

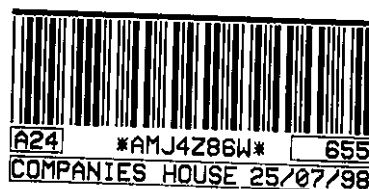


**SANCTUARY SERVICES LIMITED**

**Report and Financial Statements**

**31 December 1997**

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



**REPORT AND FINANCIAL STATEMENTS 1997**

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**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1997, which show the state of the affairs of the company.

**PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS**

The company acts as a management holding company and the principal activities of the subsidiaries are the management of entertainers and the provision of financial and consumer services mainly to the entertainment industry. The directors will take every opportunity to develop the business.

**RESULTS AND DIVIDEND**

The company made a loss before taxation for the year of £765,503 (1996 - loss £823,782). The directors do not recommend the payment of a dividend.

**DIRECTORS**

The directors who served throughout the year were as follows:

A J Taylor  
R C Smallwood  
M D Miller  
A Najeeb

None of the directors had any beneficial interests in the share capital of the company during the year.

All the directors are also directors of the ultimate parent company, Sanctuary Enterprises plc (formerly The Sanctuary Group plc). Details of their shareholdings in this company are given in its statutory accounts.

**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 Najeeb  
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 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 the company's system of financial internal control, 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 SERVICES LIMITED

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

### 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 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Chartered Accountants and  
Registered Auditors

20 July 1998


**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 1997**

	Note	1997 £	1996 £
<b>TURNOVER - continuing operations</b>	1	306,569	325,177
Administrative expenses		<u>(811,485)</u>	<u>(670,597)</u>
<b>OPERATING LOSS - continuing operations</b>		(504,916)	(345,420)
Interest payable and similar charges	2	<u>(260,587)</u>	<u>(478,362)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	(765,503)	(823,782)
Tax on loss on ordinary activities	4	<u>(122,021)</u>	<u>(5,995)</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	14	<u><u>(887,524)</u></u>	<u><u>(829,777)</u></u>

There are no recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account.


There has been no movement in shareholders' funds other than the loss for the financial year and the preceding financial year.


**BALANCE SHEET**  
**31 December 1997**

	Note	£	1997 £	£	1996 £
<b>FIXED ASSETS</b>					
Tangible assets	6		545,148		459,394
Investments	7		262,200		262,200
			<u>807,348</u>		<u>721,594</u>
<b>CURRENT ASSETS</b>					
Debtors	8	3,593,751		3,156,834	
<b>CREDITORS: amounts falling due within one year</b>					
	9	(7,321,231)		(4,380,990)	
<b>NET CURRENT LIABILITIES</b>					
			<u>(3,727,480)</u>		<u>(1,224,156)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
			<u>(2,920,132)</u>		<u>(502,562)</u>
<b>CREDITORS: amounts falling due after more than one year</b>					
	10		<u>(91,938)</u>		<u>(1,621,984)</u>
<b>NET LIABILITIES</b>					
			<u><u>(3,012,070)</u></u>		<u><u>(2,124,546)</u></u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		500,000		500,000
Profit and loss account	14		<u>(3,512,070)</u>		<u>(2,624,546)</u>
			<u><u>(3,012,070)</u></u>		<u><u>(2,124,546)</u></u>
<b>Non equity shareholders' funds</b>					
Equity shareholders' deficit			<u><u>400,000</u></u>		<u><u>400,000</u></u>
			<u><u>(3,412,070)</u></u>		<u><u>(2,524,546)</u></u>

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

20 July 1998.

  
M D Miller  
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.

**Going concern**

The balance sheet shows net liabilities of £3,012,070 and net current liabilities of £3,727,480 at 31 December 1997. These amounts are stated after liabilities of £4,335,916 due to Sanctuary Enterprises plc (formerly The Sanctuary Group plc) and its subsidiaries.

The Sanctuary Group plc and its subsidiaries have confirmed their intention to maintain financial support to the company and accordingly the directors have drawn up the accounts on a going concern basis.

**Turnover**

Turnover represents income derived from third parties, exclusive of VAT.

**Investments**

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

**Depreciation**

Fixed assets are depreciated to their residual value from their date of purchase by equal annual instalments over their estimated useful lives at the following rates:

Short leasehold premises	Over the term of the lease
Furniture, fixtures, fittings, office and studio equipment	10%
Computer equipment	20%

**Foreign currency translation**

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.

