

FANTASIA EUROPE LTD
Report and Financial Statements
Nine months to 30 September 1995



REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

William Peter Craig Henderson
Julian John Spencer
Ronald Westland (The Netherlands)

SECRETARY

William Peter Craig Henderson

REGISTERED OFFICE

116 Adams Way
Alton
Hampshire GU34 2UZ

SOLICITORS

Peter Henderson
116 Adams Way
Alton
Hampshire GU34 2UZ

Stibbe Simont Monahan Duhot
Stibbetoren
Strawinskylaan 2001
1070 AP Amsterdam, The Netherlands

AUDITORS

GMG Roberts
47 Queen Anne Street
London W1M 9FA

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the nine months ended 30 September 1995.

ACTIVITIES

The company acted as a distributor of sound carriers (compact discs and music cassettes). It ceased to trade in July 1995.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The results of the company for the period are shown in Dutch guilders ("HfI") on page 5. The loss for the period of HfI 355,013 (period to 31 December 1994: loss HfI 1,446,479) was transferred to reserves. The loss arose from finance costs and foreign exchange losses and provisions against receivable amounts of HfI 442,482. The company closed its office in Holland and de-registered with the Chamber of Commerce there in November 1994, and ceased trading completely in July 1995.

DIVIDEND

The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

None of the directors had any beneficial interest in the shares of the company at 30 September 1995 or at the date of this report. Ronald Westland holds 100 ordinary shares of £ 1 each (out of a total of 1,000) in United Distribution Services Ltd., a fellow subsidiary undertaking, at the date of this report.

AUDITORS

Deloitte & Touche resigned as auditors on 31 July 1997. On the same date, GMG Roberts were appointed as auditors to the company. A resolution not to reappoint auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



W P C Henderson
Director

19th August 1997

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 at the end of the financial year 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, making judgements and estimates that are reasonable and prudent; and prepare the financial statements on a 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.

**AUDITORS' REPORT TO THE MEMBERS OF
FANTASIA EUROPE LTD**

We have audited the financial statements on pages 7 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 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 except that the scope of our work was limited as explained below. 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. However, the evidence available to us was limited as we were unable to obtain independent verification of both the current assets and liabilities. In addition, post balance sheet information was also not available. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion, we have considered the disclosures made in note 1 to the accounts concerning uncertainty as to the availability of adequate funding for the company to meet its obligations as they fall due. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

**AUDITORS' REPORT TO THE MEMBERS OF
FANTASIA EUROPE LTD (continued)**

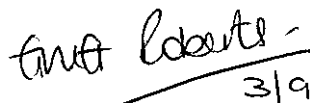
Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient independent verification of current assets and liabilities, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 1995 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to current assets and liabilities:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit;
- we have been assured but were unable to determine whether proper accounting records have been maintained in this respect.

Chartered Accountants and Registered Auditors


3/9/97.
GMG Roberts
47 Queen Anne Street
London W1M 9FA

FANTASIA EUROPE LTD

PROFIT AND LOSS ACCOUNT Nine months to 30 September 1995

	Note	Nine months to 30 September 1995	Period from 19 October 1993 to 31 December 1994
		Hfl.	Hfl.
TURNOVER			
Discontinued operations	2	746,542	12,401,729
Cost of sales	2	(641,282)	(10,940,082)
		<hr/>	<hr/>
Gross profit		105,260	1,461,647
Net operating expenses	2	(124,795)	(2,204,404)
		<hr/>	<hr/>
OPERATING LOSS FOR THE PERIOD -			
Discontinued operations	3	(19,535)	(742,757)
Interest payable and similar charges (net)	5	(335,478)	(703,722)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES FOR THE PERIOD BEFORE TAXATION		(355,013)	(1,446,479)
Taxation	6	-	-
		<hr/>	<hr/>
RETAINED LOSS FOR THE PERIOD -			
Transferred to reserves		(355,013)	(1,446,479)
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains or losses for the current period other than those shown in the profit and loss account. A statement of movements in reserves is given in Note 10.

FANTASIA EUROPE LTD

BALANCE SHEET 30 September 1995

	Note	30 September 1995 Hfl.	31 December 1994 Hfl.
CURRENT ASSETS			
Stock - finished goods	1	-	43,407
Debtors	7	369,757	1,129,314
Cash at bank and in hand		-	4,347
		<u>369,757</u>	<u>1,177,068</u>
CREDITORS: amounts falling due within one year	8	<u>(2,168,497)</u>	<u>(2,620,795)</u>
NET CURRENT LIABILITIES		(1,798,740)	(1,443,727)
NET LIABILITIES		<u>(1,798,740)</u>	<u>(1,443,727)</u>
CAPITAL AND RESERVES			
Represented by:			
Share capital	9	2,752	2,752
Profit and loss account	10	(1,801,492)	(1,446,479)
EQUITY SHAREHOLDERS' FUNDS		<u>(1,798,740)</u>	<u>(1,443,727)</u>

These financial statements were approved by the Board of Directors on *19th August 1997*

Signed on behalf of the Board of Directors

W P C Henderson
Director

NOTES TO THE ACCOUNTS
Nine months to 30 September 1995

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Currency and foreign exchange

The financial statements are presented in Dutch guilders ("HfI") as this is the primary functional currency of the company. Transactions in other currencies are translated into guilders at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Turnover

Turnover represents amounts derived from the sale of audio and visual entertainment products.

