



**HIT AND RUN MUSIC (PUBLISHING)
LIMITED**

Report and Financial Statements

31 December 1997

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



**REPORT AND FINANCIAL STATEMENTS 1997**

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 1997.

ACTIVITY

The principal activity of the company continued to be that of music publishing.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors intend to take steps to strengthen the balance sheet in the future, and expect that the present level of activity will be improved during the coming year.

DIVIDENDS AND RESULT FOR THE YEAR

The directors do not recommend the payment of a dividend (1996: £nil).

The loss for the year was £2,233,986 (1996 : loss £221,550).

DONATIONS

During the year, the company made donations to charitable bodies of £971 (1996: £nil).

POST BALANCE SHEET EVENTS

Since the year end the company has entered into legal proceedings with a former employee on the grounds of unfair dismissal. As at the current date, no quantification of any potential liability is possible as proceedings are not complete.

DIRECTORS

The directors who served throughout the year together with their interests, as defined by the Companies Act 1985, in the shares of the company at 1 January 1997 and 31 December 1997 were as follows:


	£1 ordinary shares	
	1 January 1997	31 December 1997
J A Smith	975	950
J P Crawley	25	50
C R Moore	-	-

During 1998, 25 ordinary £1 shares have been transferred from J A Smith to J P Crawley.

AUDITORS

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

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


J A Smith

Director

14 January 1999

**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 as at the end of the financial year 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.



HIT AND RUN MUSIC (PUBLISHING) LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 4 to 15 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 2 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts in relation to the support to be provided to the company by its bankers and its majority shareholder, and the impact that this has on the company's ability to continue as a going concern. In light of the significance of this matter, we consider that it should be drawn to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as 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.

Deloitte & Touche

Chartered Accountants and
Registered Auditors

14 January 1999



PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £	1996 £
TURNOVER	1,2	5,158,713	8,338,794
Cost of sales		(3,948,347)	(5,731,002)
Gross profit		1,210,366	2,607,792
Administrative expenses		(2,739,214)	(2,383,129)
Exceptional item: provision against investments held	5	(630,368)	(236,000)
Other operating income		324,587	156,069
OPERATING (LOSS)/PROFIT		(1,834,629)	144,732
Other interest receivable and similar income		14,028	4,401
Interest payable and similar charges	4	(340,965)	(267,371)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(2,161,566)	(118,238)
Tax charge on loss on ordinary activities	6	(72,420)	(103,312)
LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		(2,233,986)	(221,550)

All activities derive from continuing operations.

There are no recognised gains or losses in the current or preceding financial year other than the results as shown above and accordingly no statement of total recognised gains and losses is shown.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Loss for the financial year	(2,233,986)	(221,550)
Issue of ordinary share capital	-	900
Net increase in shareholders' deficit	(2,233,986)	(220,650)
Opening shareholders' deficit	(3,470,277)	(3,249,627)
Closing shareholders' deficit	(5,704,263)	(3,470,277)


BALANCE SHEET
31 December 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	7	908,215		894,941	
Investments	8	1,020,897		1,442,515	
			1,929,112		2,337,456
CURRENT ASSETS					
Debtors	9	1,083,337		3,702,933	
CREDITORS: amounts falling due within one year					
Bank loans and overdrafts		929,128		2,564,397	
Other loans		1,500,000		750,000	
Trade creditors		3,928,737		2,548,336	
Other creditors including taxation and social security	10	847,585		854,346	
Accruals and deferred income		761,262		543,587	
		7,966,712		7,260,666	
NET CURRENT LIABILITIES			(6,883,375)		(3,557,733)
TOTAL ASSETS LESS CURRENT LIABILITIES			(4,954,263)		(1,220,277)
CREDITORS: amounts falling due after more than one year					
Other loans	11		(750,000)		(2,250,000)
			(5,704,263)		(3,470,277)
CAPITAL AND RESERVES					
Called up share capital	12		1,000		1,000
Profit and loss account			(5,705,263)		(3,471,277)
EQUITY SHAREHOLDERS' DEFICIT			(5,704,263)		(3,470,277)

These financial statements were approved by the Board of Directors on 14 January 1999.

