

BMG Europe Limited

**Directors' report and financial
statements**

Registered number 3185450

31 December 2003



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Directors' report

The directors present their annual report and audited financial statements for the year to 31 December 2003.

Activities

The principal activity of the company is that of an investment holding company.

Business review and results

The company made a loss after taxation of £156,684 (*18 month period to 31 December 2002: £nil*). The company did not trade during the 18 month period to 31 December 2002, however, interest has been accrued to Bertelsmann AG in the current year in accordance with a loan facility agreement with Bertelsmann AG.

Directors

The directors who served during the year were:

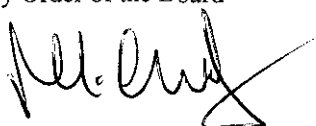
Jorg Hernler	
Laverne Evans	(resigned 16 March 2003)
Dennis Kooker	(appointed 11 April 2003)

None of the directors held an interest in the shares of the company or any other group undertaking at 31 December 2002 or 31 December 2003.

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



Peter Wareham
Secretary

24th MAY 2004

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.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors, KPMG LLP, to the members of BMG Europe Limited

We have audited the financial statements on pages 4 to 8.

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 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985..


KPMG LLP

Chartered Accountants
Registered Auditors

28 May 2004

Profit and loss account

For the year to 31 December 2003

		Year to 31 December 2003 £	Eighteen month period to 31 December 2002 £
	<i>Note</i>		
Other interest payable and similar charges		(156,684)	-
Loss on ordinary activities after taxation		(156,684)	-
Retained (loss) / profit on ordinary activities for the year / period	9	(156,684)	-

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

Statement of total recognised gains and losses

A Statement of total recognised gains and losses has not been presented as there are no gains or losses other than those dealt with in the profit and loss account.

The notes on page 7 to 8 form part of these financial statements.

Balance sheet

at 31 December 2003

	Note	31 December 2003 £	31 December 2002 £
Current assets			
Investments in subsidiary undertakings	6	151,894,336	233,336
		<hr/>	<hr/>
Creditors: amounts falling due within one year		151,817,684	-
		<hr/>	<hr/>
Net assets		76,652	233,336
		<hr/>	<hr/>
Equity capital and reserves			
Called up share capital	7	233,336	233,336
Profit and loss account	9	(156,684)	-
		<hr/>	<hr/>
Equity shareholders' funds	8	76,652	233,336
		<hr/>	<hr/>

These financial statements were approved by the Board on 24th July 2004, and were signed on its behalf by:



D Kooker
Director

The notes on pages 7 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 preparation

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 No 1 Revised, Cash Flow Statements, being a wholly owned subsidiary of Bertelsmann AG, a company incorporated in Germany and which prepare consolidated financial statements in English containing a consolidated cash flow statement dealing with the cash flows of the group.

As provided under Section 228 of the Companies Act 1985, BMG Europe Limited is exempt from the requirement to prepare consolidated financial statements. The financial statements therefore present information concerning the company only and not the group.

Investments

Investments are stated at cost less amounts written off as a result of impairments.

2 Other interest payable and similar charges

Other interest payable and similar charges comprised an amount payable to Bertelsmann AG in accordance with a loan facility agreement with Bertelsmann AG.

The audit fee for the company is borne by the company's subsidiary company, BMG UK & Ireland Limited.

3 Remuneration of directors

The director receives emoluments from the group for their services to the company and certain other subsidiaries in the group. Her total emoluments are charged in the accounts of the company's subsidiary, BMG UK & Ireland Limited.

Retirement benefits are accruing to 1 director (*18 month period to 31 December 2002: 1*) under a money purchase pension scheme, and are charged in the accounts of the company's subsidiary, BMG UK & Ireland Limited.

4 Staff numbers and costs

There were no persons employed by the company during the year (*18 month period to 31 December 2002: £nil*) and consequently no staff costs (*18 month period to 31 December 2002: £nil*).

Notes (continued)

5 Tax on loss on ordinary activities

There is no tax charge to UK corporation tax in the year (18 month period to 31 December 2002: £nil) due to the operating loss incurred.

6 Investments in subsidiary undertakings

	2003 £	2002 £
At 1 January 2003	233,336	233,336
Additions	151,661,000	-
	<hr/>	<hr/>
At 31 December 2003	151,894,336	233,336
	<hr/>	<hr/>

During the year BMG Europe Ltd purchased the ordinary share capital of Zomba Music Publishing Ltd and Zomba Records Ltd. It subsequently sold these shares to its subsidiary, BMG UK & Ireland Ltd, in consideration for 2 further shares in the company.

All investments are unlisted. The principal subsidiaries of BMG Europe Limited, both of which are incorporated in England and Wales, are:

Subsidiary	Principal activity	Class and percentage of shares held
BMG UK and Ireland Limited	Record production and promotion	100% ordinary share capital
Sonopress (UK) Limited	CD Manufacturer/fulfilment house	100% ordinary share capital

7 Called up share capital

	Year to 31 December 2003 £	18 month period to 31 December 2002 £
Authorised:		
300,000 (2002: 300,000) ordinary shares of £1 each	300,000	300,000
	<hr/>	<hr/>
Allotted and fully paid:		
233,336 (2002: 233,336) ordinary shares of £1 each	233,336	233,336
	<hr/>	<hr/>

Notes (continued)

8 Reconciliation of movements in equity shareholders' funds

	2003 £	2002 £
Opening equity shareholders' funds	233,336	233,336
Loss for the year / period	(156,684)	-
Closing equity shareholders' funds	76,652	233,336

9 Profit and loss account

	2003 £	2002 £
Opening balance	-	-
Retained loss for the year / period	(156,684)	-
Closing balance	(156,684)	-

10 Ultimate parent company

The company's ultimate parent 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 financial statements can be Obtained	Carl Bertelsmann Strasse 270 33311 Gutersloh Germany

11 Related Party Transactions

The company is exempt under the terms of Financial Reporting Standard No 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.