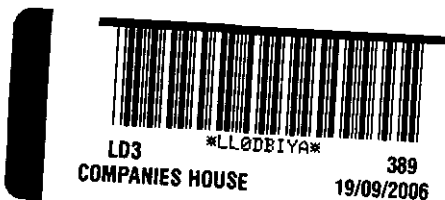


K2 Agency Limited

REPORT AND FINANCIAL STATEMENTS

year ended 30 September 2005



Company Registration No. 4479392

K2 Agency Limited

DIRECTORS AND OFFICERS

DIRECTORS

JW Jackson
PF Wallace

COMPANY SECRETARY

SEA Standing

REGISTERED OFFICE

Sanctuary House
45-53 Sinclair Road
London W14 0NS

AUDITORS

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

K2 Agency Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors submit their report and the financial statements of K2 Agency Limited for the year ended 30 September 2005.

PRINCIPAL ACTIVITIES

The principal activity of the company is musicians' agent.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company had a reasonable trading period and the directors are confident of the future prospects.

RESULTS AND DIVIDENDS

The trading loss for the period before taxation was £21,652 (2004: profit £9,977)

The directors are precluded from the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The following directors have held office throughout the year:

AJ Taylor (resigned 26 May 2006)
JW Jackson
PF Wallace (appointed 26 May 2006)

Directors' interests in the shares of the Company at 30 September 2005, including family interests, were as follows:

	<i>Ordinary shares of 1p each</i>	
	30 Sept 05	30 Sept 04
AJ Taylor	-	-
JW Jackson	4,000	4,000

AJ Taylor is also a director of the ultimate parent company, The Sanctuary Group plc. Details of his shareholdings in that company are given in its statutory accounts.

Shareholdings of the other directors in The Sanctuary Group plc were as follows:

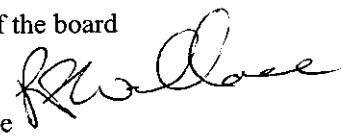
<i>Ordinary shares of 12.5p each</i>	30 Sept 2005	30 Sept 2004
JW Jackson	-	350,000
<i>Options over Ordinary shares of 12.5p each</i>		
JW Jackson	-	-

The Sanctuary Group plc held an Extraordinary General meeting on 17 March 2006 where all the resolutions put to shareholders in order to effect a Placing and Open Offer of 219,931,148 new Ordinary Shares of 50 pence per share, sub-division and consolidation of existing Ordinary Shares and an amendment to the borrowing powers of The Sanctuary Group plc as announced on 3 February 2006 were duly passed.

AUDITORS

A resolution to appoint KPMG Audit Plc as auditors will be put to the members at the annual general meeting.

By order of the board


P F Wallace
Director

31 August 2006

K2 Agency Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. 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 requirements of 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.

K2 Agency Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF K2 AGENCY LIMITED

We have audited the financial statements on pages 5 to 11.

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 auditors' 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 opinion we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 3.

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 and other members of the group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 affairs of the company at 30 September 2005 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BAKER TILLY

Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

31 August 2006 2006

K2 Agency Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 September 2005

	<i>Notes</i>	2005 £	2004 £
TURNOVER	1	866,322	1,540,358
Cost of sales		(241,905)	(79,814)
Gross profit		<u>624,417</u>	<u>1,460,544</u>
Administrative expenses		(655,415)	(1,472,398)
OPERATING LOSS		<u>(30,998)</u>	<u>(11,854)</u>
Interest payable	3	(2,066)	(4,581)
Interest receivable		11,412	26,412
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	<u>(21,652)</u>	<u>9,977</u>
Taxation	6	-	(463)
RETAINED (LOSS)/PROFIT FOR THE PERIOD	11	<u>(21,652)</u>	<u>9,514</u>

The loss for the year and the profit for the previous year arise from the company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

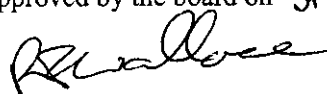
K2 Agency Limited

BALANCE SHEET

30 September 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Tangible assets	7	19,770	18,010
CURRENT ASSETS			
Debtors	8	149,610	298,397
Cash at bank and in hand		107,930	350,221
		257,540	648,618
CREDITORS: Amounts falling due within one year	9	(642,866)	(1,010,532)
NET CURRENT LIABILITIES		(385,326)	(361,914)
TOTAL NET LIABILITIES		(365,556)	(343,904)
CAPITAL AND RESERVES			
Called up share capital	10	100	100
Profit and loss account	11	(365,656)	(344,004)
EQUITY SHAREHOLDERS' FUNDS	12	(365,556)	(343,904)

Approved by the board on 31 August 2006



P F Wallace
Director

K2 Agency Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

GOING CONCERN

The company relies on the continued support of the ultimate parent company, The Sanctuary Group plc. On 20 March 2006, The Sanctuary Group plc successfully concluded a placing and open offer of new ordinary shares which resulted in raising £110,000,000 in cash (before expenses) and additionally a debt release of £35,000,000. The directors therefore consider that the support of The Sanctuary Group plc allows them to continue to adopt the going concern concept in preparing the financial statements.

