

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No. 2033222

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**COOMBE MUSIC INTERNATIONAL
LIMITED**

Report and Financial Statements

31 December 1997



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

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1997. The financial statements have been prepared on a going concern basis and applicable accounting standards followed.

The directors are required by company law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing the financial statements, suitable accounting policies must be used and applied consistently, and such judgements and estimates as are made must be reasonable and prudent. The auditors are required to form an independent opinion on the financial statements prepared by the directors and report that independent opinion to the members.

The directors are also responsible for keeping proper accounting records, safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND BUSINESS DEVELOPMENTS

The company is principally engaged in the business of running a cover version music catalogue. The directors intend to take every opportunity to expand and develop the business.

RESULTS AND FINANCIAL POSITION

The company made a loss after taxation of £6,029 (1996 - £10,868). The financial position of the company at the end of the year is set out on page 4.

DIVIDENDS

The directors do not propose the payment of a dividend (1996 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

C.I. Calder

D.N. Howe

S. Jenkins (resigned 5 March 1998)

J.L. Dobinson

No director had any beneficial interests in the ordinary shares of the company or its parent company Zomba Records Limited at any time during the year. D.N. Howe holds one share in Zomba Records Limited as a nominee.

AUDITORS

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

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

D.N. HOWE

Secretary

29 May 1998



COOMBE MUSIC INTERNATIONAL LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 3 to 8 which have been prepared under the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described in the directors' report, 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.

Chartered Accountants and
Registered Auditors

29 May 1998



PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £	1996 £
TURNOVER	1(b)	47,442	44,507
Cost of sales		(1,085)	(988)
Gross profit		46,357	43,519
Administrative expenses		(54,784)	(59,635)
OPERATING LOSS AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(8,427)	(16,116)
Tax credit on loss on ordinary activities	4	2,398	5,248
LOSS FOR THE FINANCIAL YEAR		(6,029)	(10,868)
Profit and loss account brought forward		(237,714)	(226,846)
Profit and loss account carried forward		(243,743)	(237,714)

A statement of total recognised gains and losses is not included in these accounts as there are no recognised gains or losses in either the current financial year or the previous financial year other than the results reported above.

Further, there have been no movements in shareholders' funds in either year other than the results reported above. Accordingly, no reconciliation of movement in shareholders' funds is included in these accounts.

The turnover and operating result for the year derive from continuing operations.



BALANCE SHEET
31 December 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	5		105,825		120,692
CURRENT ASSETS					
Debtors	6	21,080		24,902	
Cash at bank and in hand		39,817		29,338	
		60,897		54,240	
CREDITORS: amounts falling due within one year	7	(10,365)		(7,851)	
NET CURRENT ASSETS			50,532		46,389
TOTAL ASSETS LESS CURRENT LIABILITIES			156,357		167,081
CREDITORS: amounts falling due after more than one year	8		(400,000)		(400,000)
Provisions for liabilities and charges	9		-		(4,695)
			(243,643)		(237,614)
CAPITAL RESERVES					
Called up share capital	10		100		100
Profit and loss account			(243,743)		(237,714)
EQUITY SHAREHOLDERS' FUNDS			(243,643)		(237,614)

These financial statements were approved by the Board of Directors on 29 May 1998.

Signed on behalf of the Board of Directors

D. N. HOWE

Directors



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.

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Turnover

Turnover consists of royalties receivable and licensing fees exclusive of value added tax. Royalties receivable are recognised on notification to the company in respect of royalty accounting periods ending within the financial year.

(c) Fixed assets

Depreciation is provided on the cost of fixed assets in equal annual instalments over their estimated lives. The estimated lives are as follows:

Catalogue masters	7 years
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(d) Deferred taxation

Deferred taxation is provided at the 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.

2. DIRECTORS AND EMPLOYEES

The only employees of the company were the directors who received no remuneration in either year.

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £	1996 £
The loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit fees	2,400	2,200
Depreciation of owned assets	44,040	46,684
	<u>46,440</u>	<u>48,884</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

4. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	1997	1996
	£	£
Group relief payable at 31.5% (1996 - 33%)	(2,297)	(2,022)
Deferred taxation	4,695	7,340
	<u>2,398</u>	<u>5,318</u>
Overseas tax	-	(70)
	<u>2,398</u>	<u>5,248</u>

5. TANGIBLE FIXED ASSETS

	Catalogue masters £
Cost	
At 1 January 1997	785,281
Additions	29,173
	<u>814,454</u>
At 31 December 1997	
Depreciation	
At 1 January 1997	664,589
Charge for the year	44,040
	<u>708,629</u>
At 31 December 1997	
Net book value	
At 31 December 1997	<u>105,825</u>
At 31 December 1996	<u>120,692</u>

6. DEBTORS

	1997	1996
	£	£
Other debtors	714	766
Prepayments and accrued income	20,366	23,266
Group relief receivable	-	870
	<u>21,080</u>	<u>24,902</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Trade creditors	3,531	1,929
Group relief payable	2,297	2,022
Accruals	4,537	3,900
	<u>10,365</u>	<u>7,851</u>

8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1997 £	1996 £
Amounts owed to parent company	400,000	400,000

The loan is unsecured and is interest free.

9. PROVISIONS FOR LIABILITIES AND CHARGES
Deferred taxation

The amount of deferred taxation provided in the accounts which is also the full potential amount is:

	1997 £	1996 £
Accelerated capital allowances	-	4,695
Deferred taxation movement for the year:		
		£
At 1 January 1997		4,695
Current year		(4,695)
At 31 December 1997		-

10. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised, allotted, called up and fully paid:		
100 ordinary shares of £1 each	100	100

11. CONTINGENT LIABILITY

The bank loans and overdrafts of companies within the Zomba Records Limited group are secured by mortgage debentures over the assets of all companies within the Zomba Records Limited group and by a cross guarantee structure between those companies and the group's bankers. At 31 December 1997 the net borrowings under these arrangements were £9,203,140. At 31 December 1996 there were net borrowings under the cross guarantee structure of £1,466,569.



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

12. RELATED PARTY TRANSACTIONS

- a) During the year the company entered into the following transactions with related parties:
Royalties receivable from overseas licensees which are subsidiaries of the ultimate parent company totalling £47,442. The principal licensee involved was Zomba Record Holdings BV.
- b) At 31 December 1997 there were no amounts owed by or to fellow subsidiaries of the ultimate parent company.
- c) In accordance with Section 3(c) of Financial Reporting Standard No 8 Related Party Disclosures, transactions with fellow members of the Zomba Records Limited group have not been disclosed.

13. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors regard Summer Shore NV, a company incorporated in the Netherlands Antilles, as the ultimate parent company and controlling party.

The company is a subsidiary of Zomba Records Limited, a company registered in England and Wales. Copies of the group financial statements of Zomba Records Limited are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.