Connect 2 Music Limited

Directors' report and financial statements

Registered number 01648331

31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activity

The principal activity of the company was production music publishing. The company ceased trading during the year.

Business review and results

The company made a profit after tax of £705,003 for the year *(2004: £130,057)*. This profit, together with the profit and loss account brought forward, was paid as a dividend totalling £457,319 *(2004: £nil)*. Retained profits to reserves amounted to £nil *(2004: profit of £130,057)*.

On 1 January 2005 the trade and net assets of the company were sold to BMG Zomba Production Music Limited, a fellow subsidiary undertaking, for a consideration of £457,520. The exceptional profit on disposal was £705,003. The company has not traded since this date.

Directors and their interests

The directors who held office during the year and up until the date of this report were:

S Cole
P Curran
W Downs
M Smith

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

Political and charitable donations

The company made no political or charitable donations during the year *(2004: £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

20 Fulham Broadway
London
SW6 1AH

19th September 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 UK Accounting Standards.

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

KPMG

KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Connect 2 Music Limited

We have audited the financial statements of Connect 2 Music Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. 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 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

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of Connect 2 Music Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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 Auditors

20th September 2006

Profit and loss account

for the year ended 31 December 2005

	Note	**2005**	2004
		£	£
Turnover	*1,2*	-	310,570
Cost of sales		-	(116,305)
Gross profit		-	194,265
Administrative expenses		-	-
Operating profit		-	194,265
Profit on disposal of discontinued operations - exceptional	*4*	**705,003**	-
Profit on ordinary activities before taxation	*3*	**705,003**	194,265
Tax on profit on ordinary activities	*5*	-	(64,208)
Profit on ordinary activities after taxation		**705,003**	130,057

Turnover and profit on ordinary activities before taxation for the year and prior year relate exclusively to discontinued operations following the disposal of the company's trade and net assets on 1 January 2005.

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 7 to 11 form part of these financial statements.

Balance sheet

at 31 December 2005

	Note	2005 £	2004 £
Current assets			
Debtors	6	200	47,043
Creditors: amounts falling due within one year	7	-	(294,527)
Net assets / (liabilities)		200	(247,484)
Capital and reserves			
Called up share capital	8	200	200
Profit and loss account	9	-	(247,684)
Shareholders' funds / (deficit)	10	200	(247,484)

These financial statements were approved by the Board of directors on 19th September 2006 and were signed on its behalf by:

W Downs
Director

The notes on pages 7 to 11 from 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 information except as noted below.

The following new standards have been adopted for the first time in these financial statements:

- FRS 21 *Events after the balance sheet date*;
- The presentation requirements of FRS 25 *Financial instruments: presentation and disclosure*; and
- FRS 28 *Corresponding amounts*.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

As a result of the adoption of FRS 21, dividends unpaid at the balance sheet date are only recognised at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. The adoption of the standard had no material effect on the financial statements.

The adoption of FRS 25 had no significant impact on presentation in the financial statements.

FRS 28 *Corresponding amounts* has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Basis of accounting

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

The company is exempt from the requirement of Financial Reporting Standard 1 (Revised), Cash flow statements, being a wholly owned subsidiary of Bertelsmann AG, a company incorporated in Germany and which prepares consolidated financial statements in English containing a consolidated cash flow statement dealing with the cash flows of the group and of the company.

Turnover

Turnover comprises royalties receivable excluding VAT.

Taxation

The charge for taxation 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.

Foreign currencies

All transactions in foreign currencies are translated at current rates of exchange and amounts outstanding at the balance sheet date are translated at rates prevailing at the period end. Gains and losses arising are included in the results for the period.

Notes *(continued)*

2 Turnover – segmental analysis

	2005	2004
	£	£
United Kingdom	-	289,490
Europe	-	13,494
Other	-	7,586
	-	310,570

3 Profit on ordinary activities before taxation

The auditors' remuneration was borne by BMG Music Publishing Ltd, the company's immediate parent company.

The company had no employees *(2004: nil)*. Consequently there were no staff costs *(2004: £nil)*.

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

4 Non-operating exceptional item

On 1 January 2005 the company sold its trade and net assets to BMG Zomba Production Music Limited for a consideration of £457,520. The exceptional profit on disposal was £705,003.

5 Tax on profit of ordinary activities

Analysis of charge in period

	2005	2004
	£	£
UK corporation tax		
Current tax on income for the period	-	58,279
Adjustments to tax charge in respect of prior periods	-	5,929
Tax on profit on ordinary activities	-	64,208

Notes *(continued)*

5 Tax on profit of ordinary activities *(continued)*

Factors affecting the tax charge for the current period

The current tax charge is lower *(2004: higher)* than the standard rate of corporation tax in the UK of 30%, *(2004:30%)*. The differences are explained below.

	2005 £	2004 £
Profit on ordinary activities before tax	**705,003**	194,265
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% *(2004: 30%)*	**211,501**	58,279
Effect of:		
Adjustments to tax charge in respect of prior periods		5,929
Non-taxable intra-group disposal process	**(211,501)**	-
Current tax charge for year	-	64,208

6 Debtors

	2005 £	2004 £
Amounts owed by group undertakings	**200**	47,043

7 Creditors: amounts falling due within one year

	2005 £	2004 £
Accrued royalties	-	77,577
Amounts owed to group undertakings	-	157,239
Corporation tax	-	58,279
Other creditors	-	1,432
	-	294,527

Notes *(continued)*

8 Called up share capital

	2005	2004
	£	£
Authorised		
900 *(2004: 900)* ordinary voting shares of £1 each	**900**	900
100 *(2004: 100)* ordinary non-voting shares of £1 each	**100**	100
	1,000	1,000
Allotted, called up and fully paid		
170 *(2004: 170)* ordinary shares of £1 each	**170**	170
30 *(2004: 30)* ordinary non-voting shares of £1 each	**30**	30
	200	200

9 Reconciliation of movements in reserves

	Profit and loss account
	£
Opening Balance	(247,684)
Retained Profit for the year	705,003
Dividends Paid	(457,319)
Closing balance	-

10 Reconciliation of movements in shareholders' funds (deficit)

	2005	2004
	£	£
Profit for the financial year	**705,003**	130,057
Dividends on shares classified in shareholders' funds	**(457,319)**	-
Net addition to / (reduction in) shareholders' funds	**247,684**	130,057
Opening shareholders' funds	**(247,484)**	(377,541)
Closing shareholders' funds	**200**	(247,484)

Notes *(continued)*

11 Ultimate holding company

On 6 September 2006, Bertelsmann AG entered into a definitive agreement to sell its music publishing business to Vivendi SA. However, at the date of signature of these accounts the ultimate holding company and ultimate controlling party is still Bertelsmann AG, a company incorporated in Germany.

The company is a wholly owned subsidiary of Bluey Tunes Productions Limited, a company incorporated in England and Wales.

The largest and smallest group for which group 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 33311 Gütersloh 1 Germany

12 Related party transactions

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