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The Directors of Music Copyright Solutions plc, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the rules for AIM companies published by London Stock Exchange plc (“AIM Rules”). To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The whole of this document should be read.

Application has been made for the whole of the issued share capital of the Company (“Ordinary Shares”) to be admitted to trading on the Alternative Investment Market of London Stock Exchange plc (“AIM”). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority (“Official List”). A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List. Neither the United Kingdom Listing Authority nor London Stock Exchange plc have examined or approved the contents of this document. It is expected that trading in the Ordinary Shares will commence on AIM on 21 October 2004.

This document is an admission document in relation to AIM. Whilst it has been drawn up in accordance with the AIM Rules and contains the information required by the Public Offers of Securities Regulations 1995, as amended, (the “POS Regulations”) it does not constitute a prospectus for the purposes of the POS Regulations. A copy of this document has not been delivered to the Registrar of Companies.

YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART I OF THIS DOCUMENT.

MUSIC COPYRIGHT SOLUTIONS plc

(Registered in England and Wales with registered number 4125263)

Admission to trading on the Alternative Investment Market

Nominated Adviser:

Daniel Stewart & Company PLC

Broker:

JM Finn & Co

Daniel Stewart & Company PLC, which is authorised and regulated by The Financial Services Authority, is acting as nominated adviser to the Company in connection with the proposed admission of the Ordinary Shares to trading on AIM. Its responsibilities as the Company’s nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Daniel Stewart & Company PLC as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Daniel Stewart & Company PLC will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document or for advising them on the contents of this document or any other matter.

JM Finn & Co, which is authorised and regulated by The Financial Services Authority, is acting as broker to the Company in connection with the proposed admission of the Ordinary Shares to trading on AIM. JM Finn & Co will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document nor for advising them on the contents of this document or any other matter.

This document should not be distributed in, into or from the United States of America, Canada, Japan or Australia or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation. The Ordinary Shares have not been, nor will they be, registered under the United States Securities Act of 1933 (as amended). Accordingly, such shares may not be offered, sold, renounced, taken up or delivered, directly or indirectly, in or into the United States of America. Furthermore, such shares have not been and will not be registered under any of the relevant securities laws of Canada, Japan or Australia. Accordingly unless an exception under relevant securities laws is applicable, such shares may not be offered, sold, renounced, taken up or delivered, directly or indirectly, in or into Canada, Japan or Australia. This document does not constitute an offer or the solicitation of an offer to subscribe for or buy any shares in the capital of the Company to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

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Admission statistics

Number of ordinary shares of 1p each in issue at Admission 30,728,558

Expected timetable of principal events

Publication of this Admission document 15 October 2004
Admission effective and dealings expected to commence on AIM 21 October 2004

DIRECTORS AND ADVISERS

Directors:	John Frederick Waley Sanderson <i>Non-Executive Chairman</i> Brian Beaumont Scholfield <i>Chief Executive</i> Mervyn Guy Fletcher <i>Creative Director</i> Paul Christopher Neame Tracey <i>Non-Executive Director</i> Michael Bungey <i>Non-Executive Director</i> <i>all of whose business address is at 32 Lexington Street, London W1F 0LQ</i>
Company Secretary:	Francis Joseph McAweaney
Registered Office:	32 Lexington Street London W1F 0LQ
Nominated Adviser:	Daniel Stewart & Company PLC 48 Bishopsgate London EC2N 4AJ
Broker:	JM Finn & Co Salisbury House London Wall London EC2M 5TA
Reporting accountants:	Kingston Smith Quadrant House 80-82 Regent Street London W1R 5PA
Auditors:	Moores Rowland LLP 3 Sheldon Square Paddington London W2 6PS
Solicitors to the Company:	Davenport Lyons 30 Old Burlington Street London W1S 3NL
Registrars:	Capita IRG plc Bourne House 34 Beckenham Road Beckenham BR3 4TU
Bankers:	Bank of Scotland St James's Gate 14-16 Cockspur Street London SW1Y 5BL

DEFINITIONS AND GLOSSARY OF TERMS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of all of the issued Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules for companies admitted to trading on AIM, published by the London Stock Exchange
“Articles”	the articles of association of the Company
“Board” or “Directors”	the directors of the Company
“Combined Code”	the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council
“Company” or “MCS”	Music Copyright Solutions plc
“copyright”	proprietary rights in certain categories of work the existence and scope of which rights are determined on a territorial basis by the laws of the relevant territory. In the UK such rights include the right in relation to musical works and literary works to do (or authorise) the following acts: copying, issuing copies to the public, renting or lending to the public, performing, showing or playing in public and making an adaptation
“copyright owner”	in relation to a territory means a person or company which controls or owns the copyright (or any part thereof) in a work in that territory
“CREST”	the computerised settlement system operated by CRESTCo Limited to facilitate the holding and transfer of securities in uncertificated form
“Daniel Stewart”	Daniel Stewart & Company PLC, Nominated Adviser to the Company
“FSA”	the Financial Services Authority
“Group” or “MCS Group”	the Company and its subsidiaries and “Group Company” means any one of them
“JM Finn”	JM Finn & Co, broker to the Company
“Kingstreet”	Kingstreet Media Group Limited
“Leosong”	the company formerly named Leosong Copyright Service Limited, now named MCS Music Limited
“London Stock Exchange”	London Stock Exchange plc
“MCPS”	The Mechanical-Copyright Protection Society
“music catalogue”	a catalogue comprising musical works and/or literary works in the form of lyrics to accompany musical works
“musical composition”	a musical work together with any accompanying lyrics

“Music Majors”	the respective groups of companies known as Universal Music Group, EMI Music Publishing, Warner Chappell Music Publishing, BMG Music Publishing and Sony Music Publishing
“music publisher”	a person or company which owns or controls the rights to exploit or authorise the exploitation of the copyright in one or more musical compositions
“NPS” or “Net Publishers Share”	the net sum retained by a music publisher or administrator after payment of all composer and third party royalties
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Palan”	Palan Music Publishing Limited
“performing right”	that part of the copyright in a musical work and a literary work which entitles the owner(s) to do or authorise (<i>inter alia</i>) the following acts in relation to such work: perform it in public, broadcast it and include it in a cable programme service
“POS Regulations”	The Public Offers of Securities Regulations 1995, as amended
“PRS”	The Performing Right Society Limited: the UK collection society whose members are the composers and copyright owners of musical works and literary works in the form of lyrics, which society secures an assignment of and grants licences in respect of the performing right in such musical works and lyrics
“royalty”	in the context of this document, the payment due to a copyright owner in connection with the exploitation of the copyright(s) in the musical and literary work(s) comprising a musical composition, including payments in relation to exploitation of the performing rights and mechanical reproduction of such works
“UK Listing Authority”	the FSA, acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000

PART I

INFORMATION ON THE GROUP

BACKGROUND

MCS is the parent company of an independent music publishing group, specialising in the exploitation of music into the Film and Television industry and administration of copyright royalties. It is represented directly in London (16 staff), USA (12 staff) and Italy (by Palan Edizioni Musicali Italia S.R.L. and a consultant), and by sub-publishers in France, Germany, Spain, Benelux, Scandinavia, Australia, Japan, Greece, Turkey, South Africa, Israel, Portugal, Switzerland, Austria and New Zealand. The business was set up in 2000 by three senior music industry executives, Tim Hollier, Brian Scholfield and Guy Fletcher, to create value through the acquisition, administration and subsequent exploitation of music portfolios, using the team's long-standing industry relationships and experience. Tim Hollier resigned as a Director in September 2004. The current board consists of Brian Scholfield, Guy Fletcher, John Sanderson, Paul Tracey (VTR Plc) and Michael Bungey (formerly Cordiant Plc). MCS was admitted to OFEX in February 2002.

In the three years since its incorporation, MCS has increased both the number and value of the copyrights which it owns and administers both through organic growth and through acquisitions of third party music catalogues. Royalty administration is currently undertaken for over 1,000 clients including Endemol UK, Chorion Plc, National Geographic, Discovery Channel, A&E, Pathe Films and one of the world's most extensive catalogues of Indian Music.

The administered portfolio includes musical compositions recorded by artists such as Tina Turner, Shaggy, Fat Boy Slim, Metallica, David Bowie, Daft Punk, Eagle Eye Cherry, Holly Valance, Elvis Presley, Fleetwood Mac, Madonna, Uriah Heap, Paul Young, "Fame Academy" winner Alex Parks, and "Pop Idol" winner Michelle. Among the top International hit songs under administration are: "Misty", "Morningtoun Ride", "Judy in Disguise", "Albatross", "Love Grows (Where My Rosemary Goes)", "2-4-6-8-Motorway", "Shaddup You Face", "Everything Must Change" and "Tears on My Pillow".

Owned, or part-owned, assets include the Portman Zenith, Hensley Music and Millimages music catalogues. MCS also has a wholly owned master library of classical recordings.

Acquisitions since the Company's flotation on OFEX include:

- Leosong Copyright Service Limited (now named MCS Music Limited) in January 2002. Leosong was a copyright administration company based in London with a solid base of long-established clients on behalf of whom it administered musical compositions and which also owned a small number of copyrights;
- the administration activities for the client list of Nashville music publishing administration company, Copyright Management Inc, in February 2002, (now trading as MCS Music America Inc), which allowed MCS to penetrate the US market. MCS Music America Inc includes Dick Clark Productions and Southern Belle Music Compositions recorded by Elvis Presley amongst its 1,000 strong client base; and
- the administration rights to both the third party catalogues administered by Palan and also to those musical compositions owned by Palan, in December 2002. The Palan clients whose catalogues are now administered through the MCS Group include National Geographic, CBS Television and the Discovery Channel.

THE BUSINESS

Whilst MCS offers a comprehensive range of services, key activities are royalty administration and exploitation of both owned and administered copyrights. Administration is the main revenue generator, currently accounting for approximately 90 per cent. of revenues.

In addition MCS markets music works it owns or administers. Rather than merely acting as a collection agent for royalties, MCS proactively licenses client material for use in a range of films and advertisements. Recent examples include licensing the rights for the song “Imagination” for use in Rimmell advertisements featuring Kate Moss and administering music for use in films such as “Shallow Hal”, “Vanilla Ice”, “24-Hour Party People” and “Ali”. Successful music exploitation allows MCS to raise its margins, raise its profile with film producers and encourages client retention through proactive promotion and value-added services.

Music Copyright

Copyright is a proprietary right which exists on a territory by territory basis under the laws of the relevant territory. It arises in relation to defined categories of works. The existence and scope of such rights varies from territory to territory and the following comments are (unless otherwise indicated) limited to the UK copyright position.

Copyright is capable of existing in original musical works and also original literary works such as song lyrics, once those works have been “fixed” in some material form (e.g by writing, notation or recording) and provided that the work is of a relevant national status (determined by reference to the creator’s nation status or the place of first publication). The relevant territories for the purpose of assessing national status are now very wide and in practice music and lyrics written by authors from many overseas territories and/or first published in such territories will be protected by copyright in the UK. Frequently the writer or writers of works comprising musical compositions will enter into a contract with a music publisher who will take an assignment (or less frequently a licence) of the copyright in such works. In some cases (notably in the US) the writer will remain a joint owner of the copyright with the publisher but this is not common in the UK. The grant of rights to the publisher is generally worldwide. In this way, the publisher compiles a music catalogue. The publisher then exploits the copyrights in the musical and literary works controlled by it and collects royalties in respect of such exploitation. These royalties include sums received from cable and wireless broadcasts, performance in public and reproduction on audio and audio-visual recordings of the controlled works. The publisher then pays a share of those royalties to the writers, subject to recoupment of any outstanding sums advanced to the writers against their future royalty earnings. The division of royalties between writer and publisher ranges between the traditional 50/50 to more recent basic splits of 70/30, 75/25 or even 80/20 in favour of the writer.

The maximum life of copyright in musical works and literary works varies from territory to territory. However, in the European Economic Area and many major territories this now extends to 70 years after the death of the composer, although the period may vary even within a territory depending on factors such as the national status of the work.

Copyright in musical works and associated lyrics attracts royalty payments from rights licensed in the following four main areas, although increasingly revenues are also capable of being earned from other sources such as ring-tones and internet downloads:

- **Performance royalties:** These are paid for the public performance of these works, whether on television, radio, in night-clubs, pubs and restaurants or on jukeboxes. The royalty charged varies with the type of use and size of audiences;
- **Mechanical Royalties:** These arise from the reproduction of these works on different types of physical recordings such as CDs, records, tapes and videos;
- **Synchronisation Fees:** These arise from the use of music and lyrics in films, television programmes and advertising commercials;
- **Print Royalties:** Although no longer regarded as of the same importance within the industry as before the advent of recorded music, these royalties arise from the sale of printed editions and sheet music.