Stock

Stock is stated at the lower of cost and net realisable value. Cost includes materials and freight where appropriate. Net realisable value is based on estimated selling price less relevant selling and distribution costs.

Goodwill

Goodwill arising on acquisition is amortised in equal annual amounts over a period of ten years.

Going concern

The balance sheet shows net liabilities of HfI 1,798,740. Intra group creditors totalling HfI 240,208 have confirmed that they will not call on the balances due to them within a period of 18 months from the date on which the balance sheet was signed. In addition, a creditor in excess of HfI 1,600,000 is the subject of litigation, which the directors are confident will result in the amount not being payable. Accordingly, the directors have drawn up accounts on a going concern basis.

FANTASIA EUROPE LTD

NOTES TO THE ACCOUNTS Nine months to 30 September 1995

2 ANALYSIS OF DISCONTINUED OPERATIONS

The company ceased trading in July 1995.

	Nine months to 30 September 1995	Period from 19 October 1993 to 31 December 1994
	HfI	HfI
Turnover	746,542	12,401,729
Cost of sales	(641,282)	(10,940,082)
	<hr/>	<hr/>
Gross Profit	105,260	1,461,647
	<hr/>	<hr/>
Net operating expenses:		
Distribution costs	(11,761)	(466,066)
Administrative expenses	(113,034)	(1,738,338)
	<hr/>	<hr/>
	(124,795)	(2,204,404)
	<hr/>	<hr/>
Operating loss	(19,535)	(742,757)
	<hr/> <hr/>	<hr/> <hr/>

3 OPERATING LOSS

	Nine months to 30 September 1995 HfI.	Period from 19 October 1993 to 31 December 1994 HfI.
The operating loss is stated after charging:		
Depreciation	-	2,500
Auditors' remuneration - audit fees	6,370	9,500
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS

Nine months to 30 September 1995

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the Directors received any remuneration in the period in their capacity as Directors.

	Nine months to 30 September 1995 HfI.	Period from 19 October 1993 to 31 December 1994 HfI.
Directors' emoluments		
Salaries	-	145,591
	=====	=====

	Nine months to 30 September 1995 No.	Period from 19 October 1993 to 31 December 1994 No.
Average number of persons (including directors) employed by the company in the period:		
Warehousing and Logistics	-	4
Administration	-	1
Management	-	1
	-----	-----
	-	6
	=====	=====

Staff costs incurred during the period in respect of these employees (including directors) were:

	HfI	HfI
Wages and salaries	-	310,814
Social security costs	-	45,450
Other employment costs	-	5,892
	-----	-----
	-	362,156
	=====	=====

NOTES TO THE ACCOUNTS
Nine months to 30 September 1995

5 INTEREST PAYABLE AND SIMILAR CHARGES (NET)

	Nine months to 30 September 1995 HfL.	Period from 19 October 1993 to 31 December 1994 HfL.
Interest income	-	(3,000)
Factoring charges and interest	143,026	429,757
Other interest	40,580	39,161
Bank charges	(976)	1,162
Foreign exchange losses	152,848	236,642
	<hr/>	<hr/>
	335,478	703,722
	=====	=====

The other interest included above was charged by a supplier with whom the company is in dispute. Notwithstanding the fact that the directors dispute the claims of the supplier, they have felt it prudent to make full provision for this interest.

6 TAXATION

No taxation provision is required due to the losses incurred in the period.

7 DEBTORS

	30 September 1995 HfL	31 December 1994 HfL
Trade debtors	131,453	643,540
Amounts owed by group companies	-	46,197
Other debtors	235,552	310,000
Called up share capital not paid	2,752	2,752
Prepayments	-	126,825
	<hr/>	<hr/>
	369,757	1,129,314
	=====	=====

NOTES TO THE ACCOUNTS
Nine months to 30 September 1995

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 September 1995 HfI	31 December 1994 HfI
Trade creditors	1,635,589	1,606,052
Debt factoring advances	244,138	545,805
Amounts owed to group companies	240,208	339,566
Other creditors	11,664	9,963
Accruals	36,898	119,409
	<hr/>	<hr/>
	2,168,497	2,620,795
	<hr/>	<hr/>

9 CALLED UP SHARE CAPITAL

	1995 £	1994 £	1995 HfI	1994 HfI
Authorised: 1,000 shares of £ 1 each	1,000	1,000	2,752	2,752
	<hr/>	<hr/>	<hr/>	<hr/>
	1995 £	1994 £	1995 HfI	1994 HfI
Allotted, called up but unpaid: 1,000 shares of £ 1 each	1,000	1,000	2,752	2,752
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Nine months to 30 September 1995

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital HfI	Profit and Loss Account HfI	Total HfI
Balance at 1 January 1995	2,752	(1,446,479)	(1,443,727)
Loss for the nine months to 30 September 1995	-	(355,013)	(355,013)
	<u>2,752</u>	<u>(1,801,492)</u>	<u>(1,798,740)</u>
	=====	=====	=====

11 ULTIMATE PARENT COMPANY

The directors regard Laguna Investments Limited, a company registered in England and Wales, as the ultimate parent company. Copies of the accounts of Laguna Investments Limited are available from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.