

Company Registration No. 2884824 (England and Wales)

EUPHONIX EUROPE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2002

CHANTER, BROWNE & CURRY

Chartered Accountants
1 Plato Place
72 - 74 St Dionis Road
London SW6 4TU.



EUPHONIX EUROPE LIMITED

COMPANY INFORMATION

Directors	W. Guenther J. Dobbie W. Bosch
Secretary	J.H. Craig
Company number	2884824
Registered office	Linton House 39-51 Highgate Road London NW5 1RS.
Auditors	Chanter, Browne & Curry 1 Plato Place 72-74 St Dionis Road London SW6 4TU
Business address	Linton House 39-51 Highgate Road London NW5 1RS.
Bankers	Barclays Bank PLC 355 Station Road Harrow Middlesex HA1 2AN.
Solicitors	Bates Wells & Braithwaite Cheapside House 138 Cheapside London EC2V 6BB.

EUPHONIX EUROPE LIMITED

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EUPHONIX EUROPE LIMITED

DIRECTORS' REPORT **FOR THE YEAR ENDED 30 JUNE 2002**

The directors present their report and financial statements for the year ended 30 June 2002.

Principal activities

The principal activity of the company in the year under review was the sale of sound mixing and recording equipment manufactured by Euphonix Inc.

Directors

The following directors have held office since 1 July 2001:

M.C. Roberts	(Resigned 31 May 2002)
W. Guenther	
V. Siegmann	(Resigned 6 November 2002)
J. Dobbie	(Appointed 15 January 2002)
J.P. Plaskitt	(Resigned 15 December 2001)
W. Bosch	(Appointed 6 November 2002)

Directors' interests

The directors have no interest in the company's issued ordinary share capital.

The directors beneficial interests in the ultimate parent company at the balance sheet date and the beginning of the year (or on appointment if later) were as follows:-

	<u>Number of shares</u>	
	<u>30 June 2002</u>	<u>1 July 2001</u>
M.C. Roberts	-	-
W. Guenther	225,000	225,000
V. Siegmann	170,000	170,000
J. Dobbie	-	-
J.P. Plaskitt	-	-

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Chanter, Browne & Curry be reappointed as auditors of the company will be put to the Annual General Meeting.

EUPHONIX EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

Directors' responsibilities

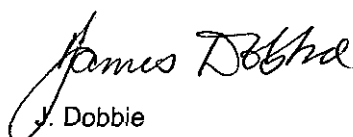
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 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.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

On behalf of the board



J. Dobbie

Director

23 July 2003

EUPHONIX EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT **TO THE SHAREHOLDERS OF EUPHONIX EUROPE LIMITED**

We have audited the financial statements of Euphonix Europe Limited on pages 4 to 11 for the year ended 30 June 2002. These financial statements have been prepared under the historical cost convention and 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 the 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 United Kingdom Accounting Standards.

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 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

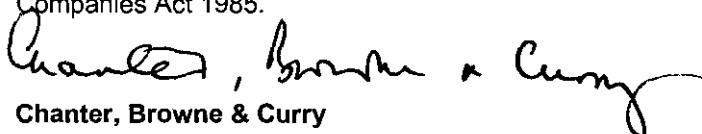
Basis of audit opinion

We conducted our audit in accordance with 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chanter, Browne & Curry
Chartered Accountants
Registered Auditor

23 July 2003
1 Plato Place
72-74 St Dionis Road
London
SW6 4TU

EUPHONIX EUROPE LIMITED

PROFIT AND LOSS ACCOUNT **FOR THE YEAR ENDED 30 JUNE 2002**

	<u>Notes</u>	<u>2002</u> <u>£</u>	<u>2001</u> <u>£</u>
Turnover	2	1,233,064	1,295,133
Cost of sales		(671,858)	(944,944)
Gross profit		<u>561,206</u>	<u>350,189</u>
Administrative expenses		(531,528)	(706,720)
Other operating income		-	2,300
Operating profit/(loss)	3	<u>29,678</u>	<u>(354,231)</u>
Other interest receivable and similar income		1,338	6,614
Interest payable and similar charges	4	(2,345)	(664)
Profit/(loss) on ordinary activities before taxation		<u>28,671</u>	<u>(348,281)</u>
Tax on profit/(loss) on ordinary activities	5	(100)	2
Profit/(loss) on ordinary activities after taxation	13	<u><u>28,571</u></u>	<u><u>(348,279)</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