Copyright administration

The Group collects music copyright royalties on a worldwide basis for musical compositions written by numerous composers. The basic term of agreements under which the MCS Group companies are appointed to administer musical compositions generally lasts between 3 and 5 years. The Net Publisher's Share retained by MCS after paying third party royalties is between 10 per cent. and 25 per cent. per copyright (with most administration agreements providing for a 15 per cent. administration fee) although in some cases MCS will need to pay a proportion of this fee to its overseas sub-publishers. The level of the Net Publisher's Share in each case mainly depends on the level of advance payments to the copyright owner and the level of creative work involved.

The Directors believe that the Group's speed of royalty collection and distribution is a competitive advantage and the ability to administer these royalties quickly is a key attraction to songwriters, composers and copyright owners.

In addition to individual writers, the MCS Group administers the music rights of broadcasters and programme makers including Endemol UK plc, Pathe Films, National Geographic, Discovery Channel and Dick Clark Productions. The Directors believe this wide portfolio reduces the Group's exposure to individual administration agreements and lowers business risk. The table below shows the blue chip nature of a selection of administered catalogues.

MCS Principal clients – Administered assets

Broadcasters/Programme/Film Makers

Endemol	Fame Academy, Big Brother
Chorion	Noddy, Poirot, Maigret
Millimages	64 Zoo Lane, Ethelbert the Tiger
Pathe Film U.K.	In the Cut, Girl With The Pearl Earring
United Features	Snoopy, Garfield
National Geographic	
A&E Entertainments	
Discovery Channel	

Individual Composers

Bryan Daly	Postman Pat
Barry Mason	Love Grows
Juliette Jaimes	Kiss Kiss
Rick Astley	New titles included on 2003 "Best of" compilation
Ronnie Lane	
Kevan Frost	Co-writer with Boy George of "Taboo" stage show
Mike Read	Author of "Cliff The Musical" and the new show "Oscar" at the Shaw Theatre

Copyright ownership

MCS is also involved in the commissioning of musical compositions and arranges compositions of "musical works" for film producers, TV production companies and musical artists who require musical compositions for film scores, animation programming and single/album releases.

Although MCS has deliberately limited its exposure to the production of in-house hits, where competition from the Music Majors is at its most fierce, the award-winning in-house composers, Juliette Jaimes and Steve Welton James scored a notable success with the composition of "Kiss Kiss", one of the biggest selling UK singles of 2002, recorded by Holly Valance. Other film scores arranged in-house include Bollywood Queen and To Kill A King.

Among the catalogues of owned copyrights acquired in whole or in part by MCS are Millimages, Hensley Music and Portman Zenith.

Peripheral activities

Registration of Works – in contrast to other smaller, independent music publishers, the MCS Group has a network of sub-publishers who register works direct with many major overseas societies, rather than leaving this to the PRS and the MCPS. The Directors believe this reduces potential errors and maximises efficiency.

Film score financing – MCS finances the making of film scores to assist film producers facing budgetary constraints who find it difficult to commission their composers of choice. The scheme allows MCS to participate in the investment in return for pro-rata ownership and management of the resultant copyright.

THE MARKET

The value of music publishing world-wide is estimated by the Directors as having been approximately £4.6bn in 2002. The share of total royalty collections is split between rights that are owned and those that are administered by third parties. The Directors estimate that 70 per cent. of the market value is concentrated in the US, UK, French, German and Japanese markets.

Despite much adverse publicity highlighting the damage that Internet piracy is having on global mechanical sales of CD's and other physical sound-carriers, the UK is still a growth market in volume terms. Figures released by the British Phonographic Industry in February 2004 showed UK CD sales in 2003 increased by 5.6 per cent. Further afield, a recent announcement from BMI (being one of America's performance royalty collection societies which handles more than 50 per cent. of all musical compositions broadcast in the USA) states that their average revenue growth has been 9 per cent. per annum since 1995. The growth in the global market has been primarily driven by radio, cable/digital television and a wave of new licensing opportunities in broadcasting and public performance outlets such as health clubs, shopping centres and telephone on-hold music.

Further growth in demand is coming from digital media such as mobile telephone ringtones and the Internet as a music portal. Whilst the monotonal and polyphonic download business is now reducing, the Directors are confident that "real music" messaging, ringtones and "ringbacks" will show considerable growth in the future. MCS is positioned to take full advantage of this growth by licensing its catalogues of music across all media.

Market structure

Outside of the Music Majors the market is highly fragmented with an estimated 3,300 independent publishers in the UK having collectively almost double the market share of the leading non-independent music publisher (EMI Music Publishing), in terms of gross retained revenue.

There is, however, considerable diversity of size and focus amongst the independents. Many of the 3,300 independents are owned by the songwriters themselves and therefore have limited focus and capacity constraints. The Directors believe this fragmentation of the market offers the MCS Group opportunity for market share gains.

STRATEGY

Organic Growth

Whilst having the infrastructure in place to operate on a global basis, the Directors believe the MCS Group's independence and size means that it can offer a higher degree of attention to individual songwriters and composers than that offered by the Music Majors. In addition the Directors believe that the Group's ability to collect and deliver client royalties considerably faster than many of its competitors will enable it to attract many more writers to MCS in future, providing stable, annuity-based organic cash flows.

Acquisition Growth

A key growth driver in the music industry is the number of music assets controlled. Generally, the larger the portfolio, the greater the opportunities to increase royalties through better placing of client material for use in films and TV programmes, greater selling into corporate client contacts and scale economies in royalty collection and administrative activities.

In MCS' case, sizeable clients such as Pathe, Endemol and Chorion have been secured against established competition as MCS' size has increased.

The Directors also see the consolidation amongst the Music Majors and their closing of offices internationally, driven by marketing and administrative cost savings, as an opportunity for strong independents such as the MCS Group to grow by acquisition. Furthermore, as the larger groups consolidate, it becomes increasingly non-commercial for them to service lower-profile writers/composers, allowing smaller publishers to win market share.

KINGSTREET

MCS has recently entered into an exclusive 6 year administration agreement with Kingstreet Media Group Limited (“Administration Agreement”), a company which has recently been set up by, amongst others, Tim Hollier, a former director of MCS, to manage a fund specialising in music catalogue investments.

The Administration Agreement grants MCS the exclusive right to administer all musical and literary compositions contained in any music catalogue controlled by or on behalf of Kingstreet or its affiliates. The Company has a guaranteed income of not less than £1.5 million over the last 3 years of the term. However, on the basis that Kingstreet is in advanced negotiations with a major backer to significantly increase its investment potential, the Directors believe that the eventual upside will be considerably in excess of £1.5 million.

As part of the arrangement with Kingstreet, Kingstreet has subscribed for 5,500,000 Ordinary Shares at 20 pence per share with a commitment to subscribe for a further 500,000 Ordinary Shares at 80 pence per share in the event that Kingstreet succeeds in attracting €50 million or more for investment in music catalogues. The subscription monies will be satisfied by the grant of the Administration Rights pursuant to the Administration Agreement.

Kingstreet has also provided the Company with a loan facility of £750,000 (“Facility”). The Facility is to be used exclusively for the payment of royalties to creditors. The Facility is convertible into Ordinary Shares at the option of Kingstreet. Assuming the Company’s shares are admitted to trading on AIM the conversion rate shall be calculated by dividing the outstanding loan amount by the average of the mid market closing price of the Ordinary Shares on the business day immediately following the date of Admission and 25 pence.

In view of its significant investment in the Company, Kingstreet has the right to appoint two directors to the MCS Board. Michael Bungey is the first Kingstreet nominated director. It is expected that a second nominee will be appointed before the end of this year.

DIRECTORS

John Sanderson – Non executive Chairman, aged 50

John Sanderson began his career as an investment analyst of the leisure and media sectors, initially with Fielding, Newson Smith & Co and later with the NatWest. After 10 years as an investment analyst he left in 1990 to join the specialist media sector management consultancy, Hydra Associates as a director. Hydra worked on strategy and business development projects across the whole traditional and new media field, building a leading position in its market. In music, clients included the BPI, BMG, Sony and EMI, for whom Hydra worked on internet business issues.

Since 1999, John has been running his own business where he combines advisory retainers and projects in the media and related fields with more hands-on involvement in businesses through investments and directorships. He is a non-executive director of two fully listed entities, El Com plc, formerly Einstein Group, and Gamingking plc, formerly thebiz.com, having been involved in both cases in their listing and subsequent operations.

Brian Scholfield – Chief Executive, aged 52

A Chartered Accountant, Brian was articled to Peat Marwick Mitchell in 1972 and moved to MCA Records in 1976, rising to Commercial Director in 1982. In 1985 Brian joined A&M Records as Finance Director. In 1990 A&M Records was sold to Polygram Records and Brian moved to Los Angeles to continue to work for Herb Alpert and Jerry Moss as Vice President of Finance and CFO of Rondor Music, A&M’s independent music publishing company.

Brian set up new accounting, copyright and royalty systems for Rondor in Los Angeles. Brian returned to the UK in 1996 and became Group Finance Director of VCI plc. Subsequently he left VCI to manage the business affairs of record producer, Pete Waterman. He founded MCS together with Tim Hollier and Guy Fletcher in January 2000.

Guy Fletcher FRSA – Creative Director, aged 60

Guy was trained in music from the age of seven. In his teens he worked as a vocal arranger and singer for the legendary record producer Joe Meek. Together with his writing partner Doug Flett, he went on to discover and nurture a young singer/songwriter called Chris De Burgh who under their care became an international star.

Guy, together with Doug Flett, was also the first UK composer to be recorded by Elvis Presley, who released three of their songs. Fletcher/Flett's first British hit was *I Can't Tell The Bottom From The Top* by The Hollies. There followed many more British hits including *By the Devil I was Tempted* by Blue Mink, *Power to all our Friends* and *Sing a Song of Freedom* by Cliff Richard who subsequently recorded a dozen more Fletcher/Flett songs.

Guy's work has found particular favour in the USA where many stars such as Tom Jones, Joe Cocker, Ray Charles, Frankie Valli and the Four Seasons, Helen Reddy and Blood Sweat & Tears have recorded his songs.

One of Britain's first self-published songwriters, Guy formed his first publishing company in 1971, publishing his own works and the songs of several other leading writers including Chris De Burgh. A councillor of the British Academy of Songwriters, Composers and Authors since 1984, he was elected Chairman in 1992. As Chairman, Guy has led the Academy to what is now one of the most significant and respected forces in the Music Industry. Guy is a member of the board of the Performing Rights Society.

Paul Tracey – Non executive Director, aged 54

Paul was called to the Bar in 1977 and joined County Bank in 1980, becoming Managing Director of County Bank Lease Management Limited. In 1986 he joined Television Services International plc and the following year formed The AV Department Limited, which was acquired by VTR plc in 1989. He joined the VTR Group in 1992, as Managing Director of The Machine Room Limited and amgFX Limited. He is currently Corporate Development Director of VTR plc.

Michael Bungey – Non executive Director, aged 64

Until recently Michael was CEO of Cordiant Communications Group Plc. He was also Chairman and CEO of the Bates Worldwide Group. Michael was the founder of Michael Bungey and Partners which was sold to DFS New York and later merged with Dorland Advertising. Michael was a founding director of Kingstreet and along with Tim Hollier was instrumental in setting up Kingstreet.

ADMISSION AND REASONS FOR ADMISSION

Application has been made to the London Stock Exchange for all of the issued Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings on AIM will commence on 21 October 2004. The Company's Ordinary Shares will be withdrawn from trading on OFEX on 20 October 2004.

The Directors believe that the Group now has the opportunity to continue to grow both organically and by acquisition and that Admission to AIM will improve the Group's ability to develop its acquisition strategy by allowing it to offer both shares and cash as consideration. Admission should also enhance the liquidity of the Ordinary Shares and widen the Company's shareholder base by attracting more UK institutional investors. The Directors also anticipate that Admission will raise the Group's profile in a manner that should be of tangible commercial benefit. Once admitted to AIM it is the Director's intention to raise additional capital for acquisitions and the repayment of loans.

CURRENT TRADING AND PROSPECTS

For the six months ended 30 September 2004, the Company reported revenues of £3.6 million. The Company continues to trade in line with the Directors' expectations.

The Directors believe that the Company is now well positioned to fulfil its growth potential, having established its position in the industry, put effective systems in place to carry on its business and having appointed an experienced and reputable management team. The Directors view the arrangements with Kingstreet as being a very exciting development for the Company which should potentially lead to significant growth in the Company's income and profitability. That coupled with admission to AIM providing access to additional capital in future years will enable the longer term development of the Company's business, leading to an increase in the Company's market share, a higher profile for the Company and enhanced liquidity for its Ordinary Shares.

