

ARTHUR  
ANDERSEN

## Flying Nun (UK) Limited

Financial statements for the year ended 30 June 1998  
together with directors' and auditors' reports

Registered number: 2941321



## Company information

### **Directors**

E. Murdoch

B. McWilliam

### **Secretary**

P.W. Stehrenberger

### **Company number**

2941321 (England and Wales)

### **Registered office**

1 Shorrolds Road

London SW6 7TR

### **Auditors**

Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street

London WC2R 2PS

### **Bankers**

Lloyds Bank PLC

City Office

72 Lombard Street

London EC3P 3BT

### **Business Address**

1 Shorrolds Road

London SW6 7TR

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## Directors' report

For the year ended 30 June 1998

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 30 June 1998.

### Principal activities

The company's principal activities are the production, marketing and distribution of musical recordings.

### Directors and their interests

The directors who served during the year and their interests in the company as at 30 June 1997 and 1998 were as stated below:

		Class of Share	Number of shares
R. Shepherd	(resigned - 3 August 1998)	Ordinary shares	25
G. Ashley	(resigned - 19 August 1997)	-	-
M. Gudinski	(resigned - 6 September 1998)	-	-
R. Feldmann	(resigned - 6 September 1998)	-	-
E. Murdoch	(appointed - 6 September 1998)		
B. McWilliam	(appointed - 6 September 1998)		

### Subsequent events

On 6 September 1998, 50% of the share capital of Mushroom Records (UK) Ltd, the company's parent, was sold by Callington BVI Ltd to News International Plc, which now owns all of the share capital of Mushroom Records (UK) Ltd.

On 3 August 1998, Roger Shepherd sold his 25% shareholding in Flying Nun (UK) Ltd for consideration of £1,000. Mushroom Records (UK) Ltd now owns all of the share capital of the company.

### 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## Directors' report (continued)

### Directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be reappointed as auditors of the company will be put to the Annual General Meeting.

In the preparation of the directors' report advantage has been taken of special exemptions applicable to small companies conferred by Part I of Schedule 8 to the Companies Act 1985.

1 Shorrolds Road  
London  
SW6 7TR

By order of the Board



B. McWilliam

Director

20 November 1998

## Auditors' report

London

### To the Shareholders of Flying Nun (UK) Limited:

We have audited the financial statements on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

### Respective responsibilities of directors and auditors

As described on pages 1 and 2 the company's directors are responsible for the preparation of the 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 circumstances of the company, 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 affairs of the company at 30 June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the provision of the Companies Act 1985 applicable to small companies.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street  
London  
WC2R 2PS

20 November 1998

## Profit and loss account

For the year ended 30 June 1998

	Notes	1998 £	1997 £
Turnover		44,788	357,963
Cost of sales		<u>(10,103)</u>	<u>(537,016)</u>
Gross profit/(loss)		34,685	(179,053)
Administration expenses		<u>1,000</u>	<u>(147,289)</u>
Operating profit/(loss)	2	35,685	(326,342)
Interest payable and similar charges	3	<u>(59,873)</u>	<u>(43,284)</u>
Loss on ordinary activities before taxation		(24,188)	(369,626)
Taxation	4	<u>-</u>	<u>-</u>
Loss for the financial year	10	<u>(24,188)</u>	<u>(369,626)</u>

There are no recognised gains and losses other than those passing through the profit and loss account in both years. Accordingly, no separate statement of total recognised gains and losses has been presented.

The accompanying notes are an integral part of these financial statements.

## Balance sheet

30 June 1998

	Notes	1998 £	1997 £
<b>Current assets</b>			
Stocks	5	3,230	9,979
Debtors			
- due within one year	6	11,996	83,948
- due after more than one year	6	50,966	49,119
		<u>66,192</u>	<u>143,046</u>
<b>Creditors: Amounts falling due within one year</b>	7	<u>(816,927)</u>	<u>(869,593)</u>
<b>Net liabilities</b>		<u>(750,735)</u>	<u>(726,547)</u>
<b>Equity capital and reserves</b>			
Called-up share capital	8	100	100
Profit and loss account	10	<u>(750,835)</u>	<u>(726,647)</u>
<b>Shareholders' deficit</b>	9	<u>(750,735)</u>	<u>(726,547)</u>

In preparing these financial statements:

- a) Advantage has been taken of the special exemptions applicable to small companies conferred by Part I of Schedule 8 to the Companies Act 1985, and
- b) In the directors' opinion the company is entitled to these exemptions as a small company.

Signed on behalf of the Board



B. McWilliam

Director

20 November 1998

The accompanying notes are an integral part of this balance sheet.

# Notes to financial statements

30 June 1998

## 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

### a) *Basis of accounting*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

### b) *Basis of preparing the financial statements*

The accounting statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

### c) *Turnover*

Turnover represents amounts receivable for goods and services, net of returns and dealer discounts, provided in the normal course of business in the UK net of VAT. Royalties received on sales of compilation albums are recognised on a cash receipts basis.