Signed on behalf of the Board of Directors

J A Smith

Director


CASH FLOW STATEMENT
Year ended 31 December 1997

	Note	£	1997 £	£	1996 £
Net cash inflow/(outflow) from operating activities	17		3,084,612		(2,605,017)
Returns on investment and servicing of finance					
Interest received		14,963		3,467	
Interest paid		(305,690)		(228,728)	
Net cash outflow from returns on investment and servicing of finance			(290,727)		(225,261)
Taxation paid					
Corporation tax paid		-		(7,488)	
Withholding taxes paid		(97,390)		(78,342)	
			(97,390)		(85,830)
Investing activities					
Payments to acquire tangible fixed assets		(90,341)		(10,104)	
Additional loans to subsidiary undertakings		(52,500)		(314,000)	
Additional loans to associated undertakings		(156,250)		(68,000)	
Net cash outflow from investing activities			(299,091)		(392,104)
Net cash inflow/(outflow) before financing			2,397,404		(3,308,212)
Financing					
Issue of ordinary share capital		-		900	
New loan repayable within three years		-		3,000,000	
Repayments of loan		(750,000)		-	
			(750,000)		3,000,900
Increase/(decrease) in cash	18		1,647,404		(307,312)


CASH FLOW STATEMENT
Year ended 31 December 1997
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT (Note 18)

	1998 £	1997 £
Increase/(decrease) in cash in the year	1,647,404	(307,312)
Cash inflow/(outflow)from (decrease)/increase in debt	<u>750,000</u>	<u>(3,000,000)</u>
Decrease/(increase) in net debt resulting from cashflow	2,397,404	(3,307,314)
Translation difference	<u>(12,135)</u>	<u>(17,088)</u>
Movement in net debt in the year	2,385,269	(3,324,402)
Net debt at the start of the year	<u>(5,564,397)</u>	<u>(2,239,997)</u>
Net debt at the end of the year	<u><u>(3,179,128)</u></u>	<u><u>(5,564,397)</u></u>

STATEMENT OF MOVEMENTS ON RESERVES
Year ended 31 December 1997

	Profit and loss account £
As at 1 January 1997	(3,471,277)
Loss for the year	<u>(2,233,986)</u>
As at 31 December 1997	<u><u>(5,705,263)</u></u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 1997****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. Certain comparative figures have been adjusted to reflect changes in presentation. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern basis

The balance sheet shows net liabilities of £5,704,263 and net current liabilities of £6,883,375 at 31 December 1997.

On 30 November 1998, the company renewed its borrowing facilities with its bankers, subject to varying overdraft limits over the twelve months following that date.

The overdraft facility is secured by a mortgage debenture incorporating a fixed and floating charge over all the assets and undertakings of the company, a first legal mortgage (or United States equivalent) over the company's property at Suites 5601 & 5606, 150 West 56th Street, New York, USA and a guarantee, limited in amount to £1,500,000, from Hit & Run Music Limited, a company also controlled by J A Smith. Under the terms of a similar overdraft facility for Hit & Run Music Limited, the company has provided a gross guarantee, also limited in amount to £1,500,000, against the borrowings of Hit & Run Music Limited.

The directors have reviewed their borrowing requirements to the end of 1999, and are satisfied that the company will be able to meet its obligations as they fall due during that period.

In addition, the majority shareholder has confirmed his intention to maintain financial support to the company and accordingly the directors have drawn up accounts on a going concern basis.

Turnover

Turnover consists of royalty income and is credited to the profit and loss account on the contractually due date, or where this is unspecified on the date cash is received.

Advances to writers

All advances to writers are written off to cost of sales in the year in which they are made. Any advances recouped in the year or future years are shown in the profit and loss account on a cash received basis.

Pension costs

The company operates a defined contribution pension scheme. Costs are charged to the profit and loss account in the year in which they are incurred.

Tangible fixed assets

Depreciation is provided in equal annual instalments over the estimated useful lives of the assets and is calculated on the cost of the assets.

The following rates are used:

Freehold buildings	2% per annum
Music equipment	25% per annum
Motor vehicles	25% per annum
Office furniture and equipment	20% per annum

Investments

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.



NOTES TO THE ACCOUNTS

Year ended 31 December 1997

1. ACCOUNTING POLICIES (continued)

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.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

2. TURNOVER

The company's turnover is wholly attributable to its principal activity and the directors do not believe that any part of the company's worldwide market is significantly different from any other.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 £	1996 £
Directors' emoluments:		
Other emoluments	359,622	457,625
Pension contributions	6,530	1,790
	<u>366,152</u>	<u>459,415</u>
Remuneration of the highest paid director	<u>211,542</u>	<u>246,087</u>
	£	£
Employee costs (including directors) during the year:		
Wages and salaries	744,858	765,429
Social security costs	88,459	76,087
Other pension costs	6,530	1,790
	<u>839,847</u>	<u>843,306</u>
	No.	No.
Average number of persons employed (including directors):		
Administration	<u>15</u>	<u>12</u>

Pension contributions to a money purchase scheme were payable in respect of one director (1996: one).



