Dedicated Limited

Directors' report and financial statements

Registered number 2426030

30 June 1997

Contents

Directors' report

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

Principal activities and business review

The principal activity of the company is the production and promotion of recordings by international recording artists.

Results and dividends

The directors do not recommend the payment of a dividend *(1996: £nil).* The retained loss for the year of £2,850,130 *(1996: loss £615,725)* has been transferred to reserves.

Business review

The results for the year are detailed on page 5.

Directors and directors' interests

The directors who held office during the year and subsequently were as follows:

J Liebeson	(resigned 1 July 1999)
J Preston	(resigned 30 January 1998)
D D'Arcy	(resigned 18 May 1998)
R Gassner	(resigned 1 July 1999)
M Stanton	(resigned 1 November 1997)
S Robinson	(appointed 1 November 1997)

D D'Arcy had a beneficial interest in 25 £1 ordinary shares in the company at 30 June 1997. This interest was transferred on 18 May 1998 to the other shareholders.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

P Wareham
Secretary

Bedford House
69-79 Fulham High Street
London
SW6 3JW

8th September 2000

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of Dedicated Limited

We have audited the financial statements on pages 5 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 30 June 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

12 September 2000

Profit and loss account

for the year ended 30 June 1997

	Note	1997 £	1996 £
Turnover	2	**703,494**	98,417
Cost of sales		**(989,580)**	(307,487)
Gross loss		**(286,086)**	(209,070)
Distribution costs		**(43,998)**	(8,690)
Administrative expenses		**(674,802)**	(693,822)
Operating loss		**(1,004,886)**	(911,582)
Interest payable and similar charges	6	**(4,449)**	(2,263)
Interest receivable and similar income	7	**4,483**	1,278
Loss on ordinary activities before taxation	3,5	**(1,004,852)**	(912,567)
Tax on loss on ordinary activities	8	**(1,845,278)**	296,842
Loss for the financial year		**(2,850,130)**	(615,725)
Retained loss brought forward		**(4,376,899)**	(3,761,174)
Retained loss carried forward		**(7,227,029)**	(4,376,899)

Turnover and loss on ordinary activities before taxation for the year relate exclusively to continuing operations.

The company has no recognised gains or losses other than the loss for the year and therefore no separate statement of total recognised gains and losses has been presented.

The loss on a historical cost basis is the same as the reported loss.

Balance sheet

at 30 June 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	*9*		**5,881**		4,038
Investments	10		**-**		-
			5,881		4,038
Current assets					
Stocks	*11*	**47,228**		-	
Debtors	*12*	**800,985**		2,449,734	
		848,213		2,449,734	
Creditors: amounts falling due within one year	*13*	**(2,081,023)**		(6,830,571)	
Net current liabilities			**(1,232,810)**		(4,380,837)
Net liabilities			**(1,226,929)**		(4,376,799)
Capital and reserves					
Called up share capital	*14*		**6,000,100**		100
Profit and loss account	*15*		**(7,227,029)**		(4,376,899)
Shareholders' deficit	*18*		**(1,226,929)**		(4,376,799)
Shareholders' funds/(deficit):					
Equity			**(7,226,929)**		(4,376,799)
Non-equity			**6,000,000**		-
			(1,226,929)		(4,376,799)

These financial statements were approved by the board of directors on 8th September 2000 and were signed on its behalf by:

S Robinson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about is group

The accounts have been prepared on a going concern basis in view of an undertaking from the parent company to provide such support as is necessary to maintain the company as a going concern.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Furniture, fixtures & fittings and office equipment	-	33% per annum
Leasehold improvements	-	25% per annum
Computer equipment	-	33% per annum

Stocks

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Dedicated Limited is a member of the BMG UK Limited group for taxation purposes and members of the group are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise these losses exists. No agreement exists between members of the group that such losses will be purchased and paid for by the recipient company.

Pension costs

The company pays an agreed percentage of annual basic salary into individual employee Personal Pension Plans. The amounts charged to the profit and loss account in respect of these schemes represents the contributions payable by Dedicated Limited for the accounting period.

Royalty advances

Royalty advances are carried forward and recognised as an asset where such advances relate to current unreleased products and where it is estimated that sufficient future royalties will be earned for recoupment from those products.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover represents sales to customers, at invoiced amounts less value added tax, and royalty income.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the company enters into a lease which does not entail taking substantially all of the risks and rewards of ownership of an asset, the lease is accounted for as an 'operating lease' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

2 Turnover

Geographical analysis of turnover

	1997	1996
	£	£
United Kingdom	**703,494**	98,417

3 Loss on ordinary activities before taxation

	1997	1996
Loss on ordinary activities before taxation is stated after charging:	**£**	£
Auditors' remuneration	**1,942**	1,942
Depreciation – owned assets	**2,438**	2,049
Hire of other assets – operating leases	**6,225**	5,756

4 Remuneration of directors

Aggregate directors' emoluments, including pension contributions, amounted to £279,375 *(1996: £242,351)*. The remuneration of the highest paid director, excluding pension contributions was £262,500 *(1996:£225,476)*.

