

Arvato Logistics Services Limited
(formerly Pinnacle Arvato Holdings Limited)

**Directors' report and financial
statements**

Registered number 3148084

31 December 2007

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Principal activities

The principal activity of the company during the year was as an investment holding company.

The directors expect the Company to continue with its present activity.

The Company changed its name from Pinnacle Arvato Holdings Limited to Arvato Logistics Services Limited on 28 January 2008.

Post Balance Sheet Event

On 17 January 2008, the company received a dividend from Windsong Holdings Limited for £15,646,716. Following which Windsong Holdings Limited a wholly owned subsidiary was sold for £1. Accordingly, the year end accounts reflect the realised value of the business.

Results and dividends

The company made a loss after taxation of £8,972,291 (2006: £429,926).

The directors did not recommend the payment of a dividend (2006: *£nil*).

Directors and directors' interests

The directors who held office during the year were as follows:

R Bierfischer	
R Buch	(Resigned 7 December 2007)
R A Leonard-Myers	(Resigned 17 January 2008)
S D Sullivan	(Resigned 17 January 2008)
M Mierisch	

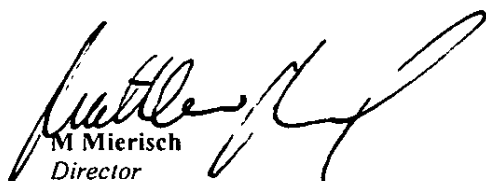
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed reappointed and KPMG LLP will therefore continue in office.

On behalf of the board


M Mierisch
Director

Heather Court
6 Maidstone Road
Sidcup
Kent
DA14 5HH

22nd January 2009

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 and applicable law (UK Generally Accepted Accounting Practice).

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;
- state whether applicable UK 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 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 Arvato Logistics Services Limited

We have audited the financial statements of Arvato Logistics Services Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Arvato Logistics Services 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 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

28th January 2009

Profit and loss account
for the year ended 31 December 2007

	<i>Note</i>	2007 £	2006 £
Administrative expenses	2	(8,454,641)	-
Interest payable and similar charges	4	(739,501)	(614,180)
Loss on ordinary activities before taxation		(9,194,142)	(614,180)
Tax on loss on ordinary activities	5	221,851	184,254
Loss for the financial year	10	(8,972,291)	(429,926)

A statement of total recognised gains and losses is not included in these financial statements as there are no recognised gains or losses in either the current financial year or the preceding financial year other than the results reported above.

A note of historical cost profits and losses is not included in the financial statements as the accounts are prepared on an unmodified historic basis.

The operating loss for the current and preceding year derives from continuing operations.

Balance sheet
at 31 December 2007

	<i>Note</i>	2007	2006
		£	£
Fixed assets			
Investments	6	15,646,716	24,007,323
Current assets			
Debtors	7	221,851	184,254
Creditors: amounts falling due within one year	8	(11,834,577)	(11,185,296)
Net current liabilities		(11,612,726)	(11,001,042)
Net assets		4,033,990	13,006,281
Capital and reserves			
Called up share capital	9	6,000,000	6,000,000
Profit and loss account	10	(1,966,010)	7,006,281
Shareholder's funds		4,033,990	13,006,281

These financial statements were approved by the board of directors on 22nd January 2009 and were signed on its behalf by:


M Mierisch
Director

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2007

	2007 £	2006 £
Loss for the financial year	(8,972,291)	(429,926)
Net reduction in shareholder's funds	(8,972,291)	(429,926)
Opening shareholders' funds	13,006,281	13,436,207
Closing shareholder's funds	4,033,990	13,006,281

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 have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 "Cash Flow Statements", the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights were controlled within the group headed by Bertelsmann AG, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Bertelsmann AG, within which this company is included, can be obtained from Carl Bertelsmann Strasse 270, 33311 Gütersloh, Germany.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £11,612,726 (2006: £11,001,042), which the directors believe to be appropriate for the following reason. The board of the company's ultimate parent undertaking, Bertelsmann AG, has committed to provide financial support to 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 and will not require repayment of any amounts already advanced for at least 12 months from the date of finalising these financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any amounts written off for impairment.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

2 Notes to the profit and loss account

	2007 £	2006 £
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Impairment on investment in subsidiary undertakings	(8,360,607)	-

In both the current and preceding financial year, the auditors' remuneration has been borne by another group company.

