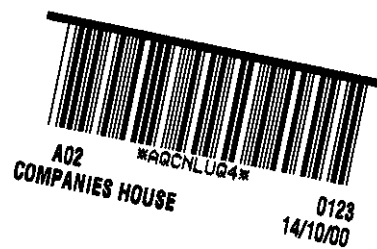


**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1999
FOR
BUG MUSIC LIMITED**



BUG MUSIC LIMITED

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for the year ended 31st December 1999**

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BUG MUSIC LIMITED

COMPANY INFORMATION
for the year ended 31st December 1999

DIRECTORS: M A Anders
D Bourgoise (American)
F Bourgoise (American)

SECRETARY: M A Anders

REGISTERED OFFICE: South House
21 - 37 South Street
Dorking
Surrey
RH4 2JZ

REGISTERED NUMBER: 2697748 (England and Wales)

AUDITORS: Bradney & Co Limited
Chartered Accountants
Registered Auditors
South House
21-37 South Street
Dorking
Surrey RH4 2JZ

BUG MUSIC LIMITED

**REPORT OF THE DIRECTORS
for the year ended 31st December 1999**

The directors present their report with the financial statements of the company for the year ended 31st December 1999.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of music publishing.

DIRECTORS

The directors during the year under review were:

M A Anders
D Bourgoise (American)
F Bourgoise (American)

The directors holding office at 31st December 1999 did not hold any beneficial interest in the issued share capital of the company at 1st January 1999 or 31st December 1999.

D Bourgoise and F Bourgoise hold shares in Bug Music Inc., the ultimate parent company. Details of their shareholdings are disclosed in that company's annual report.

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 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, Bradney & Co Limited, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:



M A Anders - DIRECTOR

Dated: 9/10/00

BUG MUSIC LIMITED

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
BUG MUSIC LIMITED**

We have audited the financial statements on pages four to nine which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective March 2000), under the historical cost convention and the accounting policies set out on page six.

Respective responsibilities of directors and auditors

As described on page two 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.

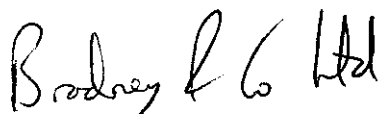
Basis of opinion

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 31st December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Bradney & Co Limited
Chartered Accountants
Registered Auditors
South House
21-37 South Street
Dorking
Surrey RH4 2JZ

Dated: 11/10/00

BUG MUSIC LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1999**

		<u>1999</u>	<u>1998</u>
	Notes	£	£
TURNOVER		224,181	179,778
GROSS PROFIT		224,181	179,778
Administrative expenses		196,217	192,262
OPERATING PROFIT/(LOSS)	2	27,964	(12,484)
Interest receivable and similar income		4,450	6,640
		32,414	(5,844)
Interest payable and similar charges		776	170
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		31,638	(6,014)
Tax on profit/(loss) on ordinary activities	3	901	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION		30,737	(6,014)
Deficit brought forward		(100,638)	(94,624)
DEFICIT CARRIED FORWARD		£(69,901)	£(100,638)

The notes form part of these financial statements

BUG MUSIC LIMITED

BALANCE SHEET
31st December 1999

		1999		1998	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	4		10,104		10,052
CURRENT ASSETS:					
Debtors	5	108,271		107,524	
Cash at bank and in hand		186,300		145,510	
		294,571		253,034	
CREDITORS: Amounts falling due within one year	6	349,034		321,902	
NET CURRENT LIABILITIES:			(54,463)		(68,868)
TOTAL ASSETS LESS CURRENT LIABILITIES:			(44,359)		(58,816)
CREDITORS: Amounts falling due after more than one year	7		25,442		41,722
			£(69,801)		£(100,538)
CAPITAL AND RESERVES:					
Called up share capital	8		100		100
Profit and loss account			(69,901)		(100,638)
SHAREHOLDERS' FUNDS:			£(69,801)		£(100,538)

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective March 2000).

