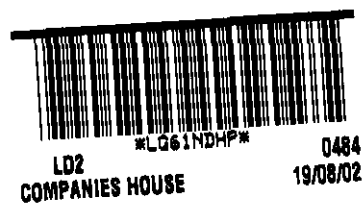


**BMG Europe Limited (formerly
BMG UK Limited)**

**Directors' report and financial
statements**

Registered number 3185450

30 June 2001



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Directors' report

The directors present their report and audited balance sheet and notes for the year ended 30 June 2001.

Activities

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

Business review and results

The company did not trade during the year and consequently made neither a profit or a loss.

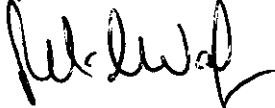
Directors

The directors who served during the year were:

Jorg Hernler
Laverne Evans (appointed 31st March 2000)

At the year end none of the directors held any beneficial interest in the shares or options of the company.

By Order of the Board



Peter Wareham
Secretary

8th August 2002

Bedford House
69-79 Fulham High Street
London SW6 3JW

Statement of director's 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 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;
- 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.



1-2 Dorset Rise
London
EC4Y 8AE
United Kingdom

Report of the independent auditors to the members of BMG Europe Limited

We have audited the financial statements on pages 4 to 6.

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 30 June 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

19 August 2002

Profit and loss account

For the year ended 30 June 2001

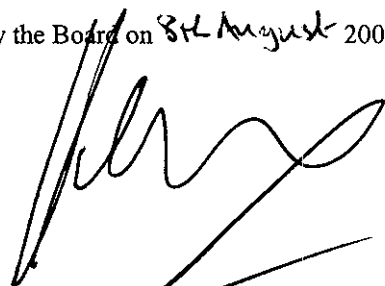
During the financial year and the preceding financial year the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.

Balance sheet

at 30 June 2001

	Notes	2001 £	2000 £
Fixed assets			
Investments in subsidiary undertakings	2	233,336	233,336
		<hr/>	<hr/>
Net assets		233,336	233,336
		<hr/>	<hr/>
Equity capital and reserves			
Called up share capital	3	233,336	233,336
Profit and loss account		-	-
		<hr/>	<hr/>
Equity shareholders' funds	4	233,336	233,336
		<hr/>	<hr/>

Approved by the Board on 8th August 2002.



The notes on pages 5 and 6 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

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 1, 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 group accounts. 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 Investments in subsidiary undertakings

	2001 £	2000 £
Shares in group undertakings at cost	233,336	233,336

The principal subsidiaries of BMG Europe Limited 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

3 Called up share capital

	2001 £	2000 £
<i>Authorised:</i> 300,000 (2000: 300,000) ordinary shares of £1 each	300,000	300,000
<i>Allotted and fully paid:</i> 233,336 (2000: 233,336) ordinary shares of £1 each	233,336	233,336

Notes (*continued*)

4 Reconciliation of movements in equity shareholders' funds for year ended 30th June 2001

There was no movement in shareholders' funds during the year.

5 Ultimate parent company

The company's ultimate parent company and ultimate controlling party is Bertelsmann AG, a company incorporated in Germany. Copies of the accounts of this company can be obtained from Carl Bertelsmann Strasse 270, 33311 Gütersloh 1, Germany.