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1997	1996
Administrative	9	8

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£	£
Wages and salaries	351,558	318,476
Social security costs	34,510	37,565
Other pension costs	17,826	17,531
	403,894	373,572

6 Interest payable and similar charges

	1997	1996
	£	£
On bank loans and overdrafts	4,449	2,263

7 Other interest receivable and similar income

	1997	1996
	£	£
Bank interest	4,483	1,278

8 Taxation

	1997	1996
	£	£
Tax credit in respect of group relief at 33% (1996: 33%) on the taxable loss for the year	-	(296,842)
Adjustment to prior year provisions	1,845,278	-
	1,845,278	(296,842)

Notes *(continued)*

9 Tangible fixed assets

	Leasehold improvements	Office equipment	Computer Equipment	Total
	£	£	£	£
Cost				
At beginning of year	14,288	16,834	5,836	36,958
Additions	-	499	3,782	4,281
At end of year	14,288	17,333	9,618	41,239
Depreciation				
At beginning of year	14,288	12,796	5,836	32,920
Charge for year	-	1,229	1,209	2,438
At end of year	14,288	14,025	7,045	35,358
Net book value				
At 30 June 1997	**-**	**3,308**	**2,573**	**5,881**
At 30 June 1996	-	4,038	-	4,038

10 Investments

	1997	1996
	£	£
Shares in subsidiary undertaking	-	-

The shares in the subsidiary undertaking represents the company's investment in the entire issued ordinary share capital of Dedicated Inc, which is registered in Delaware, USA.

11 Stock

	1997	1996
	£	£
Finished goods and goods for resale	**47,228**	-

Notes *(continued)*

12 Debtors

	1997	1996
	£	£
Trade debtors	**336,342**	-
Royalty advances	**328,449**	173,131
Amounts owed by group undertakings	-	389,590
Amounts owed by group undertakings – group relief	-	1,846,335
Prepayments and accrued income	**87,461**	-
Other debtors	**48,733**	40,678
	800,985	2,449,734

13 Creditors: amounts falling due within one year

	1997	1996
	£	£
Bank overdraft	438,976	6,537,134
Trade creditors	313,457	-
Amounts owed to group undertakings	1,226,398	136,297
Accruals and deferred income	13,723	-
Other creditors	88,469	157,140
	2,081,023	6,830,571

14 Called up share capital

	1997	1996
	£	£
Authorised		
Equity: 100 ordinary shares of £1 each	100	100
Non-equity: 6,000,000 preference shares of £1 each	6,000,000	-
	6,000,100	100
Allotted, called up and fully paid		
Equity: 100 ordinary shares of £1 each	100	100
Non-equity: 6,000,000 preference shares of £1 each	6,000,000	-
	6,000,100	100

The preference shares are redeemable in lots of 500 once the company makes a profit available for distribution. On a winding up, they would have a priority over the ordinary shares. The shares do not carry any voting rights or rights to a dividend.

15 Reserves

	Profit and loss account £
At beginning of year	(4,376,899)
Retained loss for the year	(2,850,130)
At end of year	(7,227,029)

16 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Bertelsmann AG, a company incorporated in Germany.

The largest and smallest group in which the results of the company are consolidated is that headed by Bertelsmann AG. The consolidated accounts of this group are available to the public and may be obtained from Carl Bertelsmann Strasse 270, 33311 Gütersloh1, Germany. No other group accounts include the results of the company.

17 Related party disclosures

The company is controlled by BMG Entertainment International UK Ireland Limited, by virtue of it holding 75% of the ordinary share capital. The ultimate controlling party is Bertelsmann AG.

During the year ended 30 June 1997, the company had the following related party transactions and balances at the year end:

	Transactions during the year £	Balance outstanding at the year end £
Allocated overheads payable to:		
BMG Entertainment International UK & Ireland Limited	**58,100**	1,352,336
Loan to:		
Dedicated Inc	-	125,937

18 Reconciliation of movement in shareholders' deficit

	1997 £	1996 £
Loss for the financial year	**(2,850,130)**	(615,725)
Opening shareholders' deficit	**(4,376,799)**	(3,761,074)
New share capital subscribed	**6,000,000**	-
Closing shareholders' deficit	**(1,226,929)**	(4,376,799)

19 *Contingent asset*

In February 2000, the company exercised its right to undertake an examination of the accounts and records of its distributor, Vital Distribution Limited. This examination covered the period from 1 January 1996 to 30 June 1998 and as a result, the directors consider that additional income is due under the terms of the agreement. At present management are unable to quantify the expected settlement.