

Serious Records Limited
(Registered Number: 3333312)

Directors' Report and Financial Statements
For the 18 month period ended 31 December 2002)



Serious Records Limited

Directors' Report for the 18 month period ended 31 December 2002

The directors present their annual report and the audited financial statements of the company for the period ended 31 December 2002.

Principal activity and future developments

The company's principal activity during the year was to produce and promote records and artists. It is considered that the company's principal activity will remain unchanged for the foreseeable future.

Business Review

The results for the period ended 31 December 2002 are given in the profit and loss account on page 4 of the financial statements. Results were in line with the directors' expectations.

Results and dividends

The company's loss after tax for the period was £4,155 (year ended 30 June 2001 profit: £1,841).

The directors do not recommend the payment of a dividend (year ended 30 June 2001: £nil). The loss for the year was transferred from reserves.

Directors and their interests

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

S Belofsky		(resigned 1 August 2003)
S O'Riordan		(resigned 1 August 2003)
TC Fisher		(appointed 1 August 2003)
LC Grainge		
MA Howle	(company secretary)	(resigned 31 May 2004)
A Abioye	(company secretary)	(appointed 1 June 2004)

At no time during the period ended 31 December 2002 did the directors have any interest which is required to be notified to the company under Section 324 of the Companies Act 1985.

Serious Records Limited

Directors' Report for the 18 month period ended 31 December 2002

(continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

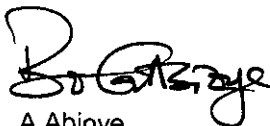
The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 7 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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

After completing the 30 June 2001 audit, Ernst & Young resigned as auditors on 1 April 2004 and the directors appointed PricewaterhouseCoopers LLP.

By order of the Board



A Abioye
Company Secretary

1 Sussex Place
London
W6 9XS
30 July 2004

Serious Records Limited

Independent Auditors' Report to the Members of Serious Records Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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 at 31 December 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 July 2004

Serious Records Limited

Profit and loss account for the 18 month period ended 31 December 2002

	<i>Note</i>	Period ended 31 December 2002	Year ended 30 June 2001 (As restated)
		£	£
Turnover	2	818,260	1,374,751
Cost of sales		(503,405)	(986,679)
Gross profit		314,855	388,072
Distribution costs		(13,429)	(24,434)
Administrative expenses		(300,927)	(350,388)
Operating profit		499	13,250
Interest receivable and similar income	6	78	4,242
Interest payable and similar charges	7	(577)	(162)
Profit on ordinary activities before taxation	3	-	17,330
Tax (charge)/credit on profit on ordinary activities	8	(4,155)	(15,489)
(Loss)/profit on ordinary activities after taxation and retained (Loss)/profit for the financial period	13	(4,155)	1,841

The company's results were derived entirely from continuing operations.

Statement of total recognised gains and losses


	<i>Note</i>	Period ended 31 December 2002	Year ended 30 June 2001 (As restated)
		£	£
(Loss)/profit for the year		(4,155)	1,841
Total recognised gains and losses relating to the year		(4,155)	1,841
Prior period adjustment – Deferred tax	1,8	6,230	-
Total gains and losses recognised since last annual report		2,075	1,841

Serious Records Limited

Balance sheet as at 31 December 2002

	Note	31 December 2002 £	30 June 2001 (As restated) £
Fixed assets			
Tangible assets	9	-	15,523
		-	15,523
Current assets			
Debtors	10	69,559	271,320
Cash at bank and in hand		60,346	169,851
		129,905	441,171
Creditors: amounts falling due within one year	11	(161,931)	(484,565)
Net current liabilities		(32,026)	(43,394)
Net liabilities		(32,026)	(27,871)
Capital and reserves			
Called up share capital	12	200	200
Share premium account	13	34,940	34,940
Profit and loss account	13	(67,166)	(63,011)
Total shareholder's deficit		(32,026)	(27,871)

The financial statements on pages 4 to 15 were approved by the board of directors on 30 July 2004 and were signed on its behalf by:


TC Fisher
Director

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002

1 Accounting policies

a) Basis of preparation

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

Cashflow statement and related party disclosure

The company is a subsidiary of Vivendi Universal S.A. and is included in the consolidated financial statements of the group, which are publicly available. Consequently, the company has taken advantage of the exemption in Financial Reporting Standard ("FRS 1") from preparing a cash flow statement and the exemption of FRS 8 from disclosing transactions with entities that are part of the Vivendi Universal S.A. group or investees of that group.

