

# **Greensleeves Records Limited**

Financial statements

For the year ended 30 September 2006

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COMPANIES HOUSE

**Company No. 871107**

## Officers and professional advisers

<b>Company registration number</b>	871107
<b>Registered office</b>	Kitwell House The Warren Radlett Hertfordshire WD7 7DU
<b>Directors</b>	R J Griffiths S Weltman
<b>Secretary</b>	Kitwell Consultants Limited
<b>Auditor</b>	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham West Midlands B3 2HJ

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## Report of the directors

The directors present their report and the financial statements of the Company for the year ended 30 September 2006

### **Principal activities and business review**

The principal activity of the Company during the year was the release, marketing, distribution and publication of recorded music, specialising in reggae

### **Results and dividends**

The profit for the year, after taxation, amounted to £18,731 (2005 £119,442) The directors have not recommended a dividend

The Company's key performance indicators are unit sales for recording artists and publishing sales

### **Financial risk management objectives and policies**

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below

#### **Interest rate risk**

The Company's only exposure to interest rate risk is on its bank loans on which interest is charged at variable rates

#### **Foreign currency risk**

As a result of increased sales to customers outside the United Kingdom the Company's profits can be affected significantly by movements in exchange rates The Company does not seek to hedge this exposure

#### **Credit risk**

The Company trades with only recognised, creditworthy third parties It is the Company's policy that all customers who wish to trade on credit terms are subject to credit vetting procedures In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant

#### **Liquidity risk**

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of equity, cash and debt arrangements

## **Directors**

The directors who served the Company during the year were as follows

R J Griffiths	(Appointed 29 March 2006)
S Weltman	(Appointed 29 March 2006)
C J Sedgwick	(Resigned 29 March 2006)
B M Sedgwick	(Resigned 29 March 2006)
J H Sedgwick	(Resigned 29 March 2006)
C H Cracknell	(Resigned 29 March 2006)

The Company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company, Zest Group PLC

## **Directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware

- there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## **Auditor**

Grant Thornton UK LLP were appointed during the year to fill a casual vacancy in accordance with Section 388 (i) of the Companies Act 1985. A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

APPROVED BY THE BOARD

S Weltman  
Director  
Date



10 JULY 2007

## **Report of the independent auditor to the members of Greensleeves Records Limited**

We have audited financial statements of Greensleeves Records Limited for the year ended 30 September 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Directors and auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company are not disclosed.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Report of the independent auditor to the members of Greensleeves Records Limited (continued)**

### **Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements

*Grant Thornton UK LLP*

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

Date *10 July 2007*

## Principal 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 company has received financial support from its parent company, Zest Group PLC. The Directors of Zest Group PLC have prepared cash flow forecasts for the period ending 31 December 2008 which make several assumptions concerning revenue generated. They have also secured confirmation from a significant shareholder in Zest Group PLC, that a further working capital facility of up to £425,000 will be provided for the group if required. The forecasts supported by the substantial shareholder and other existing facilities, demonstrate that the Group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements.

On this basis the accounts have been prepared on a going concern basis. The accounts do not include any adjustments and would result if the assumptions detailed above are not met.

The principal accounting policies of the Company are set out below.

### **Cash flow statement**

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is a wholly owned subsidiary and its results are consolidated within Zest Group PLC, which accounts are publicly available.

### **Turnover**

The total turnover of the Company for the year has been derived from its principal activity.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

- sale of goods: revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured at fair value after making provision in respect of expected future returns of goods and service supplied by the Company prior to the balance sheet date.
- royalty and other income: all royalty and other income is recognised when it has been earned and can be reliably measured.

### **Advances**

In the ordinary course of business the Company pays advances and other expenses recoupable from future royalties to performing artists, songwriters, producers and third party repertoire owners. The amounts paid are carried at cost less recoupment and less an allowance for any unrecoupable amounts. The allowance is based on past revenue performance, current popularity and projected revenue. Advances are recoupable during the business operating cycle. All advances are therefore reported as



current assets, including advances recoupable more than 12 months after the balance sheet date

### **Investments**

Investments are stated at cost less amounts written off

### **Fixed assets**

All fixed assets are initially recorded at cost.

