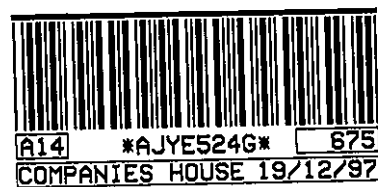


**PET SHOP BOYS PARTNERSHIP LIMITED**

**(COMPANY NO. 2664746)**

**REPORT AND FINANCIAL STATEMENTS**

**31ST DECEMBER 1996**



**PRAGER  
AND  
FENTON**

CERTIFIED  
PUBLIC  
ACCOUNTANTS

MIDWAY HOUSE 27/29 CURSITOR STREET LONDON EC4A 1LT (0171) 831-4200 FACSIMILE (0171) 831-5080

ROBERT MARGOLIES CPA  
ROBERT BANDMAN CPA  
MARTIN GOLDBERG CPA FCA (UK)  
ALVIN HANDWERKER CPA  
GABE WOLOSKY CPA  
BRADFORD CAMPBELL CPA  
JEREMY STEINBERG CPA  
VANRICK CLARKE CPA  
LOUIS BORODINSKY CPA  
MARK BOOMLA ACCA (UK)  
JOSEPH RUST CPA  
LESTER STEIN CPA

AUDITORS' REPORT TO THE DIRECTORS OF

PET SHOP BOYS PARTNERSHIP LIMITED

PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985

We have examined the annexed abbreviated accounts together with the full financial statements of Pet Shop Boys Partnership Limited for the year ended 31st December 1996. The scope of our work for the purpose of this report was limited to confirming that the directors are entitled to deliver abbreviated accounts and that the abbreviated accounts have been properly prepared from the full financial statements.

In our opinion the company is entitled under Sections 246 and 247 of the Companies Act 1985 to the exemptions conferred by Section A of Part III of Schedule 8 to that Act in respect of the year ended 31st December 1996, and the annexed abbreviated accounts have been properly prepared in accordance with that Schedule.

On 20th October 1997 we reported, as auditors of Pet Shop Boys Partnership Limited, to the members on the full financial statements prepared under Section 226 of the Companies Act 1985 for the year ended 31st December 1996 and our audit report was as follows:

"We have audited the financial statements on pages 6 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

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.

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FENTON**

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AUDITORS' REPORT TO THE DIRECTORS OF

PET SHOP BOYS PARTNERSHIP LIMITED

PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985

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 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as amended by the Companies Act 1989."

The statement of directors' responsibilities referred to in our audit report on the full financial statements, reproduced above, was as follows:

**PRAGER  
AND  
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AUDITORS' REPORT TO THE DIRECTORS OF

PET SHOP BOYS PARTNERSHIP LIMITED

PURSUANT TO PARAGRAPH 24 OF SCHEDULE 8 TO THE COMPANIES ACT 1985

"The directors are required by law 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, total recognised gains or losses and cash flows of the company for that period. The directors confirm their responsibility to ensure that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements for the year ended 31st December 1996. The directors also confirm their responsibility to 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 maintaining adequate accounting records, for safeguarding the assets of the company, and for taking reasonable steps to prevent and detect fraud and other irregularities."

PRAGER AND FENTON

CERTIFIED PUBLIC ACCOUNTANTS

AND

REGISTERED AUDITORS

Dated: 20th October 1997

NEW YORK

LOS ANGELES

LONDON

PET SHOP BOYS PARTNERSHIP LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 1996

	<u>Note</u>	<u>£</u>	<u>1996</u>	<u>£</u>	<u>£</u>	<u>1995</u>	<u>£</u>
FIXED ASSETS							
Tangible assets	2			83,536			26,122
CURRENT ASSETS							
Debtors			107,321			322,842	
Cash at bank and in hand			2,336,011			1,322,476	
			2,443,332			1,645,318	
CREDITORS: Amounts falling due within one year			2,456,970			2,028,348	
NET CURRENT LIABILITIES				(13,638)		(383,030)	
				£ 69,898		£ (356,908)	
CAPITAL AND RESERVES							
Called up Share Capital	3			100		100	
Profit and loss account				69,798		(357,008)	
Shareholders' funds				£ 69,898		£ (356,908)	

Advantage is taken of the exemption conferred by Section A of Part III of Schedule 8 of the Companies Act 1985 with respect to the delivery of individual accounts. In the opinion of the Directors, the company is entitled to those exemptions on the grounds that it has met the qualifications for a small company specified in Sections 246 and 247.