**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.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Details of future leasing obligations are given in the notes to the financial statements.

**Consolidated financial statements**

The company does not present consolidated financial statements by virtue of Section 228 of the Companies Act 1985.

**Deferred taxation**

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




**NOTES TO THE ACCOUNTS**
**Year ended 31 December 1997**
**2. INTEREST PAYABLE AND SIMILAR CHARGES**

	1997	1996
	£	£
Bank interest	182,333	237,558
Interest payable on finance lease obligations repayable within five years	41,381	12,712
Other interest	36,873	52,374
Group interest	-	175,718
	<u>260,587</u>	<u>478,362</u>

Group interest is charged on the intercompany balances at a rate of 8.25% per annum.

**3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

	1997	1996
	£	£
The loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets:		
Owned assets	40,099	30,492
Leased assets	36,515	-
Auditors' remuneration - audit fees	11,600	18,000
Operating leases - land and buildings	82,000	82,000
	<u>170,214</u>	<u>130,492</u>

**4. TAX ON LOSS ON ORDINARY ACTIVITIES**

	1997	1996
	£	£
Adjustment in respect of previous years	122,021	5,995
	<u>122,021</u>	<u>5,995</u>

There is no charge to taxation in view of the losses for the year.


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1997**
**5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**
**Directors**

The directors received no remuneration in the current or preceding financial year for their services.

	1997 £	1996 £
<b>Employees</b>		
All employees:		
Wages and salaries	436,766	54,371
Social security costs	41,164	7,302
Other pension costs	9,579	18,193
	<u>487,509</u>	<u>79,866</u>

The average number of persons employed by the company was:

No.	No.
<u>8</u>	<u>4</u>

**6. TANGIBLE FIXED ASSETS**

	Studio equipment £	Short leasehold improvements £	Furniture, fixtures, fittings and office equipment £	Computer equipment £	Total £
Cost:					
At 1 January 1997	402,340	24,081	300,520	9,123	736,064
Additions	<u>97,000</u>	<u>-</u>	<u>61,330</u>	<u>4,038</u>	<u>162,368</u>
At 31 December 1997	<u>499,340</u>	<u>24,081</u>	<u>361,850</u>	<u>13,161</u>	<u>898,432</u>
Depreciation:					
At 1 January 1997	-	7,898	262,108	6,664	276,670
Charge for the year	<u>35,515</u>	<u>8,204</u>	<u>30,436</u>	<u>2,459</u>	<u>76,614</u>
At 31 December 1997	<u>35,515</u>	<u>16,102</u>	<u>292,544</u>	<u>9,123</u>	<u>353,284</u>
Net book value:					
At 31 December 1997	<u>463,825</u>	<u>7,979</u>	<u>69,306</u>	<u>4,038</u>	<u>545,148</u>
At 31 December 1996	<u>402,340</u>	<u>16,183</u>	<u>38,412</u>	<u>2,459</u>	<u>459,394</u>

Included in tangible fixed assets are studio, office and computer equipment held under finance leases having a net book value of £522,825 (1996: £402,340).



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 1997**

**7. FIXED ASSET INVESTMENTS**

**Shares in subsidiaries**

**Cost:**

At 1 January 1997 and 31 December 1997

**£**  
262,200

The principal trading subsidiaries, wholly owned by the company and registered in England and Wales (except where indicated) at 31 December 1997, were as follows:

	<b>Principal Activity</b>
Sanctuary Management Limited and its wholly owned subsidiaries:	Management of music groups
Sanctuary Music Management Limited	Management of music groups
Sanctuary Management Productions Limited	Provision of production services
Sanctuary Music Inc. (incorporated in the USA)	Management of music groups
The International Licencing Syndicate Limited	Licensing of merchandising activities
Polar Union Limited	Management of music groups
Focus Business Management Limited and its wholly owned subsidiary:	Management, accounting and consultancy
Focus Business Management Inc. (incorporated in the USA)	Management, accounting and consultancy
Sanctuary Agency Services Limited and its wholly owned subsidiary:	
Jump for Joy Limited	Booking agency
Platinum Travel International Limited	Travel agency

The company has a 50% interest in the called up share capital of Rock Hard Records Limited which is registered in England and Wales and is principally engaged in the sale of records.

