

Sony BMG Music Entertainment (UK Holdings) Limited
(formerly known as BMG Europe Limited)

Directors' report and financial statements
Registered number 3185450
31 December 2005



Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	2
Report of the independent auditor to the members of Sony BMG Music Entertainment (UK Holdings) Limited	3 - 4
Profit and loss account	5
Statement of total recognised gains and losses	5
Balance sheet	6
Notes	7 - 11

Directors' report

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

Activities

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

Business review and results

The company made a loss on ordinary activities after taxation of £6,550,489 (2004: profit of £4,701,829). The directors do not recommend the payment of a dividend (2004: nil). Losses transferred to reserves amounted to £6,550,489 (2004: profits transferred to reserves of £4,701,829).

On 12 June 2006 the company changed its name to Sony BMG Music Entertainment (UK Holdings) Limited.

Directors

The directors who served during the year were:

J Hernler	(resigned 8 May 2006)
D Kooker	(resigned 8 May 2006)
D Pearce	(appointed 1 February 2005)

In addition R Stringer and T Bowen were appointed as directors on 8 May 2006.

None of the directors held an interest in the shares of the company or any other group undertaking at 31 December 2004 or 31 December 2005.

Company Secretary

EJP Wareham resigned and A George was appointed as company secretary on 29 July 2005.

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


A George
Secretary

28 June 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 they 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;
- 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.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Sony BMG Music Entertainment (UK Holdings) Limited (formerly known as BMG Europe Limited)

We have audited the financial statements of Sony BMG Music Entertainment (UK Holdings) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 Sony BMG Music Entertainment
(UK Holdings) 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 loss 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

28 June 2006

Profit and loss account

For the year to 31 December 2005

	<i>Note</i>	2005 £	2004 £
Profit on sale of investments	7	-	7,461,250
Provision for diminution in value of the investment in Creation Records Limited	7	(1,180,000)	-
Other interest payable and similar charges	5	(7,672,128)	(3,943,075)
Foreign exchange gain		-	1,045
		<hr/>	<hr/>
(Loss) / profit on ordinary activities before taxation	4	(8,852,128)	3,519,220
Tax credit on (loss) / profit on ordinary activities	6	2,301,639	1,182,609
		<hr/>	<hr/>
Retained (loss) / profit on ordinary activities for the year	12	(6,550,489)	4,701,829
		<hr/> <hr/>	<hr/> <hr/>

There is no difference between the (loss) / profit as disclosed in the profit and loss account and the (loss) / profit 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.

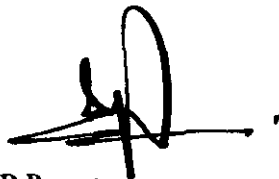
The notes on page 7 to 11 form part of these financial statements.

Balance sheet

at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Investments	7	159,878,336	161,058,336
Current assets			
Debtors	8	10,945,499	8,643,859
Creditors: amounts falling due within one year	9	(163,431,843)	(155,759,714)
Net current liabilities		(152,486,344)	(147,115,855)
Net assets		7,391,992	13,942,481
Equity capital and reserves			
Called up share capital	10	233,336	233,336
Profit and loss account	11	(825,344)	4,545,145
Capital reserve	11	7,984,000	9,164,000
Equity shareholders' funds	12	7,391,992	13,942,481

These financial statements were approved by the Board on 28 Dec 2006 and were signed on its behalf by:



D Pearce
Director

The notes on pages 7 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 are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt from the requirement of Financial Reporting Standard No.1 Revised, Cash Flow Statements, being a wholly owned subsidiary of Sony BMG Music Entertainment B.V., a company incorporated in The Netherlands 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.

As provided under Section 228 of the Companies Act 1985, Sony BMG Music Entertainment (UK Holdings) Limited (formerly known as 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.

Going concern

The management of Sony BMG Music Entertainment (UK) Limited has informed the company that it is their intention to provide such financial support as is required by the company to meet its liabilities as they fall due for payment for a period not less than one year from the date of approval of these financial statements. In view of this continued support, the directors have prepared these financial statements on a going concern basis.

Investments

Investments are stated at cost less provision for any impairment.

Taxation

Sony BMG UK entities which includes this company are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise those losses exists. 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 Staff numbers and costs

There were no persons employed by the company during the year (2004: nil) and consequently no staff costs (2004:£ nil).

3 Remuneration of directors

The directors receive emoluments from the group for their services to the company and certain other subsidiaries in the group. The total emoluments are charged in the accounts of the company's subsidiary, Sony BMG Music Entertainment (UK) Limited.

Retirement benefits are accruing to 1 director (2004:1) under a money purchase pension scheme, and are charged in the accounts of the company's subsidiary, Sony BMG Music Entertainment (UK) Limited.

