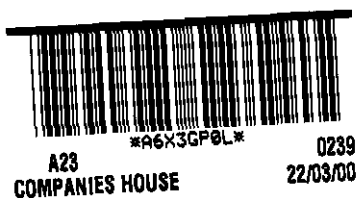


XL RECORDINGS LIMITED

**ABBREVIATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998**

LUBBOCK FINE
Chartered Accountants
Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ



XL RECORDINGS LIMITED

CONTENTS	PAGE
Directors' report	1
Auditors' report	4
Abbreviated profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes to the abbreviated accounts	8

XL RECORDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

Financial Statements

The directors present their report and financial statements for the year ended 31 December 1998.

Principal Activities

The principal activities of the company are the production and sale of compact discs, records and cassettes and the licensing of such operations.

Review of Business and Future Developments

The company traded well during the year generating exceptional licensing income although, as expected, gross profit fell from the previous year to £4,266,854 (1997 - £9,651,149). During the year the company established a joint venture called Mowax Labels Limited and purchased a freehold property as offices for both companies.

Fixed Assets

In the opinion of the directors, the market value of freehold land and buildings was not significantly different from book value.

The movement in fixed assets is shown in the notes to the financial statements.

Results and Dividends

The results of the year's trading and the financial position of the company are shown in the annexed accounts.

The company's profit for the period, after taxation, amounted to £1,835,349 (1997 - £3,961,644).

The directors also recommend that the interim dividends of £2,000 per A ordinary share and £2,000 per B ordinary share paid on 12 February 1998 be confirmed.

Directors' Interests

The members of the board during the year, together with details of their interests, as defined by the Companies Act 1985, in the ordinary shares of the company and parent company, are as follows:

Beneficial holding:	31 December 1998		31 December 1997	
	Company	Parent Company	Company	Parent Company
Martin Mills	-	98 'A'	-	98 'A'
	-	100 'B'	-	100 'B'
	-	2 'C'	-	2 'C'
James Wyllie	-	-	-	-
Richard Russell	240 'A'	-	240 'A'	-

Nicholas Worthington was appointed a director on 24 May 1999.

XL RECORDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONT)

Directors' Interests (continued)

Martin Mills also has the following interests in other group companies:

	Number of Ordinary Shares	
	31 December 1998	31 December 1997
Beggar's Banquet Music Limited	24	24
Beggar's Banquet Records Limited	24	24
Beggars Banquet Retail Limited	7,560	7,560
Beggars Banquet Limited	24	24
Mantra Recordings Limited	24	24

Year 2000

The directors undertook a review to assess the potential impact of the Year 2000 'millennium bug' upon the company. The results of this review appear to indicate that millennium compliance has been achieved as there have been no material problems. During the year the costs incurred by the company in respect of the review, action plan and remedial work were not significant.

Changeover to the Euro

The directors have considered the implications of the introduction of the Euro. The company has taken measures to identify its likely exposure to Euro currency transactions with its customers and suppliers.

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 a 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.


XL RECORDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONT)

Auditors

Lubbock Fine have indicated their willingness to accept re-appointment as auditors of the company and a resolution to re-appoint them will be proposed at the Annual General Meeting.

On behalf of the Board


.....
Nigel Bolt - Secretary

Date:15.3.2000...

XL RECORDINGS LIMITED

AUDITORS' REPORT TO XL RECORDINGS LIMITED UNDER SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts set out on pages 5 to 17 together with the financial statements of the company for the year ended 31 December 1998 prepared under section 226 of the Companies Act 1985.

Respective responsibilities of directors and auditors

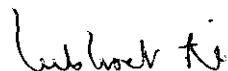
The directors are responsible for preparing the abbreviated accounts in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Act to the registrar of companies and whether the accounts to be delivered are properly prepared in accordance with that provision and to report our opinion to you.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the financial statements.

Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Companies Act 1985, and the abbreviated accounts on pages 5 to 17 are properly prepared in accordance with that provision.



