

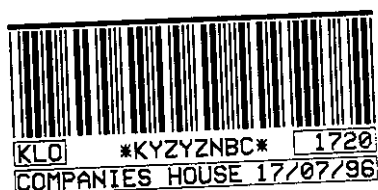
ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO, SC

Mushroom Records (UK) Limited

Financial statements for the year ended 30 June 1995
together with directors' and auditors' reports

Registered number: 1736204



Company information

Directors	G. Ashley P.W. Stehrenberger S. Young
Secretary	R. Feldmann
Company number	1736204
Registered office	8-10 Bulstrode Street London W1M 6AH
Auditors	Arthur Andersen Chartered Accountants and Registered Auditors 1 Surrey Street London WC2R 2PS
Business address	555 Kings Road London SW6 2BE
Bankers	Barclays Bank PLC 54 Lombard Street London EC3V 9EX Lloyds Bank Plc City Office 72 Lombard Street London EC3P 3BT
Solicitors	Harbottle & Lewis Hanover House 14 Hanover Square London W1R 0BE

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Directors' report

For the year ended 30 June 1995

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 30 June 1995.

Principal activities

The company's principal activities continue to be production, marketing and distribution of musical recordings.

Directors and their interests

The directors who served during the year were as follows::

G. Ashley
P.W. Stehrenberger
S. Young

The directors do not have any interests in the shares of the company which require to be disclosed under Schedule 7 of the Companies Act 1985 other than G. Ashley who owns Aigle Trustees S.A., a company registered in Switzerland, which held 75,000 of the ordinary shares of the company.

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 judgments 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 group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be reappointed as auditors of the company will be put to the annual general meeting.

In the preparation of the directors' report advantage has been taken of the special exemptions applicable to small companies conferred by Part II of Schedule 8 to the Companies Act 1985.

8-10 Bulstrode Street
London
W1M 6AH

By order of the Board

A handwritten signature in black ink, appearing to read 'R. Feldmann', with a long horizontal flourish extending to the right.

R. Feldmann

Secretary

2 June 1996

Auditors' report

London

To the Shareholders of Mushroom Records (UK) 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 6 and 7.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial 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 directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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.

Without qualifying our opinion, we draw attention to note 15, which sets out the consideration given by the directors to the net liability position of the company.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30 June 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as applicable to small companies.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

2 June 1996

Profit and loss account

For the year ended 30 June 1995

	Notes	1995 £	1994 £
Turnover	1c & 14	821,221	1,068,661
Cost of sales		<u>(624,075)</u>	<u>(1,151,448)</u>
Gross profit (loss)		197,146	(82,787)
Administrative expenses		<u>(768,941)</u>	<u>(837,943)</u>
Operating loss	2	(571,795)	(920,730)
Other interest receivable and similar income	3	1,502	991
Interest payable and similar charges	4	<u>(56,562)</u>	<u>(24,022)</u>
Loss on ordinary activities before taxation		(626,855)	(943,761)
Taxation	5	-	-
Loss for the financial year	12	<u>(626,855)</u>	<u>(943,761)</u>

There are no recognised gains and losses other than those passing through the profit and loss account.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

30 June 1995

	Notes	1995		1994	
		£	£	£	£
Fixed assets					
Tangible assets	6		97,896		120,686
Investments	7		125		50
			<u>98,021</u>		<u>120,736</u>
Current assets					
Stocks	1f	27,797		30,591	
Debtors					
- due within one year	8	856,371		421,014	
- due after one year	8	468,500		159,360	
		<u>1,352,668</u>		<u>610,965</u>	
Creditors: Amounts falling due within one year	9	<u>(2,145,851)</u>		<u>(815,008)</u>	
Net current (liabilities) assets			<u>(793,183)</u>		<u>(204,043)</u>
Total assets less current liabilities			<u>(695,162)</u>		<u>(83,307)</u>
Creditors: Amounts falling due after more than one year	10		<u>(500,829)</u>		<u>(485,829)</u>
Net liabilities			<u>(1,195,991)</u>		<u>(569,136)</u>
Capital and reserves					
Called-up share capital	11	600,000		600,000	
Profit and loss account	12	<u>(1,795,991)</u>		<u>(1,169,136)</u>	
Shareholders' funds	13	<u>(1,195,991)</u>		<u>(569,136)</u>	

Approved by the Board

S. Young

Director

2 June 1996

In preparing these financial statements:

- Advantage has been taken of the special exemptions applicable to small companies conferred by Part I of Schedule 8 to the Companies Act 1985; and
- In the directors' opinion the company is entitled to these exemptions as a small company.

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements

30 June 1995

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) *Basis of accounting*

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

b) *Group financial statements*

The company has taken advantage of exemptions given under s248 of the Companies Act 1985 for small groups from the requirement to prepare group accounts.

c) *Turnover*

Turnover represents amounts receivable for goods and services provided in the normal course of business in the UK net of VAT and trade discounts.

d) *Tangible fixed assets*

Tangible fixed assets are stated at cost net of depreciation and provision for permanent diminution in value. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	- 25% reducing balance
Fixtures, fittings and equipment	- 25% reducing balance
Motor vehicles	- 25% reducing balance

e) *Investments*

Fixed asset investments are stated at cost less provision for permanent diminutions in value.

f) *Stock*

Stock represents finished goods and goods held for resale and is valued at the lower of cost and net realisable value.

g) *Artist Advances*

The company advances funds to artists primarily for the production of records. These are treated as an asset of the company as it is assumed that the advances will be recovered from royalties that would otherwise be payable to the artist.