DIVIDEND POLICY

The Directors intend to commence the payment of dividends only when it becomes commercially prudent to do so, having regard to the availability of the Company's distributable profits and the retention of funds required to finance future growth.

SHARE OPTIONS

The Directors consider that an important part of the Company's remuneration policy should include equity incentives through the grant of share options to Directors and employees. The Company has granted options to subscribe for a total of 580,000 Ordinary Shares (which if exercised on the date of this document would comprise 1.89 per cent. of the issued share capital of the Company) under its Enterprise Management Incentive Plan and its Unapproved Share Option Plan, details of which are set out in Part III of this document.

CORPORATE GOVERNANCE

The Directors intend to comply with the Combined Code so far as is reasonably practicable for a company of MCS's size,

An audit committee, comprising John Sanderson, Paul Tracey and Frank McAweaney has been established. The audit committee will determine the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Group's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit.

A remuneration committee, comprising John Sanderson and Michael Bungey, has also been established. It will review the performance of the executive directors and will set their remuneration, determine the payment of bonuses to executive directors and consider bonus and option schemes. The executive directors will take no part in discussions concerning their remuneration.

CREST

CREST is a paperless settlement procedure which enables securities to be evidenced other than by certificate and transferred other than by written instrument. The Articles of Association of the Company permit the holding and transfer of Ordinary Shares through CREST. Accordingly, settlement of transactions in the Ordinary Shares within the CREST system will continue following Admission if individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

RISK FACTORS

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. An investment in the Company may not be suitable for all recipients of this document. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Legislation and Tax

This document has been prepared on the basis of current legislation, rules and practice and the advisers' interpretation thereof. Such interpretation may not be correct and it is always possible that legislation, rules and practice may change. Any changes in legislation, and in particular any changes to bases of taxation, tax relief and rates of tax, may affect the availability of reliefs.

Investment risk and AIM

The Ordinary Shares will be quoted on AIM rather than the Official List. The AIM Rules are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Shareholders should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets. The price at which Shareholders may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which may be extraneous. On any disposal investors may realise less than the original amount invested.

Kingstreet

Kingstreet is in advanced negotiations with a major backer to significantly increase its investment potential, the Directors believe that the eventual upside will be considerably in excess of £1.5 million however this is dependent on the successful conclusion of Kingstreet's negotiations.

Key Personnel

The Company is dependent on key members of staff, particularly Brian Scholfield and Guy Fletcher. The loss of these key people for any reason could significantly affect the Company in the short to medium term. There is a risk that the Company may have difficulty in retaining or recruiting personnel with appropriate skills that are essential to the implementation of the Company's strategy.

Exploitation of Intellectual Property Rights

A combination of international laws and conventions currently control the exploitation of intellectual property rights. The expansion of new media such as the internet may require these regulations to be changed. Any such new legislation or regulations could have an impact on MCS's business, operating results and financial position.

Competition

Whilst the Directors believe that there are currently very few competitors in the industry who account to clients within the time frame offered by the Company, other competitors may attempt to emulate the terms of business offered by MCS. The financial structure of existing music publishers relies heavily on the "pipeline" income and the Directors therefore believe that a fundamental change in the terms offered to their clients is unlikely however it can't be guaranteed.

EIS

Although certain qualifying investors in the Company should obtain income tax relief of up to 20 per cent. on their investment, neither the Company nor the Directors can offer any guarantee in this regard. In particular, there can be no guarantee that the Enterprise Investment Scheme (EIS) legislation will not change the definition of what is a "qualifying business activity" or "qualifying trade" for the purpose of qualifying for EIS relief nor that the Company may not change the nature of its business so that it ceases to carry on a "qualifying trade" for the purposes of EIS. Investors must take and rely upon independent professional advice.

[The risks listed above do not necessarily comprise all those faced by the Group.]

PART II

FINANCIAL INFORMATION

Section A: ACCOUNTANTS' REPORT ON THE COMPANY



• October 2004

The Directors
Music Copyright Solutions Plc
32 Lexington Street
London
W1F 0LQ

The Directors
Daniel Stewart & Co. PLC
48 Bishopsgate
London
EC2N 4AJ

Gentlemen

MUSIC COPYRIGHT SOLUTIONS PLC

We report on the financial information set out in Section A of Part II of the AIM Admission document prepared in relation to Music Copyright Solutions Plc ("MCS" or "the Company") dated 15 October 2004 ("Admission document"). This financial information has been prepared for inclusion in the Admission document.

Basis of Preparation

The financial information set out in Section A of Part II of the Admission document is based on the audited financial statements of Music Copyright Solutions Plc for the three years from 1 January 2001 to 31 December 2003. It has been prepared on the basis set out below, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of MCS who approved their issue.

The directors of MCS are responsible for the contents of the Admission document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Devonshire House, 60 Goswell Road, London EC1M 7AD

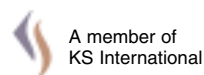
Telephone 020 7566 4000 Fax 020 7566 4010 email: ks@kingstonsmith.co.uk web: www.kingstonsmith.co.uk

A full list of partners is available for inspection at this office.

Kingston Smith provides a full financial and business management service for clients nationwide.

In addition to our normal audit, accountancy and taxation service we provide the following: Strategic & Corporate Planning Financial Presentation Corporate Finance IT & Computer Consultancy Training for Business Personal Financial Planning Tax & Legal Consultancy VAT Advisory Service Medical Practitioners Advisory Service PAYE Advisory Service NIC Advisory Service

Registered to carry on audit work and regulated for a range of investment business activities by The Institute of Chartered Accountants in England and Wales



Basis of Opinion

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by Baker Tilly, who audited the financial statements for the year ended 31 December 2001 and that recorded by MRI Moores Rowland LLP, who audited the financial statements for the two years from 1 January 2002 to 31 December 2003. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in the Financial Statements concerning the ability of MCS and its subsidiaries ("the Group") to continue as a going concern.

As disclosed in the Group's accounting policies, the Group restructured its banking facilities during the year ended 31 December 2003 and has further extended its banking facilities since the end of the year. The directors are of the opinion that the existing facilities are sufficient to enable the Group to continue to meet its working capital requirements.

In view of the significance of this matter we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial information gives, for the purpose of the Admission document, a true and fair view of the state of affairs of MCS at the dates stated and of its results for the years then ended.

Consent

We consent to the inclusion in the Admission document of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Kingston Smith

Chartered Accountants and Registered Auditors
60 Goswell Road
London
EC1M 7AD

**Consolidated Profit and Loss Account
For the Year Ended 31 December**

			2001	2002	2003
		Notes	£	£	£
Turnover	– Continuing		406,121	562,474	7,017,016
	– Acquisitions		–	6,015,664	–
		1	406,121	6,578,138	7,017,016
Cost of Sales	– Continuing		223,856	405,479	5,282,075
	– Acquisitions		–	4,540,077	–
			223,856	4,945,556	5,282,075
Gross Profit	– Continuing		182,265	156,995	1,734,941
	– Acquisitions		–	1,475,587	–
			182,265	1,632,582	1,734,941
Administrative expenses	– Continuing		661,087	1,402,483	2,093,986
	– Acquisitions		–	1,111,191	–
			661,087	2,513,674	2,093,986
Operating (Loss)/Profit	– Continuing	2	(478,822)	(1,245,488)	(359,045)
	– Acquisitions		–	364,396	–
			(478,822)	(881,092)	(359,045)
Interest payable		3	(5,196)	(116,597)	(134,318)
Loss on ordinary activities before taxation		2	(484,018)	(997,689)	(493,363)
Taxation		5	–	–	–
Loss on ordinary activities after taxation			(484,018)	(997,689)	(493,363)
Minority interest			–	7,316	–
Loss retained for the year		17	(484,018)	(990,373)	(493,363)
Earnings/(loss) per share		6			
Basic			(7.70p)	(8.82p)	(4.08p)
Fully diluted			(7.25p)	(8.51p)	(4.08p)
Adjusted			(7.09p)	(4.52p)	0.19p

Consolidated Statement of Total Recognised Gains and Losses
For the Year Ended 31 December

	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Loss for the financial year	(484,018)	(990,373)	(493,363)
Currency translation differences	–	(8,770)	47,545
Total recognised losses for the year	<u>(484,018)</u>	<u>(999,143)</u>	<u>(445,818)</u>

Consolidated Balance Sheet**As at 31 December**

	<i>Notes</i>	<i>2001</i> £	<i>2002</i> £	<i>2003</i> £
Fixed Assets				
Intangible assets	8	927,204	3,480,458	6,668,880
Tangible assets	9	<u>36,603</u>	<u>108,567</u>	<u>88,875</u>
		963,807	3,589,025	6,757,755
Current Assets				
Debtors	11	982,160	2,931,491	4,888,398
Cash at bank and in hand		<u>26,227</u>	<u>130,456</u>	<u>447,474</u>
		1,008,387	3,061,947	5,335,872
Creditors: amounts falling due within one year	12	<u>(1,353,303)</u>	<u>(6,512,092)</u>	<u>(9,342,027)</u>
Net current liabilities		(344,916)	(3,450,145)	(4,006,155)
Creditors: amounts falling due after one year	13	<u>–</u>	<u>(16,642)</u>	<u>(833,333)</u>
Net Assets		<u>618,891</u>	<u>122,238</u>	<u>1,918,267</u>
Capital and Reserves				
Called up share capital	14	101,325	113,579	243,527
Share premium	15	1,137,964	1,626,621	3,740,099
Merger reserve	16	1,300	1,300	1,300
Profit and loss account	17	<u>(621,698)</u>	<u>(1,620,841)</u>	<u>(2,066,659)</u>
Shareholders' equity funds	18	<u>618,891</u>	<u>120,659</u>	<u>1,918,267</u>
Minority interest		<u>–</u>	<u>1,579</u>	<u>–</u>
Total Funds		<u>618,891</u>	<u>122,238</u>	<u>1,918,267</u>

Consolidated Cash Flow Statement

	<i>Notes</i>	<i>2001</i> £	<i>2002</i> £	<i>2003</i> £
Cash inflow/(outflow) from operating activities	21a	(463,471)	(415,395)	768,052
Returns on investments and servicing of finance	21b	(5,196)	(116,597)	(134,318)
Taxation		–	–	–
Capital expenditure and financial investment	21b	(949,592)	(156,037)	(2,730,150)
Acquisitions	21b	–	(333,936)	(130,483)
Cash outflow before financing		<u>(1,418,259)</u>	<u>(1,021,965)</u>	<u>(2,226,899)</u>
Financing	21b	1,189,214	482,266	2,606,216
Increase/(decrease) in cash in period		<u>(229,045)</u>	<u>(539,699)</u>	<u>379,317</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

	£	£	£
Increase/(decrease) in cash in period	(229,045)	(539,699)	379,317
Cash outflow from decrease in lease financing	–	18,645	23,369
Cash inflow from increase in debt financing	–	–	(446,159)
	<u>(229,045)</u>	<u>(521,054)</u>	<u>(43,473)</u>
New finance lease	–	(56,115)	–
Movement in net debt in period	<u>(229,045)</u>	<u>(577,169)</u>	<u>(43,473)</u>
Net debt brought forward	(20,383)	(249,428)	(826,597)
Net debt carried forward	21c <u>(249,428)</u>	<u>(826,597)</u>	<u>(870,070)</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies

Basis of Accounting

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

Going Concern

The Group put new banking arrangements into place during the year ended 31 December 2003 and these have been further extended since the end of the year. The directors have prepared and considered cash flow forecasts for the year to 31 May 2005, and believe that the existing banking facilities will be sufficient to enable the group to meet its working capital requirements.

On this basis, the directors consider that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result if the banking facilities are not sufficient.

Intangible Fixed Assets

Purchased music catalogues are capitalised at cost as intangible fixed assets and are amortised by equal annual amounts over their expected useful life, as follows:

- Owned catalogues 20 years
- Administered catalogues 10 years

Goodwill arising on acquisitions is capitalised and amortised over the directors' estimate of its expected useful life. In previous years, the expected useful life of goodwill has been estimated at 10 years. However, at the beginning of 2003 this estimate was increased to 20 years.