Lubbock Fine
Chartered Accountants
Registered Auditors

Date: 16.3.00

Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ

XL RECORDINGS LIMITED

ABBREVIATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £	1997 £
GROSS PROFIT		4,266,854	9,651,149
Net operating expenses	2	(1,933,088)	(3,968,325)
OPERATING PROFIT	3	2,333,766	5,682,824
Other interest receivable and similar income		183,399	102,158
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,517,165	5,784,982
Tax on profit on ordinary activities	5	(681,816)	(1,823,338)
PROFIT FOR THE FINANCIAL YEAR		1,835,349	3,961,644
Dividends	6	(2,000,000)	(2,050,000)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(164,651)	1,911,644
Retained profit brought forward		2,369,099	457,455
RETAINED PROFIT CARRIED FORWARD		2,204,448	2,369,099

The company's turnover and expenses all relate to continuing operations.

There are no recognised gains or losses other than the profit for the financial year shown above.

XL RECORDINGS LIMITED

ABBREVIATED BALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	943,840	121,526
Investments	8	500	-
		<u>944,340</u>	<u>121,526</u>
CURRENT ASSETS			
Stocks	9	58,430	114,729
Debtors	10	1,306,331	3,793,428
Cash at bank and in hand		1,641,780	2,016,781
		<u>3,006,541</u>	<u>5,924,938</u>
CREDITORS			
Amounts falling due within one year	11	<u>(1,316,286)</u>	<u>(2,164,782)</u>
NET CURRENT ASSETS		1,690,255	3,760,156
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,634,595</u>	<u>3,881,682</u>
CREDITORS			
Amounts falling due after more than one year	12	(380,250)	(1,427,594)
PROVISION FOR LIABILITIES AND CHARGES	13	(48,897)	(83,989)
NET ASSETS		<u>2,205,448</u>	<u>2,370,099</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,000	1,000
Profit and loss account		2,204,448	2,369,099
SHAREHOLDERS' FUNDS	15	<u>2,205,448</u>	<u>2,370,099</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

On behalf of the Board



Martin Mills - Director

Date:15.3.2000.....

XL RECORDINGS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £	1997 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	4,482,214	4,558,474
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		183,399	102,158
		<u>183,399</u>	<u>102,158</u>
			102,158
TAXATION		(2,178,726)	(733,482)
CAPITAL EXPENDITURE			
Payments to acquire fixed assets		(861,388)	(109,347)
Receipts from sales of fixed assets		-	26,250
		<u>(861,388)</u>	<u>(83,097)</u>
ACQUISITIONS AND DISPOSALS			
Payments to acquire investments in associated companies		(500)	-
		<u>(500)</u>	<u>-</u>
			-
EQUITY DIVIDENDS PAID		(2,000,000)	(2,050,000)
(DECREASE) INCREASE IN CASH	20	<u>(375,001)</u>	<u>1,794,053</u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year.

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention.

The effect of events relating to the year ended 31 December 1998 which occurred before the date of approval of the financial statements by the Board of Directors, have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 December 1998 and of the results for the year ended on that date.

Deferred income

Deferred income represents non-returnable advances on royalties receivable from other record companies. These advances are credited to revenue as the royalty income arises or where the probability of future income in respect thereof is remote.

Advances to artistes

Advances to artistes represent advances made direct to artistes for recording and other costs made on behalf of artistes under contract. These advances, which are only recoverable against future royalties, are charged to revenue as they are recouped or where the probability of future recoupment in respect thereof is unlikely.

Depreciation

Depreciation has been provided to write off tangible fixed assets over their estimated useful lives based on cost at the following rates:

Freehold buildings	- 2% per annum of cost
Fixtures, fittings and equipment	- 20% and 25% per annum of cost
Motor vehicles	- 25% per annum of cost

Stocks

Stocks are valued on an average cost basis at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred Taxation

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounting purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may crystallise.

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction.

Balances at the year end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date.

Leasing

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Joint Venture

Entities in which the company holds an interest on a long term basis, and are jointly controlled by the company and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the gross equity method.

