

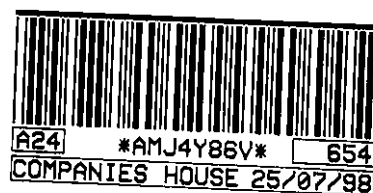


**SANCTUARY MUSIC MANAGEMENT
LIMITED**

Report and Financial Statements

31 December 1997

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**



**REPORT AND FINANCIAL STATEMENTS 1997**

CONTENTS	Page
Directors' report	1
Statement of directors' responsibilities	2
Auditors' report	3
Profit and loss account	4
Statement of total recognised gains and losses	4
Balance sheet	5
Notes to the financial statements	6

**DIRECTORS' REPORT**

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

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The company's principal activity is the management of entertainers and the provision of management and consultancy services within the music industry.

The company had a steady year with clients consolidating their levels of activity. The directors are confident that the company will generate significant levels of turnover in the current year.

RESULTS AND DIVIDENDS

The company made a profit on ordinary activities before taxation of £305,296 for the year (1996 - £257,807). The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who served throughout the year were as follows:

AJ Taylor
RC Smallwood
A Najeeb
A S Bartlett (appointed 17 June 1997)

On 1 January 1998 Mr M Mercuriades was appointed as a director of the company.

Messrs A J Taylor, R C Smallwood and A Najeeb are also directors of the ultimate parent company, Sanctuary Enterprises plc (formerly The Sanctuary Group plc). Details of their shareholdings in that company are disclosed in its annual report.

None of the directors had a beneficial interest in any other subsidiaries.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A J Taylor
Director

20 July 1998

**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 as at the end of the financial year 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;
- 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 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' REPORT TO THE MEMBERS OF

SANCTUARY MUSIC MANAGEMENT LIMITED

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on pages 6 and 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 as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

20 July 1998


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £	1996 £
TURNOVER - continuing operations	2	1,632,912	1,368,604
Administrative expenses		<u>(1,327,121)</u>	<u>(1,110,302)</u>
OPERATING PROFIT - continuing operations		305,791	258,302
Interest payable and similar charges	3	<u>(495)</u>	<u>(495)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	305,296	257,807
Tax credit on profit on ordinary activities	7	<u>56,654</u>	<u>25,797</u>
PROFIT FOR THE FINANCIAL YEAR	16	<u><u>361,950</u></u>	<u><u>283,604</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 1997

		1997 £	1996 (restated) £
Retained profit		361,950	283,604
Prior period adjustment	14	<u>-</u>	<u>(3,000,000)</u>
Total gains and losses recognised since last annual report		<u><u>361,950</u></u>	<u><u>(2,716,396)</u></u>



BALANCE SHEET
31 December 1997

	Note	1997	1996 (restated)
		£	£
FIXED ASSETS			
Tangible assets	8	29,180	21,298
CURRENT ASSETS			
Debtors: amounts falling due within one year	9	2,021,660	1,483,097
Cash at bank and in hand		508	-
		<u>2,022,168</u>	<u>1,483,097</u>
CREDITORS: amounts falling due within one year	10	<u>(1,373,349)</u>	<u>(1,188,346)</u>
NET CURRENT ASSETS		<u>648,819</u>	<u>294,751</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>677,999</u>	<u>316,049</u>
CAPITAL AND RESERVES			
Called up share capital	12	100	100
Profit and loss account	13	<u>677,899</u>	<u>315,949</u>
EQUITY SHAREHOLDERS' FUNDS		<u>677,999</u>	<u>316,049</u>

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

20 July 1998.

A J Taylor

Director.

**NOTES TO THE ACCOUNTS****Year ended 31 December 1997****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets.

Turnover

Turnover represents commission income and sales to third parties, exclusive of VAT. Income is accounted for when it is contractually due to the company.

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Reimbursable costs in respect of entertainers

Amounts due from well established entertainers are shown under debtors due within one year.

Reimbursable costs due from entertainers who are not yet fully established and therefore made in anticipation of the generation of their future income are shown as debtors falling due after more than one year. It is the company's policy to consider such debts as essentially long-term in nature and, accordingly, provision is only made against these debts when it is fairly certain that there is no reasonable prospect of the generation of sufficient income to repay them.

Deferred taxation

Deferred taxation is provided at anticipated tax rates on timing differences arising from 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 future.

Intangible assets

The directors of the company have agreed the early adoption of FRS10 - Goodwill and Intangible Assets.

In 1994 the directors valued its share of music and publishing catalogue rights at £3,000,000 and accounted for this annually on the balance sheet as an intangible asset and revaluation reserve. Under the provisions of FRS10, internally developed intangible assets should only be capitalised if they have readily ascertainable market values, which is defined by the standard. Accordingly the directors have concluded that the valuation of this asset is not readily ascertainable and have therefore eliminated, as a prior period adjustment, the £3,000,000 intangible asset and revaluation reserve.

Depreciation

Fixed assets have been depreciated from their date of acquisition by equal annual instalments over their estimated useful lives at the following rates:

Motor vehicles	33.3% per annum
Furniture, fixtures, fittings and office equipment	10% per annum

Pension costs

The company operates a defined contribution scheme and company contributions are charged to the profit and loss account as incurred. The charge for the year is shown in note 5 to the accounts.


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
1. ACCOUNTING POLICIES (continued)
Leases

Assets purchased under finance leases are capitalised. The interest element of lease obligations is charged to the profit and loss account over the period of the lease to give a constant rate of charge on the outstanding obligation of the lease.