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

7. TANGIBLE FIXED ASSETS

	Freehold buildings £	Music equipment £	Motor vehicles £	Office furniture and equipment £	Total £
Cost:					
At 1 January 1997	899,909	46,302	51,758	426,252	1,424,221
Additions	-	3,728	48,849	37,764	90,341
At 31 December 1997	899,909	50,030	100,607	464,016	1,514,562
Depreciation:					
At 1 January 1997	71,992	39,855	49,190	368,243	529,280
Charge for the year	17,998	3,626	14,780	40,664	77,067
At 31 December 1997	89,990	43,481	63,970	408,907	606,347
Net book value:					
At 31 December 1997	809,919	6,549	36,637	55,110	908,215
At 31 December 1996	827,917	6,447	2,568	58,009	894,941


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
8. INVESTMENTS HELD AS FIXED ASSETS

	Loans to subsidiary undertakings £	Loans to associated undertakings £	Shares in subsidiary undertakings £	Shares in associated undertakings £	Trade investments £	Total £
Cost:						
At 1 January 1997	1,180,375	40,000	1,586,906	210,000	9,178	3,026,459
Additions	52,500	156,250	-	-	-	208,750
At 31 December 1997	1,232,875	196,250	1,586,906	210,000	9,178	3,235,209
Provision for diminution in value:						
At 1 January 1996	505,000	-	969,766	100,000	9,178	1,583,944
Further diminutions	463,875	166,493	-	-	-	630,368
At 31 December 1997	968,875	166,493	969,766	100,000	9,178	2,214,312
Net carrying value:						
At 31 December 1997	264,000	29,757	617,140	110,000	-	1,020,897
At 31 December 1996	675,375	40,000	617,140	110,000	-	1,442,515

All of the above investments are unlisted, and in the opinion of the directors, the value of subsidiary and associated undertakings is in excess of the amount at which they are held in the financial statements.

Additional information on the subsidiary and associated undertakings of Hit and Run Music (Publishing) Limited is as follows:

Names of subsidiary undertakings	Country of incorporation /registration and operation	Activity	Proportion of ordinary shares held %
The Charisma Music Publishing Co. Limited	UK	Music Publishing	100
Hit and Run Music Publishing Inc	USA	Music Publishing	100
Hidden Pun Music Inc	USA	Music Publishing	100
Charisma Music Publishing Inc	USA	Music Publishing	100
Gang Forward Limited	UK	Music management and publishing	100
Charybdis Limited	UK	Virtual reality games software development	75
Roger D. Hulley (Holdings) Limited	UK	Holding Company	75
Alternative Software Limited	UK	Software distribution	75*
Names of associated undertakings			
Soundtrack Music Associates Limited (formerly Soundtrack Music Management Limited)	UK	Artist Management	50
ISIS Productions Limited	UK	Television and Multi-media Programming	25

*100% subsidiary of Roger D. Hulley (Holdings) Limited



NOTES TO THE ACCOUNTS

Year ended 31 December 1997

9. DEBTORS

	1997	1996
	£	£
Trade debtors	3,784	588,165
Amounts due from subsidiary undertakings	2,204	68,919
Other debtors	249,566	1,970,550
Loan to a director	20,000	20,000
Director's current account	777,762	1,020,363
Prepayments and accrued income	30,021	34,936
	<u>1,083,337</u>	<u>3,702,933</u>

The loan to a director of £20,000 (1996: £20,000) was made to J P Crawley. The maximum outstanding during the year was £20,000. The loan is interest free and repayable on demand.

The director's current account relates to J A Smith and the maximum overdrawn amount on this account during the year was £1,090,424.

Included within other debtors in 1996 was £1,702,467 due from Hit and Run Music Limited, a company controlled by J A Smith and of which he is managing director.

Included within other debtors is an amount of £199,441 (1996 : £260,090) which comprises ACT recoverable after more than one year.

10. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1997	1996
	£	£
Social security and other taxes	514,690	510,493
Other creditors	332,895	343,853
	<u>847,585</u>	<u>854,346</u>

Included in other creditors is £12,500 (1996 : £nil) due to H.R.M.P. Directors' Pension Scheme of which J A Smith is a trustee.

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

	1997	1996
	£	£
Other loans are repayable as follows:		
Between one and two years	750,000	1,500,000
Between two and five years	-	750,000
	<u>750,000</u>	<u>2,250,000</u>

12. CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised, called up, allotted and fully paid:		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 1997****13. OPERATING LEASE COMMITMENTS**

At 31 December 1997 the company was committed to making the following payments during the next year in respect of operating leases which expire after five years:

Land and buildings	<u>£215,000</u>
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14. POST BALANCE SHEET EVENTS

Since the year end the company has entered into legal proceedings with a former employee on the grounds of unfair dismissal. As at the current date, no quantification of any potential liability is possible as proceedings are not complete.

See also note 1 in respect of the company's cross guarantee with Hit & Run Music Limited.

15. RELATED PARTY TRANSACTIONS**Transactions**

During the year, the company charged its subsidiary undertaking, The Charisma Music Publishing Co. Limited, an amount of £200,000 (1996: £39,814) for the provision of management services. The amount due at the year end was £2,204.