The directors periodically review the recoverability of the residual advances based upon their knowledge of expected market conditions and the market's anticipated response to available product from the relevant artists.

Advances to artists who have not completed production of an album are held at full value and are assumed to be fully recoverable until such time as significant market response to the product is received.

Notes to financial statements (continued)

1 Accounting policies (continued)

h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

i) Cash flow

The company has taken advantage of the exemption in Financial Reporting Standard No. 1 from the requirement to produce a cash flow statement on the grounds that it is a small company as defined by section 2 of the Companies Act 1985.

2 Operating loss

Operating loss is stated after charging:

	1995 £	1994 £
Depreciation and amounts written off tangible assets	32,687	40,230
Auditors' remuneration	7,5000	1,000
Directors' emoluments	51,100	50,000

3 Other interest receivable and similar income

	1995 £	1994 £
Bank interest received	1,502	991

4 Interest payable and similar charges

	1995 £	1994 £
Overdraft repayable within five years, not by instalments	56,562	24,022

5 Taxation

There is no current year tax charge as the company was loss making during the period.

Notes to financial statements (continued)

6 Tangible assets

	Computer equipment £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost				
At beginning of year	52,688	87,376	32,356	172,420
Additions	8,704	11,407	5,810	26,087
Disposals	-	-	(24,500)	(24,500)
At end of year	61,392	98,783	13,666	173,841
Depreciation				
At beginning of year	16,293	25,040	10,401	51,734
Charge for year	11,275	18,477	2,935	32,687
Disposals	-	-	(8,476)	(8,476)
At end of year	27,568	43,517	4,860	75,945
Net book value				
At beginning of year	36,395	62,336	21,955	120,686
At end of year	33,824	55,266	8,806	97,896

7 Fixed asset investments

Shares in group undertakings and participating interests

	£
Cost and net book value	50
Additions	75
At 30 June 1995	125

In the opinion of the directors the aggregate value of the company's fixed asset investment is not less than the amount included in the balance sheet.

Acquisition of subsidiary undertaking

On 1 July 1994 the company acquired 75 ordinary shares of £1 each in Flying Nun (UK) Limited, being 75% of its nominal share capital. The fair value of the total consideration was £75.

Notes to financial statements (continued)

7 Fixed asset investments (continued)

Holdings of more than 10%

The company holds more than 10% of the share capital of the following company:

Company	Country of registration or incorporation	Shares held Class	%
<i>Subsidiary undertakings</i>			
Flying Nun (UK) Ltd.	England and Wales	Ordinary	75
<i>Associated undertakings</i>			
Infectious Records Ltd	England and Wales	Ordinary	50

The aggregate amount of capital and reserves and the results of this undertaking for the last relevant financial period were as follows:

	Accumulated deficit		Loss for the period	
	1995 £	1994 £	1995 £	1994 £
Infectious Records Ltd	(266,831)	(51,710)	(215,121)	(51,810)
Flying Nun (UK) Ltd	(16,075)	-	(16,175)	-

The company has provided a guarantee amounting to £250,000 to its associate undertaking Infectious Records Limited.

8 Debtors

	1995 £	1994 £
Amounts falling due within the year:		
Trade debtors	97,662	28,432
VAT	73,646	52,547
Prepayments and accrued income	9,594	10,630
Amounts owed by subsidiary undertakings	18,673	-
Amounts owed by associated undertakings	656,796	329,405
	<u>856,371</u>	<u>421,014</u>

Notes to financial statements (continued)

8 Debtors (continued)

	1995 £	1994 £
Amounts falling due after more than one year:		
Amounts owed by associated undertakings	125,000	125,000
Other debtors	343,500	34,360
	<u>468,500</u>	<u>159,360</u>

9 Creditors: Amounts falling due within one year

	1995 £	1994 £
Bank loans and overdrafts	1,392,294	453,912
Trade creditors	555,826	276,840
Accruals	54,489	66,505
Amounts owing from associated undertakings	143,242	17,751
	<u>2,145,851</u>	<u>815,008</u>

10 Creditors: Amounts falling due after more than one year

	1995 £	1994 £
Loans		
Interest free loans from shareholders repayable within 2-5 years	500,829	485,829
	<u>500,829</u>	<u>485,829</u>

11 Share capital

	1995 £	1994 £
<i>Authorised</i>		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
600,000 ordinary shares of £1 each	<u>600,000</u>	<u>600,000</u>

Notes to financial statements (continued)

12 Profit and loss account

	1995 £	1994 £
Accumulated losses at beginning of year	(1,169,136)	(225,375)
Retained loss for the year	(626,855)	(943,761)
Accumulated losses at end of year	<u>(1,795,991)</u>	<u>(1,169,136)</u>

13 Reconciliation of movements in shareholders' funds

	1995 £	1994 £
Loss for the financial year	(626,855)	(943,761)
Proceeds of issue of equity shares	-	599,998
Net reduction of shareholders' funds	(626,855)	(343,763)
Opening shareholders' funds	(569,136)	(225,373)
Closing shareholders' funds	<u>(1,195,991)</u>	<u>(569,136)</u>

14 Related party transactions

The company has entered into an "artiste and repertoire" agreement which generated turnover of £466,098 in the current year (1994 - £427,000) with Mushroom Records International BV, a company registered in the Netherlands.

15 Company financing

The controlling shareholders have agreed to provide the company with financial support. The directors have considered the financial position of the company and in view of this support, have concluded that the company is able to meet its liabilities as they fall due.

16 Subsequent Event

After the year end shareholder loans were received as follows:

	£
July 95	135,311
August 95	712,930
February 96	<u>1,000,000</u>
	<u>1,848,240</u>