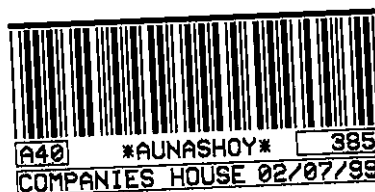


2000

Korg (UK) Limited

Report and Accounts

31 MARCH 1999



Korg (UK) Limited

Registered no. 2355914

DIRECTORS

S Kato
T Kato
R V Castle
Y Ikeda

SECRETARY

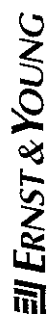
R V Castle

AUDITORS

Ernst & Young
400 Capability Green
Luton
Beds
LU1 3LU

REGISTERED OFFICE

9 Newmarket Court
Kingston
Milton Keynes
Buckinghamshire
MK10 0AU

 ERNST & YOUNG

Korg (UK) Limited

DIRECTORS REPORT

The directors present their report and the audited accounts for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES

The principal activities of the company were the importing, wholesaling, and exporting of musical merchandise.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 6. The profit for the year was £13,432 (1998: £180,779) which has been retained.

The directors recommend that no dividend be paid for the year.

FIXED ASSETS

The movements in fixed assets during the year are set out in the notes to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

T Kato
S Kato
R V Castle
Y Ikeda

No director held any interest in the share capital of the company.

YEAR 2000 COMPLIANCE

The directors have considered the impact of the Year 2000 on the critical aspects of the business.

All major suppliers, customers and service providers have been contacted requesting confirmation that they were Year 2000 compliant and the responses to date have been positive.

The impact of the Year 2000 on the company's computer systems has also been considered, and the directors recognised that in some areas upgrades are necessary. The cost of upgrading will not be significant and is scheduled for completion in the summer.

There are no risks or uncertainties relating to any of the company's products.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

On behalf of the board



Director

21 June 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts comply with 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.

REPORT OF THE AUDITORS
to the members of Korg (UK) Limited

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.


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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Y 
Registered Auditor
Luton
21 June 1999

Korg (UK) Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 March 1999

	Notes	1999 £	1998 £
TURNOVER	2	8,149,607	7,791,571
Cost of sales		(5,790,280)	(5,476,337)
GROSS PROFIT		<u>2,359,327</u>	<u>2,315,234</u>
Distribution costs		(124,731)	(124,763)
Administrative expenses		(2,197,676)	(1,987,294)
Other operating income	5	54,099	63,299
		<u>(2,268,308)</u>	<u>(2,048,758)</u>
OPERATING PROFIT	3	91,019	266,476
Interest payable and similar charges	6	(77,587)	(85,697)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>13,432</u>	<u>180,779</u>
Tax on profit on ordinary activities	7	—	—
PROFIT RETAINED FOR THE YEAR		<u><u>13,432</u></u>	<u><u>180,779</u></u>

There are no recognised gains or losses other than the profit for the year of £13,432 (1998: £180,779).

Korg (UK) Limited

BALANCE SHEET

at 31 March 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Tangible assets	8	289,508	344,451
Investments	9	—	—
		<u>289,508</u>	<u>344,451</u>
CURRENT ASSETS			
Stocks	10	1,897,305	1,776,684
Debtors	11	1,618,148	1,520,078
Cash at bank and in hand	12	6,494	21,476
		<u>3,521,947</u>	<u>3,318,238</u>
CREDITORS: amounts falling due within one year	13	3,078,807	2,927,199
		<u>443,140</u>	<u>391,039</u>
NET CURRENT ASSETS			
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>732,648</u>	<u>735,490</u>
CREDITORS: amounts falling due after more than one year	14	12,717	28,991
		<u>719,931</u>	<u>706,499</u>
CAPITAL AND RESERVES			
Called up share capital	16	500,000	500,000
Capital redemption reserve	17	25,720	25,720
Profit and loss account	17	194,211	180,779
		<u>719,931</u>	<u>706,499</u>
Equity shareholders' funds	17	<u>719,931</u>	<u>706,499</u>