Intangible fixed assets are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

In standard music publishing administration agreements, the administrator of the music copyrights is granted a specific term during which it can administer and collect royalty payments. This can vary from one year to "life of copyright" agreements. The term of copyright ownership for original literary and music works under UK legislation is 70 years after the death of the creator or, in the case of a joint authorship, for 70 years after the death of the surviving joint author. Despite this variation in terms, it is normal practice for administration periods to be initially set at one to five year periods, the intention being that the agreement is renewed under similar terms unless there is a major dispute between the parties. In many cases, the agreements themselves are not renewed but the administration of the royalties continues in the same manner. This is very often the case in the independent sector.

Tangible Fixed Assets

Fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

- Office equipment 33.33% per annum

Investments

Fixed asset investments are stated at historical cost less any provision for diminution in value.

Deferred Taxation

In 2002 the accounting policy in respect of deferred tax was changed to reflect the requirements of FRS19 – Deferred Taxation. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

The adoption of this standard did not require a prior period adjustment.

Basis of consolidation

The consolidated accounts include the accounts of the company and each of its material subsidiaries and associates. Merger accounting has been used to reflect the combination of Screen Music Services Limited and Copyright Online Royalty Services Limited on 4 January 2001. Other business combinations are accounted for using the acquisition or equity methods of accounting, whereby the Group's results include the results of the acquired business from the date of acquisition.

Overseas entities are consolidated using the closing rate method. Foreign exchange differences are taken to reserves.

Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange prevailing at the date of the transaction. Exchange differences are taken to the profit and loss account for the year.

Turnover

Turnover represents the invoiced value, net of Value Added Tax and trade discounts, of goods sold and services provided to customers.

Royalties and Advances

Royalty income is accounted for on an accruals basis. Royalties payable are then matched to royalties receivable.

Advances received and receivable are recognised as turnover in the period to which the royalty income relates. Provision is therefore made for royalties payable on advances received only to the extent that the advances have been recouped.

Advances paid are provided for unless it is considered that they will be recouped from future earnings.

Royalties receivable in respect of administered catalogues are, like those from owned catalogues, shown within turnover and those payable are shown within cost of sales.

In 2002, the basis of recognition of royalties was changed from a cash basis to an accruals basis, in order to reflect the requirements of FRS18 – Accounting Policies to prepare the financial statements on the accruals basis of accounting.

The Directors do not consider that the effect of this change had a material effect on the 2002 or 2001 financial statements and accordingly no prior period adjustment was made.

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such arrangements are included in creditors net of finance lease charges allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligations outstanding.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1. Turnover and Loss on Ordinary Activities Before Taxation

The Group's turnover and loss before taxation were all derived from its principal activity.

Turnover	2001	2002	2003
	£	£	£
UK	406,121	2,580,256	5,193,806
US	–	3,997,882	1,823,210
	<u>406,121</u>	<u>6,578,138</u>	<u>7,017,016</u>

2. Operating Loss

	2001	2002	2003
	£	£	£
Operating loss is stated after charging/(crediting):			
Depreciation and amounts written off tangible fixed assets:			
Charge for the year:			
– Owned assets	8,722	31,921	41,419
– Leased assets	–	20,372	18,704
Amortisation on intangible fixed assets	9,548	314,294	321,856
Auditors' remuneration:			
– Audit fees	16,000	20,000	29,000
– Non-audit fees	38,350	–	68,544
Operating lease rentals:			
– Land and buildings	24,834	80,000	80,000
– Plant and machinery	20,838	11,062	1,374
	<u>20,838</u>	<u>11,062</u>	<u>1,374</u>

A further £22,175 (2002: £nil) was paid to the auditors for non-audit work which has been charged against the share premium account. Fees of £nil (2002: £54,346) were paid to the Group's former auditors.

3. Interest Payable

	2001	2002	2003
	£	£	£
On bank loans and overdrafts repayable within five years	5,196	104,321	12,017
On other loans	–	7,137	116,707
Finance lease charges	–	5,139	5,594
	<u>5,196</u>	<u>116,597</u>	<u>134,318</u>

4. Employees

	2001 <i>No.</i>	2002 <i>No.</i>	2003 <i>No.</i>
The average monthly number of employees (including directors) employed by the Group during the year was:			
Office and management	<u>7</u>	<u>22</u>	<u>24</u>
	2001 £	2002 £	2003 £
Staff costs for above persons:			
Wages and salaries	250,107	806,480	757,876
Social security costs	<u>26,851</u>	<u>44,705</u>	<u>37,600</u>
	<u>276,958</u>	<u>851,185</u>	<u>795,476</u>
Directors' Emoluments	<u>94,452</u>	<u>153,083</u>	<u>144,443</u>

5. Taxation

There is no corporation tax on the result of any of the three years. The Group has losses of approximately £1,300,000 (2002: loss £1,500,000, 2001: loss £550,000) which, subject to the agreement of the Inland Revenue, are available to be carried forward against future profits of the same trade.

No deferred tax asset has been recognised in respect of these tax losses due to the uncertainty over their future use.

Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK (30 per cent.). The differences are explained below:

	2002 £	2003 £
Loss on ordinary activities before tax	<u>(997,689)</u>	<u>(493,363)</u>
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	(299,306)	(148,009)
Effects of:		
Expenses not deductible for tax purposes	51,112	25,595
Depreciation in excess of capital allowances	54,935	55,144
Utilisation of brought forward tax losses	(200,363)	(189,555)
Tax losses carried forward to a future period	269,858	149,360
Different tax rates on overseas profits	<u>123,764</u>	<u>107,465</u>
	-	-

6. Loss Per Share

	2001	2002	2003
	£	£	£
Basic loss per share	(7.70)	(8.82)	(4.08)
Adjustment for amortisation and depreciation	0.53	3.26	3.16
Adjustment for interest payable	0.08	1.04	1.11
Adjusted earnings/(loss) per share	<u>(7.09)</u>	<u>(4.52)</u>	<u>0.19</u>

The basic and diluted loss per share has been calculated by dividing the loss for the year of £493,363 (2002: £990,373, 2001: £484,018) by the weighted average number of shares of 12,089,489 (2002: 11,232,268, 2001: 6,286,707) in issue during the year.

In 2003, the company had no dilutive potential ordinary shares that would serve to increase the loss per ordinary share. In 2002 and 2001, the calculation of the diluted loss per share was based on the weighted average of shares outstanding adjusted by the dilutive share options. These adjustments give rise to an increase in the weighted average number of shares outstanding to 2002: 11,494,725 (2001: 6,676,707).

The adjusted earnings/loss per share is calculated using the profit/loss before amortisation, depreciation and interest payable.

Management believes that exclusion of these items provides a better indication of the performance of the Group in terms of those elements of revenue and expenditure which management are able to influence. This information, which is provided in addition to the statutory information required by Financial Reporting Standard 14, is given to assist shareholders to gain a clearer understanding of the underlying performance of the business.

Net profit for the period attributable to shareholders:

	2001	2002	2003
	£	£	£
Basic loss	(484,018)	(990,373)	(493,363)
Adjustment for amortisation and depreciation	18,270	366,588	381,979
Adjustment for interest payable	5,196	116,597	134,318
Adjusted earnings/(loss)	<u>(460,552)</u>	<u>(507,188)</u>	<u>22,934</u>

7. Profit Attributable to the Parent Company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained loss for the year amounted to £307,880 (2002: £1,376,823, 2001: £641,596).

The retained loss for the year is stated after crediting a management charge of £1,319,869 (2002: £nil, 2001: £nil).

The directors consider that since the UK subsidiaries of the Group have now established themselves as profitable organisations, a recharge should be made to reflect the overhead costs incurred by Music Copyright Solutions Plc on behalf of these subsidiaries.

This recharge has been calculated on a fully commercial basis.

8. Intangible Fixed Assets

	<i>Goodwill</i>	<i>Investment in music rights</i>	<i>Total</i>
	£	£	£
Cost:			
1 January 2001	–	49,228	49,228
Additions	908,659	–	908,659
1 January 2002	908,659	49,228	957,887
Additions	1,620,297	122,923	1,743,220
On acquisition of subsidiary undertakings	–	1,159,069	1,159,069
1 January 2003	2,528,956	1,331,220	3,860,176
Additions	1,114,059	2,395,036	3,509,095
On acquisition of subsidiary undertakings	–	1,183	1,183
31 December 2003	3,643,015	3,727,439	7,370,454
Amortisation:			
1 January 2001	–	6,112	6,112
Charged in the year	–	9,548	9,548
1 January 2002	–	15,660	15,660
Charged in the year	249,422	64,872	314,294
1 January 2003	249,422	80,532	329,954
Charged in the year	157,787	164,069	321,856
31 December 2003	407,209	244,601	651,810
Impairment:			
1 January 2001	–	–	–
Charged in the year	–	15,023	15,023
1 January 2002	–	15,023	15,023
Charged in the year	34,741	–	34,741
1 January 2003 and 31 December 2003	34,741	15,023	49,764
Net book value:			
At 31 December 2003	3,201,065	3,467,815	6,668,880
At 31 December 2002	2,244,793	1,235,665	3,480,458
At 31 December 2001	908,659	18,545	927,204

8. Intangible Fixed Assets (continued)

In previous years, the expected useful life of goodwill has been estimated at 10 years. However, at the beginning of 2003 this estimate was increased to 20 years. Had goodwill continued to be amortised over 10 years, the amortisation charge in 2003 would have been £170,915 higher than the actual charge.

Within the investment in music rights additions figure for the year ended 31 December 2003 is £1,208,438 in respect of catalogue administration rights agreements and licence agreements with Palan Music Publishing Limited, Spirit Music Group Inc, Jacques Negrit and The Extreme Music Library Plc which expire at 30 June 2004 (except for Jacques Negrit which expires in 2010). The agreements in respect of £833,438 of this amount state that the agreements will be automatically renewed for a further twelve months at each expiry date so long as there have been no grounds for termination of the agreements.

In standard music publishing administration agreements, the administrator of the music copyrights is granted a specific term during which it can administer and collect royalty payments. This can vary from one year to "life of copyright" agreements. The term of copyright ownership for original literary and music works under UK legislation is 70 years after the death of the creator or, in the case of a joint authorship, for 70 years after the death of the surviving joint author. Despite this variation in terms, it is normal practice for administration periods to be initially set at one to five year periods, the intention being that the agreement is renewed under similar terms unless there is a major dispute between parties. In many cases, the agreements themselves are not renewed but the administration of the royalties continues in the same manner. This is very often the case in the independent sector.

It is the directors' opinion that all the above noted agreements will be renewed upon expiry year on year or that, in the case of rights where the agreement term has expired, the rights will be left with the Group to administer on a continuing basis and that there is therefore no need to amortise them over a shorter period than the Group's normal amortisation policy of 10 years.

Acquisition of Diamond Time (US) Limited

On 1 January 2003, MCS Music Limited acquired the remaining 25 per cent. of the issued share capital of Diamond Time (US) Limited for a total consideration of £10,000.

The assets acquired were analysed as follows:

	£
Tangible fixed assets	1,389
Debtors	14,077
Cash	6,155
Creditors	(20,042)
Net assets	<u>1,579</u>
Goodwill arising on acquisition	8,421
	<u>10,000</u>
Satisfied by:	
Issue of shares	<u>10,000</u>

The net book value of the assets and liabilities acquired is considered to be fair value.

8. Intangible Fixed Assets (continued)

Acquisition of Palan Edizioni Musicali S.R.L, Classic Songs Plc and Global Media Management Limited

On 1 July 2003, Music Copyright Solutions plc acquired 100 per cent. of the issued share capital of Palan Edizioni Musicali S.R.L, Classic Songs Plc and Global Media Management Limited for a total consideration of £195,000.

The assets acquired were analysed as follows:

	£
Intangible fixed assets	1,183
Debtors	64,422
Cash	64,517
Creditors	(120,944)
Net assets	9,178
Goodwill arising on acquisition	185,822
	<u>195,000</u>
Satisfied by:	
Cash	<u>195,000</u>

The net book value of the assets and liabilities acquired is considered to be fair value. No results for the year have been consolidated in respect of these companies for the current year since it would be immaterial to do so.

Acquisition of MCS Music Limited

On 18 January 2002, Music Copyright Solutions plc acquired 100 per cent. of the issued share capital of MCS Music Limited for a total consideration of £940,000.

The assets acquired were analysed as follows:

	£
Intangible fixed assets	1,159,069
Investments	61,421
Debtors	533,263
Creditors	(2,399,309)
Net assets	(645,556)
Goodwill arising on acquisition	1,585,556
	<u>940,000</u>
Satisfied by:	
Cash	20,000
Deferred Consideration	920,000
	<u>940,000</u>

The net book value of the assets and liabilities acquired is considered to be fair value.

8. Intangible Fixed Assets (continued)

Acquisition of the royalty administration and collection agreements of Copyright Management Services Inc

On 12 December 2001 the Group acquired the royalty administration and collection agreements of Copyright Management Services Inc for a cash consideration of £908,659, giving rise to goodwill of £908,659.