### **Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Freehold Property	-	50 years
Fixtures & Fittings	-	3-10 years
Leasehold Improvements	-	5 years

### **Stocks**

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

### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

### **Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

### **Pensions**

The pension costs charged against profits represent the amount of the contributions payable to defined contribution schemes in respect of the accounting year.

### **Group accounts**

The Company, itself a subsidiary company, is exempt from the requirement to prepare group accounts by virtue of Section 228 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

### **Financial instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

## Profit and loss account

	Note	2006 £	2005 £
<b>Turnover</b>	1	<b>3,200,509</b>	3,850,184
Cost of sales		<u>1,855,638</u>	<u>2,145,043</u>
<b>Gross profit</b>		<b>1,344,871</b>	1,705,141
Other operating charges	2	<u>1,300,434</u>	<u>1,582,940</u>
<b>Operating profit</b>	3	<b>44,437</b>	122,201
Interest receivable		2,894	22,276
Interest payable and similar charges	6	<u>(10,600)</u>	<u>—</u>
<b>Profit on ordinary activities before taxation</b>		<b>36,731</b>	144,477
Tax on profit on ordinary activities	7	<u>18,000</u>	<u>25,035</u>
<b>Profit for the financial year</b>	19	<b>18,731</b>	<u>119,442</u>

All of the activities of the Company are classed as continuing

The Company has no recognised gains or losses other than the results for the year as set out above

**The accompanying accounting policies and notes form part of these financial statements.**

## Balance sheet

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	9	691,143	11,307
Investments	10	137	137
		<u>691,280</u>	<u>11,444</u>
<b>Current assets</b>			
Stocks	11	421,864	380,995
Debtors	12	1,514,943	1,526,589
Cash at bank		55,455	112,405
		<u>1,992,262</u>	<u>2,019,989</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>2,194,946</u>	<u>1,988,131</u>
<b>Net current (liabilities)/assets</b>		<u>(202,684)</u>	<u>31,858</u>
<b>Total assets less current liabilities</b>		<u>488,596</u>	<u>43,302</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>426,563</u>	<u>—</u>
		<u>62,033</u>	<u>43,302</u>
<b>Capital and reserves</b>			
Called-up equity share capital	18	17,250	17,250
Profit and loss account	19	44,783	26,052
<b>Shareholders' funds</b>	20	<u>62,033</u>	<u>43,302</u>

These financial statements were approved by the directors on 10 July 2007 and are signed on their behalf by

S Weltman  
 Director



## Notes to the financial statements

### 1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company  
 An analysis of turnover is given below

	2006 £	2005 £
United Kingdom	660,736	1,062,681
USA	1,277,193	1,199,784
Japan	628,653	574,295
France	184,403	362,069
Other	449,524	651,355
	<u>3,200,509</u>	<u>3,850,184</u>

### 2 Other operating charges

	2006 £	2005 £
Administrative expenses	<u>1,300,434</u>	<u>1,582,940</u>

### 3 Operating profit

Operating profit is stated after charging

	2006 £	2005 £
Depreciation of owned fixed assets	13,537	7,263
Auditor's remuneration		
Audit fees	13,000	20,000
Operating leases land and building	39,908	80,000
Net loss on foreign currency translation	<u>21,023</u>	<u>—</u>

### 4 Particulars of employees

The average number of employees was as follows

	2006 Number	2005 Number
Management and administration	<u>12</u>	<u>11</u>

The aggregate payroll costs of the above were

	2006 £	2005 £
Wages and salaries	522,121	560,901
Social security costs	52,667	56,579
Other pension costs	1,062	8,062
	<u>575,850</u>	<u>625,542</u>

