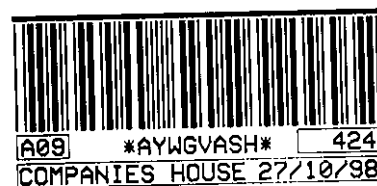


**MUSIC COLLECTION INTERNATIONAL LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 1997**

Company Number 1622224



# **MUSIC COLLECTION INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997**

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

### **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 financial statements; and
- prepare the 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.

### **PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The principal activity of the company is the publishing and marketing of music on compact discs and audio tapes. The company traded satisfactorily during the year, given the difficult trading conditions.

### **RESULTS AND DIVIDENDS**

The results for the year are set out on page 5. The directors recommend the payment of a dividend for the year ended 31 December 1997 of £755,000 (1996: £1,100,000). The retained loss of £76,000 (1996: profit £206,000) has been transferred to reserves.

# MUSIC COLLECTION INTERNATIONAL LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (Continued)

### DIRECTORS

The directors during the year were as follows:

ST Ayres  
IP Dunleavy  
P Stack  
D Keene  
B Jones  
R Brooman (appointed 3 November 1997)

No director had any beneficial interest in the share capital of the company or of any subsidiary or fellow subsidiary company.

ST Ayres, IP Dunleavy, P Stack and R Brooman were also directors of the ultimate parent company, VCI plc, during the year. Details of their interests in its share capital are given in the financial statements of that company. The interests of the other directors in the share capital of the ultimate parent company were as follows:

Ordinary shares of 10p each		
	1 January 1997	31 December 1997
D Keene	-	-
B Jones	-	-

Options over ordinary shares of 10p each were as follows:

	Held at 1 January 1997	Exercised During the year	Held at 31 December 1997
D Keene	32,922	-	32,922
B Jones	2,916	-	2,916

The options were issued under the VCI plc employee benefit trust, the VCI plc discretionary share option scheme and the VCI employee savings related share option scheme. Exercise prices range from 100p per exercise to 165p per option exercised. Further disclosure regarding these schemes, including exercise dates, are contained in the financial statements of VCI plc.

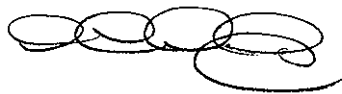
## **MUSIC COLLECTION INTERNATIONAL LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (Continued)**

#### **AUDITORS**

Our auditors, Price Waterhouse, have merged with Coopers & Lybrand on 1 July and a resolution to appoint the new firm, PricewaterhouseCoopers, (having previously been appointed by the board of directors to fill a casual vacancy arising by reason of the resignation of Price Waterhouse) as auditors to the company will be proposed at the annual general meeting.

This report was approved by the board on 30 September 1998.



DCA Chaston  
Secretary  
76 Dean Street  
London  
W1V 5HA

PricewaterhouseCoopers  
10 Bricket Road  
St Albans  
Herts AL1 3JX  
Telephone +44 (0) 1727 844155  
Facsimile +44 (0) 1727 845039

## AUDITORS' REPORT TO THE MEMBERS OF MUSIC COLLECTION INTERNATIONAL LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared on the basis of the accounting policies set out on pages 7 and 8.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1, 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.

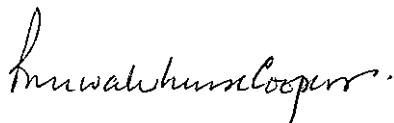
### BASIS OF OPINION

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.

### 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 result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors

30 September 1998

# MUSIC COLLECTION INTERNATIONAL LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
<b>TURNOVER</b>	<b>2</b>	13,392	14,431
Cost of sales		(8,290)	(9,300)
<b>GROSS PROFIT</b>		5,102	5,131
Selling and distribution costs		(1,869)	(1,853)
Administrative expenses		(2,204)	(1,712)
<b>OPERATING PROFIT</b>	<b>5</b>	1,029	1,566
Interest receivable		96	236
Interest payable	<b>6</b>	(60)	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,065	1,802
Tax on profit on ordinary activities	<b>7</b>	(386)	(496)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		679	1,306
Dividends	<b>8</b>	(755)	(1,100)
<b>RETAINED (LOSS)/PROFIT FOR THE YEAR</b>	<b>14</b>	(76)	206

All gains and losses have been recognised in the profit and loss account above and arise from continuing operations.