Director

21 June 1999

Korg (UK) Limited

STATEMENT OF CASH FLOWS for the year ended 31 March 1999

	Notes	1999 £	1998 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	252,420	65,020
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(72,810)	(78,859)
Interest element of finance leases rentals payments		(4,777)	(6,838)
		<u>174,833</u>	<u>(85,697)</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Payments to acquire tangible fixed assets		(36,290)	(8,890)
Receipts from sales of tangible fixed assets		8,250	4,000
		<u>(28,040)</u>	<u>(4,890)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		<u>146,793</u>	<u>(25,567)</u>
FINANCING			
Repayment of capital element of finance lease rentals	15	(39,824)	(52,410)
Issue of ordinary shares		—	395,501
Repayment of shareholders' loan		—	(435,140)
		<u>(39,824)</u>	<u>(92,049)</u>
INCREASE/(DECREASE) IN CASH	12	<u>106,969</u>	<u>(117,616)</u>

NOTES TO THE ACCOUNTS

at 31 March 1999

1. ACCOUNTING POLICIES

Basis of accounting

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Basis of accounts preparation

All subsidiary undertakings have remained dormant and have not traded for a number of years. Accordingly the group has taken advantage of exemptions within Section 229 of the Companies Act 1985 not to prepare group accounts.

Turnover

Turnover represents the total invoiced value of goods sold and services rendered during the year excluding value added tax.

Depreciation

Depreciation is provided using the following rates and bases to write off the cost of the tangible fixed assets over their estimated useful lives:

Leasehold properties	-	straight line over ten years
Plant and equipment	-	straight line over six years
Fixtures and fittings	-	straight line over ten years
Motor vehicles	-	straight line over three to four years
Computer equipment	-	straight line over four years

Stocks

Stocks are stated at the lower of cost and estimated net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Korg (UK) Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

1. ACCOUNTING POLICIES (continued)

Pensions

Until 31 March 1994 the group operated a defined benefit pension scheme, which required contributions to be made to a separately administered fund. The scheme is now closed and provision has been made in these accounts to meet known liabilities based on actuarial advice.

From 1 April 1994 the company commenced a money purchase scheme for current employees. Contributions to this scheme are charged in the profit and loss account as incurred.

2. TURNOVER

Turnover, which is stated net of VAT, represents amounts invoiced to third parties. Turnover, which is attributable to the continuing operation of importing, wholesaling and exporting of musical merchandise, is analysed as follows:

	1999 £	1998 £
United Kingdom	7,887,809	7,486,969
Rest of the world	261,798	304,602
	<u>8,149,607</u>	<u>7,791,571</u>

3. OPERATING PROFIT

(a) This is stated after charging:

	1999 £	1998 £
Depreciation:		
Owned assets	65,480	48,288
Assets held under finance lease and hire purchase contracts	42,558	57,456
Auditors' remuneration	16,500	20,000
Operating lease rentals - plant and equipment	7,532	7,532
- land and buildings	79,600	79,600
Costs associated with winding up the former defined benefit pension scheme	23,700	60,000
	<u></u>	<u></u>

(b) Reconciliation of operating profit to net cash inflow from operating activities:

	1999 £	1998 £
Operating profit	91,019	266,476
(Profit)/loss on disposal of fixed assets	(6,895)	697
Depreciation	108,038	105,744
Movement in stocks	(120,621)	(264,411)
Movement in debtors	(86,836)	(78,332)
Movement in creditors	(288,971)	313,810
Movement in group undertaking balances	556,686	(278,964)
	<u>252,420</u>	<u>65,020</u>

Korg (UK) Limited

NOTES TO THE ACCOUNTS at 31 March 1999

4. STAFF COSTS

	1999 £	1998 £
Wages and salaries	562,976	568,355
Social security costs	57,232	49,675
Other pension costs	34,484	30,867
	<u>654,692</u>	<u>648,897</u>

The average weekly number of employees during the year was as follows:

	1999 No.	1998 No.
Sales and administration	<u>26</u>	<u>24</u>

	1999 £	1998 £
Directors' emoluments:		
Contributions to money purchase pension scheme	8,341	7,245
Emoluments	68,828	79,168
	<u>77,169</u>	<u>86,413</u>

One director has retirement benefits accruing under both the closed defined benefit scheme and the money purchase scheme.