9. Tangible Fixed Assets

	<i>Office Equipment £</i>
Cost:	
1 January 2001	2,825
Additions	70,946
Disposals	(30,013)
1 January 2002	<u>43,758</u>
Additions	120,331
On acquisition of subsidiary undertakings	28,117
Disposals	(31,103)
1 January 2003	<u>161,103</u>
Exchange difference	(2,844)
Additions	43,275
31 December 2003	<u>201,534</u>
Depreciation:	
1 January 2001	100
Charged in the year	8,722
Disposals	(1,667)
1 January 2002	<u>7,155</u>
Charged in the year	52,293
Disposals	(6,912)
1 January 2003	<u>52,536</u>
Charged in the year	60,123
31 December 2003	<u>112,659</u>
Net book value:	
At 31 December 2003	<u>88,875</u>
At 31 December 2002	<u>108,567</u>
At 31 December 2001	<u>36,603</u>

Assets held under finance leases

	<i>2001 £</i>	<i>2002 £</i>	<i>2003 £</i>
Net book value	<u>–</u>	<u>35,742</u>	<u>17,038</u>
Depreciation for the year	<u>–</u>	<u>20,372</u>	<u>18,704</u>

10. Investments

Music Copyright Solutions PLC holds more than 20 per cent. of the share capital of the following companies:

<i>Subsidiary undertaking</i>	<i>Class of Holding</i>	<i>Proportion directly held</i>	<i>Nature of Business</i>	<i>Country of incorporation</i>
Screen Music Services Limited	Ordinary	100%	Music publishing	UK
Copyright Online Royalties Services Limited	Ordinary	100%	Dormant	UK
MCS Music Limited	Ordinary	100%	Music publishing & copyright services	UK
Diamond Time (US) Limited*	Ordinary	100%	Copyright services	USA
MCS Music America Inc	Ordinary	100%	Music publishing & copyright services	USA
Palan Edizioni Musicali Italia S.R.L	Ordinary	100%	Music publishing	Italy
Classic Songs Plc	Ordinary	100%	Music publishing	UK
Global Media Management Limited	Ordinary	100%	Music publishing	UK

Participating interests

	<i>Class of Holding</i>	<i>Proportion directly held</i>	<i>Nature of Business</i>	<i>Country of incorporation</i>
R'N-D Production Ltd	Ordinary	50%	Production of Recorded musical works	UK

* owned by MCS Music Ltd

11. Debtors

	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Due within one year:			
Trade debtors	10,513	68,596	417,428
Royalty advances	374,128	1,055,583	981,948
Other debtors	507,923	6,422	296,754
Prepayments and accrued income	89,596	1,800,890	3,192,268
	<u>982,160</u>	<u>2,931,491</u>	<u>4,888,398</u>

12. Creditors: Amounts falling due within one year

	2001	2002	2003
	£	£	£
Bank loans and overdrafts	275,655	919,583	470,110
Net obligations under finance leases	–	20,828	14,101
Trade creditors	148,234	290,203	1,183,470
Royalties due	–	3,415,825	5,982,179
Other creditors	655,078	1,710,803	1,512,828
Other tax and social security	32,944	103,450	34,088
Accruals and deferred income	241,392	51,400	145,251
	<u>1,353,303</u>	<u>6,512,092</u>	<u>9,342,027</u>

Finance leases are secured on the assets to which they relate.

The bank loan, overdraft and a loan of £920,000 within other creditors are secured by charges over the assets of the group.

13. Creditors: Amounts falling due after one year

	2001	2002	2003
	£	£	£
Bank Loans	–	–	833,333
Net obligations under finance leases	–	16,642	–
	<u>–</u>	<u>16,642</u>	<u>833,333</u>

The bank loan falls due for repayment in the following years:

	2001	2002	2003
	£	£	£
Within one year	–	–	166,667
In one to two years	–	–	222,222
In two to five years	–	–	611,111
	<u>–</u>	<u>–</u>	<u>1,000,000</u>
Net obligations under finance leases			
Repayable within one year	–	25,967	21,740
Repayable between one and five years	–	21,740	–
	<u>–</u>	<u>47,707</u>	<u>21,740</u>
Finance charges allocated to future accounting periods	–	(10,237)	(7,639)
	<u>–</u>	<u>37,470</u>	<u>14,101</u>
Included in liabilities within one year	–	(20,828)	(14,101)
	<u>–</u>	<u>16,642</u>	<u>–</u>

14. Share Capital

	2001 £	2002 £	2003 £
Authorised:			
30,000,000 ordinary shares of 1p each (2002 & 2001: 20,000,000 ordinary shares of 1p each)	<u>200,000</u>	<u>200,000</u>	<u>300,000</u>
Allotted, issued and fully paid:			
24,352,676 ordinary shares of 1p each (2002: 11,357,869 ordinary shares of 1p each, 2001: 10,132,458 ordinary shares of 1p each)	<u>101,325</u>	<u>113,579</u>	<u>243,527</u>

The Company was incorporated on 11 December 2000 with 2 issued ordinary shares of £1 each and an authorised share capital of 200,000 ordinary shares of £1 each. On 4 January 2001 an additional 49,998 ordinary shares of £1 each were allotted and issued to the existing shareholders of Screen Music Services Limited and Copyright Online Royalties Services Limited in exchange for their existing shares in those companies.

On 6 July 2001, 20,000 ordinary shares of £1 each were allotted and issued nil paid for cash at par. These shares were fully paid up in December 2001.

On 28 September 2001 each of the existing un-issued and issued ordinary shares of £1 each were sub-divided into 100 ordinary shares of 1p each.

On 21 November 2001, 3,132,458 shares were issued at 44p per share, resulting in total consideration receivable of £1,378,282.

On 13 June 2002, 56,506 shares were issued for cash at par, resulting in total consideration receivable of £565.

On 15 March 2002, 1,168,905 shares were issued at 44p per share, resulting in total consideration receivable of £514,318.

On 13 January 2003, 102,273 shares were issued at 44p per share, resulting in total consideration receivable of £45,000.

On 12 March 2003, 713,378 shares were issued at 38.5p per share, resulting in total consideration receivable of £274,651.

On 7 May 2003, 28,170 shares were issued at 35.5p per share as payment for the 25 per cent. of Diamond Time US Limited that was acquired.

On 11 September 2003, 14,493 shares were issued at 34.5p per share, resulting in total consideration of £5,000.

On 31 December 2003, 12,136,493 shares were issued at 17p per share, resulting in total consideration of £2,063,204.

Since 31 December 2003, the following shares of 1p each have been allocated and issued:

Date	<i>No of shares</i>	<i>Consideration</i> £
5 January 2004	105,882	18,000

On 18 February 2002, 390,000 options over 1p shares were granted. These have an exercise price of 44p and an exercise period of 18 February 2005 to 17 February 2012.

A further 290,000 options over 1p shares have been granted since the year-end. These have an exercise price of 24p and an exercise period of 15 January 2007 to 14 January 2014.

15. Share Premium

	2001	2002	2003
	£	£	£
At start of year	–	1,137,964	1,626,621
Premium on allotment during year	1,346,957	502,629	2,267,907
Share issue costs	(208,993)	(13,972)	(154,429)
At end of year	<u>1,137,964</u>	<u>1,626,621</u>	<u>3,740,099</u>

16. Merger Reserve

	2001	2002	2003
	£	£	£
At 1 January 2001 and at 31 December 2001, 2002 and 2003	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>

The merger reserve represents the excess of the nominal value of the shares issued by Music Copyright Solutions Plc over the nominal value of the share capital and share premium accounts of Screen Music Services Limited and Copyright Online Royalties Service Limited.

17. Profit and Loss Account

	2001	2002	2003
	£	£	£
At start of year	(137,680)	(621,698)	(1,620,841)
Loss for the financial year	(484,018)	(990,373)	(493,363)
Foreign exchange difference	–	(8,770)	47,545
At end of year	<u>(621,698)</u>	<u>(1,620,841)</u>	<u>(2,066,659)</u>

18. Reconciliation of Movement in Shareholders' Funds

	2001	2002	2003
	£	£	£
Loss for the financial year	(484,018)	(990,373)	(493,363)
Foreign exchange difference	–	(8,770)	47,545
New share capital subscribed	1,189,289	500,911	2,243,426
Net addition/(reduction) to shareholders funds	<u>705,271</u>	<u>(498,232)</u>	<u>1,797,608</u>
Opening shareholders' funds	(86,380)	618,891	120,659
Closing shareholders' funds	<u>618,891</u>	<u>120,659</u>	<u>1,918,267</u>

19. Related Party Transactions

During the three years the Company and its subsidiaries carried out some transactions with related parties in the normal course of business on an arm's length basis. These transactions are disclosed below.

In 2001 the company was related to MCS Music Limited (formerly Leosong Copyright Service Limited) through Mr B Scholfield's interest in its parent company. MCS Music Limited was charged £125,000 in 2001 for services rendered during the year and as at 31 December 2001 £452,068 was due from this company. On 18 January 2002 the Group acquired 100 per cent. of the issued share capital of MCS Music Limited for a total consideration of £940,000.

VTR Media Investments Limited has an interest in the shares of the company. This company provided general accounting and administration support to the Group, amounting to £nil (2002: £nil, 2001: £8,669). At 31 December 2003, the balance outstanding in respect of these services was £nil (2002: £nil, 2001: £18,899).

At 31 December 2003 an amount of £nil (2002: £20,000) was due to R Ellis, one of the company's shareholders.

20. Transactions with Directors

At 31 December 2003 an amount of £43,188 (2002: 167,137) was due to Brian Scholfield. Interest of £13,492 (2002: £7,137) was charged on outstanding amounts during the year. In addition, an amount of £920,000 is due to BSI Enterprises Limited, a company in which Brian Scholfield has an interest, in respect of the purchase of MCS Music Limited. Interest of £55,533 (2002: £14,658) was charged on this balance during the year.

21. Cash Flows

(a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2001	2002	2003
	£	£	£
Operating loss	(478,822)	(881,092)	(359,045)
Depreciation	8,722	52,293	60,123
Profit on disposal of fixed assets	(1,667)	(6,912)	–
Amortisation	15,023	314,294	321,856
Increase in debtors	9,548	(1,416,068)	(1,892,485)
Increase in creditors	(965,744)	1,522,090	2,587,214
Exchange difference	949,469	–	50,389
Net cash inflow/(outflow) from operating activities	<u>(463,471)</u>	<u>(415,395)</u>	<u>768,052</u>

(b) Analysis of cash flows for headings netted in the cash flow

	2001	2002	2003
	£	£	£
Returns on investments and servicing of finance			
Interest paid	(5,196)	(111,458)	(128,724)
Finance lease charges	–	(5,139)	(5,594)
Net cash outflow from returns on investments and servicing of finance	<u>(5,196)</u>	<u>(116,597)</u>	<u>(134,318)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(70,946)	(64,217)	(43,275)
Purchase of intangible fixed assets	(908,659)	(122,923)	(2,686,875)
Receipts from sales of tangible fixed assets	30,013	31,103	–
Net cash outflow from capital expenditure and financial investment	<u>(949,592)</u>	<u>(156,037)</u>	<u>(2,730,150)</u>
Acquisitions			
Purchase of subsidiary undertakings	–	(20,000)	(195,000)
Cash acquired on acquisitions	–	(313,936)	64,517
	<u>–</u>	<u>(333,936)</u>	<u>(130,483)</u>
Financing			
Issue of ordinary share capital	1,398,207	514,883	2,337,855
Share issue costs	(208,993)	(13,972)	(154,429)
Capital element of finance lease contracts	–	(18,645)	(23,369)
Bank loans repaid	–	–	(750,000)
Bank loans taken out	–	–	1,196,159
Net cash inflow from financing	<u>1,189,214</u>	<u>482,266</u>	<u>2,606,216</u>

21. Cash Flows (Continued)

(c) Analysis of Net Debt

	<i>At</i> <i>1 January</i> <i>2001</i> £		<i>At</i> <i>1 January</i> <i>2002</i> £		<i>Other</i> <i>non-cash</i> <i>changes</i> £	<i>At</i> <i>1 January</i> <i>2003</i> £		<i>At 31</i> <i>December</i> <i>2003</i> £	
	<i>Cash flow</i> £	<i>Cash flow</i> £	<i>Cash flow</i> £	<i>Cash flow</i> £		<i>Cash flow</i> £	<i>Cash flow</i> £	<i>Cash flow</i> £	<i>Cash flow</i> £
Cash at bank and in hand	–	26,227	26,227	104,229	–	130,456	317,018	447,474	
Overdrafts and loans	(20,383)	(255,272)	(275,655)	(643,928)	–	(919,583)	(383,860)	(1,303,443)	
Total	(20,383)	(229,045)	(249,428)	(539,699)	–	(789,127)	(66,842)	(855,969)	
Debt:									
Finance leases	–	–	–	18,645	(56,115)	(37,470)	23,369	(14,101)	
	(20,383)	(229,045)	(249,428)	(521,054)	(56,115)	(826,597)	(43,473)	(870,070)	

22. Commitments Under Operating Leases

At the three year ends, annual commitments under non-cancellable operating leases were as follows:

	<i>2001</i> £	<i>2002</i> £	<i>2003</i> £
Expiring within one year:			
Land and buildings	–	80,000	–
Expiring in two to five years:			
Land and buildings	80,000	–	–
Other	12,875	12,875	2,764
	<u>92,875</u>	<u>92,875</u>	<u>2,764</u>

23. Contingent Liabilities

The company has a joint and several liability for VAT under a group registration scheme. At the balance sheet date, amounts receivable totalled £63,429 (2002: amounts outstanding totalled £4,202). The amount relating to Music Copyright Solutions plc at the balance sheet date is an asset of £103,057 (2002: £14,125).

