

MERCURY SONGS LIMITED  
(Company number 1346089)

FINANCIAL STATEMENTS  
30 September 1997

LEWIS GOLDEN & CO  
CHARTERED ACCOUNTANTS  
40 QUEEN ANNE STREET  
LONDON W1M 0EL



NLP/AS

MERCURY SONGS LIMITED

FINANCIAL STATEMENTS

Year ended 30 September 1997

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# MERCURY SONGS LIMITED

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 1997.

### PRINCIPAL ACTIVITY

The principal activity of the company is the exploitation of musical rights and services.

### BUSINESS REVIEW

The results for the year are shown on page 4 of the financial statements.

The directors are satisfied with the financial results of the company for the year and expect the company to remain profitable in the future.

### DIVIDENDS

The directors do not propose the payment of a final dividend.

### DIRECTORS

The directors who served during the year were:

H J Beach

J L Libson (appointed 1 June 1997)

A Saleh (appointed 1 June 1997)

Following the death of Mr F Mercury the whole of the issued share capital of the company is held by his executors, Mr J L Libson and Mr H J Beach. The executors do not have any beneficial interest in the shares.

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MERCURY SONGS LIMITED

REPORT OF THE DIRECTORS (continued)

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 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

A resolution to re-appoint Lewis Golden as auditors to the company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

A SALEH  
Director

11 June 1998

Registered Office:  
124 Finchley Road  
London NW3 5JS

## AUDITORS' REPORT TO THE SHAREHOLDERS OF

### MERCURY SONGS LIMITED

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

### 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 are 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 at 30 September 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



LEWIS GOLDEN  
Chartered Accountants  
& Registered Auditors  
40 Queen Anne Street  
London W1M 0EL

17 June 1998

MERCURY SONGS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 September 1997

	Note	1997 £	1996 £
TURNOVER		2,511,931	3,761,411
Cost of sales		(611,162)	(902,314)
GROSS PROFIT		1,900,769	2,859,097
Administrative expenses		(111,606)	(49,829)
OPERATING PROFIT	2	1,789,163	2,809,268
Interest receivable		85,090	167,956
PROFIT ON ORDINARY ACTIVITIES before taxation		1,874,253	2,977,224
Taxation	3	(602,383)	(990,216)
PROFIT ON ORDINARY ACTIVITIES after taxation		1,271,870	1,987,008
Dividends	4	(1,250,000)	(1,900,000)
RETAINED PROFIT for the year		21,870	87,008
Retained profit brought forward		176,973	89,965
RETAINED PROFIT carried forward		198,843	176,973

There are no recognised gains or losses other than that reflected in the Profit and Loss Account and all activities are continuing

The notes on pages 7 to 11 form part of these financial statements

MERCURY SONGS LIMITED

BALANCE SHEET

At 30 September 1997

	Note	1997	1996
		£	£
<b>FIXED ASSETS</b>			
Tangible assets	5	32,913	36,570
<b>CURRENT ASSETS</b>			
Debtors	6	313,543	607,777
Cash at bank and in hand		1,108,646	2,889,026
		<u>1,422,189</u>	<u>3,496,803</u>
<b>CREDITORS - amounts falling due within one year</b>	7	<u>1,256,257</u>	<u>3,356,398</u>
Net current assets		165,932	140,405
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>198,845</u>	<u>176,975</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	2	2
Profit and loss account		198,843	176,973
<b>SHAREHOLDERS' FUNDS - EQUITY</b>	9	<u>198,845</u>	<u>176,975</u>

Approved by the Board and signed on its behalf by

A SALEH

H J BEACH

Directors

11 June 1998

The notes on pages 7 to 11 form part of these financial statements

MERCURY SONGS LIMITED

CASH FLOW STATEMENT

Year ended 30 September 1997

	Note	1997	1996
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	361,483	4,585,457
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		99,887	119,689
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		99,887	119,689
		461,370	4,705,146
Taxation paid		(991,750)	(861,315)
		(530,380)	3,843,831
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		-	(6,496)
		-	(6,496)
Equity dividends paid		(1,250,000)	(1,900,000)
Net cash (outflow) inflow before financing		(1,780,380)	1,937,335

The notes on pages 7 to 11 form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 1997

1 ACCOUNTING POLICIES

The following policies have been used in dealing with items which are considered material in relation to the company's financial statements.

**Basis of accounting**

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

**Turnover**

Turnover is the total amount earned by the company in respect of royalties and fees. The analysis of turnover by geographical market has not been disclosed as in the directors' opinion disclosure would be prejudicial to the company's interest.