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

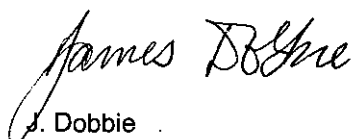
EUPHONIX EUROPE LIMITED

BALANCE SHEET **AS AT 30 JUNE 2002**

	<u>Notes</u>	<u>2002</u>		<u>2001</u>	
		£	£	£	£
Fixed assets					
Tangible assets	6	131,719		130,001	
Current assets					
Stocks	7	229,026		210,332	
Debtors	8	194,812		304,045	
Cash at bank and in hand		126,908		98,035	
		<u>550,746</u>		<u>612,412</u>	
Creditors: amounts falling due within one year	9	<u>(250,422)</u>		<u>(331,136)</u>	
Net current assets		<u>300,324</u>		<u>281,276</u>	
Total assets less current liabilities		<u>432,043</u>		<u>411,277</u>	
Creditors: amounts falling due after more than one year	10	<u>(21,465)</u>		<u>(29,270)</u>	
		<u>410,578</u>		<u>382,007</u>	
Capital and reserves					
Called up share capital	12	2,000		2,000	
Share premium account	13	768,555		768,555	
Profit and loss account	13	<u>(359,977)</u>		<u>(388,548)</u>	
Shareholders' funds - equity interests	14	<u>410,578</u>		<u>382,007</u>	

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board on 23 July 2003.


J. Dobbie
Director

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2002**

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

1.2 Turnover

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the year.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment	25 % on cost
Motor vehicles	25 % on the reducing balance

1.4 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge 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 obligation outstanding in each period.

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

1.5 Stock

Stock is valued at the lower of cost and net realisable value.

1.6 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with Financial Reporting Standard No 17.

1.7 Deferred taxation

Deferred taxation is accounted for in accordance with the provisions of Financial Reporting Standard No 19.

1.8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

In the year to 30 June 2002 66% (2001 - 90%) of the company's turnover was to markets outside the United Kingdom.

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

3	Operating profit/(loss)	<u>2002</u>	<u>2001</u>
		<u>£</u>	<u>£</u>
	Operating profit/(loss) is stated after charging:		
	Depreciation of tangible assets	46,996	45,065
	Operating lease rentals	31,755	49,285
	Auditors' remuneration	6,000	3,250
	Non-audit service remuneration paid to auditors	10,723	12,404
	Hire of equipment	-	718
	Directors' emoluments	93,285	61,579
	Compensation for loss of office paid to directors	11,000	-
		<u> </u>	<u> </u>
4	Interest payable	<u>2002</u>	<u>2001</u>
		<u>£</u>	<u>£</u>
	On bank loans and overdrafts	316	664
	Hire purchase interest	2,029	-
		<u> </u>	<u> </u>
		<u>2,345</u>	<u>664</u>
		<u> </u>	<u> </u>
5	Taxation	<u>2002</u>	<u>2001</u>
		<u>£</u>	<u>£</u>
	Domestic current year taxation		
	U.K. corporation tax	100	(2)
		<u> </u>	<u> </u>

The company has estimated losses of £298,000 (2001 - £329,048) available for carry forward against future trading profits.