24. Derivatives and Other Financial Instruments

Financial Instruments

The Group's financial instruments comprise bank overdrafts and items such as trade debtors and trade creditors that arise directly from its operations. Financial instruments such as investments in and advances to subsidiary undertakings and short-term debtors and creditors have been excluded from the disclosures below. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Group has little exposure to credit and cash flow risk. The policies for managing these risks are summarised below and have been applied throughout the year.

Interest Rate/Liquidity Risk

Cash balances are placed so as to maximise interest earned while maintaining the liquidity requirements of the business. When seeking borrowings the Directors consider the commercial terms available and, in consultation with their advisers, consider whether such terms should be fixed or variable and are appropriate to the business.

24. Derivatives and Other Financial Instruments (continued)

The financial liabilities of the Group at 31 December 2003 of £1,303,443 (2002: £919,583, 2001: £275,655) were designated in sterling and were all floating rate liabilities at a benchmark rate of 3 per cent. above Bank of Scotland and Lloyds' base rates in the case of the group's overdrafts and at a benchmark rate of 2.5 per cent. above Bank of Scotland's base rate in the case of the group's loans (2002 and 2001: 3 per cent. above Coutts & Co's base rate).

The values shown in the financial statements approximate to the fair values of the monetary liabilities.

Foreign Currency Risk

The Group has a significant overseas operation, namely companies whose revenues and expenses are denominated in US dollars. As a result, the Group's sterling balance sheet may be affected by movements in the sterling/US dollar exchange rate.

The Group has a limited currency exposure generating gains or losses within the profit and loss account.

Section B: UNAUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

The interim accounts set out below for Music Copyright Solutions plc for the six months ended 30 June 2004 are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The interim accounts are prepared on the basis of accounting policies consistent with the accountants' report on Music Copyright Solutions Plc set out in Section A of Part II of this document. The directors of Music Copyright Solutions Plc, 32 Lexington Street, London, W1F 0LQ, confirm that the interim accounts have been properly prepared in accordance with the law applicable to the undertaking and they consent to the inclusion of the interim accounts and this statement in this document and accept responsibility for them.

Consolidated Profit and Loss Account For the half year to 30 June 2004

	<i>6 months to 30 June 2004 unaudited £</i>	<i>6 months to 30 June 2003 unaudited £</i>	<i>Year to 31 December 2003 audited £</i>
Turnover	3,651,431	2,168,338	7,017,016
Cost of Sales	(2,683,807)	(1,459,127)	(5,282,075)
Gross Profit	<u>967,624</u>	<u>709,211</u>	<u>1,734,941</u>
Operating Expenses	(911,031)	(945,328)	(1,712,007)
Operating Profit/(Loss)	<u>56,593</u>	<u>(236,117)</u>	<u>22,934</u>
Interest payable	(89,642)	(64,090)	(134,318)
Depreciation and Amortisation	(252,823)	(178,669)	(381,979)
Loss before Tax	<u>(285,872)</u>	<u>(478,876)</u>	<u>(493,363)</u>
Tax	–	–	–
Loss after Tax	<u>(285,872)</u>	<u>(478,876)</u>	<u>(493,363)</u>
Loss per Share	<u>1.1p</u>	<u>4.03p</u>	<u>4.08p</u>

Consolidated Balance sheet**At 30 June 2004**

	<i>30 June 2004 unaudited £</i>	<i>30 June 2003 unaudited £</i>	<i>31 December 2003 audited £</i>
Fixed Assets			
Intangible Assets	6,458,070	3,302,171	6,668,880
Tangible Assets	93,890	98,000	88,875
	<u>6,551,960</u>	<u>3,400,171</u>	<u>6,757,755</u>
Current Assets			
Debtors and Accrued Income	5,643,192	3,254,228	4,888,398
Cash at Bank and in hand	161,188	–	447,474
	<u>5,804,380</u>	<u>3,254,228</u>	<u>5,335,872</u>
Creditors: amounts falling due within one year	(9,931,030)	(6,694,735)	(9,342,027)
Net Current Liabilities	(4,126,650)	(3,440,507)	(4,006,155)
Creditors: amounts falling due after one year	(785,265)	–	(833,333)
	<u>1,640,045</u>	<u>(40,336)</u>	<u>1,918,267</u>
Net Assets	<u>1,640,045</u>	<u>(40,336)</u>	<u>1,918,267</u>
Capital and Reserves			
Called up share capital	244,586	122,360	243,527
Share premium	3,746,690	1,938,115	3,740,099
Merger Reserve	1,300	1,300	1,300
Profit and Loss Account	(2,352,531)	(2,102,111)	(2,066,659)
	<u>1,640,045</u>	<u>(40,336)</u>	<u>1,918,267</u>

The interim results were reviewed but not audited by the Company's auditors, Moores Rowland LLP.

PART III

ADDITIONAL INFORMATION

1. THE COMPANY

- 1.1 The Company was incorporated and registered in England and Wales under the Companies Act 1985 on 11 December 2000 with registered number 4125263 as a public limited company. The Company was incorporated with the name Music Copyright Solutions Plc.
- 1.2 The registered office and principal place of business of the Company is at 32 Lexington Street, London W1F 0LQ.
- 1.3 The liability of the members of the Company is limited.
- 1.4 The company is a member of a group of which it is the parent company. It holds more than 20 per cent. of the share capital of the following companies:

<i>Subsidiary undertaking</i>	<i>Class of Holding</i>	<i>Proportion directly held</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Screen Music Services Limited	Ordinary	100%	Music publishing	UK
Copyright Online Royalties Services Limited	Ordinary	100%	Dormant	UK
MSC Music Limited	Ordinary	100%	Music publishing & copyright services	UK
Diamond Time (US) Limited*	Ordinary	100%	Copyright services	USA
MCS Music America Inc	Ordinary	100%	Music publishing & copyright services	USA
Palan Edizioni Musicali Italia S.R.L	Ordinary	100%	Music publishing	Italy
Classic Songs Plc	Ordinary	100%	Music publishing	UK
Global Media Management Limited	Ordinary	100%	Music publishing	UK
R’N-D Production Limited	Ordinary	50%	Production of Recorded musical works	UK

* owned by MCS Music Limited

2. SHARE CAPITAL

- 2.1 The authorised and issued share capital of the Company at the date of this document are as follows:

<i>Authorised Share Capital</i>		<i>Issued and fully paid up share capital</i>	
<i>Amount</i>	<i>Number of Ordinary Shares</i>	<i>Amount</i>	<i>Number of Ordinary Shares</i>
£500,000	50,000,000	£307,285.58	30,728,558

- 2.2 By a resolution passed on 7 September 2004 it was resolved:
- 2.2.1 to increase the authorised share capital of the Company to £500,000 by the creation of an additional 20,000,000 Ordinary Shares;
- 2.2.2 to authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £185,000, such authority to expire on the earlier of the conclusion of the Company’s next annual general meeting and the date falling 15 months from the date of passing of this resolution, except that the Company may, before the expiry of such period, make an offer or agreement which would, or might, require relevant securities to be

allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the resolution had not expired;

2.2.3 to empower the Directors to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 2.2.2 above as if section 89(1) of the Act did not apply to any such allotment, such power to be limited to:

- (a) the allotment of equity securities in connection with a rights issue or other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them, subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of or the requirements of any regulatory authority or any stock exchange; and
- (b) the allotment (other than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £185,000;

and shall expire on the earlier of the conclusion of the Company's next annual general meeting and the date falling 15 months from the date of passing of this resolution unless renewed or extended prior to such time, save that the Company may, before expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

2.2.4 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and, on Admission, will apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraph 2.2.3 above.

2.2.5 Save as disclosed in paragraph 10 below, no commissions, discounts, brokerages or other special terms have been granted by the Company to any person in connection with the issue or sale of any share or loan capital of the Company since incorporation or in connection with such person procuring or agreeing to procure subscriptions for such securities.

2.2.6 Save as disclosed in paragraph 5 below, no share or loan capital of the Company will, at Admission, be under option or will, at Admission, be agreed conditionally or unconditionally to be put under option.

2.2.7 None of the Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.

2.2.8 All of the issued shares in the capital of the Company on the date of this document are fully paid up.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

3.1 The Memorandum of Association of the Company provides that its principal object is to carry on business as a general commercial company. Its objects are set out in full in Clause 4 of its Memorandum of Association. The liability of its members is limited.

3.2 The Articles of Association of the Company include, *inter alia*, provisions to the following effect:

3.2.1 Income

The Company may by ordinary resolution declare a dividend to be paid to members in accordance with the respective rights of the members but no dividend shall exceed the amount recommended by the Board.

3.2.2 Capital

If the Company is wound-up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act and every other statute, statutory instrument, regulation or order for the time being in force, divide among the members *in specie* the whole or any part of the assets of the Company or vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like sanction shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

3.2.3 Voting and General Meetings

Subject to any special rights or restrictions as to voting for the time being attached to any shares, on a show of hands every holder of Ordinary Shares who being an individual, is present in person or, being a corporation, is present by a duly authorised representative, not being himself a member, shall have one vote and on a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for each Ordinary Share held by him.

Unless the Board otherwise decides, a member of the Company shall not be entitled, in respect of any Ordinary Share held by him to vote, either personally or by proxy at any general meeting of the Company unless all calls and other amounts payable by him in respect of that Ordinary Share have been paid. Voting rights may not be exercised by a member in respect of any shares if such shares are subject to disenfranchisement sanctions described in paragraph 3.2.4 below.

3.2.4 Restriction on Voting

The Board is authorised to serve notice under section 212 of the Act on any shareholder, or other person appearing to be interested in shares of the Company, requiring them to give information as to who is interested (within the meaning of Section 212) in shares in the Company within the relevant period. If such notice is not complied with, or, in purported compliance with such a notice, a shareholder has made a statement which is false or inadequate in a material particular, the Directors may in their absolute discretion give notice to the shareholder disenfranchising him from voting in respect of the shares in question and where the shares in question represent 0.25 per cent. or more in nominal value of the issued shares of their class (a) withholding payment of dividends or other distributions on such shares and (b) refusing registration of any transfer of such shares, other than a transfer on arm's length terms.

3.2.5 Variation of Rights

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied in such manner, if any, as may be provided by those rights or with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. The necessary quorum at such meeting is two persons holding or representing by proxy one third in nominal value of the issued shares of that class. Every holder of shares of that class shall on a poll have one vote in respect of every share of the class held by him and a poll may be demanded by any one holder of shares of the class whether present in person or by proxy. The rights attached to any class of shares shall not be varied by either the creation or issue of further shares ranking *pari passu* with them, but in no respect in priority thereto, or by the purchase by the Company of any of its own shares.

3.2.6 Subject to the Act, any share may be issued with the sanction of an ordinary resolution in terms that such shares are, or at the option of the Company are liable, to be redeemed on such terms and in such manner as the Company before the issue of the shares may by special resolution determine.

3.2.7 Alteration of Capital

The Company may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of larger amounts or sub-divide its shares into shares of smaller amounts or cancel any shares not taken or agreed to be taken.

Subject to the provisions of the Act, and to any rights conferred on the holders of any class of shares, the Company may by special resolution reduce its share capital or any capital redemption reserve, share premium account or other un-distributable reserve in any way.