Notes (continued)

4 Profit on ordinary activities before taxation

The audit fee for the company is borne by the company's subsidiary company, Sony BMG Music Entertainment (UK) Limited.

5 Other interest payable and similar charges

	2005 £	2004 £
Other loans	(7,672,128)	(3,943,075)

Intercompany balances carried a rate of interest of 5.125% in 2005. In 2004 other interest payable and similar charges comprised an amount payable to Bertelsmann AG in accordance with a loan facility agreement with Bertelsmann AG.

6 Tax on profit on ordinary activities

	2005 £	2004 £
UK corporation tax		
Current tax on income for the period	2,301,639	1,182,609

Factors affecting the tax charge for year

The tax assessed for the period is equal to (2004: higher than) the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £	2004 £
(Loss) / profit on ordinary activities before tax	(8,852,128)	3,519,220
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(2,655,639)	1,055,766
<i>Effects of:</i>		
Sale of investment in Sonopress (UK) Limited which is part of a Capital gains tax Group	-	(2,238,375)
Costs not allowable for tax purposes – write down of investment in Creation Records Limited	354,000	-
Current tax credit for year	(2,301,639)	(1,182,609)

Notes (continued)

7 Investments in subsidiary undertakings

	2005 £
Cost	
At 1 January 2005 and 31 December 2005	161,058,336
Provisions for permanent diminution in value	
At 1 January 2005	-
Provision charged in the year in relation to Creation	(1,180,000)
At 31 December 2005	(1,180,000)
Net book value	
At 31 December 2005	159,878,336
At 31 December 2004	161,058,336

On 8 December 2004 Sony BMG Music Entertainment (UK Holdings) Limited received a capital contribution comprising 100% of the ordinary share capital of Creation Records Limited and 50% of the ordinary share capital of Loaded Records Limited. The capital contribution has been valued at fair value in accordance with Financial Reporting Standard Number 7. The company also has an option to buy out the remaining 50% of the ordinary share capital of Loaded Records Limited.

All investments are unlisted. The subsidiaries of Sony BMG Music Entertainment (UK Holdings) Limited, which have been incorporated in England and Wales, are:

Subsidiary	Principal activity	Class and percentage of shares held
Sony BMG Music Entertainment (UK) Limited	Record production and promotion	100% ordinary share capital
Creation Records Limited	Record production and promotion	100% ordinary share capital
Loaded records Limited	Record production and promotion	50% ordinary share capital

Notes (continued)

8 Debtors

	2005 £	2004 £
Amounts owed by group undertakings	7,461,251	7,461,250
Corporation tax – group relief	3,484,248	1,182,609
	<u>10,945,499</u>	<u>8,643,859</u>

9 Creditors: amounts falling due within one year

	2005 £	2004 £
Amounts due to group undertakings	163,431,843	155,759,714

10 Called up share capital

	2005 £	2004 £
<i>Authorised:</i>		
300,000 (2003: 300,000) ordinary shares of £1 each	300,000	300,000
<i>Allotted and fully paid:</i>		
233,336 (2003: 233,336) ordinary shares of £1 each	233,336	233,336

11 Reserves

	Capital reserve £	Profit and loss account £
Opening balance	9,164,000	4,545,145
Retained loss for the year	-	(6,550,489)
Impairment of investment in Creation Records Limited	(1,180,000)	1,180,000
	<u>7,984,000</u>	<u>(825,344)</u>
Closing balance		

The capital contribution reserve relates to interests in Creation Records Limited and Loaded Records Limited (see note 7).

The contribution was made subject to the condition that the reserve created would not be distributable.

Notes (continued)

12 Reconciliation of movements in equity shareholders' funds

	2005 £	2004 £
Opening equity shareholders' funds	13,942,481	76,652
(Loss) / profit for the year	(6,550,489)	4,701,829
Capital contribution (note 11)	-	9,164,000
	<hr/>	<hr/>
Closing equity shareholders' funds	7,391,992	13,942,481
	<hr/>	<hr/>

13 Deferred Taxation

There were no deferred tax assets recognised and unrecognised as at 31 December 2005 or 31 December 2004 as all available tax losses were group relieved within the group.

14 Immediate and ultimate holding company

The company's immediate and ultimate holding company is Sony BMG Music Entertainment Holdings B.V., a company incorporated in the Netherlands which is 50% owned by Bertelsmann AG and 50% owned by Sony Corporation of America.

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

Name	Sony BMG Music Entertainment B.V.
Country of incorporation	The Netherlands
Address from where copies of the Group accounts can be obtained	Heuvellaan 50, 1217 JN Hilversum The Netherlands

15 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.