In preparing the financial statements, the company has implemented Financial Reporting Standard 19 'Deferred Taxation'. This has resulted in a change in accounting policy in relation to deferred taxation. Further details are given below.

Continued support from intermediate parent undertaking

The financial statements have been prepared on the going concern basis as the company has received confirmation from Universal International Music B.V., the company's intermediate parent undertaking, of its intention to continue to provide financial and other support to the extent necessary to enable the company to continue to pay its liabilities as and when they become due for a period not less than one year from the date of approval of these financial statements. Having regard to this intention, the directors believe it is appropriate to prepare these financial statements on a going concern basis, notwithstanding the deficit on net current liabilities at 31 December 2002.

b) Royalties and advances

United Kingdom royalty income is credited to the profit and loss account on a receipts basis. Royalties payable are charged against the relevant income of the same period. Overseas royalty income, which is collected on behalf of the company by other group undertakings, is credited to the profit and loss account in the period overseas sales are reported to the company.

Advances to unproven artists are written down in full and income is recognised only in the period advances are actually recouped. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty receipts. Net advances to artists are classified within trade debtors although advances may be recoverable after more than one year.

c) Foreign currencies

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

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Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

1 Accounting policies (continued)

d) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is charged at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment - 25% reducing balance

e) Deferred taxation - change in accounting policy

In preparing the financial statements, the company has implemented Financial Reporting Standard 19 'Deferred Taxation'. This has resulted in a change in accounting policy in relation to deferred taxation.

As a result, comparative figures for the year ended 30 June 2001 have been restated as follows:

	Profit for the year	Net liabilities
	£	£
As previously reported	17,330	(34,101)
Effect of implementation of FRS 19 deferred tax	(15,489)	6,230
As restated	1,841	(27,871)

Current year profit was decreased by £2,361 following the change in policy. Retained earnings for periods prior to 2001 have increased by £21,719 following the change in policy.

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respects of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and loss and its results as stated in the financial statements. No deferred tax is recognised on permanent differences.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse based on tax rates and law that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

1 Accounting policies (continued)

f) Operating leases

Operating lease rentals are charged to the profit and loss account as they arise.

2 Turnover

An analysis of turnover by destination is as follows:

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
United Kingdom	783,708	930,321
Other	34,552	444,430
	818,260	1,374,751

3 Profit on ordinary activities before taxation

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation on tangible fixed assets	-	956
Operating lease charges	-	8,000
Loss on disposal of fixed assets	15,523	-
Auditors' remuneration – previous auditors	-	10,000

Current auditors' remuneration of £10,000 for the period 1 July 2001 to 31 December 2002 was borne by other United Kingdom group undertakings.

4 Directors' emoluments

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
Emoluments	299,765	74,570
	299,765	74,570

The emoluments of LC Grainge and TC Fisher were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

5 Employee information

The average monthly number of employees including directors during the period was made up as follows:

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
Commercial and administrative	4	7

There aggregate remuneration comprised:

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
Wages and salaries	312,223	110,298
Social security costs	34,935	16,992
	347,158	127,290

6 Interest receivable and similar income

	Period ended 31 December 2002 £	Year ended 31 December 2001 £
Interest receivable from banks	78	4,242

7 Interest payable and similar charges

	Period ended 31 December 2002 £	Year ended 31 December 2001 £
Interest payable on overdrafts	577	162

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

8 Tax on profit on ordinary activities

(a) Analysis of tax charge in period	Period ended 31 December		Year ended 30 June	
	2002	2002 £	2001	2001 £
Current tax				
UK corporation tax at 30% (2001: 30%)		570		-
Adjustments in respect of previous periods		1,224		-
Total current tax (see (b) below)		1,794		-
Deferred tax				
Origination and reversal of timing differences	568		15,489	
Adjustments in respect of previous periods	1,793		-	
Total deferred tax (see (d) below)		2,361		15,489
Total tax charge in period on ordinary activities		4,155		15,489

Adjustment in respect of previous periods primarily relates to the write-off of prior year group relief balances, due to a decision by group management not to pay for those losses.

