

Connect 2 Music Limited

Directors' report and financial
statements

Registered number 01648331

31 December 2004



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Directors' report

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

Principal activities and business developments

The company is engaged in the business of production music publishing. The directors intend to take every opportunity to expand and develop the business.

Results and financial position

The company made a profit after taxation of £130,057 (2003: loss £117,303). The financial result of the company for the year is set out on page 4.

Dividends

The directors do not propose the payment of a dividend (2003: *£nil*).

Directors and their interests

The directors who served during the year were as follows:

S M Cole
M A Smith
PG Curran
W Downs

No director had any beneficial interests in the ordinary shares of the company or any other group company at any time during either year.

Political and charitable donations

The company made no political or charitable donations during 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



P 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 year which give a true and fair view of the state of affairs of the company and of the profit or loss 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.



8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Connect 2 Music Limited

We have audited the financial statements on pages 4 to 11.

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.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

kpmgLLP
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	2	310,570	186,149
Cost of sales		(116,305)	(188,014)
Gross profit / (loss)		194,265	(1,865)
Administrative expenses		-	(153,294)
Operating profit / (loss)		194,265	(155,159)
Interest payable and similar charges	5	-	(12,417)
Profit / (loss) on ordinary activities before taxation	6	194,265	(167,576)
Tax on (profit)/loss on ordinary activities	7	(64,208)	50,273
Profit / (loss) on ordinary activities after taxation		130,057	(117,303)
Profit and loss account brought forward		(377,741)	(260,438)
Profit and loss account carried forward		(247,684)	(377,741)

A statement of total recognised gains and losses is not included in these accounts as there are no recognised gains or losses in either the current financial year or the preceding financial year other than the results reported above.


The turnover and operating result for the current and prior year derive from continuing operations.

The notes on pages 6 to 11 form part of these financial statements.

Balance sheet
at 31 December 2004

	Note	£	2004 £	£	2003 £
Fixed assets					
Tangible assets	8		-		1,022
Current assets					
Debtors	9	47,043		110,175	
		<u>47,043</u>		<u>110,175</u>	
Creditors: amounts falling due within one year	10	(294,527)		(488,378)	
		<u>(294,527)</u>		<u>(488,378)</u>	
Net current liabilities			(247,484)		(378,203)
Total assets less current liabilities			(247,484)		(377,181)
Provisions for liabilities and charges					
Deferred taxation			-		(360)
			<u>-</u>		<u>(360)</u>
Net liabilities			(247,484)		(377,541)
			<u>(247,484)</u>		<u>(377,541)</u>
Capital and reserves					
Called up share capital	12		200		200
Profit and loss account	11		(247,684)		(377,741)
			<u>(247,684)</u>		<u>(377,741)</u>
Equity shareholders' funds deficit	12		(247,484)		(377,541)
			<u>(247,484)</u>		<u>(377,541)</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 11 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 preparation

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

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 Gutersloh 1, Germany.

The company is exempt from the requirement of Financial Reporting Standard 1 (Revised), Cash Flow Statement, being a wholly owned subsidiary of Bertelsmann AG, a company incorporated in Germany which prepares publicly available consolidated financial statements.

Going concern

As at 31 December 2004, the company had net liabilities of £247,484 (2003: £377,541). The financial statements have been prepared on a going concern basis in view of a formal undertaking from its parent undertaking, Zomba Music Publishers Limited, confirming that it will provide sufficient funds to the company to enable it meet its liabilities as they fall due for at least twelve months from the date of signing these financial statements and thereafter for the foreseeable future, to enable it to continue to trade.

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis.

Turnover

Turnover comprises royalties receivable.

Royalties

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

Advances

- (i) Advances received from sub-publishers are carried forward as deferred income until the earlier of recoupment against contractual royalties due, agreement expiry date, or recognition that recoupment is unlikely to take place.
- (ii) Advances made to writers and licensors in respect of future royalties are treated as current assets, and written off to the profit and loss account when the royalties are recognised in accordance with (ii) set out above. Provision is made against any advance where it is considered that recoupment is unlikely to take place.

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets

Depreciation is provided on the cost of fixed assets in equal annual instalments over their estimated lives. The rates of depreciation used are as follows:

Recording equipment	-	20%
Fixtures, fittings and office equipment	-	20%

Taxation

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 year.

