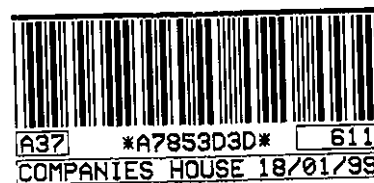


MUSICAL EXCHANGES LIMITED

Company Number: 2089978

FINANCIAL ACCOUNTS FOR THE
YEAR ENDED 31 MARCH 1998

MICHAEL DUFTY PARTNERSHIP
REGISTERED AUDITORS



MUSICAL EXCHANGES LIMITED
FINANCIAL ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

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- The following pages do not form part of the Statutory Accounts
- Appendix**
1. Trading and Profit and Loss Account

MUSICAL EXCHANGES LIMITED
REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 1998

The directors present their annual report with the accounts of the company for the year ended 31 March 1998.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review are those of retailers and repairers of musical instruments, amplification and home recording equipment.

REVIEW OF BUSINESS

A summary of the results for the year is given on page 4 of the accounts. The directors consider the state of affairs to be satisfactory.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS

The directors in office in the year and their beneficial interests in the company's issued ordinary share capital were as follows:

	Ordinary Shares of £1 each	
	<u>1998</u>	<u>1997</u>
D F Quill	500	500
M J Quill	500	500

POLITICAL AND CHARITABLE DONATIONS

There were no political donations made during the year, charitable donations did not exceed £200

AUDITORS

The auditors, Michael Dufty Partnership, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985.

Signed on behalf of the
board of directors



M J Quill
Secretary

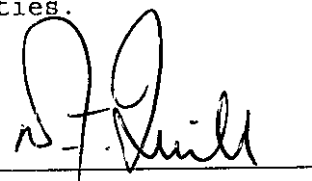
22 December 1998

MUSICAL EXCHANGES LIMITEDSTATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial accounts 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 accounts 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 accounts 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 accounts 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.



D F Quill
Director
On behalf of the Board

22 December 1998

AUDITORS' REPORT TO THE SHAREHOLDERS OF
MUSICAL EXCHANGES LIMITED

We have audited the financial accounts on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 the company's directors are responsible for the preparation of financial accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial accounts, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited on the valuation included in the accounts for opening stocks due to incomplete computerised stock. Any adjustment to the opening stock would have a consequential effect on the profit for the year. The method of stock valuation used is noted in the accounting policies on page 7.

Further the company's recorded turnover comprises of cash sales, over which there was no system of control on which we could rely for the purpose of our audit. There were no other satisfactory audit procedures that we could have adopted to confirm that cash sales were properly recorded.

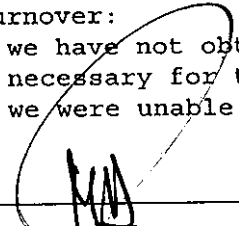
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial accounts.

OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1998 or of its profit for the year then ended.

In respect alone of the limitation on our work relating to opening stocks and turnover:

- we have not obtained all the information and explanations that we consider necessary for the purposes of our audit; and
- we were unable to determine whether proper records had been kept.


MICHAEL DUFFY PARTNERSHIP
Registered Auditors
The Counting House
St. Pauls Square
Birmingham
B3 1PX

22 December 1998

MUSICAL EXCHANGES LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
TURNOVER	2	6,024,382	5,503,267
Cost of Sales		4,715,184	4,347,269
<u>GROSS PROFIT</u>		1,309,198	1,155,998
Net Operating Expenses			
Administrative Expenses		1,161,854	985,369
<u>OPERATING PROFIT</u>	3	147,344	170,629
Income from Investments	5	-	49
<u>PROFIT ON ORDINARY ACTIVITIES</u> <u>BEFORE INTEREST</u>		147,344	170,678
Interest Payable	8	24,644	5,401
<u>PROFIT ON ORDINARY ACTIVITIES</u> <u>BEFORE TAXATION</u>		122,700	165,277
Tax on Ordinary Activities	6	25,701	40,174
<u>PROFIT ON ORDINARY ACTIVITIES</u> <u>AFTER TAXATION</u>		£ 96,999	£ 125,103

STATEMENT OF RETAINED EARNINGS

Retained Profit Brought Forward	380,061	254,958
Retained Profit for the Year	96,999	125,103
<u>RETAINED PROFIT CARRIED FORWARD</u>	£ 477,060	£ 380,061

None of the company's activities were acquired or discontinued during the above two financial years.

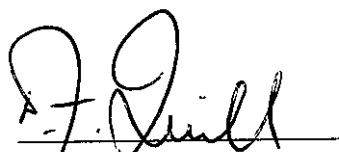
There were no recognised gains or losses other than the profit or loss for the above two financial years.

The notes on pages 7 to 12 form part of these accounts.

