

Infectious Records Limited

**Report and Financial Statements
30 June 2002**

Registered number: 2813148



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Directors' report

For the year ended 30 June 2002

The Directors present their annual report on the affairs of Infectious Records Limited ("the Company"), together with the financial statements and auditors' report, for the year ended 30 June 2002.

Principal activities

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

Business review

The Company generated turnover for the year of £2,171,000 (2001 - £2,612,000) resulting in a loss before taxation of £220,000 (2001 - loss of £907,000). The Directors expect the general level of activity to continue for the foreseeable future.

Results and dividends

The Company's loss for the financial year after taxation was £220,000 (2001 - loss of £907,000).

The Directors of the Company do not recommend the payment of a dividend (2001 - £nil).

Directors and their interests

The Directors of the Company who served during the year were as follows:

S. F. Hutson	(appointed 31 October 2001)
R. M. Linford	
B. McWilliam	(resigned 31 October 2001)
P.W. Stehrenberger	(resigned 31 October 2001)
C. Stone	(appointed 1 October 2002)

Except as noted above, all Directors served throughout the year and are still Directors at the date of this report.

None of the Directors have any interests in shares in group companies or any other interests that require disclosure in accordance with Companies Act Law.

Auditors

Arthur Andersen resigned as auditors during the year and Ernst & Young LLP were appointed in their place.

The Directors will place a resolution before the Annual General Meeting to reappoint Ernst & Young LLP as auditors for the ensuing year.

Directors' report - 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;
- 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 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.

By order of the Board



S. F. Hutson
Director

1 Virginia Street
London
E98 1XY

11 October 2002

Independent Auditors' report

To the members of Infectious Records Limited

We have audited the Company's financial statements for the year ended 30 June 2002 which comprise the accounting policies, the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2002 and of the Company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

11 October 2002

Principal accounting policies

30 June 2002

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with Generally Accepted Accounting Principles.

In preparing the financial statements for the current year, the Company has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax', and the transitional arrangements of FRS17 'Retirement Benefits'. Adoption of these standards has not required any revisions to the financial statements in either the current or prior periods.

Cash flow statement

The Company is exempt from the requirement of FRS 1 'Cash flow statements' to include a cash flow statement as part of its financial statements because it is a wholly owned subsidiary undertaking of a body corporate, and a consolidated cash flow statement is included in the financial statements of The News Corporation Limited ("TNCL"), the ultimate parent company.

Turnover

Turnover represents amounts receivable for goods and services net of returns and discounts provided in the normal course of business in the UK net of VAT. Royalties received on sales of compilation albums are recognised on a cash receipts basis.

Artist advances

The Company advances funds to artists prior to the production of records. These are treated as an asset of the Company and included within other debtors as it is believed that the advances will be recovered from royalties that would otherwise be payable to the artist. The Company writes off, in the 3 months following release of an album, 50% of the costs advanced to the artist regardless of the expected life of the album. The balance is recouped by royalties due to artists from album sales. 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 each 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.

Stock

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Foreign currency

Transactions in foreign currencies are recorded at the rate of ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Principal accounting policies – continued

Taxation

Current tax, including UK Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pension costs

The employees of the Company participate in a defined contribution pension scheme.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Related party transactions

As a wholly owned subsidiary undertaking of TNCL, whose financial statements are publicly available, the Company has taken advantage of the exemption in FRS 8, 'Related Party Disclosures' not to disclose transactions with other members of the group headed by TNCL.

Profit and loss account
For the year ended 30 June 2002

	Notes	2002 £'000	2001 £'000
Turnover	1	2,171	2,612
Cost of sales		(1,094)	(2,156)
Gross profit		<u>1,077</u>	<u>456</u>
Administrative expenses		(1,286)	(1,331)
Operating loss		<u>(209)</u>	<u>(875)</u>
Finance charges (net)	4	(11)	(32)
Loss on ordinary activities before taxation	2	<u>(220)</u>	<u>(907)</u>
Tax on loss on ordinary activities	5	-	-
Retained loss for the financial year	10	<u>(220)</u>	<u>(907)</u>

There are no recognised gains and losses other than the loss attributable to shareholders of the Company of £220,000 in the year ended 30 June 2002 (2001 - loss of £907,000).

Details of movements in reserves are shown in note 10.

All operations of the Company continued throughout both years and no operations were acquired or discontinued.