**5 Directors**

Remuneration in respect of directors was as follows

	2006 £	2005 £
Emoluments receivable	103,957	239,041
Value of company pension contributions to money purchase schemes	-	2,500
	<u>103,957</u>	<u>241,541</u>

There were no contributions to the Company's defined contribution pension scheme in respect of the directors during the year, (2005 one director)

**6 Interest payable and similar charges**

	2006 £	2005 £
Bank interest payable	<u>10,600</u>	<u>-</u>

**7 Taxation on ordinary activities**

	2006 £	2005 £
Current tax		
UK Corporation tax based on the results for the year at 30% (2005 - 19%)	14,372	29,700
Adjustment in prior years	-	(9,325)
	<u>14,372</u>	<u>20,325</u>
Double taxation relief	<u>(14,372)</u>	<u>(29,700)</u>
	-	(9,325)
Foreign current year tax	<u>18,000</u>	<u>34,360</u>
Total current tax	<u>18,000</u>	<u>25,035</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK as follows

	2006 £	2005 £
Profit on ordinary activities before tax	<u>36,731</u>	<u>144,477</u>
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 30% (2005 19%)	11,019	27,451
Effect of		
Expenses not deductible for tax purposes	936	333
Depreciation in excess of capital allowances	2,417	1,380
Adjustment for prior years	-	(9,325)
Higher tax rates on overseas earnings	3,628	4,660
Other	-	536
Current tax for year	<u>18,000</u>	<u>25,035</u>

**8 Dividends**

	2006 £	2005 £
Paid during the year		
Equity dividends on ordinary shares	<u>—</u>	<u>345,000</u>

**9 Tangible fixed assets**

	Freehold Property £	Fixtures & Fittings £	Leasehold improvements £	Total £
Cost				
At 1 October 2005	—	115,742	29,363	145,105
Additions	689,420	3,953	—	693,373
Disposals	<u>—</u>	<u>—</u>	<u>(29,363)</u>	<u>(29,363)</u>
At 30 September 2006	<u>689,420</u>	<u>119,695</u>	<u>—</u>	<u>809,115</u>
Depreciation				
At 1 October 2005	—	104,435	29,363	133,798
Charge for the year	6,894	6,643	—	13,537
On disposals	<u>—</u>	<u>—</u>	<u>(29,363)</u>	<u>(29,363)</u>
At 30 September 2006	<u>6,894</u>	<u>111,078</u>	<u>—</u>	<u>117,972</u>
Net book value				
At 30 September 2006	<u>682,526</u>	<u>8,617</u>	<u>—</u>	<u>691,143</u>
At 30 September 2005	<u>—</u>	<u>11,307</u>	<u>—</u>	<u>11,307</u>

**10 Investments**

**Shares in group undertakings**

	£
Cost and net book amount	
At 1 October 2005 and 30 September 2006	<u>137</u>

**Holdings of more than 20%**

The company holds more than 20% of the share capital of the following companies

Subsidiary companies	Country of incorporation	Nature of business	Shares held	
			Class	%
Greensleeves Publishing Limited	England	Dormant	Ordinary	100
Greensleeves Records (USA) Limited	USA	Music recording and publishing	Ordinary	100

**11 Stocks**

	2006 £	2005 £
Finished goods	<u>421,864</u>	<u>380,995</u>

**12 Debtors**

	2006 £	2005 £
Trade debtors	1,293,482	1,459,062
Amounts owed by group undertakings	55,577	12,478
Other debtors	84,877	55,049
Prepayments and accrued income	81,007	—
	<u>1,514,943</u>	<u>1,526,589</u>

**13 Creditors: amounts falling due within one year**

	2006 £	2005 £
Bank loans (see note 14)	22,750	—
Trade creditors	1,780,676	1,751,456
Amounts owed to group undertakings	297,349	70
Corporation tax	18,000	—
Other taxation and social security	15,836	47,766
Other creditors	2,491	188,839
Accruals and deferred income	57,844	—
	<u>2,194,946</u>	<u>1,988,131</u>



**14 Creditors: amounts falling due after more than one year**

	2006	2005
	£	£
Bank loans	<u>426,563</u>	<u>-</u>

The bank loan advanced to the Company was initially for £455,000 which is repayable by 39 equal instalments, followed by a final payment of £233,187 in 2016. Interest accrues on this loan at a rate of 1% over LIBOR.