The notes on pages 7 to 13 form part of these accounts.

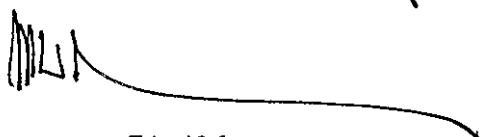
# MUSIC COLLECTION INTERNATIONAL LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
<b>FIXED ASSETS</b>			
Intangible assets	9	1,320	-
<b>CURRENT ASSETS</b>			
Stocks		1,441	1,619
Rights and advance royalties		4,354	1,717
Debtors	11	5,498	5,161
Cash at bank and in hand		3,038	3,038
		14,331	11,535
<b>CREDITORS: amounts falling due within one year</b>	12	(13,713)	(9,521)
<b>NET CURRENT ASSETS</b>		618	2,014
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,938	2,014
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	-	-
Profit and loss account	14	1,938	2,014
<b>SHAREHOLDER'S FUNDS</b>	15	1,938	2,014

Approved by the Board on 30 September 1998.

Director



The notes on pages 7 to 13 form part of these accounts.

# **MUSIC COLLECTION INTERNATIONAL LIMITED**

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997**

### **1 ACCOUNTING POLICIES**

#### **Accounting convention**

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

#### **Intangible assets**

Intangible assets, representing acquired copyrights, are stated at cost less amortisation. Amortisation is on a straight line basis over the assets estimated useful lives, not normally exceeding 20 years from the date of first release.

#### **Stocks**

Stocks are stated at the lower of cost, and net realisable value.

#### **Rights, production costs and advance royalties**

Rights and production costs are stated at cost less amortisation, provisions and the cost of rights sold.

Rights and production costs are amortised in direct proportion to the anticipated net revenue from their exploitation. Provision is made where amortised cost exceeds anticipated net revenue.

Advance royalties are stated at cost less royalties generated from sales and provisions for any anticipated unrecoverable amounts.

#### **Foreign currencies**

Transactions in foreign currencies are translated into sterling at the rates ruling when the transactions are entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at operating profit.

#### **Deferred taxation**

Provision is made for deferred taxation to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes only to the extent that it is probable that a liability will crystallise in the foreseeable future.

#### **Operating leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease period.



## MUSIC COLLECTION INTERNATIONAL LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

#### Pension costs

The cost of providing pensions to employees is charged to the profit and loss account over the years benefiting from employees' services on the basis of a consistent proportion of earnings. The difference between the charge to the profit and loss account and contributions paid is included as an asset or liability in the balance sheet.

Further details are set out in note 19.

#### Turnover

Turnover represents amounts receivable by the company, net of VAT, for goods and services supplied and amounts receivable in respect of rights sold.

#### Group accounts

The company has not prepared group accounts as it is exempt from the requirement to do so by virtue of section 228 of the Companies Act 1985 as it is wholly owned by and is included in the group accounts of VCI plc, a company incorporated within Great Britain.

#### Cash flow statement

The company has taken advantage of the provisions of FRS1 (Revised) not to publish a cash flow statement as its ultimate parent company, VCI plc, has prepared consolidated financial statements including a consolidated cash flow statement.

## 2 TURNOVER AND PROFIT

Turnover and profit on ordinary activities after taxation represent amounts derived from the principal activity of the company in respect of operations in the United Kingdom.

## 3 EMPLOYEES

### (1) Number of employees

The average number of persons (including directors) employed by the company during the year was:

	1997 Number	1996 Number
Administration	26	9
Sales and Marketing	7	13
Production	1	-
	34	22

### (2) Employment costs

	1997 £'000	1996 £'000
Wages and salaries	1,270	1,070
Social security costs	144	99
Other pension costs	52	44
	1,466	1,213

# MUSIC COLLECTION INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

### 4 DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Directors' emoluments (excluding pension contributions)	350	332

The company made contributions to pension schemes on behalf of the directors as follows:

6 directors (1996: 6 directors)	35	29
---------------------------------	----	----

The highest paid director received:

Emoluments (excluding pension contributions)	114	145
Contributions to money purchase pension scheme	11	11

### 5 OPERATING PROFIT

	1997 £'000	1996 £'000
Operating profit is stated after charging:		
Hire of assets on operating leases	96	62
Auditors' remuneration - audit fees	13	12