3 Directors and employees

The only employees of the company in both the current and preceding financial year were the directors, who received no remuneration in either year in respect of services to the company.

4 Interest payable and similar charges

	2007 £	2006 £
Amounts payable on other loans	739,501	614,180

5 Tax on loss on ordinary activities

Analysis of charge in year

	2007 £	2006 £
<i>UK corporation tax</i>		
Current tax charge on income for the year	-	-
Credit for tax losses subject to group relief	(221,851)	(184,254)
Tax on loss on ordinary activities	(221,851)	(184,254)

Current tax reconciliation

	2007 £	2006 £
Loss on ordinary activities before tax	(9,194,142)	(614,180)
Current tax credit at 30% (2006: 30%)	(2,758,243)	(184,254)
<i>Effects of:</i>		
Increase in current year tax losses	221,851	184,254
Disallowable expenses	2,536,392	-
Surrender of losses to group relief	(221,851)	(184,254)
Total group relief/tax credit (see above)	(221,851)	(184,254)

Notes (continued)

6 Fixed asset investments

	Shares in subsidiary undertakings £
<i>Cost:</i>	
At the beginning and end of the year	24,007,323
<i>Provisions</i>	
At beginning of year	-
Impairment losses	8,360,607
At end of year	8,360,607
<i>Net book value</i>	
At 31 December 2007	15,646,746
At 31 December 2006	24,007,323

During the year the director's carried out an impairment review of the company's fixed asset investments. This resulted in the investment held in Windsong Holdings Limited to be written down to its realisable value.

The principal companies in which the company's interest at the year end is more than 20% are as follows:

Name of company	Holding	% held	Country of Incorporation	Nature of business
<i>Direct subsidiary</i>				
Windsong Holdings Limited	Ordinary shares	100%	England and Wales	Sale and distribution of recorded music and home entertainment products
<i>Subsidiary of Windsong Holdings Limited</i>				
Pinnacle Entertainment Limited	Ordinary shares	100%	England and Wales	Sale and distribution of recorded music and home entertainment products
<i>Subsidiaries of Pinnacle Entertainment Limited</i>				
Pinnacle Software Limited	Ordinary shares	100%	England and Wales	Non-trading*
Gauntlet Entertainment Limited	Ordinary shares	100%	England and Wales	Dormant
Audio Services Limited	Ordinary shares	100%	England and Wales	Manufacturer of recorded music products

*Pinnacle Software Limited traded until 29 March 2007 and then ceased trading when it's trade, assets and liabilities were transferred into Pinnacle Entertainment Limited.

7 Debtors

	2007 £	2006 £
Amounts owed by group undertakings	221,851	184,254

Notes (continued)

8 Creditors: amounts falling due within one year

	2007 £	2006 £
Amounts owed to group undertakings	11,738,043	11,182,796
Accruals and deferred income	96,534	2,500
	<u>11,834,577</u>	<u>11,185,296</u>

9 Called up share capital

	£1 ordinary shares		£1 redeemable ordinary shares	
	No.	£	No.	£
Authorised				
At beginning and end of year	5,000,000	5,000,000	10,000,000	10,000,000
	<u>5,000,000</u>	<u>5,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Called up, allotted and fully paid				
At beginning and end of year	4,000,000	4,000,000	2,000,000	2,000,000
	<u>4,000,000</u>	<u>4,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

The company may elect to redeem any or all of the redeemable ordinary shares at par at any time after their issue. In all other respects the redeemable ordinary shares and ordinary shares rank pari passu and constitute one class of shares.

10 Reserves

	Profit and loss account £
At 1 January 2007	7,006,281
Loss for the year	(8,972,291)
	<u>(1,966,010)</u>
At 31 December 2007	<u>(1,966,010)</u>

11 Ultimate parent company and controlling party

The ultimate parent company and ultimate controlling party is Bertelsmann AG, incorporated in Germany. The immediate parent company is Bertelsmann UK Limited, a company incorporated in the United Kingdom.

The largest group in which the results of the company are consolidated is that headed by Bertelsmann AG. The consolidated financial statements of this company are available from Carl Bertelsman Strasse 270, 33311 Gütersloh, Germany.

12 Post balance sheet events

On 17 January 2008, the company received a dividend from Windsong Holdings Limited for £15,646,716. Following which Windsong Holdings Limited a wholly owned subsidiary was sold for £1. Accordingly, the year end accounts reflect the realised value of the business.