Royalties are brought into account when they become due and payable or if received in the year by way of non-refundable advances on anticipated future royalties.

**Depreciation**

This is calculated to write off the cost of tangible fixed assets over their estimated useful lives at the following rates per annum:

Memorabilia	- 10% on written down value
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**Interest**

Bank interest is accounted for on a receivable basis.

**Deferred expenditure**

Deferred expenditure relates to recordings, video projects and associated costs incurred during the year, which are charged to the profit and loss account in the accounting period in which the recording or video projects are made available for commercial exploitation.

**Foreign currency**

Transactions denominated in a foreign currency are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Year end balances denominated in a foreign currency are translated into sterling at the rate ruling on the balance sheet date.

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 30 September 1997

2 OPERATING PROFIT

	1997 £	1996 £
This is stated after charging:		
Depreciation of tangible fixed assets	3,657	4,064
Auditors' remuneration	3,500	3,500
	<u>          </u>	<u>          </u>

3 TAXATION

	1997 £	1996 £
U.K. corporation tax at 33% (1996:33%) on taxable profits for the year	601,000	983,825
Overseas taxation	11,755	20,596
Double taxation relief	(8,888)	(14,205)
Adjustment relating to prior years	(1,484)	-
	<u>602,383</u>	<u>990,216</u>

4 DIVIDENDS

	1997 £	1996 £
Interim dividends paid	<u>1,250,000</u>	<u>1,900,000</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 30 September 1997

5 TANGIBLE FIXED ASSETS

	Memorabilia £
Cost:	
At 1 October 1996 and 30 September 1997	<u>46,000</u>
Accumulated depreciation:	
At 1 October 1996	9,430
Provision for the year	<u>3,657</u>
At 30 September 1997	<u>13,087</u>
Net book value:	
At 30 September 1997	<u>32,913</u>
At 30 September 1996	<u>36,570</u>

6 DEBTORS

	1997 £	1996 £
Trade debtors	170,828	8,226
Other debtors	-	3,279
Prepayments and accrued income	142,715	596,272
	<u>313,543</u>	<u>607,777</u>

7 CREDITORS - amounts falling due within one year

	1997 £	1996 £
Corporation tax	272,208	499,075
Advance Corporation Tax payable	312,500	475,000
Other taxation and social security	196,263	139,121
Other creditors	49,496	1,858,525
Accruals and deferred income	425,790	384,677
	<u>1,256,257</u>	<u>3,356,398</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 30 September 1997

8 CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised Ordinary shares of £1 each	100	100
Allotted, called up and fully paid Ordinary shares of £1 each	2	2

9 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year	1,271,870	1,987,008
Dividends	(1,250,000)	(1,900,000)
	21,870	87,008
Opening shareholders' funds	176,975	89,967
Closing shareholders' funds	198,845	176,975

10 STAFF NUMBERS AND COSTS

The directors were the only employees of the company during the year and they did not receive any emoluments (1996: nil).

11 DIRECTORS' INTERESTS

Mr J Libson and Mr A Saleh are partners in the accountancy practice Nyman Libson Paul which provided the company with accountancy and professional service to the value of £29,845.

Amounts totalling £46,056 (1996: £58,403) were payable by the company to Accounta Trust Reg. for the services of the director, Mr H J Beach.

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 30 September 1997

12 RECONCILIATION OF OPERATING PROFIT TO  
NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997		1996	
	£	£	£	£
OPERATING PROFIT		1,789,163		2,809,268
Depreciation and amortisation	3,657		4,064	
Decrease (increase) in debtors	279,437		(109,291)	
(Decrease) increase in creditors	(1,710,774)		1,881,416	
		<u>(1,427,680)</u>		<u>1,776,189</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>361,483</u>		<u>4,585,457</u>

13 RECONCILIATION OF NET CASH FLOW TO  
MOVEMENT IN NET (DEBT) FUNDS (Note 14)

	1997	1996
	£	£
(Decrease) increase in cash	(1,780,380)	1,937,335
Net funds (debt) at 1 October 1996	<u>2,889,026</u>	<u>951,691</u>
Net funds at 30 September 1997	<u>1,108,646</u>	<u>2,889,026</u>

14 ANALYSIS OF CHANGES IN NET FUNDS

	1 October 1996	Cash flow	30 September 1997
	£	£	£
Cash at bank and in hand	<u>2,889,026</u>	<u>(1,780,380)</u>	<u>1,108,646</u>