5. OTHER OPERATING INCOME

	1999 £	1998 £
Rentals receivable under operating leases	6,000	6,000
Royalties receivable	48,099	57,299
	<u>54,099</u>	<u>63,299</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1997 £
On bank loans and overdrafts	72,810	63,086
On finance leases and hire purchase contracts	4,777	6,838
On group loan undertaking	—	15,773
	<u>77,587</u>	<u>85,697</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no taxation charge for the year owing to the incidence of trading losses in 1999. There is no potential deferred tax liability.

Korg (UK) Limited

NOTES TO THE ACCOUNTS at 31 March 1999

8. TANGIBLE FIXED ASSETS

	<i>Short leasehold</i>	<i>Fixtures and fittings</i>	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Computer equipment</i>	<i>Total</i>
	£	£	£	£	£	£
Cost:						
At 1 April 1998	213,744	59,165	76,532	235,184	138,281	722,906
Additions	11,857	348	—	28,590	13,655	54,450
Disposals	—	—	—	(21,674)	—	(21,674)
At 31 March 1999	225,601	59,513	76,532	242,100	151,936	755,682
Depreciation:						
At 1 April 1998	52,734	42,879	46,258	130,822	105,762	378,455
Charge for the year	20,227	4,334	8,631	59,598	15,248	108,038
Disposals	—	—	—	(20,319)	—	(20,319)
At 31 March 1999	72,961	47,213	54,889	170,101	121,010	466,174
Net book amount:						
At 31 March 1999	152,640	12,300	21,643	71,999	30,926	289,508
At 1 April 1998	161,010	16,286	30,274	104,362	32,519	344,451

Included in the net book amounts are the following in respect of assets held under finance leases and hire purchase contracts:

	<i>1999</i>	<i>1998</i>
	£	£
Motor vehicles	65,287	84,319
Plant and equipment	6,988	9,379
	<u>72,275</u>	<u>93,698</u>

Korg (UK) Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

9. INVESTMENTS

	1999 £	1998 £
Investments in subsidiaries:		
Cost at 1 April 1998 and at 31 March 1999	1,072,385	1,072,385
Provision for diminution in value	(1,072,385)	(1,072,385)
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

Provision has been made against the cost of investment in non-trading subsidiary undertakings.

Wholly owned subsidiaries

Nature of business

Number Eight and Nine The Crystal Centre Limited	Dormant
Vox Limited	Dormant
Vox Amplification Limited	Dormant

All subsidiary undertakings are registered in England and Wales.

10. STOCKS

	1999 £	1998 £
Goods in transit	351,770	323,862
Finished goods and goods for resale	1,545,535	1,452,822
	<u> </u>	<u> </u>
	1,897,305	1,776,684
	<u> </u>	<u> </u>

The replacement cost of stocks is not materially different from their carrying value.

11. DEBTORS

	1999 £	1998 £
Trade debtors	1,355,316	1,302,076
Other debtors and prepayments	251,598	218,002
Amounts due from fellow subsidiary undertakings	11,234	-
	<u> </u>	<u> </u>
	1,618,148	1,520,078
	<u> </u>	<u> </u>

Included in other debtors is an amount of £73,824 (1998: £70,824) which is due in more than one year.

Korg (UK) Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

12. NET DEBT

	1999 £	1998 £
At 1 April 1998:		
Cash at bank and in hand	21,476	27,593
Bank loans and overdrafts	(832,999)	(721,500)
	(811,523)	(693,907)
Movement in the year	106,969	(117,616)
	(704,554)	(811,523)
At 31 March 1999:		
Cash at bank and in hand	6,494	21,476
Bank loans and overdrafts	(711,048)	(832,999)
	(704,554)	(811,523)

13. CREDITORS: amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts	711,048	832,999
Net obligations under finance lease and hire purchase contracts	29,967	35,357
Trade creditors	278,594	357,097
Amounts owed to parent company	1,845,471	1,259,773
Amounts owed to fellow subsidiary undertakings	—	17,778
Other taxes and social security costs	36,165	210,882
Other creditors and accruals	177,562	213,313
	3,078,807	2,927,199

National Westminster Bank Plc holds a fixed and floating charge over the company's assets and undertakings and specific equitable charges over its leasehold premises.