3.2.8 Transferability

Shares in the Company may be in certificated or uncertificated form. All transfers of uncertificated shares may be made by means of a relevant system pursuant to the Uncertificated Securities Regulations 1995 (“the Regulations”). All transfers of certificated shares may be effected by an instrument of transfer in writing in any usual form or in any other form acceptable to the Board. The instrument of transfer must be executed by or on behalf of the transferor and except in the case of fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members of the Company in respect thereof. The registration of transfers may be suspended at such times and for such periods, not exceeding thirty days in any year, as the Board may from time to time determine and either generally or in respect of any class of shares. The Board may in its absolute discretion and without giving any reason for its decision refuse to register any transfer of a share which is not fully paid up or any transfer of a share fully paid up on which the Company has a lien, provided that such restrictions will not prevent dealings in the shares from taking place on an open and proper basis. The Board may also refuse to register any transfer of certificated shares unless it relates to only one class of shares, is left at the registered office or at such other place as the Board may decide for registration, is accompanied by the share certificate and such other evidence (if any) of the transferor’s title as the Board may reasonably require and is duly stamped if required. The Board may also in its absolute discretion refuse to register a transfer of any share to an entity which is not a legal or natural person, to a minor or to be held jointly by more than four persons.

No fee shall be charged by the Company on the registration of any instrument of transfer or any document relating to or affecting the title to, any shares or otherwise for making an entry on the register of members.

3.2.9 Unclaimed Dividends

Unclaimed dividends will be forfeited after a period of 12 years after having been declared or become due for payment and will thereupon cease to remain owing by the Company.

3.2.10 Borrowing Powers

The Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking property and assets (present and future) and uncalled capital and to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

3.2.11 Directors

Unless and until otherwise determined by the Company, the directors shall not be less than 2 nor more than 12 in number.

A director shall not be required to hold any share qualification.

4. DIRECTORS' AND OTHER INTERESTS

4.1 The full names and ages of the directors of the Company are as follows:

<i>Name</i>	<i>Function</i>	<i>Age</i>
John Frederick Waley Sanderson	Non-executive Chairman	50
Brian Beaumont Scholfield	Chief Executive	52
Mervyn Guy Fletcher	Creative Director	60
Paul Christopher Neame Tracey	Non-executive	54
Michael Bungey	Non-executive	64

4.2 The interests of the Directors and the persons connected with them in the share capital of the Company (which have been notified to the Company pursuant to Section 324 and 328 of the Act or are required to be disclosed in the Register of Directors' interests pursuant to Section 325 of the Act) all of which are beneficial are as follows:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>% of the issued Ordinary Shares</i>	<i>Number of Options held</i>
John Sanderson	56,818	0.18	60,000
Brian Scholfield	1,818,000	5.91	60,000
Guy Fletcher	1,704,500	5.55	40,000
Paul Tracey	10,000	0.03	60,000
Michael Bungey	235,882	0.77	none

4.3 Save as disclosed in paragraph 4.2 above and save for the following shareholders, none of the Directors is aware of any interest (within the meaning of Part VI of the Act) which on the date of this document represents 3 per cent. or more of the issued share capital of the Company.

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>% of the issued Ordinary Shares</i>
Kingstreet Media Group Limited	5,500,000	17.90
PE7 Limited	3,235,294	10.53
Electra Kingsway VCT Plc	2,941,200	9.57
AIM 3 VCT Plc	2,397,058	7.80
Private Equity AIM LLP	2,352,941	7.66
JM Finn & Co	1,913,058	6.23
TG & RE Hollier	1,857,500	6.04
VTR Media Investment Limited	1,750,000	5.70
AIM VCT 2 Plc	1,460,000	4.75

4.4 Save as disclosed in paragraphs 4.2 and 4.3 above, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company.

4.5 The aggregate remuneration paid and benefits in kind granted to the Directors during the year ended 31 December 2003 was £144,443. The estimated aggregate remuneration and benefits in kind payable to the Directors during the current financial year of the Company ending 31 December 2004 is £312,333.

4.6 There are no service contracts, existing or proposed, between any Director and the Company or any subsidiary of the Company which expire after one year or which cannot be determined by the employing company without payment of compensation within one year.

4.7 In addition to their directorships in the Company the Directors hold or have held the following directorships within the five years prior to the date of this document:

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Brian Scholfield	Rosemary Lettings Limited BSI Enterprises Limited Copyright Online Royalties Services Limited Screen Music Services Limited MCS Music Limited Find the Song.com Limited Global Media Management Limited Classic Songs Plc	Eurocastle Consultants Limited European Diagnostics Group Limited Madcap Music Limited Leosong Copyright Service Limited Online Music Copyright Services Limited Unilan UK Limited
Mervyn Guy Fletcher	British Academy of Composers and Songwriters Limited English Lyric Publishers Limited Master Music Limited Screen Music Services Limited Jungletown Productions Limited Europe Music Group Limited Copyright Online Royalties Limited Big Secret Music Limited Cyberella Limited Performing Right Society Limited MCS Music Limited Ivors Live Limited Bacprod Limited Festival of Flight (UK) Limited	Newbury Broadcasting Company Limited British Academy of Songwriters' Composers and Authors Limited (The) Mechanical-Copyright Protection Society Limited Wah Tup Music Limited British Music Rights Limited
John Sanderson	Hydrama Media Limited J.F.W.S. Limited Somethin' Else Sounds Directions Limited Screen Digest Limited Xtempus Limited Audio Network Plc Bubblegroup Limited Flippa.com Limited Gaming King Plc Hot Group Plc Muzantiks Limited Netherton Family Limited Pilotlight Limited The East India Company Limited The Location Network Limited The Plain English Group Limited ABN Holdings Limited Whetstone Services Limited Whetstone Continuation Limited Whetstone Group Limited Art VPS limited EI Com plc	Sanderson Family Nominees Limited The Business Information Zone Limited Planetrecruit Limited Mission Today Limited M A Media Partners Limited EY Sport Limited The East India Company (Holdings) Plc

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Paul Tracey	The Machine Room Limited VTR Plc Blue Post Production Limited Kpost Limited VTR Media Investments Limited Clipstream Limited VTR Media Services Limited	Portman Entertainment Group Limited Copyright Online Royalties Service Limited Screen Music Services Limited Advanced Media Group Plc
Michael Bungey	Mongrel Communications Limited Kingstreet Media Group Limited Adsivearn UK Limited	Cordiant Communications Group Plc. Euromedia Express Limited Michael Bungey D.F.S (Liverpool) Limited Zenith Media Holdings Limited 141 Blue Skies Limited Asset Marketing Limited Bates Europe Limited Bates Healthcom Limited Bates UK Limited Garrott Dorland Crawford Holdings Limited Ted Bates Holdings Limited The Decision Shop Limited XMSS Limited Zenith Trustees Limited

- 4.8 Save as provided in paragraphs 4.9 to 4.11 below none of the Directors has:
- 4.8.1 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of any company;
 - 4.8.2 any unspent convictions in relation to indictable offences;
 - 4.8.3 had any bankruptcy order made against him or entered into any voluntary arrangement;
 - 4.8.4 been a director of a company which has been placed in receivership, compulsory liquidation, creditor's voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
 - 4.8.5 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
 - 4.8.6 been the owner of any assets which have been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership; or
 - 4.8.7 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies).
- 4.9 John Sanderson was previously a director of Management Television International, a management education company founded in connection with BBC Select Limited which went into receivership in 1993; Flippa.Com which went into receivership in December 2000 and Mission Today Limited which is currently in receivership.
- 4.10 Guy Fletcher was previously a director of Storyboard Music Limited which went into receivership.

- 4.11 Brian Scholfield was previously a director of Eurocastle Consultant Limited and European Diagnostics Group Limited which were wound up by the Registrar of Companies for failing to file accounts.

5. SHARE OPTIONS AND WARRANTS

- 5.1 The Company has granted a warrant to JM Finn to subscribe for up to 594,808 Ordinary Shares (“JM Finn Warrant”). JM Finn may exercise the JM Finn Warrant in whole or in part at any time up to 28 September 2006 by giving written notice to the Company Secretary. The JM Finn Warrant is exercisable at 44p per Ordinary Share payable in full upon exercise. The Ordinary Shares issued pursuant to the exercise of the JM Finn Warrant shall rank *pari passu* in all respects with the issued Ordinary Shares on the date of allotment.
- 5.2 By a warrant instrument dated 15 September 2004 (“Warrant Instrument”) the Company has created warrants to subscribe for a total of 117,177 Ordinary Shares at 44 pence per share. No warrants have actually been issued pursuant to the Warrant Instrument at the date of this document. The Warrant Instrument was executed by the Company to enable the issue of warrants to subscribe for Ordinary Shares to Kingstreet Media Group Limited pursuant to a shareholders agreement between the Company and Kingstreet, details of which are set out at paragraph 7.5 below. Pursuant to the shareholders agreement, Kingstreet has the right to be granted warrants on the terms set out in the Warrant Instrument to subscribe for up to 117,177 Ordinary Shares in the event that Admission does not take place by 31 December 2004.

5.3 Share Option Plans

- 5.3.1 The Company operates two share option plans, an Inland Revenue approved Enterprise Management Incentive Share Option Plan (“the Approved Plan”) and an unapproved share option plan (“the Unapproved Plan”) (together “the Plans”).

- 5.3.2 At the date of this document the following options have been granted and are still outstanding under the Plans:

Approved Plan

<i>Name of optionholder</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Date of grant</i>	<i>Exercise period</i>	<i>Exercise price</i>
Andrew Spacey	20,000	18.2.02	7 years from 18.2.05	44p
Andrew Spacey	15,000	15.4.04	7 years from 15.4.07	24p
Brian Scholfield	60,000	18.2.02	7 years from 18.2.05	44p
Francis McAweaney	30,000	18.2.02	7 years from 18.2.05	44p
Rosaleen Hall	5,000	18.2.02	7 years from 18.2.05	44p
John Garrett	20,000	18.2.02	7 years from 18.2.05	44p
John Garrett	5,000	15.4.04	7 years from 15.4.07	24p
Guy Fletcher	40,000	18.2.02	7 years from 18.2.05	44p
Elaine Gibson	5,000	15.4.04	7 years from 15.4.07	24p
Peter McGlinchey	15,000	15.4.04	7 years from 15.4.07	24p
Chris Oake	15,000	15.4.04	7 years from 15.4.07	24p

Unapproved Plan

<i>Name of optionholder</i>	<i>Number of Ordinary Shares subject to option</i>	<i>Date of grant</i>	<i>Exercise period</i>	<i>Exercise price</i>
Amanda Street	10,000	15.1.04	7 years from 15.1.07	24p
Darran Bennett	15,000	15.1.04	7 years from 15.1.07	24p
John Sanderson	60,000	18.2.02	7 years from 18.2.05	44p
Paul Tracey	60,000	18.2.02	7 years from 18.2.05	44p
Ray Ellis	10,000	18.2.02	7 years from 18.2.05	44p
Joe Moscheo	50,000	15.1.04	7 years from 15.1.07	24p
Janice Bain	25,000	15.1.04	7 years from 15.1.07	24p
Cathy Carapella	25,000	15.1.04	7 years from 15.1.07	24p
Chris Robertson	25,000	15.1.04	7 years from 15.1.07	24p
Jennifer Reeves	10,000	15.1.04	7 years from 15.1.07	24p
Stephanie Scarpulla	10,000	15.1.04	7 years from 15.1.07	24p
Steve Rush	10,000	15.1.04	7 years from 15.1.07	24p
Monette Cowan	20,000	15.1.04	7 years from 15.1.07	24p
Gail Lundstrom	20,000	15.1.04	7 years from 15.1.07	24p

5.3.3 The terms of the Plans are set out in the summary below. The Plans are identical except where indicated:

Grant of options

Options may be granted to eligible employees at the discretion of the Board. Options may only be granted during the period of 10 years from the date of adoption of the Plans.

Eligibility

All full-time employees and executive directors shall be eligible to participate in the Plans provided they do not have a material interest in the Company. An individual will have a material interest if he individually or together with his associates owns 30 per cent. or more of the share capital of the Company or any subsidiary.

Any employee or director of the Company (regardless of whether they have a material interest in the Company) will be eligible to participate in the Unapproved Plan.

Performance Criteria

The Board may impose performance conditions which will have to be satisfied before options may be exercised. The Board has not imposed any performance criteria on options granted under the Plans to date.

Exercise Price

The exercise price is determined by the Directors but shall not in any event be lower than the nominal value of an Ordinary Share.

Limit of participation

A participant may not hold options under the Approved Plan over shares with a market value in excess of £100,000 at the date of grant.

There is no limit on the value of shares under option which may be held by any one individual under the Unapproved Plan.

