43,139	3,005
Amounts due from subsidiary Undertakings	-	-	1,861,326	635,932
Amounts due from participating Interests	127	29,931	-	29,931
Other debtors	1,140,505	470,576	104,611	233,529
Corporation tax recoverable	53,267	141,990	39,101	141,990
Prepayments and accrued income	2,371,762	1,354,506	11,723	-
	<u>6,007,197</u>	<u>4,724,213</u>	<u>2,059,900</u>	<u>1,044,387</u>

15. CREDITORS

Amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank overdrafts	69,875	-	46,278	35,920
Trade creditors	2,378,322	2,105,584	10,259	29,261
Amounts due to subsidiary undertakings	-	-	1,190,537	900,600
Amounts due to participating interests	31,282	143,245	31,297	143,245
Corporation tax	1,407,175	515,998	-	-
Social security and other taxes	90,520	595,373	40,069	53,703
Advance corporation tax payable	50,000	100,000	50,000	97,000
Other creditors	160,301	509,101	136,791	116,774
Accruals and deferred income	228,784	132,277	40,009	44,436
	<u>4,416,259</u>	<u>4,101,578</u>	<u>1,545,240</u>	<u>1,420,939</u>

Security

The company's bank overdraft is secured by way of a mortgage debenture as detailed in note 22.

16. CREDITORS

Amounts falling due after one year

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Accruals and deferred income	<u>1,959,776</u>	<u>1,356,911</u>	<u>-</u>	<u>-</u>

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

17. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The amount provided and the potential liability for the deferred taxation is as follows:

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Accelerated capital allowances	8,046	9,887	6,976	6,976
Arising on net royalty timing differences	323,152	173,366	-	-
	<u>331,198</u>	<u>183,253</u>	<u>6,976</u>	<u>6,976</u>
At 1 January 1997	183,253	315,278	6,976	6,976
Transfer to profit and loss account	147,945	(132,025)	-	-
	<u>331,198</u>	<u>183,253</u>	<u>6,976</u>	<u>6,976</u>

18. SHARE CAPITAL

	1997	1996
	£	£
Allotted, Called Up and Fully Paid		
98 'A' Ordinary shares of £1 each	98	100
100 'B' Ordinary shares of £1 each	100	100
2 'C' Preferred shares of £1 each	2	-
	<u>200</u>	<u>200</u>
Authorised		
998 'A' Ordinary shares of £1 each	998	1,000
1,000 'B' Ordinary shares of £1 each	1,000	1,000
2 'C' Preferred shares of £1 each	2	-
	<u>2,000</u>	<u>2,000</u>

On 6 November 1997 the authorised share capital of the company was changed so that the existing 1,000 'A' Ordinary shares were redesignated and divided into 998 'A' Ordinary shares of £1 each and 2 'C' Preferred shares of £1 each. Likewise, the issued and fully paid up shares were converted into 98 'A' Ordinary shares and 2 'C' Preferred shares.

The holders of Preferred shares have:

- No right to a dividend or other distribution (other than on a liquidation or sale) of the company unless majority of the votes attached to the 'A' Ordinary shares then in issue are cast in favour of such a dividend or distribution.
- The right to receive on liquidation or sale of the company the preferred sum in priority to any other distribution of assets of the company.
- No right to vote at any meeting of the company other than at a meeting of holders of 'C' Preferred shares.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997	1996
	£	£
Profit for the financial year	2,162,516	705,950
Dividend	(280,000)	(388,000)
Disposal of part interest in subsidiary	42,499	-
Goodwill on acquisition – written off	(100,942)	-
Adjustments to minority dividend in prior year	41,400	(41,400)
Other recognised losses relating to the year (net)	564	705
Net additions to shareholders' funds	<u>1,866,037</u>	<u>277,255</u>
Opening shareholders' funds	<u>1,369,035</u>	<u>1,091,780</u>
Closing shareholders' funds	<u><u>3,235,072</u></u>	<u><u>1,369,035</u></u>