**8. DEBTORS**

	<b>1997</b>	<b>1996</b>
	<b>£</b>	<b>£</b>
Amounts falling due within one year:		
Trade debtors	48,971	5,267
Amounts owed by subsidiaries	2,970,334	2,400,667
Other debtors	59,427	178,720
Prepayments	48,832	105,994
	<u>3,127,564</u>	<u>2,690,648</u>
Amounts falling due after more than one year:		
Other debtors	466,187	466,187
	<u>3,593,751</u>	<u>3,156,835</u>


**NOTES TO THE ACCOUNTS**
**Year ended 31 December 1997**
**9. CREDITORS: amounts falling due within one year**

	1997 £	1996 £
Debenture loans	727,273	181,818
Bank loans and overdrafts	1,859,517	1,039,062
Trade creditors	12,945	176,731
Obligations under finance leases (note 16)	166,630	140,428
Amounts owed to parent company and fellow subsidiaries	4,335,916	2,753,176
Taxation and social security	29,858	23,680
Corporation tax	149,029	5,995
Accruals and deferred income	40,063	12,000
Other creditors	-	48,100
	<u>7,321,231</u>	<u>4,380,990</u>

**10. CREDITORS: amounts falling due after more than one year**

	1997 £	1996 £
Debenture loans	-	727,273
Bank loans and overdrafts	-	750,000
Obligations under finance leases (note 16)	91,938	144,711
	<u>91,938</u>	<u>1,621,984</u>

The debenture loans of £727,273 are secured by fixed and floating charges over the assets of the company and certain of its subsidiaries. These loans were fully repaid on 23 January 1998.


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1997**
**11. BORROWINGS**

	1997 £	1996 £
Debenture loans	727,273	909,091
Bank overdraft	109,517	1,039,062
Bank loans	1,750,000	750,000
Other loans	258,568	285,139
	<u>2,845,358</u>	<u>2,983,292</u>
Analysis of loan repayments		
Bank loans and overdrafts:		
Within one year or on demand	109,517	1,039,062
Between two and five years	1,750,000	750,000
Debentures and other loans		
Within one year or on demand	893,903	322,246
Between one and two years	91,938	326,529
Between two and five years	-	545,455
	<u>2,845,358</u>	<u>2,983,292</u>

**12. PROVISIONS FOR LIABILITIES AND CHARGES**

	1997 Unprovided £	1996 Unprovided £
Deferred taxation:		
Accelerated capital allowances	<u>8,631</u>	<u>12,263</u>

**13. CALLED UP SHARE CAPITAL**

	1997 and 1996 Authorised £	1997 and 1996 Issued and fully paid £
Ordinary shares of £1 each	380,000	100,000
Non-voting 12% (gross) cumulative, preference shares of £1 each	<u>400,000</u>	<u>400,000</u>
	<u>780,000</u>	<u>500,000</u>

The preference shares may be redeemed by the company at any future date after giving seven days' notice and would be redeemable at par. The holders of the preferred shares have waived their rights to dividends for the period to 31 December 1997.


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

	£
Balance at 1 January 1997	(2,624,546)
Retained loss for the year	<u>(887,524)</u>
Balance at 31 December 1997	<u><u>(3,512,070)</u></u>

**15. CONTINGENT LIABILITIES**

The company has guaranteed the bank indebtedness of 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.

**16. LEASING COMMITMENTS**
**(a) Finance leases**

The company was committed to future minimum lease payments under finance leases as follows:

	1997 £	1996 £
Amounts falling due:		
Within one year	218,281	176,840
Between two and five years	<u>115,321</u>	<u>186,611</u>
	333,602	363,451
Less: Finance charges allocated to future periods	<u>(75,034)</u>	<u>(78,312)</u>
	<u><u>258,568</u></u>	<u><u>285,139</u></u>
The commitments, net of finance charges, are included in the group balance sheet as follows:		
Due within one year	166,630	140,428
Due after more than one year	<u>91,938</u>	<u>144,711</u>
	<u><u>258,568</u></u>	<u><u>285,139</u></u>

**(b) Operating leases**

At 31 December 1997 the company had the following annual commitments under non-cancellable leases:

	Land and buildings 1997 £	1996 £
Leases which expire:		
Over five years	<u>82,000</u>	<u>82,000</u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 1997****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.

**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.