(b) Factors affecting tax charge for the period

	Period ended 31 December 2002 £	Year ended 30 June 2001 £
Profit on ordinary activities before tax	-	17,330
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	-	5,199
Effects of :		
Expenses not deductible for tax purposes	1,138	10,290
Depreciation in excess of capital allowances	3,222	(1,102)
Utilisation of tax losses	(3,790)	(15,525)
Movements in other timing differences	-	1,138
Prior year adjustments	1,224	-
Current tax charge for the period	1,794	-

(c) Factors that may affect future tax charges : None (2001: none)

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Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

8 Tax on profit on ordinary activities (continued)

(d) Deferred tax

	2002			2001 (As restated)		
	Provided	Not	Total	Provided	Not	Total
	£	Provided	£	£	Provided	£
Carried forward losses	-	-	-	5,583	-	5,583
Accelerated capital allowances	2,731	-	2,731	(491)	-	(491)
Other short term timing differences	1,138	-	1,138	1,138	-	1,138
	3,869	-	3,869	6,230	-	6,230

Deferred tax asset movements:

	£
Asset at 1 January 2002 (as restated)	6,230
Deferred tax charge in profit and loss account (see (a) above)	(2,361)
Assets at 31 December 2002	3,869

9 Tangible fixed assets

	Plant and Equipment £	Total £
Cost		
At 1 July 2001	18,517	18,517
Disposals	(18,517)	(18,517)
At 31 December 2002	-	-
Depreciation		
At 1 July 2001	2,994	2,994
Disposals	(2,994)	(2,994)
At 31 December 2002	-	-
Net book amount		
At 31 December 2002	-	-
At 30 June 2001	15,523	15,523

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Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

10 Debtors

	31 December 2002 £	30 June 2001 (As restated) £
Trade debtors	-	64,428
Amounts owed by group undertakings	65,690	147,690
Other debtors	-	52,972
Deferred taxation	3,869	6,230
	69,559	271,320

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

11 Creditors: amounts falling due within one year

	31 December 2002 £	30 June 2001 £
Trade creditors	4,656	155,171
Taxation and social security	28,172	25,820
Other creditors	9,550	64,231
Accruals and deferred income	117,759	239,233
Corporation tax payable	1,794	-
	161,931	484,565

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

12 Called-up share capital

	31 December 2002 £	30 June 2001 £
Authorised		
10,000 ordinary shares of £1 each	10,000	10,000
Allotted, called-up and fully paid		
Class A ordinary shares of £1 each	100	100
Class B ordinary shares of £1 each	100	100
	200	200

The ordinary 'A' and 'B' shares both carry equal voting rights. All shares are classed as equity.

13 Reconciliation of movements in equity shareholder's deficit

	Share Capital £	Share Premium £	Profit and Loss (As restated) £	Total (As restated) £
At 1 July 2001	200	34,940	(69,241)	(34,101)
Prior year adjustment – deferred tax	-	-	6,230	6,230
As restated	200	34,940	(63,011)	(27,871)
Retained loss for the financial period	-	-	(4,155)	(4,155)
At 31 December 2002	200	34,940	(67,166)	(32,026)

14 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings 2002 £	Land and Buildings 2001 £
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	9,240
	-	9,240

Serious Records Limited

Notes to the financial statements for the 18 month period ended 31 December 2002 (continued)

15 Subsequent events

Universal Music Operations Limited acquired the remaining 50% interest in Serious Records Limited from S Belofsky, CDC Harris, J O'Riordan and S O'Riordan on 1 August 2003.

16 Related party transactions

The company was invoiced £nil (year ended 30 June 2001: £52,231) by Serious Studios for providing recording facilities. Serious Studios is owned by S Belofsky.

The company was invoiced £63,301 (year ended 30 June 2001: £41,960) by Universal Music Operations Limited for providing manufacturing and distribution facilities under the terms of a five year contract signed on 14 November 2000. As at 31 December 2002 Universal Music Operations Limited owned 100 Ordinary shares in Serious records Limited.

The company was invoiced £23,895 (year ended 30 June 2001: £nil) by Universal Music Operations Limited for providing public relations and advertising.

The company invoiced £343,023 (year ended 30 June 2001: £818,437) to Universal Music Operations Limited for record sales, royalties and advances on funding in accordance with a five year contract signed on 14 November 2000.

At the year end £nil (year ended 30 June 2001: £7,211) was owed to Universal Music Operations Limited. As at 31 December 2002 Universal Music Operations Limited owed Serious Records Limited £69,559.

During the period CDC Harris received £43,539 under the terms of a five year contract signed on 14 November 2000.

Serious Records Limited

17 Ultimate controlling party

The immediate parent undertaking is Universal Music Operations Limited, a company registered in England and Wales. The ultimate parent undertaking and controlling party is Vivendi Universal S.A., a company incorporated in France. The smallest and largest group in which the results of the company will be consolidated will be that headed by Vivendi Universal S.A. incorporated in France. Copies of its annual report in English may be obtained from:

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42 Avenue de Friedland
75380 Paris
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France