2. NET OPERATING EXPENSES

	1998	1997
	£	£
Distribution costs	732,934	2,810,450
Administrative expenses	1,214,848	1,157,875
Other operating income	(14,694)	-
	<u>1,933,088</u>	<u>3,968,325</u>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	1998	1997
	£	£
Directors' emoluments	100,000	137,590
Hire of equipment - operating leases	-	522
Loss (profit) on the sale of fixed assets	-	7,085
Depreciation and amortisation of owned assets	39,074	14,556
Auditors' remuneration	7,800	7,500
Foreign exchange (profit)/loss	(11,329)	18,741
	<u></u>	<u></u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

4. STAFF COSTS

The average number of persons employed by the company, including directors, during the year was as follows:

	1998 Number	1997 Number
Management	1	1
Sales and administration	5	5
	<u>6</u>	<u>6</u>

The aggregate payroll costs of these persons were as follows:

	1998 £	1997 £
Wages and salaries	221,181	210,234
Social security	25,013	25,335
	<u>246,194</u>	<u>235,569</u>

5. TAXATION ON ORDINARY ACTIVITIES

	1998 £	1997 £
Current year		
Corporation tax at 31% (1997 - 31%)	465,982	1,606,741
Deferred tax at 31%	(35,092)	83,989
Group relief	259,288	110,441
	<u>690,178</u>	<u>1,801,171</u>
Prior year		
Corporation tax (over) / under provided	(8,362)	22,167
	<u>681,816</u>	<u>1,823,338</u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

6. DIVIDENDS

	1998 £	1997 £
On A ordinary shares Interim dividends paid	480,000	492,000
On B ordinary shares Interim dividends paid	1,520,000	1,558,000
	<u>2,000,000</u>	<u>2,050,000</u>

7. TANGIBLE FIXED ASSETS

	Land and buildings £	Fixtures fittings and equipment £	Motor vehicles £	Total £
Cost				
At 1 January 1998	-	42,099	107,433	149,532
Additions	847,230	9,635	4,523	861,388
At 31 December 1998	<u>847,230</u>	<u>51,734</u>	<u>111,956</u>	<u>1,010,920</u>
Depreciation				
At 1 January 1998	-	19,692	8,314	28,006
Charge for the year	8,463	5,551	25,060	39,074
At 31 December 1998	<u>8,463</u>	<u>25,243</u>	<u>33,374</u>	<u>67,080</u>
Net book value				
At 31 December 1998	<u>838,767</u>	<u>26,491</u>	<u>78,582</u>	<u>943,840</u>
<i>At 31 December 1997</i>	<u>-</u>	<u>22,407</u>	<u>99,119</u>	<u>121,526</u>

Net book value of land and buildings at 31 December 1998 comprised:

	1998 £	1997 £
Freehold land and buildings	<u>838,767</u>	<u>-</u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

8. INVESTMENTS

Joint Venture

	1998
	£
Cost	
Additions	500

Name	Nature of business	Country of registration	Shares held, class/percentage
Mowax Labels Limited	Record Label	England and Wales	500 Ordinary 50%
	Aggregate amount of capital and reserves		Profit (loss) for the year
	1998	1997	1998
	£	£	£
	(57,383)	-	(58,383)

The company's share in the joint venture for the year was:-

	£	£
Share of turnover		-
Share of loss before tax	(34,294)	
Taxation	5,602	
Loss after tax		(29,192)
Share of assets		
Fixed assets	5,099	
Current assets	36,535	
		41,634
Share of liabilities		
Due within one year	(70,326)	
		(70,326)
Share of net liabilities		(28,692)

9. STOCKS

	1998	1997
	£	£
Finished goods and goods for resale	58,430	114,729

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

10. DEBTORS

Receivable within one year:

	1998	1997
	£	£
Trade debtors	260,678	725,901
Amounts owed by group undertakings	167,217	1,188,652
Other debtors	258,047	464,376
Prepayments and accrued income	551,536	1,414,499
Corporation tax recoverable	68,853	-
	<u>1,306,331</u>	<u>3,793,428</u>

Included within prepayments and accrued income are amounts advanced to artistes totalling £551,248 (1997 - £1,414,499).

11. CREDITORS - AMOUNTS DUE WITHIN ONE YEAR

	1998	1997
	£	£
Trade creditors	1,064,796	635,553
Other creditors	6,895	6,634
Corporation tax payable	-	1,392,965
Accruals and deferred income	244,595	129,630
	<u>1,316,286</u>	<u>2,164,782</u>

12. CREDITORS - AMOUNTS DUE AFTER ONE YEAR

	1998	1997
	£	£
Accruals and deferred income	<u>380,250</u>	<u>1,427,594</u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
Balance at 1 January 1998	83,989
Provision in year	(35,092)
Balance at 31 December 1998	<u>48,897</u>

The amount provided and the potential liability for deferred taxation is as follows:

