

BMG Songs Limited

**Directors' report and financial
statements**

Registered number 961019

Year ended 31 December 2004



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2004.

Activities

The principal activity of the company is music publishing.

Business review and results

The results for the year are set out on page 4 of these financial statements. The profit on ordinary activities after taxation for the year of £4,441,275 (2003: £180,066) was paid as a dividend along with the profit and loss account brought forward upon the directors' recommendation (2003: £nil).

On 1 January 2004 the trade and net assets of the company were transferred to BMG Music Publishing Limited, the company's immediate parent undertaking for a consideration of £6,017,000. The exceptional profit on disposal was £4,441,275. The company has not traded since this date.

Directors

The directors who served during the period were:

P Curran
W Downs

None of the directors held any beneficial interest in the shares of the company or any other group undertaking during the current or prior period.

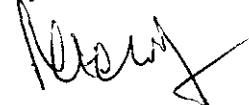
Political and charitable donations

The company made no political or charitable donations in the year (2003: £nil).

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



EJP Wareham
Secretary

Bedford House
69-79 Fulham High Street
London
SW6 3JW

15th June 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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London
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Report of the independent auditors to the members of BMG Songs Limited

We have audited the financial statements on pages 4 to 9.

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 auditor's 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 directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at the 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Kpmg LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 June 2005

Profit and loss account

for the year ended 31 December 2004

	<i>Note</i>	2004 £	2003 £
Turnover	<i>1</i>	-	813,650
Cost of sales		-	(547,000)
		<hr/>	<hr/>
Gross profit		-	266,650
Administrative expenses	<i>3</i>	-	(9,413)
		<hr/>	<hr/>
Operating profit			257,237
Profit on disposal of discontinued operations	<i>4</i>	4,441,275	-
		<hr/>	<hr/>
Profit on ordinary activities before taxation	<i>2</i>	4,441,275	257,237
Tax on profit on ordinary activities	<i>5</i>	-	(77,171)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		4,441,275	180,066
Dividend payable		(5,867,472)	-
		<hr/>	<hr/>
Retained (loss)/profit for the financial year		(1,426,197)	180,066
		<hr/>	<hr/>

Turnover and profit on ordinary activities before taxation for the current and prior year relate to discontinued operations following the disposal of the company's trade and net assets on 1 January 2004.

There are no other gains and losses other than those recognised in the profit and loss account.

There is no difference between the profit as disclosed in the profit and loss account and profit on a historical cost basis.

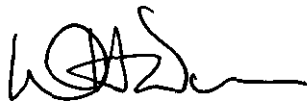
The notes on pages 6 to 9 form part of these financial statements.

Balance sheet

at 31 December 2004

	<i>Note</i>	2004 £	2003 £
Fixed assets	6	-	1,325
Current assets			
Debtors	7	150,000	2,638,270
Creditors: amounts falling due within one year	8	-	(1,063,398)
Net current assets		<u>150,000</u>	<u>1,574,872</u>
Net assets		<u>150,000</u>	<u>1,576,197</u>
Capital and reserves			
Called up share capital	9	150,000	150,000
Profit and loss account		-	1,426,197
Equity shareholders' funds	10	<u>150,000</u>	<u>1,576,197</u>

These financial statements were approved by the board of directors on 15th June 2005 and were signed on its behalf by:



W Downs
Director

The notes on pages 6 to 9 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt from the requirements of Financial Reporting Standard 1, Cash flow statements, being a wholly owned subsidiary of Bertelsmann AG, a company incorporated in Germany and which prepares consolidated financial statements containing a consolidated cash flow statement including the cash flows of the company.

As 100% of the company's voting rights are controlled within the group headed by Bertelsmann AG, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Bertelsmann AG, within which the balance sheet of this company is included, can be obtained from Carl Bertelsmann Strasse 270, 33311, Gütersloh 1, Germany.