2 Turnover

The turnover and profit before taxation for the year are attributable to the principal activity of the company.

A geographical analysis of turnover by destination is shown below:

	2004 £	2003 £
United Kingdom	289,490	136,790
Continental Europe	13,494	19,021
North America	-	12,220
Rest of World	7,586	18,118
	<u>310,570</u>	<u>186,149</u>

3 Remuneration of directors

	2004 £	2003 £
Directors' emoluments	-	113,126
	<u>-</u>	<u>113,126</u>

None of the directors received any emoluments during the current year in respect of their services to this company.

Notes (continued)

4 Employee numbers and costs

The average number of persons employed by the company during the year, analysed by category, was as follows:

	Number of employees	
	2004	2003
Management and administration	-	-

The aggregate payroll costs of these persons were as follows:

	2004 £	2003 £
Wages and salaries	-	80,828
Social security costs	-	4,609
	-	85,437

5 Interest payable and similar charges

	2004 £	2003 £
Bank interest and charges	-	12,417

6 Loss on ordinary activities before taxation

	2004 £	2003 £
<i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation	-	4,717
Loss on disposal of tangible fixed assets	-	23,596

Auditors' remuneration was borne by a fellow group undertaking.

Notes (continued)

7 Tax credit on loss on ordinary activities

Analysis of charge in period

	2004 £	2003 £
<i>UK corporation tax</i>		
Current tax (charge)/credit	(58,279)	50,273
<i>Deferred tax</i>	-	-
Adjustments in respect of prior periods	(5,929)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	(64,208)	50,273
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax credit is lower (2003: lower) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

	2004 £	2003 £
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	194,265	(167,576)
	<hr/>	<hr/>
Current tax (charge)/credit at 30% (2003: 30%)	(58,279)	50,273
	<hr/>	<hr/>

8 Tangible fixed assets

	Recording equipment £
<i>Cost</i>	
At beginning of year	2,672
Disposals	(2,672)
	<hr/>
At end of year	-
	<hr/>
<i>Depreciation</i>	
At beginning of year	1,650
Charge for year	
Disposals	(1,650)
	<hr/>
At end of year	-
	<hr/>
<i>Net book value</i>	
At 31 December 2004	-
	<hr/>
At 31 December 2003	1,022
	<hr/>

Notes (continued)

9 Debtors

	2004 £	2003 £
Amounts owed by fellow subsidiary company	47,043	74
Taxation and social security	-	103,601
Prepayments and accrued income	-	6,500
	<u>47,043</u>	<u>110,175</u>

10 Creditors: amounts falling due within one year

	2004 £	2003 £
Bank loans and overdrafts	-	1,512
Trade creditors	-	9,388
Other creditors	1,432	6,931
Amounts owed to holding company and fellow subsidiaries	157,239	409,605
Accrued royalties	77,577	37,942
Taxation and social security	58,279	-
Accruals	-	23,000
	<u>294,527</u>	<u>488,378</u>

11 Reconciliation of movements in equity shareholders' funds

	2004 £	2003 £
Profit / (loss) for the financial period	130,057	(117,303)
Opening equity shareholders' deficit	(377,541)	(260,238)
	<u>(247,484)</u>	<u>(377,541)</u>

12 Called up share capital

	2004 £	2003 £
<i>Authorised</i>		
900 ordinary voting shares of £1 each	900	900
100 ordinary non-voting shares of £1 each	100	100
	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>		
170 ordinary shares of £1 each	170	170
30 ordinary non-voting shares of £1 each	30	30
	<u>200</u>	<u>200</u>

Notes (continued)

13 Related party transactions

The company is exempt from the requirements of FRS 8 from disclosing transactions with entities that are part of the Bertelsmann AG group of companies. There are no other related party transactions:

14 Contingent liability

The company is party to a cross-guarantee structure between the Zomba Music Publishers Limited group and the group's bankers. At 31 December 2004 the net borrowings under this arrangement were £nil (2003: £nil).

15 Ultimate parent company

The company is a wholly owned subsidiary of Zomba Music Publishers 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 group accounts are prepared, and of which the company is a member, is as follows:

Name	Bertelsmann AG
Country of incorporation	Germany
Address from where copies of the Group accounts can be obtained	Carl Bertelsmann Strasse 270 33311 Gütersloh 1 Germany