

MERCURY SONGS LIMITED
(Company number 1346089)

FINANCIAL STATEMENTS
30 September 1996

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



MERCURY SONGS LIMITED

FINANCIAL STATEMENTS

Year ended 30 September 1996

CONTENTS

Report of the Directors	1 - 2
Auditors' Report	3
Profit and Loss Account	4
Balance Sheet	5
Cash Flow Statement	6
Notes to the Financial Statements	7 - 11

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 1996.

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.

Reserves were increased by £87,008 after the payment of dividends totalling £1,900,000.

DIVIDENDS

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

FIXED ASSETS

Changes in fixed assets are shown in note 5 to the financial statements.

DIRECTORS

The directors who served during the year were:

H J Beach

J 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.

MERCURY SONGS LIMITED

REPORT OF THE DIRECTOR (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 the 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 judgments 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 him 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

Nyman Libson Paul resigned as auditors to the company and Lewis Golden were appointed in their place. 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

H J BEACH

.....

Director

.22.July 1997

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.

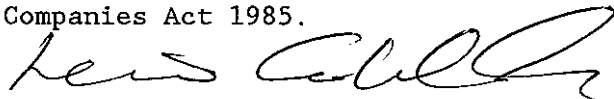
BASIS OF OPINION

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 judgments made by the director 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

Date: 22 July 1997

MERCURY SONGS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 September 1996

	Note	1996 £	1995 £
TURNOVER		3,761,411	3,987,005
Production costs		(902,314)	(1,575,569)
GROSS PROFIT		2,859,097	2,411,436
Administrative expenses		(49,829)	(45,892)
OPERATING PROFIT	2	2,809,268	2,365,544
Interest receivable		167,956	124,869
		2,977,224	2,490,413
Taxation	3	(990,216)	(858,209)
PROFIT ON ORDINARY ACTIVITIES after taxation		1,987,008	1,632,204
Dividends	4	(1,900,000)	(1,600,000)
RETAINED PROFIT for the year		87,008	32,204
Retained profit brought forward		89,965	57,761
RETAINED PROFIT carried forward		176,973	89,965

All results recognised in the period are reflected in the profit and loss account and arise from continuing activities

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

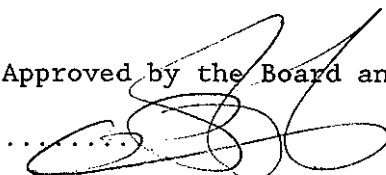
MERCURY SONGS LIMITED

BALANCE SHEET

At 30 September 1996

	Note	1996	1995
		£	£
FIXED ASSETS			
Tangible assets	5	36,570	34,138
CURRENT ASSETS			
Debtors	6	607,777	450,219
Cash at bank and in hand		2,889,026	951,691
		<u>3,496,803</u>	<u>1,401,910</u>
CREDITORS - amounts falling due within one year	7	<u>3,356,398</u>	<u>1,346,081</u>
Net current assets		140,405	55,829
NET ASSETS		<u>176,975</u>	<u>89,967</u>
CAPITAL AND RESERVES			
Called up share capital	8	2	2
Profit and loss account		176,973	89,965
SHAREHOLDERS' FUNDS	9	<u>176,975</u>	<u>89,967</u>

Approved by the Board and signed on its behalf by


 H. J. BEACH

Director:

22 July 1997

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

MERCURY SONGS LIMITED

CASH FLOW STATEMENT

Year ended 30 September 1996

	Note	1996	1995
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	4,537,190	1,839,617
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		167,956	124,869
Dividends paid		<u>(1,900,000)</u>	<u>(1,600,000)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(1,732,044)	(1,475,131)
		2,805,146	364,486
TAXATION			
Corporation tax paid		(861,315)	(675,477)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		<u>(6,496)</u>	<u>(23,785)</u>
		(6,496)	(23,785)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13	<u>1,937,335</u>	<u>(334,776)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 1996

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 director's 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

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.