TURNOVER

Turnover represents the invoiced value, (exclusive of Value Added Tax), of goods sold and services provided during the period.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate ruling at that date. These translation differences are dealt with in the profit and loss account.

TANGIBLE FIXED ASSETS

Fixed assets are depreciated to their residual value from the date of purchase by equal annual instalments over their estimated useful lives at the following rates:

Fixtures and fittings	10% per annum
Other equipment	10% per annum

K2 Agency Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2005

1 TURNOVER AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover represents amounts derived from the principal activity of the company and arise within the European Union.

2 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £	2004 £
(Loss)/Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit fees	3,000	2,750
Depreciation of tangible fixed assets	2,389	2,113
	<u> </u>	<u> </u>

3 INTEREST PAYABLE

	2005 £	2004 £
Bank interest	2,066	4,581
	<u> </u>	<u> </u>

4 EMPLOYEES

The average weekly number of persons (including directors) employed by the Company during the period was:

	2005 No	2004 No
Office and management:	4	4
	<u> </u>	<u> </u>
	2005 £	2004 £
Staff costs for the above persons:		
Wages and salaries	381,328	551,453
Social security costs	47,208	71,396
Other pension costs	3,720	3,555
	<u>432,256</u>	<u>626,404</u>

5 DIRECTOR'S EMOLUMENTS

	2005 £	2004 £
Aggregate emoluments	300,000	458,500
	<u> </u>	<u> </u>
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Aggregate emoluments	300,000	458,500
	<u> </u>	<u> </u>

K2 Agency Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2005

6	TAXATION	2005 £	2004 £
	a) Analysis of charge in year		
	Current tax:		
	UK Corporation tax	-	463
	b) Factors affecting the charge for the year		
	Tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%)		
	The difference is explained below:		
	(Loss)/Profit on ordinary activities before tax	(21,652)	9,977
	(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK at 30%	(6,496)	2,993
	Expenses not allowable for taxation purposes	7,004	-
	Capital allowances in excess of depreciation	(938)	-
	Tax losses carried forward	430	-
	Utilisation of tax losses brought forward	-	(2,530)
	Current tax charge (see note 6a)	-	463

7	TANGIBLE FIXED ASSETS	Office Equipment £	Fixtures and fittings £	Total £
	Cost			
	1 October 2004	15,487	5,647	21,134
	Additions	-	4,149	4,149
	30 September 2005	15,487	9,796	25,283
	Depreciation			
	1 October 2004	2,424	700	3,124
	Depreciation for the period	1,824	565	2,389
	30 September 2005	4,248	1,265	5,513
	Net book value			
	30 September 2005	11,239	8,531	19,770
	30 September 2004	13,063	4,947	18,010

K2 Agency Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2005

		2005	2004
		£	£
8	DEBTORS		
	Due within one year:		
	Trade Debtors	61,850	-
	Other taxation	32	169,579
	Other debtors	18,310	2,515
	Prepayments and accrued income	69,418	126,303
		<u>149,610</u>	<u>298,397</u>
	Included within other debtors is £18,310 (2004: £2,515) due from JW Jackson, this was the maximum balance outstanding during the period.		
9	CREDITORS: Amounts falling due within one year	2005	2004
		£	£
	Trade creditors	82,201	27,550
	Amounts owed to associated undertakings	430,542	490,100
	Other taxation and social security	14,073	95,748
	Corporation tax	463	463
	Other creditors	17,610	370,613
	Accruals and deferred income	97,977	26,058
		<u>642,866</u>	<u>1,010,532</u>
10	SHARE CAPITAL	2005	2004
		£	£
	Authorised:		
	10,000 ordinary shares of 1pence each	100	100
		<u>100</u>	<u>100</u>
	Allotted, issued and fully paid:		
	10,000 ordinary share of 1 pence each	100	100
		<u>100</u>	<u>100</u>
11	PROFIT AND LOSS ACCOUNT	2005	2004
		£	£
	1 October 2004	(344,004)	(353,518)
	Loss for the financial year	(21,652)	9,514
		<u>(365,656)</u>	<u>(344,004)</u>
	30 September 2005		

K2 Agency Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2005

12	MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS	2005 £	2004 £
	Opening shareholders' funds	(343,904)	(353,418)
	(Loss)/profit for the financial year	(21,652)	9,514
	Closing shareholders' funds	<u>(365,556)</u>	<u>(343,904)</u>

13 RELATED PARTY DISCLOSURES

The company obtained various management services from Sanctuary Agency Services Ltd, The Sanctuary Group plc, Sanctuary Artist Management Ltd and Focus Business Management Ltd, fellow associated companies within The Sanctuary Group plc group of companies. During the year these amounted to £411,000. The amount outstanding at the balance sheet date was £430,542

14 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

In the directors' opinion the ultimate parent company at 30 September 2005 was The Sanctuary Group plc, a company registered in England and Wales.

Copies of the group financial statements of The Sanctuary Group plc are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.