In addition, the company made payments to its subsidiary undertaking Hit and Run Music Publishing Inc. in the amount of £753,941 (1996: £742,209). These payments take the form of continued funding of the subsidiary to cover ongoing expenditure. All funding provided to the subsidiary is regarded as long term and has been written off directly to the profit and loss account.

During the year, the company provided its subsidiary undertaking, Gang Forward Limited, with funding of £72,000 (1996 : £65,000). The total balance outstanding at 31 December 1997 is £167,000, which is fully provided against.

Included in accruals and deferred income is £498,750 due to H R M P Directors' Pension Scheme, of which J A Smith is a trustee. This represents rental charges payable at £215,000 per annum,

Also included are rental charges of £136,250 due to Fentrend Directors' Pension Scheme of which J A Smith is a trustee. This represents previous rental charges payable at £60,000 per annum.

Control

The company is controlled by J A Smith.

16. GROUP ACCOUNTS

The company is exempt from the requirement to prepare group accounts as it qualifies as the parent company of a medium sized group under Section 248 of the Companies Act 1985. Accordingly, these financial statements represent information about the individual company and not about its group.



NOTES TO THE ACCOUNTS

Year ended 31 December 1997

17. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1997 £	1996 £
Operating (loss)/profit	(1,834,629)	144,732
Depreciation	77,067	58,341
Amounts written off fixed asset investments	630,368	236,000
Decrease/(increase) in debtors	2,558,044	(1,759,011)
Increase/(decrease) in creditors	1,653,762	(1,285,079)
Net cash inflow/(outflow) from operating activities	<u>3,084,612</u>	<u>(2,605,017)</u>

18. ANALYSIS OF NET DEBT

	At 1 January 1997 £	Cashflow £	Other non- cash changes £	Exchange movement £	At 31 December 1997 £
Overdrafts	(2,564,397)	1,647,404	-	(12,135)	(929,128)
Debt due after one year	(2,250,000)	-	1,500,000	-	(750,000)
Debt due within one year	(750,000)	750,000	(1,500,000)	-	(1,500,000)
	<u>(5,564,397)</u>	<u>2,397,404</u>	<u>-</u>	<u>(12,135)</u>	<u>(3,179,128)</u>

**ADDITIONAL INFORMATION**

The additional information on pages 17 and 18 has been prepared from the accounting records of the company. Whilst it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.



DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1997

	1997	1996
	£	£
TURNOVER	5,158,713	8,338,794
COST OF SALES		
Royalties payable and advances	(3,948,347)	(5,731,002)
GROSS PROFIT	1,210,366	2,607,792
ADMINISTRATIVE EXPENSES:		
Directors' remuneration	359,622	457,625
Salaries and Social Security costs	473,695	383,891
Pension contributions	6,530	1,790
Rent, rates and property costs	251,697	242,188
Insurance	6,090	6,230
Motor, travel and accommodation	94,603	77,728
Entertaining	35,978	25,472
Advertising and promotion	17,581	24,674
Printing, postage and stationery	6,800	13,161
Legal and professional	255,907	90,244
Audit and accountancy	29,203	57,667
Music service expenses	13,910	2,498
Light, heat and cleaning	6,735	6,181
Miscellaneous expenses	47,431	37,838
Depreciation of tangible fixed assets	77,067	58,341
Repairs and maintenance	52,173	7,140
Telephone and telex	7,346	4,070
Studio costs	10,710	10,539
Consultancy fees	3,610	6,100
Subscriptions	5,612	7,543
Donations	971	-
Bad debt expense	72,000	95,000
US office expenses	753,941	742,209
Investments written off	630,368	236,000
Provision against personal loan made	-	25,000
Administration fees payable	150,000	-
	(3,369,582)	(2,619,129)
CARRIED FORWARD	(2,159,216)	(11,337)



DETAILED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1997

	1997	1996
	£	£
BROUGHT FORWARD	(2,159,216)	(11,337)
OTHER OPERATING INCOME		
Rent receivable	123,414	116,338
Administration fees receivable	200,000	39,814
Other sundry income	1,173	(83)
	<u>324,587</u>	<u>156,069</u>
OPERATING (LOSS)/PROFIT	(1,834,629)	144,732
OTHER INTEREST RECEIVABLE AND SIMILAR INCOME		
Bank and term deposit interest receivable	14,028	4,401
	<u>14,028</u>	<u>4,401</u>
	(1,820,601)	149,133
INTEREST PAYABLE AND SIMILAR CHARGES		
Bank interest	296,453	235,203
Interest due on non-bank loans	31,425	14,894
Other interest payable	952	186
Loss on foreign exchange	12,135	17,088
	<u>(340,965)</u>	<u>(267,371)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>(2,161,566)</u>	<u>(118,238)</u>