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

Balance sheet

30 June 2002

	Notes	2002 £'000	2001 £'000
Current assets			
Stocks	6	14	30
Debtors			
- due within one year	7	161	378
- due after one year	7	540	116
		<u>715</u>	<u>524</u>
Creditors: Amounts falling due within one year	9	(5,512)	(5,101)
Net current liabilities including debtors due after one year		<u>(4,797)</u>	<u>(4,577)</u>
Net liabilities	11	<u>(4,797)</u>	<u>(4,577)</u>
Equity capital and reserves			
Called-up share capital	10	-	-
Profit and loss account	10	(4,797)	(4,577)
Equity shareholders' deficit		<u>(4,797)</u>	<u>(4,577)</u>

The financial statements on pages 4 to 11 were approved by the Board of Directors on 11 October 2002 and signed on its behalf by:



S. F. Hutson
Director

11 October 2002

The accompanying principal accounting policies and notes are an integral part of this balance sheet.

Notes to the financial statements

30 June 2002

1 Turnover

Substantially all the Company's turnover and profit, in both the current and prior year, are derived, both by origin and destination, from the production, marketing and distribution of musical recordings in the United Kingdom.

2 Loss on ordinary activities before taxation

Operating loss is stated after charging:

	2002 £'000	2001 £'000
Auditors' remuneration	6	6

3 Staff costs

Staff costs for the year amounted to:

	2002 £'000	2001 £'000
Wages and salaries	74	50
Social Security costs	5	5
Pension	2	-
	<u>81</u>	<u>55</u>

The employees of the Company participate in a defined contribution pension scheme.

The average monthly number of persons employed by the Company was:

	2002 Number	2001 Number
Creative	1	1
Sales and Marketing	2	2
	<u>3</u>	<u>3</u>

The Directors of the Company received no remuneration for their services to the Company during the year (2001 - £nil). The Directors received emoluments for their services provided to other group undertakings as disclosed in the financial statements of those companies.

4 Finance charges (net)

	2002 £'000	2001 £'000
Interest payable and similar charges		
Bank interest	11	32
Finance charges (net)	<u>11</u>	<u>32</u>

Notes to the financial statements - continued

5 Tax on loss on ordinary activities

Factors affecting current tax charge

The table below reconciles the standard rate of corporation tax in the UK of 30% (2001 – 30%) to the tax on the loss on ordinary activities for the year.

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(220)	(907)
Corporation tax at 30% (2001 – 30%)	(66)	(272)
Permanent disallowables	11	4
Other timing differences	19	-
Group relief surrendered	36	268
Total current tax	-	-

6 Stocks

	2002 £'000	2001 £'000
Finished goods and goods for resale	14	30

7 Debtors

	2002 £'000	2001 £'000
Amounts falling due within one year		
Due from other group undertakings	4	80
VAT	2	5
Prepayments and accrued income	155	293
	161	378
Amounts falling due after more than one year		
	2002 £'000	2001 £'000
Other debtors	540	116

Notes to the financial statements – continued

8 Cash at bank and in hand

The Newscorp Investments Group (“the Group”) operates a collective overdraft facility with its bankers which allows individual companies in the Group to overdraw subject to an agreed limit not being exceeded in aggregate. This facility is guaranteed by TNCL.

9 Creditors: Amounts falling due within one year

	2002 £'000	2001 £'000
Bank loans and overdrafts	880	607
Due to other group undertakings	4,457	4,144
Accruals and deferred income	175	350
	<u>5,512</u>	<u>5,101</u>

10 Equity capital and reserves

	2002 £	2001 £
a) Called-up share capital		
Authorised:		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
Allotted and fully paid:		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
b) Reserves		
		Profit and Loss account £'000
Beginning of the year		(4,577)
Loss for the financial year		(220)
		<u> </u>
End of the year		(4,797)
c) Reconciliation of movements in shareholders' deficit		
	2002 £'000	2001 £'000
Loss for the financial year	(220)	(907)
Opening shareholders' deficit	(4,577)	(3,670)
	<u> </u>	<u> </u>
Closing shareholders' deficit	(4,797)	(4,577)
	<u> </u>	<u> </u>

Notes to the financial statements – continued

11 Funding

The net liabilities of the Company are £4,797,000 at 30 June 2002 (2001 - £4,577,000). News International plc the immediate parent of Mushroom Records (UK) Limited has confirmed its intention of providing continuing financial support to enable the Company to meet its liabilities as they fall due.

12 Guarantees and financial commitments

Under a collective group banking facility the Company has given multilateral guarantees in respect of bank overdrafts of other companies in the Group.

13 Ultimate parent company

The Company's immediate parent company is Mushroom Records (UK) Limited, a company incorporated in England and Wales.

The ultimate parent company is TNCL, a company incorporated in South Australia.

The largest group in which the results of the Company are consolidated is that headed by TNCL, whose principal place of business is at Holt Street, Sydney, New South Wales, Australia. The smallest group in which they are consolidated is that headed by Newscorp Investments a company incorporated in England and Wales. The consolidated accounts of these groups will be available to the public and may be obtained from 1 Virginia Street, London, E98 1FN.