	Provided £	1998 Potential £	Provided £	1997 Potential £
The accumulated excess of capital allowances over corresponding depreciation	(4,113)	(4,113)	(282)	(282)
Arising on net royalty timing differences	53,010	53,010	84,271	84,271
	<u>48,897</u>	<u>48,897</u>	<u>83,989</u>	<u>83,989</u>

14. SHARE CAPITAL

	1998 £	1997 £
Authorised		
240 A ordinary shares of £1 each	240	240
760 B ordinary shares of £1 each	760	760
	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
240 A ordinary shares of £1 each	240	240
760 B ordinary shares of £1 each	760	760
	<u>1,000</u>	<u>1,000</u>

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the financial year	1,835,349	3,961,644
Dividends	(2,000,000)	(2,050,000)
	<hr/>	<hr/>
Net addition to shareholders' funds	(164,651)	1,911,644
	<hr/>	<hr/>
Opening shareholders' funds	2,370,099	458,455
	<hr/>	<hr/>
Closing shareholders' funds	<u>2,205,448</u>	<u>2,370,099</u>

16. CONTINGENT LIABILITIES

The company has given its bankers a composite cross guarantee dated 5 May 1998 over the facilities of the following companies:

Beggars Banquet Group Limited
Beggars Banquet Records Limited
Mantra Recordings Limited
Beggars Banquet Limited
Beggars Banquet Retail Limited
Too Pure Limited
Wiiiija Records Limited

Any liability arising from the composite cross guarantee is secured by mortgage debentures dated 21 August 1989, 18 December 1996 and 5 May 1998 over all the company's assets, incorporating a specific charge over book debts.

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

17. RELATED PARTY TRANSACTIONS

- a) During the year Beggars Banquet Limited, a group company, operated in a central production and distribution role for the company. Export sales and production costs were passed through Beggars Banquet Limited and were transferred out to the company at the year end thus:

	1998 £	1997 £
Turnover	546,486	1,648,478
Cost of sales	861,247	2,049,209
	<u> </u>	<u> </u>

- b) During the year the company paid management charges as listed below to fellow group companies:

	1998 £	1997 £
Beggars Banquet Group Limited	361,440	442,275
Beggars Banquet Limited	148,540	252,150
	<u> </u>	<u> </u>
	509,980	694,425
	<u> </u>	<u> </u>

- c) At the balance sheet date the company was owed the following balances from other group and related companies:

	1998 £	1997 £
Beggars Banquet Group Limited	167,217	1,188,652
	<u> </u>	<u> </u>

- d) Included in legal and professional fees are amounts paid by XL Recordings Limited for consultancy services as follows:

	1998 £	1997 £
Junkbond Limited	87,500	-
James Lavelle	87,500	-
	<u> </u>	<u> </u>

Both Junkbond Limited and James Lavelle are parties to the joint venture, details of which are disclosed in note 9.

In addition £25,000 was paid to Mo'wax Headz Limited, a company in which James Lavelle and Steve Finan (a director of Junkbond Limited) are both directors and shareholders:

XL RECORDINGS LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

18. CONTROLLING PARTY

The company is controlled by Martin Mills, a director, by virtue of his shareholding in the parent company, Beggars Banquet Group Limited, as described in the directors' report.

19. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	2,333,766	5,682,824
Depreciation charge	39,074	14,557
Loss on sale of fixed assets	-	7,085
Decrease/(increase) in stocks	56,299	(35,250)
Decrease/(increase) in debtors	2,555,950	(1,316,669)
(Decrease)/increase in creditors	(502,875)	205,927
Net cash inflow from operating activities	<u>4,482,214</u>	<u>4,558,474</u>

20. ANALYSIS OF NET FUNDS

	1997 £	Cash flow £	1998 £
Cash at bank and in hand	<u>2,016,781</u>	<u>(375,001)</u>	<u>1,641,780</u>

21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	1998 £	1997 £
(Decrease)/increase in cash in the year	(375,001)	1,794,053
Movement in net funds in the year	<u>(375,001)</u>	<u>1,794,053</u>
Net funds at 1 January 1998	2,016,781	222,728
Net funds at 31 December 1998	<u>1,641,780</u>	<u>2,016,781</u>

22. PARENT UNDERTAKING

The ultimate parent company is Beggars Banquet Group Limited, a company registered in England and Wales. A copy of the group financial statements may be obtained from The Registrar, Companies House.