20. GROUP RESERVES

	Profit and Loss account	Other Reserve	Total
	£	£	£
At 1 January 1997	1,340,664	28,171	1,368,835
Retained profit for the year	1,882,516	-	1,882,516
Currency translation differences	564	-	564
Goodwill on acquisition – written off	(100,942)	-	(100,942)
Disposal of part interest in subsidiary	42,499	-	42,499
Adjustment to minority dividend in prior year	41,400	-	41,400
	<u>3,206,701</u>	<u>28,171</u>	<u>3,234,872</u>

21. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profits to net cash inflow from operating activities

	1997	1996
	£	£
Operating profit	4,804,375	1,364,164
Depreciation charges	128,601	106,425
Loss on disposal of fixed assets	14,788	7,545
(Increase) in stocks	(156,176)	(97,677)
(Increase)decrease in debtors	(1,371,707)	(393,849)
Decrease in creditors	(3,787)	(387,425)
	<u>3,416,094</u>	<u>599,183</u>

b) Purchase and disposal of subsidiary undertakings

Net liabilities acquired in the year amounted to £30,845 and net liabilities disposed of amounted to £42,500.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

NOTES TO THE CASH FLOW STATEMENT (continued)

c) Reconciliation of cashflow to movement in net funds

		1997		1996
	£	£	£	£
Net increase in cash	<u>1,970,682</u>		<u>107,792</u>	
Change in net fund resulting from cashflow		1,970,682		107,792
Net fund at 1 January 1997		<u>1,157,056</u>		<u>1,049,264</u>
Net fund at 31 December 1997		<u><u>3,127,738</u></u>		<u><u>1,157,056</u></u>

22. CONTINGENT LIABILITIES

- a) The bankers have been given composite guarantees over the facilities of the following companies:

Beggars Banquet Group Limited
Beggars Banquet Records Limited
Beggars Banquet Retail Limited
XL Recordings Limited
Beggars Banquet Limited
Mantra Recordings Limited

Any liability arising from the composite guarantee is secured by a mortgage debenture dated 21 August 1989 and 18 December 1996 over the company's assets. These amounted to £nil at 31 December 1997.

- b) At the balance sheet date, the company had no capital commitments.

23. PENSION ARRANGEMENTS

Defined contribution scheme

The company maintains a pension scheme for one of its directors. The scheme, which operates on a defined contribution money purchase basis, provides for the payment of the full contribution by the company. The assets of the scheme are held separately from those of the company in an independently administered fund.

**BEGGARS BANQUET GROUP LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997 (CONTD)**

24. FINANCIAL COMMITMENTS

At the balance sheet date the group had annual commitments under non-cancellable operating leases which expire:

	1997	1996
	£	£
Within one year	11,000	-
Between two and five years	45,750	18,000
After more than five years	-	18,400
	<u>56,750</u>	<u>36,400</u>

25. FINANCIAL TRANSACTIONS WITH DIRECTORS

- a) During the year £102,320 was paid to James Wyllie, a director, in respect of professional services provided.
- b) During the year Beggar's Banquet Music Limited, a subsidiary undertaking, received all of its royalties, totalling £402,860, from Momentum Music Limited a company in which Martin Mills and Andrew Heath are both directors and major shareholders.
- c) Management charges amounting to £240,000 were received from 4 A.D. Limited, a company in which Martin Mills is a director.
- d) During the year group companies used RTM, a distribution company in which Martin Mills is a director. Sales during the year amounted to £2,889,016 and associated costs incurred were £408,806, and at the balance sheet date an amount of £188,928 was due from RTM.

All the above transactions were at arms length.

26. RELATED PARTY TRANSACTIONS

Included in other debtors is a loan of £39,700 to Yvonne Damant, the personal companion of Martin Mills.

27. CONTROLLING PARTY

The company is controlled by Martin Mills, by virtue of his shareholding as described in the directors' report.