By order of the Board.

  
N.F. TENNANT

Director

Dated: 20th October 1997

PET SHOP BOYS PARTNERSHIP LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31ST DECEMBER 1996

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with statements of standard accounting practice and financial reporting standards issued by UK accountancy bodies. The company has taken advantage of the exemption in Financial Reporting Standard Number 1 "Cash Flow Statements" from the requirement to prepare a cash flow statement on the grounds that it is a small company. 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 record royalties, record royalty advances, video contributions, producers' royalties, fan club income, income from sundry promotional appearances and overhead contributions net of value added tax.

(i) Record royalties, record royalty advances, video contributions and long term contracts

Royalty advances and video contributions in respect of albums and videos in the course of production are recognised when contractually earned. Production costs are immediately expensed, and provisions are made for all foreseeable losses. Each album and video is considered on a contract by contract basis.

Royalty income in respect of albums and videos already released is included on a receivable basis by reference to the royalty accounting periods ending within the period. Royalty advances and video contributions are recognised when contractually earned.

(ii) Producers' royalties

Royalty income is included on a receivable basis by reference to the royalty accounting periods ending within the period. Royalty advances are recognised when contractually earned.

PET SHOP BOYS PARTNERSHIP LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31ST DECEMBER 1996

(iii) Fan club income

Fan club subscriptions and merchandise income is recognised on a cash basis.

(iv) Sundry income

Sundry income is recognised on a receivable basis.

(v) Overhead contributions

Overhead contributions are recognised on a receivable basis.

(c) Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Amounts receivable or payable in foreign currencies at the balance sheet date are translated at the rate ruling at that date. Translation differences are dealt with in the profit and loss account.

(d) Tangible Fixed Assets

Depreciation is provided on all fixed assets in equal annual instalments over their estimated useful lives. The rates of depreciation are as follows:

Musical equipment	25% per annum
Office equipment	25% per annum
Motor vehicle	25% per annum

(e) Operating Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

PET SHOP BOYS PARTNERSHIP LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 31ST DECEMBER 1996

2. TANGIBLE FIXED ASSETS

	Musical equipment £	Office equipment £	Motor vehicle £	Total £
<u>Cost</u>				
As at 1st January 1996	209,087	45,284	11,395	265,766
Additions	79,288	1,829	12,069	93,186
Disposals	(67,496)	-	-	(67,496)
As at 31st December 1996	220,879	47,113	23,464	291,456
<u>Depreciation</u>				
As at 1st January 1996	185,121	43,128	11,395	239,644
Charge for the year	29,665	1,342	3,017	34,024
Eliminated on disposals	(65,748)	-	-	(65,748)
As at 31st December 1996	149,038	44,470	14,412	207,920
<u>Net Book Value</u>				
As at 31st December 1996	£ 71,841	£ 2,643	£ 9,052	£ 83,536
As at 31st December 1995	£ 23,966	£ 2,156	£ -	£ 26,122

3. CALLED UP SHARE CAPITAL

	<u>1996</u> £	<u>1995</u> £
Authorised: 100 ordinary shares of £1 each	£ 100	£ 100

4. DIRECTOR'S LOAN

Between the dates of 3rd April 1996 to 26th April 1996, an interest free loan was made to Christopher Sean Lowe, one of the directors of Pet Shop Boys Partnership Limited. The maximum amount outstanding during the year was £22,976.