Total number of shares available

Options may not be granted under the Approved Plan which together with options granted under any other employee share scheme exceed 10 per cent. of the ordinary share capital of the Company from time to time.

Options may not be granted under the Unapproved Plan which together with options granted under any other employee share scheme exceed 3 per cent. of the ordinary share capital of the Company from time to time.

Exercise of options

Options granted under the Plans are exercisable at the discretion of the Directors but may not under the rules of the Plans be exercisable earlier than the date of grant or later than the tenth anniversary of the date of grant. In the event of a takeover the option holder shall be able to exercise options within a period of forty days in the case of the Approved Plan and six months in the case of the Unapproved Plan of the change of control of the Company pursuant to the takeover, failing which they shall lapse and cease to be exercisable.

Employees leaving the Company

If an option holder ceases to hold office or employment with any company in the Group for whatever reason, all unexercised options held by him on the date of cessation will lapse subject to the discretion of the Board to allow such options to be exercised for a period following the cessation.

Variation of share capital

In the event of a variation of share capital the directors may adjust the number of shares under option and/or the exercise price to reflect such variation. This adjustment shall be subject to confirmation by the Auditors that such adjustment is fair and reasonable. Such adjustment in relation to the Approved Plan may need to be agreed in advance by the Inland Revenue.

No such Inland Revenue agreement is required under the Unapproved Plan.

Alteration of Plans

The directors may at any time alter or amend the provisions of the Plans but, in general, no alteration shall be made without the prior approval by ordinary resolution of the members of the Company in general meeting.

Any such alteration will not need to be so approved where the amendments are minor, to benefit the administration of the Plans, to take account of a change in legislation or to obtain or maintain favourable tax treatment.

Relationship with contract of employment

The grant of an option does not form part of the option holder's entitlement to remuneration or benefits and the option holder shall not be entitled to any additional right to compensation for loss of office in consequence of his being unable to exercise his options as a result of such loss of office or employment.

6. UNITED KINGDOM TAXATION

This paragraph is intended as a general guide to UK current tax law and practice in the areas referred to below. It applies to persons who (unless the position of non-resident shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments. Any person who is in doubt as to his or her tax position or requires further information should consult an appropriate professional adviser.

6.1 UK taxation of dividends

6.1.1 No tax will be withheld by the Company when it pays dividends under current United Kingdom tax legislation.

6.1.2 An individual shareholder, resident for tax purposes in the United Kingdom, who receives a dividend from the Company will be entitled to a tax credit equal to one ninth of the amount of the net dividend which is equivalent to a tax credit of 10 per cent. of the sum of the net dividend and the tax credit (the “gross dividend”).

6.1.3 Individual shareholders resident for tax purposes in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual’s income. The tax credit referred to in paragraph 6.1.2 above will discharge the liability to income tax in respect of the dividend of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the gross dividend. A higher rate taxpayer will be liable to income tax on the gross dividend at a rate of 32.5 per cent. After setting off the tax credit, a higher rate tax payer will be liable to an additional income tax equal to 22.5 per cent. of the net dividend. However, if an individual shareholder’s total tax credit on such dividends exceeds his overall United Kingdom tax liability, he may no longer claim from the Inland Revenue repayment of the excess.

6.1.4 For dividends paid to trustees of United Kingdom resident discretionary or accumulation trusts the gross dividend will be subject to United Kingdom income tax at a rate of 32.5 per cent. with a tax credit equal to 10 per cent. of the gross dividend.

6.1.5 The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust will not be repaid.

6.1.6 Corporate shareholders

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on dividends received.

6.2 Taxation on capital gains for shareholders

If a shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the shareholder’s particular circumstances, incur a liability to taxation on chargeable gains.

The Inland Revenue has confirmed that securities dealt with on AIM will not fall to be treated as listed or quoted securities for tax purposes. There are a number of tax reliefs available for unquoted securities (subject to a number of different requirements in each case).

6.3 Stamp duty and stamp duty reserve tax (“SDRT”)

6.3.1 Except as mentioned in paragraph 6.3.2 below, the transfer on sale of Ordinary Shares will generally be liable to *ad valorem* stamp duty at the rate (in broad terms) of 0.5 per cent. of the amount or value of the consideration paid or, if an unconditional agreement to transfer the shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay the stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the rules of the CREST system.

6.3.2 Where a charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp duty at the higher rate (in broad terms) of 1.5 per cent. or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or subsequent transfer.

7. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or any other Group Company in the two years preceding the date of this document and are, or may be, material:

- 7.1 an engagement letter dated 15 October 2004 between the Company (1) and Daniel Stewart as nominated adviser (2) pursuant to which the Company has, *inter alia*, appointed Daniel Stewart to act as nominated adviser to the Company for the purposes of its application for admission to AIM and on an ongoing basis following Admission. In addition to its fee in relation to the application for Admission, the Company has also agreed to pay Daniel Stewart a fee of £15,000 per annum. The engagement is for an initial period of 12 months and thereafter is terminable on 3 notice by either party.
- 7.2 an engagement letter dated 8 September 2004 between the Company (1) and JM Finn as broker (2) pursuant to which the Company has appointed JM Finn to act as the broker to the Company for the purposes of its application for admission to AIM and on an ongoing basis following Admission. In addition to its fee in relation to the application for Admission, the Company has also agreed to pay JM Fin a fee of £25,000 per annum. The engagement is for an initial fixed term of 12 months and is thereafter terminable on 3 months' notice by either party.
- 7.3 a share and asset acquisition agreement dated 5 January 2004 between Palan Music Publishing Limited ("Palan") (1), HSBC Republic Trust Company (BVI) Limited (2), HSBC Republic Trust Services (Suisse) Limited (3), Cobden Investments Limited (4), Palan Music Publishing (Ireland) Limited (5) and MCS (6) ("Palan Agreement") pursuant to which MCS agreed to acquire the whole of the issued share capital of Global Media Management Limited, Classic Songs Plc and Palan Edizioni Musicali (Italia) SRL and certain of the assets and liabilities of Palan for a maximum aggregate consideration (including deferred consideration) of £2,490,623.
- 7.4 a subscription agreement dated 15 September 2004 between the Company (1), Kingstreet Media Group Limited ("KMG") (2) and Brian Scholfield ("BS"), Guy Fletcher ("GF") and Tim Hollier ("TH") (3) ("Subscription Agreement") whereby KMG agreed to subscribe for an initial 5,500,000 Ordinary Shares at a subscription price of 20 pence per share ("First Subscription") and a further 500,000 at 80 pence per share ("Second Subscription"). The subscription monies are to be satisfied by the grant of Administration Rights pursuant to the Administration Agreement referred to in paragraph 7.6 below. The First Subscription and the Second Subscription are expressed to be subject to the satisfaction of various conditions set out in the Subscription Agreement. The conditions attached to the First Subscription have been satisfied and the First Subscription completed on 15 September 2004. Completion of the Second Subscription is conditional on (a) the entry by KMG into a funding arrangement with Citigroup whereby Citigroup agrees to make no less than EUR50 million available to KMG exclusively for the purchase of music catalogues and (b) Kingston Smith preparing a statutory report in compliance with sections 103 and 108 of the Act in relation to the non-cash consideration payable for the subscription shares.
- 7.5 a shareholders agreement dated 15 September 2004 between the Company (1), KMG (2) and BS and GF (3) ("Shareholders Agreement") whereby KMG, the Company, BS and GF agree certain aspects of the affairs of and their dealings with the Company. Pursuant to the Shareholders Agreement the parties agree, *inter alia* that (a) KMG shall have the right to appoint, remove and replace up to two directors for so long as it remains one of the three largest shareholders of the Company; (b) the Company and the Directors shall not be entitled to transact certain business without the consent of the directors nominated by KMG; (c) the Company and its subsidiaries will be re-branded and their names changed so as to exclude the words or names "Music Copyright Solutions" or "MCS"; and (d) in the event that Admission does not take place by 31 December 2004, KMG will be granted warrants to subscribe for up to an additional 117,177 Ordinary Shares on the terms of the warrant instrument referred to in paragraph 7.9 below.
- 7.6 an administration agreement dated 15 September 2004 between the Company (1) and KMG (2) whereby KMG grants administration rights to the Company over any music catalogues owned by

KMG or its affiliates during the period which is 6 years from the later of 1 October 2004 and the date on which the KMG/Citigroup fund acquires its first catalogue with a purchase price in excess of £10 million (“Term”). The commission payable to MCS ranges between 5 per cent. of receipts for catalogues with an NPS of greater than £5 million to 7.5 per cent. of receipts for catalogues of £1 million or less. MCS is guaranteed a minimum aggregate commission of £1.5 million in years 4, 5 and 6 of the Term. MCS is also entitled to a one-off set-up fee for each catalogue purchased by KMG of 4 per cent. for catalogues with an NPS of £2 million or less and 3 per cent. for catalogues with an NPS of greater than £2 million.

- 7.7 a convertible loan agreement dated 15 September 2004 between the Company (1) and KMG (2) (“Loan Agreement”) whereby KMG agrees to lend the Company £750,000 (“Loan”). The Loan Agreement provides, *inter alia* that: (a) the Loan must be applied to discharge the Company’s obligations to pay outstanding royalties to creditors; (b) the Loan shall bear interest at the rate of 0.7 per cent. per annum above the base rate of Barclays Bank plc; (c) to the extent not repaid, the Loan becomes repayable in full on 15 September 2009; (d) KMG is entitled to convert the Loan into Ordinary Shares at any time after 15 months from the date of the Loan Agreement; and (e) in the event of a placing, the Loan is repayable out of the proceeds of the placing (to the extent of the amount raised).
- 7.8 a consultancy agreement dated 15 September 2004 between the Company (1) and KMG (2) whereby KMG agrees to provide the services of TH as consultant to MCS for a period to run concurrently with the term of the Administration Agreement. The services to be provided to MCS by the consultant include the exclusive introduction to MCS of potential music publishing acquisitions and administration opportunities in relation to catalogues valued at \$5 million or less. The consultant’s fee is £1,000 per month.
- 7.9 a warrant instrument dated 15 September 2004 creating warrants to subscribe for a total of 117,177 Ordinary Shares at 44 pence per share. Subject to the exercise of the JM Finn Warrant (as defined in paragraph 5.1 above), the warrant is exercisable at any time. The subscription rights will lapse if not exercised by 28 September 2006.

8. LITIGATION

Neither the Company nor any Group Company is involved in any legal or arbitration proceedings active, pending or threatened which are having or may have a significant effect on the Group’s financial position save for an action for breach of copyright, infringement, fraud and unfair competition of the composition “Dove” brought by MCS Music Limited (amongst others) against The Fugees. The claim is estimated at between \$1,500,000 and \$3,000,000, of which the share of MCS Music Limited would be 23.5 per cent. plus costs. A final court decision is not expected before January 2005.

9. WORKING CAPITAL

The Directors are of the opinion that the Group will have sufficient working capital for its present requirements, that is for the next 12 months.

10. GENERAL INFORMATION

- 10.1 The total costs and expenses relating to Admission (including professional fees, printing costs and commission on all monies raised) are payable by the Company and are estimated to amount to approximately £240,000 (excluding Value Added Tax).
- 10.2 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Company since 31 December 2003, the last date to which audited accounts of the Company have been prepared and there are no significant investments in progress by the Company.
- 10.3 There are no exceptional factors which have influenced the Group’s activities.
- 10.4 There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group’s business except as referred to in this document. The

exploitation of owned and managed copyrights is a key activity of the Group so that the entry by any Group Company into a licence or contract for this purpose is in the normal course of its business.

- 10.5 The financial information set out in this document relating to the Company does not constitute statutory accounts within the meaning of section 240 of the Act.
- 10.6 Kingston Smith has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it is included and it has authorised the contents of, and accepts responsibility for, its report for the purposes of regulation 45(1)(b) of the POS Regulations.
- 10.7 Daniel Stewart has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 10.8 Moores Rowland LLP has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 10.9 No person (excluding professional advisers named in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
- 10.8.1 fees totalling £10,000 or more;
 - 10.8.2 securities in the Company with a value of £10,000 or more (calculated by reference to the mid-market closing price of the Ordinary Shares on OFEX on the date prior to the date of this document);or
 - 10.8.3 any other benefit with a value of £10,000 or more at the date of Admission.
- 10.10 The accounting reference date of the Company is 31 December.
- 10.11 No Director or any member of his family has any financial product which is valued by reference to the Ordinary Shares.

11. AVAILABILITY OF THIS DOCUMENT

Copies of this document are available, free of charge, from Daniel Stewart & Company PLC at 48 Bishopsgate, London EC2N 4AJ.

Date: 15 October 2004