ON BEHALF OF THE BOARD:



M A Anders - DIRECTOR

Approved by the Board on 9/10/00

The notes form part of these financial statements

BUG MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st December 1999

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective March 2000).

Turnover

Turnover represents the company's share of royalties and fees received, net of any applicable value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Short leasehold	- Over the term of the lease
Office equipment	- 25% on reducing balance

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

Going concern

The directors have prepared these financial statements on the going concern basis. This is dependent upon the continuing support of the parent company, Bug Music Inc, which has indicated that it will continue to give such support.

Advances

The company makes advances to artists against future royalty income. These advances, net of any provisions, are shown as debtors recoverable within one year.

BUG MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st December 1999**

2. OPERATING PROFIT/(LOSS)

The operating profit (1998 - operating loss) is stated after charging:

	1999 £	1998 £
Depreciation - owned assets	3,313	3,262
Auditors' remuneration	2,000	3,500
Pension costs	12,589	10,169
Property operating lease costs	<u>11,000</u>	<u>10,603</u>
 Directors' emoluments and other benefits etc	 <u>35,759</u>	 <u>35,282</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>1</u>	<u>1</u>
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3. TAXATION

The tax charge on the profit on ordinary activities for the year was as follows:

	1999 £	1998 £
UK corporation tax	<u>901</u>	<u>-</u>

UK corporation tax has been charged at 20.25% (1998 - not applicable).

4. TANGIBLE FIXED ASSETS

	Short leasehold	Office equipment	Totals
	£	£	£
COST:			
At 1st January 1999	4,326	26,066	30,392
Additions	<u>-</u>	<u>3,366</u>	<u>3,366</u>
At 31st December 1999	<u>4,326</u>	<u>29,432</u>	<u>33,758</u>
DEPRECIATION:			
At 1st January 1999	3,460	16,881	20,341
Charge for year	<u>864</u>	<u>2,449</u>	<u>3,313</u>
At 31st December 1999	<u>4,324</u>	<u>19,330</u>	<u>23,654</u>
NET BOOK VALUE:			
At 31st December 1999	<u>2</u>	<u>10,102</u>	<u>10,104</u>
At 31st December 1998	<u>866</u>	<u>9,186</u>	<u>10,052</u>

BUG MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st December 1999

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Trade debtors	3,274	454
Other debtors	4,292	3,584
Prepayments and accrued income	825	3,915
Amounts due from group companies	33,150	-
Advances	66,730	99,571
	<u>108,271</u>	<u>107,524</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Trade creditors	3,730	1,301
Owed to Group undertakings	151,113	133,247
Other creditors	129,045	132,016
Accruals	2,500	6,274
Social security & other taxes	55,345	49,064
Taxation	901	-
Accrued expenses	6,400	-
	<u>349,034</u>	<u>321,902</u>

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

	1999 £	1998 £
Loan from parent company	<u>25,442</u>	<u>41,722</u>

8. CALLED UP SHARE CAPITAL

Authorised, allotted, issued and fully paid:			1999	1998
Number:	Class:	Nominal value:	£	£
100	Ordinary	£1	<u>100</u>	<u>100</u>

9. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of Bug Music Inc. which is incorporated in the USA. Bug Music Inc. is the ultimate controlling entity.

10. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund during the year and amounted to £12,589 (1998: £10,169).

BUG MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st December 1999

11. RELATED PARTY DISCLOSURES

During the year, the company undertook the following transactions with Bug Music Inc., the parent company:-

Management fees charged to Bug Music Inc.	£15,000
Royalty payments to Bug Music Inc.	£528,897

During the year the company also charged its fellow subsidiary Bug Music GMBH £29,950 in respect of management fees plus reimbursement of expenditure of £3,200.

12. DEFERRED TAX

No provision has been made in these financial statements for a potential deferred tax asset of £9,200 (1998 : £15,968) in respect of trading losses carried forward.