### 6 INTEREST PAYABLE

	1997 £'000	1996 £'000
On bank loans and overdrafts wholly repayable within five years	60	-

# MUSIC COLLECTION INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

### 7 TAXATION

	1997 £'000	1996 £'000
UK Corporation tax at 31.5% (1996: 33%)	386	591
Prior year adjustment	-	(95)
	<u>386</u>	<u>496</u>

### 8 DIVIDENDS

	1997 £'000	1996 £'000
Final proposed	755	1,100

### 9 INTANGIBLE ASSETS

	Acquired copyrights £'000
Cost:	
1 January 1997	-
Additions	1,320
31 December 1997	<u>1,320</u>
Net book amount 31 December 1997	<u>1,320</u>

### 10 FIXED ASSET INVESTMENT

	1997 £	1996 £
Investment in subsidiary undertaking at cost	<u>66</u>	<u>66</u>

The company owns 100 shares of \$1 each being the entire issued equity share capital of Music Collection International Inc, a company incorporated in the USA which is dormant.

The company owns 1 share of £1 being the entire issued share capital of Mecanique Productions Limited.

# MUSIC COLLECTION INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

### 11 DEBTORS

	1997 £'000	1996 £'000
Trade debtors	431	484
Amounts owed by group undertakings	3,469	3,715
Other debtors	575	278
Prepayments and accrued income	1,023	684
	<hr/>	<hr/>
	5,498	5,161

### 12 CREDITORS: amounts falling due within one year

	1997 £'000	1996 £'000
Trade creditors	4,981	6,204
Corporation tax	715	513
Other taxes and social security	44	-
Accruals and deferred income	197	279
Proposed dividend	755	1,100
Amounts owed to group undertakings	7,021	1,425
	<hr/>	<hr/>
	13,713	9,521

### 13 SHARE CAPITAL

	1997 £	1996 £
Ordinary shares of £1 each Authorised	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid	170	170

### 14 RESERVES

	Profit and loss account	
	1997 £'000	1996 £'000
At 1 January	2,014	1,808
(Loss)/profit for the year	(76)	206
	<hr/>	<hr/>
At 31 December	1,938	2,014

# MUSIC COLLECTION INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

### 15 SHAREHOLDER'S FUNDS

	1997 £'000	1996 £'000
Opening shareholder's funds	2,014	1,808
Profit for the year	679	1,306
Dividends	(755)	(1,100)
Closing shareholder's funds	1,938	2,014

### 16 CONTINGENT LIABILITIES

The company has given a joint guarantee together with certain fellow subsidiaries in respect of its ultimate parent company's borrowings, which at 31 December 1997, amounted to £5,000,000 (1996: £ 3,750,000). These arrangements are secured by a fixed and floating charge over all the assets of the company.

### 17 FINANCIAL COMMITMENTS

#### Royalty advances

At 31 December 1997 the company was committed to paying advance royalties of £200,000 (1996: £75,000).

#### Operating leases

At 31 December 1997 the company had commitments in the next financial year under non cancellable operating leases as follows:

	Land and buildings		Motor vehicles	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Expiry date:				
Within one year	-	-	-	4
Between two and five years	5	-	87	50

### 18 ULTIMATE PARENT UNDERTAKING

The directors regard VCI plc, a company registered in England, as the company's ultimate parent undertaking.

VCI plc is the parent undertaking of the only group of which Music Collection International Limited is a member and for which group accounts are drawn up. Copies of those group accounts have been delivered to, and are available from, the Registrar of Companies, Companies Registration Office, Crown Way, Maindy, Cardiff CF4 3UZ.

## **MUSIC COLLECTION INTERNATIONAL LIMITED**

### **19 PENSIONS**

The cost to the company of providing pensions during the year was £52,000 (1996: £44,000). There were no material outstanding or prepaid contributions at the balance sheet date.

Employees of the company may be members of the defined contribution, money purchase scheme operated for employees of the VCI plc group. The assets of the scheme are held separately from those of the group in independently administered funds.

Further disclosure regarding the pension schemes is contained in the financial statements of VCI plc.

### **20 RELATED PARTY TRANSACTIONS**

As set out in note 18, the company is a member of a group which prepares consolidated accounts which are publicly available. The company has taken advantage of the exemption of FRS8 not to disclose transactions and balances within members of the group.

There were no other related party transactions or balances that require disclosure.