MUSICAL EXCHANGES LIMITEDBALANCE SHEET
AS AT 31 MARCH 1998

	<u>Notes</u>	<u>1998</u>	<u>1997</u>
		£	£
FIXED ASSETS			
Tangible Assets	9	158,886	133,880
CURRENT ASSETS			
Stock and Work in Progress	10	1,553,665	1,268,378
Debtors	11	88,338	59,248
Cash at Bank and in Hand		2,077	2,333
		<u>1,644,080</u>	<u>1,329,959</u>
CREDITORS : Amounts Falling Due within One Year	12	<u>(1,318,976)</u>	<u>(1,076,848)</u>
NET CURRENT ASSETS		<u>325,104</u>	<u>253,111</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>483,990</u>	<u>386,991</u>
PROVISION FOR LIABILITIES AND CHARGES	16	<u>(5,930)</u>	<u>(5,930)</u>
		<u>£ 478,060</u>	<u>£ 381,061</u>
CAPITAL AND RESERVES			
Share Capital	14	1,000	1,000
Profit and Loss Account	15	477,060	380,061
TOTAL SHAREHOLDERS' FUNDS	13	<u>£ 478,060</u>	<u>£ 381,061</u>

Signed on behalf of the
board of directors


D F Quill
Director

Approved by the board: 22 December 1998

The notes on pages 7 to 12 form part of these accounts.

MUSICAL EXCHANGES LIMITEDCASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1998

	Note	<u>1998</u>	<u>1997</u>
		£	£
NET CASH OUTFLOW	17		
FROM OPERATING ACTIVITIES		(65,321)	(75,099)
Returns on investment and servicing of finance			
Interest Received		-	49
Interest Paid		(24,644)	(5,401)
		(24,644)	(5,352)
Taxation		(61,167)	(25,000)
Capital Expenditure and Financial Investment			
Purchase of Tangible Fixed Assets		(55,466)	(23,143)
Sale of Tangible Fixed Assets		5,000	-
		(50,466)	(23,143)
		(201,598)	(128,594)
Financing			
Directors Loan Account		2,916	(48,324)
		2,916	(48,324)
<u>DECREASE IN CASH</u>	18	<u>(198,682)</u>	<u>(176,918)</u>

MUSICAL EXCHANGES LIMITEDNOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**1. ACCOUNTING POLICIES****Basis of Accounting**

The accounts have been prepared under the historical cost convention as modified to incorporate the revaluation of certain fixed assets.

Turnover

Turnover represents the net invoiced sales of goods, excluding VAT.

Tangible Fixed Assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Leasehold Property Improvements	10% on cost
Motor Vehicles	25% reducing balance
Plant and Equipment	15% reducing balance
Fixtures and Fittings	15% reducing balance

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

Deferred Taxation

Deferred Taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Leased Assets

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

2. TURNOVER

The turnover and profit (1997 - Profit) before taxation for the year is attributable to the principal activity of the company which are those of retailers and repairers of musical instruments, amplification and home recording equipment.

Turnover is attributable solely to the United Kingdom for both years.

3. OPERATING PROFIT

The Operating Profit (1997 - Profit) is stated after charging:

	<u>1998</u>	<u>1997</u>
	£	£
Depreciation of Tangible Fixed Assets	24,644	24,247
Loss on Sale of Fixed Assets	816	-
Staff Costs - note 4	771,102	664,212
Auditors' Remuneration	10,896	12,824
Property Rentals	81,502	74,000
	<u> </u>	<u> </u>

MUSICAL EXCHANGES LIMITED

NOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

4. STAFF COSTS

The costs incurred, including directors remuneration (note 7), were as follows:

	<u>1998</u>	<u>1997</u>
	£	£
Wages and Salaries	715,130	604,200
Pension Costs	55,972	60,012
	<u>771,102</u>	<u>664,212</u>

The average monthly number of employees during the year was as follows:

Office and Management	8	7
Sales and Other	44	41
	<u>52</u>	<u>48</u>

Pension Costs**Defined Contribution Scheme**

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an administered fund.

5. INCOME FROM INVESTMENTS

	<u>1998</u>	<u>1997</u>
	£	£
Bank Interest Received	-	49
	<u>-</u>	<u>49</u>

6. TAXATION

The tax charge on the profit on ordinary activities was as follows:

	<u>1998</u>	<u>1997</u>
	£	£
Corporation Tax	25,701	38,184
Deferred Taxation	-	1,990
	<u>25,701</u>	<u>40,174</u>

Corporation tax has been charged on the profit at 21% (1997 24%).

The charge for the year has been increased by expenditure not allowable for taxation.