The bank loan is secured by fixed and floating charges over the assets of the Company.

The bank loan is repayable as follows:

	2006	2005
	£	£
Within one year	22,750	-
After one and within two years	22,750	-
After two and within five years	22,750	-
After five years	<u>381,063</u>	<u>-</u>
	<u>449,313</u>	<u>-</u>

**15 Commitments under operating leases**

At 30 September 2006 the Company had annual commitments under non-cancellable operating leases as set out below:

	Assets other than land & buildings	
	2006	2005
	£	£
Operating leases which expire		
Within 2 to 5 years	<u>16,590</u>	<u>15,241</u>

**16 Contingent liabilities**

Greensleeves Records Limited has guaranteed a lease in the name of Greensleeves Records (USA) Limited.

Greensleeves Limited has provided security as a part of a bank loan guarantee on behalf of its parent company, Zest Group PLC. The contingent liability at 30 September 2006 was £1,543,000 (2005 £nil).

**17 Related party transactions**

The Company was under the control of Mr C J Sedgwick throughout the previous year and the current year until 31 March 2006. The Company was controlled by Zest Group PLC from 31 March 2006.

As a wholly owned subsidiary, the company is exempt from the requirements of FRS8 to disclose transactions with Zest Group PLC on the grounds that the results of this company are consolidated and available to the public.

The Company leased premises from C J Sedgwick and Mrs D A Cracknell, the wife of Mr C H Cracknell. The rent payable during the year ended 30 September 2006 was £39,908 (2005 £80,000).

Other creditors included £nil (2005 £17,097) owed to Mr C J Sedgwick and Mrs B M Sedgwick.

**18 Share capital**

Authorised share capital

	2006	2005
	£	£
20,000 Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

Allotted, called up and fully paid

	2006		2005	
	No	£	No	£
Ordinary shares of £1 each	<u>17,250</u>	<u>17,250</u>	<u>17,250</u>	<u>17,250</u>

**19 Profit and loss account**

	2006	2005
	£	£
Balance brought forward	26,052	251,610
Profit for the financial year	18,731	119,442
Equity dividends (see note 8)	—	(345,000)
Balance carried forward	<u>44,783</u>	<u>26,052</u>

**20 Reconciliation of movements in shareholders' funds**

	2006	2005
	£	£
Profit for the financial year	18,731	119,442
Equity dividends (see note 8)	—	(345,000)
Net addition/(reduction) to shareholders' funds	<u>18,731</u>	<u>(225,558)</u>
Opening shareholders' funds	43,302	268,860
Closing shareholders' funds	<u>62,033</u>	<u>43,302</u>

**21 Financial instruments**

The Company uses financial instruments comprising cash, loans from group undertakings and bank loans. The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

**Short term debtors and creditors**

Short term debtors and creditors have been excluded from disclosures concerning borrowing facilities and interest rate risk.

**Interest rate risk**

The Company finances its operations through a bank loan, which is subject to variable interest rates as set out in note 14.

**Liquidity risk**

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

**Currency risk**

The Company is exposed to translation and transaction foreign exchange risk which it does not seek to hedge. At 30 September 2006 the Company had no significant monetary assets and liabilities denominated in currencies other than Sterling.

**22 Ultimate parent company**

The ultimate parent company and controlling party is Zest Group PLC.

The largest and smallest group of Companies for which accounts have been drawn up is that headed by Zest Group PLC. Copies of group accounts can be obtained from the registered office at Kitwell House, The Warren, Radlett, Hertfordshire, WED7 7DU.