### d) *Stock*

Stock represents finished goods and goods held for resale and is valued at the lower of cost and net realisable value.

### e) *Artist advances*

The company advances funds to artists prior to the production of records. These are treated as an asset of the company and included within other debtors as it is believed that the advances will be recovered from royalties that would otherwise be payable to the artist. The company writes off, in the 3 months following release of an album, 50% of the costs advanced to the artist regardless of the expected life of the album. The balance is recouped by royalties due to artists from album sales. The directors periodically review the recoverability of the residual advances based upon their knowledge of expected market conditions and the market's anticipated response to each available product from the relevant artists.

Advances to artists who have not completed production of an album are held at full value and are assumed to be fully recoverable until such time as significant market response to the product is received.

### f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

## Balance sheet

30 June 1998

### 1 Accounting policies (continued)

#### g) Cash flow

The company has taken advantage of the exemption in Financial Reporting Standard 1 (revised) from the requirement to produce a cash flow statement on the grounds that it is a small company as defined by s247 of the Companies Act 1985.

### 2 Operating loss

Operating loss is stated after charging:

	1998	1997
	£	£
Auditors' remuneration	3,000	3,000
Directors' emoluments	-	16,664
	<u>          </u>	<u>          </u>

Cost of Sales in 1997 includes an exceptional write off of £112,751 in respect of an amount due from a company with common shareholders.

In September 1997, Roger Shepherd, who was then a director of the company, was paid £21,000 as compensation for loss of office.

### 3 Interest payable and similar charges

	1998	1997
	£	£
Interest on bank overdraft	59,873	43,284
	<u>          </u>	<u>          </u>

### 4 Taxation

There is no current year or preceding year tax charge as the company was loss making during both years.

### 5 Stocks

	1998	1997
	£	£
Finished goods and goods for resale	3,230	9,979
	<u>          </u>	<u>          </u>

# Notes to financial statements

30 June 1998

## 6 Debtors

### Amounts falling due within one year

	1998 £	1997 £
Trade debtors	1,900	42,642
Amounts due from group undertakings	-	14,717
Amounts due from Mushroom Records Pty Ltd and its subsidiaries	10,096	5,682
Other debtors	-	20,807
Called-up share capital not paid	-	100
	<u>11,996</u>	<u>83,948</u>

### Amounts falling due after more than one year

	1998 £	1997 £
Other debtors	<u>50,966</u>	<u>49,119</u>

## 7 Creditors: Amounts falling due within one year

	1998 £	1997 £
Bank loans and overdrafts	765,437	731,711
Trade creditors	807	34,834
Other creditors	22,383	67,547
Amounts owed to parent undertaking	28,300	34,633
Amounts owed to Mushroom Records Pty Ltd and its subsidiaries	-	868
	<u>816,927</u>	<u>869,593</u>

## 8 Called-up share capital

	1998 £	1997 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<i>Allotted, called-up and fully-paid</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

# Notes to financial statements

30 June 1998

## 9 Reconciliation of movements in shareholders' deficit

	1998	1997
	£	£
Loss for the financial year	(24,188)	(369,626)
Opening shareholders' deficit	<u>(726,547)</u>	<u>(356,921)</u>
Closing shareholders' deficit	<u>(750,735)</u>	<u>(726,547)</u>

## 10 Profit and loss account

	1998	1997
	£	£
Accumulated losses at beginning of year	(726,647)	(357,021)
Retained loss for the period	<u>(24,188)</u>	<u>(369,626)</u>
Accumulated losses at end of year	<u>(750,835)</u>	<u>(726,647)</u>

## 11 Parent company

The company is a subsidiary of Mushroom Records (UK) Limited. Mushroom Records (UK) Limited does not prepare consolidated accounts as it is exempt under the provisions of s248 of the Companies Act 1985.

## 12 Related Party Transactions

The company's parent company, Mushroom Records (UK) Limited recharged a proportion of total administration expenses to Flying Nun (UK) Limited during the year in respect of wages, accounting costs, rent and rates, telephone costs and other similar costs. The total amount recharged during the year was £6,000 (1997:£96,000).

At 30 June 1998 £ nil (1997: £14,717) was due from Infectious Records, an associated company, and £28,300 was owed to Mushroom Records (UK) Ltd (1997:£34,633).

## 13 Financial support

The Company has net liabilities as at 30 June 1998 and its ability to continue as a going concern is dependent upon the continuing financial support of Mushroom Records Pty Ltd. The directors of Mushroom Records Pty Ltd have indicated to the Company that it is their current intention to provide financial support to the Company to enable it to meet its liabilities as they fall due for a period of at least 12 months from the date of signing of these financial statements.

## 14 Guarantees and financial commitments

The company acts as a joint guarantor under banking facilities of £1,454,000 with its related party, Infectious Records Limited, and its parent company Mushroom Records (UK) Limited. The facility is repayable on demand but is subject to periodic review on usual banking terms.