MUSICAL EXCHANGES LIMITED

NOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

7. DIRECTORS' REMUNERATION

	<u>1998</u> £	<u>1997</u> £
Directors' Emoluments	70,000	70,000
Pension Schemes	50,000	55,000
	<u>120,000</u>	<u>125,000</u>

8. INTEREST PAYABLE

	<u>1998</u> £	<u>1997</u> £
Other Interest	2,759	475
Bank Interest	21,885	4,926
	<u>24,644</u>	<u>5,401</u>

9. TANGIBLE FIXED ASSETS

	Motor Vehicles	Plant & Equipment	Fixtures & Fittings	Property Improvements	TOTAL
	£	£	£	£	£
COST					
At 1 April 1997	43,279	85,254	78,126	27,734	234,393
Additions in the year	26,000	29,466	-	-	55,466
Disposals in the year	-	(8,050)	-	-	(8,050)
	<u>69,279</u>	<u>106,670</u>	<u>78,126</u>	<u>27,734</u>	<u>281,809</u>
DEPRECIATION					
At 1 April 1997	33,490	18,969	38,223	9,831	100,513
Write Off On Disposal	-	(2,234)	-	-	(2,234)
Charge for the year	3,531	12,355	5,985	2,773	24,644
	<u>37,021</u>	<u>29,090</u>	<u>44,208</u>	<u>12,604</u>	<u>122,923</u>
NET BOOK VALUE					
At 31 March 1998	<u>32,258</u>	<u>77,580</u>	<u>33,918</u>	<u>15,130</u>	<u>158,886</u>
At 31 March 1997	<u>9,789</u>	<u>66,285</u>	<u>39,903</u>	<u>17,903</u>	<u>133,880</u>

10. STOCKS

	<u>1998</u> £	<u>1997</u> £
Finished Goods and Goods for Resale	<u>1,553,665</u>	<u>1,268,378</u>

MUSICAL EXCHANGES LIMITEDNOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**11. DEBTORS**

	<u>1998</u>	<u>1997</u>
	£	£
Amounts due within one year:		
Trade Debtors	73,807	42,959
Prepayments	14,531	16,289
	<u>88,338</u>	<u>59,248</u>

**12. CREDITORS: Amounts falling
Due within One Year**

	<u>1998</u>	<u>1997</u>
	£	£
Bank Overdrafts	420,594	222,168
Trade Creditors	511,453	501,314
Other Creditors	30,265	30,265
Corporation Tax	25,701	61,167
Social Security and Other Taxes	127,081	88,273
Directors Loan Account	110,991	108,075
Accruals	92,891	65,586
	<u>1,318,976</u>	<u>1,076,848</u>

The bank overdraft is secured by the directors, D F Quill and M J Quill, who have given a personal guarantee limited to £400,000 and a legal charge over freehold Property personally owned by the directors.

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1998</u>	<u>1997</u>
	£	£
Profit for the financial year	96,999	125,103
Net addition to shareholders' funds	96,999	125,103
Opening Shareholders' Funds	381,061	255,958
Closing Shareholders' Funds	<u>478,060</u>	<u>381,061</u>

14. SHARE CAPITAL

	<u>1998</u>	<u>1997</u>
	£	£
Authorised Ordinary Shares of £1 Each	5,000	5,000
Allotted, Issued and Fully Paid	<u>1,000</u>	<u>1,000</u>

MUSICAL EXCHANGES LIMITEDNOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 199815. RESERVES

	<u>Profit & Loss A/c</u> £
At 1 April 1997	380,061
Retained Profit for the year	96,999
At 31 March 1998	<u>477,060</u>

16. PROVISION FOR LIABILITIES AND CHARGES

Provisions:	<u>At Start of Year</u> £	<u>Movement</u> £	<u>At End of Year</u> £
Deferred Taxation (see below)	5,930	-	5,930
	<u>5,930</u>	<u>-</u>	<u>5,930</u>

Deferred taxation is attributable to:	<u>Provided</u> <u>1998</u> £	<u>1997</u> £	<u>Unprovided</u> <u>1998</u> £	<u>1997</u> £
Capital allowances	5,930	5,930	1,898	-
	<u>5,930</u>	<u>5,930</u>	<u>1,898</u>	<u>-</u>

MUSICAL EXCHANGES LIMITEDNOTES TO ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 199817. NOTES TO THE CASH FLOW STATEMENTRECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	<u>1998</u>	<u>1997</u>
	£	£
Operating Profit	147,344	170,629
Depreciation	24,644	24,247
Loss on Sale of Fixed Assets	816	-
Increase in Stocks	(285,287)	(364,781)
Increase in Debtors	(29,090)	(5,336)
Increase in Creditors	76,252	100,142
	<hr/>	<hr/>
Net Cash Outflow		
From Operating Activities	(65,321)	(75,099)
	<hr/>	<hr/>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<u>1998</u>	<u>1997</u>
	£	£
Decrease in Cash in the year	(198,682)	(176,918)
Cash Outflow/(Inflow) from Increase/(Decrease) in Debt and Lease Financing	-	-
	<hr/>	<hr/>
Movement in Net Debt in year	(198,682)	(176,918)
Net debt at 1 April 1997	(219,835)	(42,917)
	<hr/>	<hr/>
Net Debt at 31 March 1998	(418,517)	(219,835)
	<hr/>	<hr/>

18. NOTES TO THE CASH FLOW STATEMENTANALYSIS OF CHANGES IN NET DEBT

	At Start of Year £	Cash Flows £	At End of Year £
Cash at Bank and in Hand	2,333	(256)	2,077
Bank Overdrafts	(222,168)	(198,426)	(420,594)
	<hr/>	<hr/>	<hr/>
	(219,835)	(198,682)	(418,517)
	<hr/>	<hr/>	<hr/>