

Flying Nun (UK) Limited

**Accounts for the year ended 30 June 2001 together with directors'
and auditors' reports**

Registered number: 2941321



Contents

	Page
Directors' report	1
Auditors' report	3
Principal accounting policies	4
Profit and loss account	6
Balance sheet	7
Notes to the accounts	8

Directors' report

For the year ended 30 June 2001

The Directors present their annual report on the affairs of Flying Nun (UK) Limited ("the Company"), together with the accounts and auditors' report, for the year ended 30 June 2001.

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 £Nil (2000 - £6,000) resulting in a loss after tax of £2,000 (2000 - profit of £1,000). The Directors expect the general level of activity to continue for the foreseeable future.

Results and dividends

The audited accounts for the year ended 30 June 2001 are set out on pages 4 to 10.

The Company's loss for the financial year after taxation was £2,000 (2000 - profit of £1,000).

The Directors do not recommend the payment of a dividend (2000 - £Nil).

Directors and their interests

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

B. McWilliam
P. W. Stehrenberger
R. M. Linfood

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

The Directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Directors' report - continued

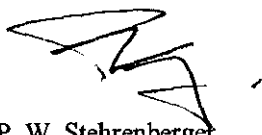
Statement of Directors' responsibilities

Company law requires the Directors to prepare 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 accounts, 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 accounts; and
- prepare the 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 enable them to ensure that the 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.

By order of the Board



P. W. Stehrenberger
Director

1 Virginia Street
London
E98 1XY

9 August 2001

Independent auditors' report to the shareholders of Flying Nun (UK) Limited

We have audited the financial statements of Flying Nun (UK) Limited for the year ended 30 June 2001 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 9. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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.

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 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.

Without qualifying our opinion, we draw your attention to note 7 which explains why the Directors have drawn up the accounts on a going concern basis, despite the net liabilities position of the company.

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 2001 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

9 August 2001

Principal accounting policies

For the year ended 30 June 2001

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

They have all been applied consistently throughout the year and the preceding year.

Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard No. 1 to include a cash flow statement as part of its financial statements because it is a wholly owned subsidiary undertaking of a body corporate. A consolidated cash flow statement is included in the accounts of The News Corporation Limited ("TNCL"), the ultimate parent company.

Turnover

Turnover represents amounts receivable for goods and services, net of returns and dealer 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.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date with any resulting exchange gains or losses being recorded in 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 taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Related party transactions

As a subsidiary undertaking of TNCL, whose accounts are publicly available, the Company has taken the exemption in Financial Reporting Standard No. 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 2001

	Notes	2001 £'000	2000 £'000
Turnover	1	-	6
Cost of sales		-	(1)
Gross profit		<u>-</u>	<u>5</u>
Administration expenses		(2)	(4)
Operating (loss)/ profit and (loss)/ profit on ordinary activities before taxation	2	<u>(2)</u>	<u>1</u>
Tax on profit on ordinary activities	3	-	-
Retained (loss)/ profit for the financial year		<u>(2)</u>	<u>1</u>

There are no recognised gains and losses other than the loss attributable to shareholders of the Company of £2,000 in the year ended 30 June 2001 (2000 - profit of £1,000).

Details of movements in reserves are shown in note 6.

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 2001

	Notes	2001 £'000	2000 £'000
Current assets			
Debtors	4	-	89
Creditors: Amounts falling due within one year	5	(847)	(934)
Net liabilities	7	<u>(847)</u>	<u>(845)</u>
Equity capital and reserves			
Called-up share capital	6	-	-
Profit and loss account	6	(847)	(845)
Equity shareholders' deficit		<u>(847)</u>	<u>(845)</u>

The accounts on pages 4 to 10 were approved by the Board of Directors on 9 August 2001 and signed on its behalf by:



P.W. Stehrenberger
Director

9 August 2001

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

Notes to the accounts
For the year ended 30 June 2001

1 Segmental information

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)/profit on ordinary activities before taxation

Operating (loss)/profit is stated after charging:	2001 £'000	2000 £'000
Auditors' remuneration	2	2

The Directors of the Company received no remuneration for their services to the Company during the year (2000 - £Nil). The Directors received emoluments for their services provided to other group undertakings as disclosed in the accounts of those companies.

The Company has no employees.

3 Tax on profit on ordinary activities

There is no current year or preceding year tax charge as the company was loss making during both years.

4 Debtors

Amounts falling due within one year	2001 £'000	2000 £'000
Due from other group undertakings	-	89

Notes to the accounts – continued

5 Creditors: Amounts falling due within one year

	2001 £'000	2000 £'000
Bank loans and overdrafts	2	2
Amounts due to group undertakings	845	932
	<u>847</u>	<u>934</u>

Together with certain other companies in the Newscorp Investments ("NCI") Group, the Company is party to a banking facility which is guaranteed by TNCL. No interest is paid or received by the Company under this facility and all interest is recorded in the books of other NCI group companies.

6 Equity capital and reserves

	2001 £'000	2000 £'000
a) Called-up share capital		
Authorised:		
100,000 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		(845)
Loss for the financial year		(2)
End of the year		<u>(847)</u>
c) Reconciliation of movements in shareholders' deficit		
	2001 £'000	2000 £'000
Loss for the financial year	(2)	1
Opening shareholders' funds	(845)	(846)
Closing shareholders' funds	<u>(847)</u>	<u>(845)</u>

Notes to the accounts – continued

7 Funding

The net liabilities of the Company are £847,000 at 30 June 2001 (2000 - £845,000) and net current liabilities of £847,000 at 30 June 2001 (2000 - £845,000). News International plc the immediate parent of Mushroom Records (UK) Limited (see note 9) has confirmed its intention of providing continuing financial support to enable the Company to meet its liabilities as they fall due.

8 Guarantees and financial commitments

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

9 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 The News Corporation Limited, 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 NCI, a company incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from 1 Virginia Street, London E98 1FN.