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

6 Tangible fixed assets

	<u>Equipment, fixtures and fittings</u>	<u>Motor vehicle</u>	<u>Total</u>
	<u>£</u>	<u>£</u>	<u>£</u>
Cost			
At 1 July 2001	207,771	-	207,771
Additions	100,672	5,995	106,667
Disposals	(85,967)	-	(85,967)
At 30 June 2002	222,476	5,995	228,471
Depreciation			
At 1 July 2001	77,770	-	77,770
On disposals	(28,014)	-	(28,014)
Charge for the year	45,497	1,499	46,996
At 30 June 2002	95,253	1,499	96,752
Net book value			
At 30 June 2002	127,223	4,496	131,719
At 30 June 2001	130,001	-	130,001

7 Stocks

	<u>2002</u>	<u>2001</u>
	<u>£</u>	<u>£</u>
Goods for resale and spares	229,026	210,332

8 Debtors

	<u>2002</u>	<u>2001</u>
	<u>£</u>	<u>£</u>
Trade debtors	73,314	221,864
Amounts owed by Euphonix Inc.	102,122	-
Other debtors	19,376	82,181
	194,812	304,045

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

9 Creditors: amounts falling due within one year	<u>2002</u> <u>£</u>	<u>2001</u> <u>£</u>
Bank loans and overdrafts (secured)	5,240	14,278
Net obligations under hire purchase contracts	7,805	7,805
Trade creditors	106,103	85,324
Amounts owed to Euphonix Inc	-	188,326
Taxation and social security	19,178	1,126
Other creditors	112,096	34,277
	<u>250,422</u>	<u>331,136</u>
 10 Creditors: amounts falling due after more than one year	 <u>2002</u> <u>£</u>	 <u>2001</u> <u>£</u>
Net obligations under hire purchase contracts	21,465	29,270
 Net obligations under hire purchase contracts		
Repayable within one year	7,805	7,805
Repayable between one and five years	21,465	29,270
	<u>29,270</u>	<u>37,075</u>
Included in liabilities falling due within one year	(7,805)	(7,805)
	<u>(21,465)</u>	<u>(29,270)</u>

Finance leases and hire purchase creditors are secured on the assets concerned.

11 Pension costs

The pension cost charge represents contributions payable by the company to the employees' personal pension schemes and amounted to £3,159 (2001 - £1,316).

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

12 Share capital	<u>2002</u> <u>£</u>	<u>2001</u> <u>£</u>
Authorised		
1,400 "A" ordinary shares of £ 1 each	1,400	1,400
600 "B" ordinary shares of £ 1 each	600	600
	<u>2,000</u>	<u>2,000</u>
 Allotted, called up and fully paid		
1,400 "A" ordinary shares of £ 1 each	1,400	1,400
600 "B" ordinary shares of £ 1 each	600	600
	<u>2,000</u>	<u>2,000</u>

Essentially, the "A" and "B" shares rank pari passu but there are controls in the shareholders' agreement.

13 Statement of movements on reserves

	<u>Share premium account</u> <u>£</u>	<u>Profit and loss account</u> <u>£</u>
Balance at 1 July 2001	768,555	(388,548)
Retained profit for the year	-	28,571
Balance at 30 June 2002	<u>768,555</u>	<u>(359,977)</u>

14 Reconciliation of movements in shareholders' funds

	<u>2002</u> <u>£</u>	<u>2001</u> <u>£</u>
Profit/(loss) for the financial year	28,571	(348,279)
Opening shareholders' funds	382,007	730,286
Closing shareholders' funds	<u>410,578</u>	<u>382,007</u>

EUPHONIX EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 30 JUNE 2002**

15 Financial commitments

At 30 June 2002 the company was committed to making the following payments during the next year in respect of operating leases with expiry dates as follows:-

	Land and buildings			Other
	2002	2001	2002	2001
	£	£	£	£
Expiry date:				
Within one year	7,749	7,946	-	664
Between two and five years	-	-	4,212	10,831
	<u>7,749</u>	<u>7,946</u>	<u>4,212</u>	<u>11,495</u>

16 Control

The ultimate parent company at 30 June 2002 was Audio Export Georg Neumann & Co. GmbH, a company incorporated in Germany.

17 Related party transactions

The following amounts have been included in the financial statements in respect of Euphonix Inc during the year:-

Cost of sales: £584,365 (2001: £994,454);

Fixed asset additions: £100,670 (2001: £Nil).

18 Post balance sheet events

On 6 November 2002, shares in the company were transferred from Audio Export Georg Neumann & Co GmbH to Euphonix Inc. As a result, Euphonix Inc now owns 70% and Audio Export 30% of the issued share capital.