Rental costs under operating leases are charged to the profit and loss account as incurred.

2. TURNOVER

The company engages in only one class of activity and its income is derived in respect of the worldwide activities of entertainers. It is not practicable to provide a geographical analysis of the turnover.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£	£
Interest payable on finance leases	495	495

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997	1996
	£	£
Profit on ordinary activities before taxation is stated after charging:		
Directors' remuneration (note 6)	154,071	113,044
Auditors' remuneration	12,000	6,000
Depreciation of tangible fixed assets		
- owned assets	9,766	13,297

5. STAFF COSTS

	1997	1996
	£	£
All employees including directors:		
Wages and salaries	407,814	281,382
Social security costs	40,448	32,799
Other pension costs	59,537	56,360

	No.	No.
The average number of persons employed by the company including directors was:		
Music management	16	12


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
6. DIRECTORS' REMUNERATION

	1997 £	1996 £
Emoluments as executives (excluding pension contributions)	98,803	59,044
Contributions to defined contribution pension schemes	55,268	54,000
	No.	No.
Number of other directors who are members of defined contribution pension schemes	1	-

7. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	1997 £	1996 £
Adjustment in respect of previous years	56,654	25,797
	56,654	25,797

There is no current year charge to taxation in view of the losses surrendered by other group companies for nil consideration.

8. TANGIBLE ASSETS

	Motor vehicles £	Furniture, fixtures, fittings and office equipment £	Total £
Cost:			
At 1 January 1997	30,690	32,113	62,803
Additions	-	17,648	17,648
Disposals	(30,690)	-	(30,690)
At 31 December 1997	-	49,761	49,761
Depreciation:			
At 1 January 1997	29,129	12,376	41,505
Charge for year	1,561	8,205	9,766
Disposals	(30,690)	-	(30,690)
At 31 December 1997	-	20,581	20,581
Net book value:			
At 31 December 1997	-	29,180	29,180
At 31 December 1996	1,561	19,737	21,298


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
9. DEBTORS

	1997 £	1996 £
Amounts falling due within one year:		
Reimbursable costs in respect of		
entertainers	73,960	451,035
Trade debtors	842,689	6,989
Amounts owed by fellow subsidiary undertakings	-	159,726
Other debtors	105,919	120,096
Prepayments and accrued income	942,438	745,251
Corporation tax recoverable	56,654	-
	<u>2,021,660</u>	<u>1,483,097</u>

10. CREDITORS: amounts falling due within one year

	1997 £	1996 £
Bank loans and overdrafts	-	157,745
Trade creditors	19,646	15,324
Amounts owed to parent company and		
fellow subsidiaries	797,553	527,225
Accruals and deferred income	316,968	25,897
Taxation and social security	148,567	343,670
Corporation tax	-	93,476
Other creditors	90,615	25,009
	<u>1,373,349</u>	<u>1,188,346</u>

11. PROVISION FOR LIABILITIES AND CHARGES

	1997		1996
	Unprovided £	Provided £	Unprovided £
Deferred taxation:			
Accelerated capital allowances	<u>-</u>	<u>-</u>	<u>1,580</u>
			<u>-</u>

12. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised, allotted and fully paid:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
13. PROFIT AND LOSS ACCOUNT

	£
At 1 January 1997	315,949
Profit for the financial year	361,950
	<hr/>
At 31 December 1997	677,899
	<hr/>

14. PRIOR PERIOD ADJUSTMENT

In 1994 the directors valued its share of music and publishing catalogue rights at £3,000,000 and accounted for this annually on the balance sheet as an intangible asset and revaluation reserve. Under the provisions of FRS10, internally developed intangible assets should only be capitalised if they have readily ascertainable market values, which is defined by the standard. Accordingly the directors have concluded that the valuation of this asset is not readily ascertainable and have therefore eliminated, as a prior period adjustment, the £3,000,000 intangible asset and revaluation reserve.

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997	1996
	£	£
Profit attributable to shareholders	361,950	283,604
Opening shareholders' funds as previously stated	316,049	3,032,445
Prior period adjustment (note 14)	<u>-</u>	<u>(3,000,000)</u>
Opening shareholders' funds	<u>316,049</u>	<u>32,445</u>
Closing shareholders' funds	<u>677,999</u>	<u>316,049</u>

16. CONTINGENT LIABILITIES

- (i) The company, together with certain fellow subsidiaries, has guaranteed a loan made to its parent company, Sanctuary Services Limited. At 31 December 1997 the loan amounted to £727,272 (1996 - £909,091).
- (ii) The company has guaranteed the bank indebtedness of Sanctuary Services Limited and certain fellow subsidiaries and has executed a charge over its assets in favour of the bank. At 31 December 1997 the total net borrowings of these companies amounted to £1,848,281 (1996 - £1,505,603).

17. RELATED PARTY DISCLOSURES

In preparing these financial statements, the directors have taken advantage of the exemptions available under paragraph 3(c) of the Financial Reporting Standard No. 8, Related Party Disclosures.

**NOTES TO THE ACCOUNTS****Year ended 31 December 1997****18. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

In the directors' opinion the ultimate parent company and controlling party at 31 December 1997 was Sanctuary Enterprises plc (formerly The Sanctuary Group plc), a company registered in England and Wales.

Copies of the group financial statements of Sanctuary Enterprises plc (formerly The Sanctuary Group plc) are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.