14. CREDITORS: amounts falling due after more than one year

	1999 £	1998 £
Net obligations under finance leases and hire purchase contracts	12,717	28,991

Korg (UK) Limited

NOTES TO THE ACCOUNTS

at 31 March 1999

15. FINANCE LEASES AND HIRE PURCHASE COMMITMENTS

	1999 £	1998 £
At 1 April 1998:		
Amounts falling due within one year	35,357	45,821
Amounts falling due in two to five years	28,991	40,485
	<u>64,348</u>	<u>86,306</u>
New commitments	18,160	30,452
Cash repaid in the year	(39,824)	(52,410)
	<u>42,684</u>	<u>64,348</u>
At 31 March 1999:		
Amounts falling due within one year	29,967	35,357
Amounts falling due in two to five years	12,717	28,991
	<u>42,684</u>	<u>64,348</u>

16. SHARE CAPITAL

	1999 No.	Authorised 1998 No.
Ordinary shares of £1 each	500,000	500,000
	<u>500,000</u>	<u>500,000</u>
		<i>Allotted, called up and fully paid</i>
	1999 £	1998 £
Ordinary shares of £1 each	500,000	500,000
	<u>500,000</u>	<u>500,000</u>

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Ordinary share capital £	Preference share capital £	Capital redemption reserve £	Profit and loss account £	Total shareholders' funds £
At 1 April 1997	700,000	1,025,720	25,720	(1,621,221)	130,219
Profit for the year	—	—	—	180,779	180,779
Share capital cancelled	(595,501)	(1,025,720)	—	1,621,221	—
Increase in share capital	395,501	—	—	—	395,501
At 1 April 1998	500,000	—	25,720	180,779	706,499
Profit for the year	—	—	—	13,432	13,432
At 31 March 1999	500,000	—	25,720	194,211	719,931

NOTES TO THE ACCOUNTS
at 31 March 1999

18. PENSION COMMITMENTS

Until 31 March 1994, the company operated a defined benefit pension scheme, the assets of which were held in a separate trustee administered fund. At 31 March 1994, the directors considered that it was in the interests of the company to cease making contributions to the defined benefit pension scheme, and from 1 April 1994 commenced a money purchase scheme for current employees.

On 14 May 1998 the company served notice on the Trustees of the defined benefit pension scheme that it was terminating its liability and entered into an agreement with the Trustees providing for the orderly wind up of the scheme.

During the year annuities were purchased on behalf of pensioners and transfer values agreed and executed on behalf of the deferred pensioners and certain members. Transfer values for remaining members will be paid within 4 months of the balance sheet date.

The Directors, with advice from the Scheme advisors, believe that the assets of the defined benefit scheme are sufficient to satisfy the remaining liabilities.

The assets of the money purchase scheme are held separately from those of the company in an independently administered fund. There were no unpaid contributions at the year end (1998: £nil).

19. OTHER FINANCIAL COMMITMENTS

At 31 March 1999 the annual commitments of the company under non-cancellable operating leases were as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases which expire:				
Within one year	—	—	169	169
Between two to five years	—	—	2,640	6,292
Over five years	79,600	79,600	1,071	1,071
	<u>79,600</u>	<u>79,600</u>	<u>3,880</u>	<u>7,532</u>

The company also had the following financial commitments:

	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>
Future capital expenditure contracted but not provided for	—	28,590
Documentary credits	100,029	96,516
Forward exchange contracts	1,358,801	853,733
	<u>1,458,830</u>	<u>978,849</u>

20. BANK GUARANTEE

All group companies have agreed to guarantee all monies from time to time owing to National Westminster Bank Plc by other group companies registered in England and Wales.

Korg (UK) Limited

NOTES TO THE ACCOUNTS at 31 March 1999

21. PARENT UNDERTAKING

The immediate and ultimate parent undertaking and controlling party is Korg Inc., a company incorporated in Japan.

Transactions with Korg Inc. and its subsidiaries were as follows:

	1999 £	1998 £
Purchases of stock	3,461,744	3,752,678
Rent charged to Korg Inc.	—	6,852
	<u> </u>	<u> </u>