Turnover

Turnover represents copyright royalties receivable excluding VAT.

Royalties

- (i) Royalties receivable are recognised on the due date of receipt.
- (ii) Royalties payable are calculated by reference to statements of account used for determining royalties receivable.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost in equal instalments over the estimated life of these assets. The depreciation rates are as follows:

Computer and equipment - 33% per annum

Taxation

The charge for the period is based on the profit for the financial period.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Bertelsmann AG UK entities are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise those losses exists. There is an agreement between members of the group that such losses will be purchased and paid for by the recipient company. Where there is reasonable certainty that taxable losses can be utilised the group relief receivable is included in the taxation charge or credit for the financial period.

Advances to writers and publishers

Royalty advances paid to writers and publishers are carried forward as an asset pending recovery from future royalty earnings. When full recovery is uncertain, these costs are written down to estimated recoverable amounts.

Notes (continued)

2 Profit on ordinary activities before taxation

	2004 £	2003 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration	-	-

Auditors' remuneration was borne by a fellow group subsidiary.

3 Directors and employees

The average number of employees during the year was nil (2003: nil) consequently there were no staff costs (2003: nil).

None of the directors received any emoluments in respect of their services to the company during the year (2003: nil).

4 Non-operating exceptional item

On 1 January 2004 the trade and net assets of the company were transferred to BMG Music Publishing Limited for a consideration of £6,017,000. The exceptional profit on disposal was £4,441,275.

5 Taxation

Analysis of charge in period

	2004 £	2003 £
<i>Current tax:</i>		
UK corporation tax on profits of the period	-	77,171
Tax on profit on ordinary activities	-	77,171

Factors affecting the tax charge for the financial period

The tax charge for the financial period is consistent with (2003: consistent with) the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below.

	2004 £	2003 £
Profit on ordinary activities before tax	4,441,275	257,237
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	1,332,383	77,171
Non-taxable disposal proceeds	(1,332,383)	-
Current tax charge for period	-	77,171

Notes (continued)

6 Fixed assets

	£
<i>Cost</i>	
At 31 December 2003	1,325
Disposal	(1,325)
	<hr/>
At 31 December 2004	-
	<hr/>

7 Debtors

	2004 £	2003 £
Amounts owed by group undertakings	150,000	2,186,626
Prepayments and accrued income	-	451,644
	<hr/>	<hr/>
	150,000	2,638,270
	<hr/>	<hr/>

8 Creditors: amounts falling due within one year

	2004 £	2003 £
Amounts due to group undertakings	-	306,497
Corporation tax	-	185,345
Accruals and deferred income	-	571,556
	<hr/>	<hr/>
	-	1,063,398
	<hr/>	<hr/>

9 Called up share capital

	2004 £	2003 £
<i>Authorised, allotted, called up and fully paid</i>		
150,000 (2003: 150,000) Ordinary shares of £1 each	150,000	150,000
	<hr/>	<hr/>

Notes (continued)

10 Reconciliation of movements in equity shareholders' funds

	2004 £	2003 £
Profit on ordinary activities after taxation	4,441,275	180,066
Dividend	(5,867,472)	~
Opening equity shareholders' funds	1,576,197	1,396,131
	<hr/>	<hr/>
Total closing equity shareholders' funds	150,000	1,576,197
	<hr/>	<hr/>

11 Ultimate holding company

The company is a wholly owned subsidiary of BMG Music Publishing Limited, a company incorporated in England and Wales.

The company's ultimate holding company and ultimate controlling party is Bertelsmann AG, a company incorporated in Germany.

The largest and smallest group for which consolidated financial statements are prepared, and of which the company is a member, is as follows:

Name	Bertelsmann AG
Country of incorporation	Germany
Address from where the copies of the Group financial statements can be obtained	Carl Bertelsmann Strasse 270 4830 Gütersloh 1 Germany

12 Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Bertelsmann AG group of companies. There are no other related party transactions.