2 OPERATING PROFIT

	1996 £	1995 £
This is stated after charging:		
Depreciation of tangible fixed assets	4,064	3,794
Auditors' remuneration	3,500	6,000
	<u>7,564</u>	<u>9,794</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 30 September 1996

3 TAXATION

	1996 £	1995 £
U.K. corporation tax at 33% (1995:33%) on taxable profits for the year	983,825	825,000
Overseas taxation	20,596	23,922
Double taxation relief	(14,205)	(15,286)
Adjustment relating to prior years	-	24,573
	<u>990,216</u>	<u>858,209</u>

4 DIVIDENDS

	1996 £	1995 £
Interim dividends paid	<u>1,900,000</u>	<u>1,600,000</u>

5 TANGIBLE FIXED ASSETS

	Memorabilia £
Cost:	
At 1 October 1995	39,504
Additions	6,496
At 30 September 1996	<u>46,000</u>
Accumulated depreciation:	
At 1 October 1995	5,366
Provision for the year	4,064
At 30 September 1996	<u>9,430</u>
Net book value:	
At 30 September 1996	<u>36,570</u>
At 30 September 1995	<u>34,138</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 1996

6 DEBTORS

	1996 £	1995 £
Trade debtors	8,226	82,250
Other debtors	3,279	111,208
Prepayments and accrued income	596,272	256,761
	<u>607,777</u>	<u>450,219</u>

7 CREDITORS - amounts falling due within one year

	1996 £	1995 £
Corporation tax	499,075	445,174
Advance Corporation Tax payable	475,000	400,000
Other taxation and social security	139,121	-
Other creditors	1,858,525	13,336
Accruals	384,677	487,571
	<u>3,356,398</u>	<u>1,346,081</u>

8 CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid Ordinary shares of £1 each	<u>2</u>	<u>2</u>

9 RECONCILIATION OF MOVEMENTS IN
SHAREHOLDERS' FUNDS

	1996 £	1995 £
Profit for the financial year	1,987,008	1,632,204
Dividends	(1,900,000)	(1,600,000)
	<u>87,008</u>	<u>32,204</u>
Opening shareholders' funds	<u>89,967</u>	<u>57,763</u>
Closing shareholders' funds	<u>176,975</u>	<u>89,967</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 1996

10 STAFF NUMBERS AND COSTS

The company had no employees apart from the directors who did not receive any emoluments (1995: Nil).

11 TRANSACTIONS WITH DIRECTOR

Pursuant to a contract with Accounta Trust Reg. for the services of the director Mr H J Beach, amounts totalling £58,403 (1995: £86,836) became payable by the company in the year and have been included in the accounts within production costs.

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

	1996		1995	
	£	£	£	£
OPERATING PROFIT		2,809,268		2,365,544
Depreciation and amortisation	4,064		3,794	
(Increase) decrease in debtors	(157,558)		123,426	
Increase (decrease) in creditors	1,881,416		(653,147)	
		<u>1,727,922</u>		<u>(525,927)</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>4,537,190</u>		<u>1,839,617</u>

13 ANALYSIS OF CHANGES IN CASH AND CASH
EQUIVALENTS DURING THE YEAR

	1996	1995
	£	£
At 1 October 1995	951,691	1,286,467
Net cash inflow (outflow)	1,937,335	(334,776)
At 30 September 1996	<u>2,889,026</u>	<u>951,691</u>

MERCURY SONGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 30 September 1996

14 ANALYSIS OF BALANCES OF CASH AND CASH
EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1996 £	1995 £	Change in year £
Cash at bank and in hand	<u>2,889,026</u>	<u>951,691</u>	<u>1,937,335</u>
	1995 £	1994 £	Change in year £
Cash at bank and in hand	<u>951,691</u>	<u>1,286,467</u>	<u>(334,776)</u>