

THE MUSIC GROUP HOLDINGS LIMITED

Report and Financial Statements

31 December 2005



REPORT AND FINANCIAL STATEMENTS 2005

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THE MUSIC GROUP HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

C Dowling	(resigned 5 May 2005)
N Morrill	
J Winter	(resigned 2 February 2005)
W Carpenter	(resigned 28 June 2005)
A Jamieson	
J Brebner	(resigned 8 September 2005)
B Slatter	(appointed 5 May 2005)

SECRETARY

P Chevis	(resigned 28 January 2005)
P Jordan	(appointed 28 January 2005, resigned 14 October 2005)
Auker Hutton	(appointed 14 October 2005)

REGISTERED OFFICE

c/o Auker Hutton
MLS Business Centre
Century Place
Lamberts Road
Tunbridge Wells
Kent TN2 3EH

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Reading

THE MUSIC GROUP HOLDINGS LIMITED

DIRECTORS' REPORT

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

The directors have taken the decision not to produce consolidated financial statements for the ultimate parent company, The Music Group Limited, the direct parent company, The Music Group International Limited, or the Company, as the structure of the Group has fundamentally changed during the year and the directors consider consolidated financial statements would not provide useful information about the group in its present form and believe that the production of consolidated financial statements would involve unnecessary expense out of proportion with the usefulness of the information produced.

The directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4) of the Companies Act 1985.

ACTIVITIES

The principal activity of the company is that of a holding company.

REVIEW OF DEVELOPMENTS

In June 2005 the Company disposed of its wholly owned subsidiaries Buffet Crampon Holdings (and its wholly owned subsidiary, Buffet Crampon SAS), TMG US Holdings Inc (and its wholly owned subsidiary The Music Group Inc) and Buffet Crampon Limited.

In December 2005 the wholly owned subsidiary, Besson Musical Instruments Limited, was put in to administration and Grant Thornton were appointed as administrators. From that date the Company ceased to have control and to this extent Besson Musical Instruments is no longer treated as a subsidiary undertaking at the year end.

RESULTS AND DIVIDENDS

The results of the company for the period are set out in detail on page 6.

The directors do not propose the payment of a dividend. Losses for the year of £6,188,544 (2004: £4,302,351) have been transferred from reserves.

FUTURE PROSPECTS

The company will continue to hold an interest in its subsidiary undertakings for the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are shown on page 1. None of the Directors hold a beneficial interest in the share capital of the Company.

The Directors' shareholdings in other Group Companies are disclosed in the statutory accounts of The Music Group Limited.

The Articles of Association of the Company contain an indemnity in favour of all of the directors of the company that, subject to law, indemnifies the directors from the assets of the company against any liability incurred by them in defending any proceedings in which judgement is given in their favour (or otherwise disposed of without any finding or admission of any material breach of duty on their part).

CHARITABLE AND POLITICAL CONTRIBUTIONS

The company made no contributions during the year (2004: £Nil).

DIRECTORS' REPORT (continued)

AUDITORS

A resolution to reappoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in dark ink, appearing to read 'Ken AS/2', followed by a horizontal line.

Director
On 25 October 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. 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) state whether applicable accounting standards have been followed;
- (d) 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 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.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE MUSIC GROUP HOLDINGS LIMITED**

We have audited the financial statements of The Music Group Holdings Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of operating profit to operating cash flows, the analysis of net debt and the related notes 1 to 21. 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 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 opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, 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 or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with International auditing standards (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 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE MUSIC GROUP HOLDINGS LIMITED (continued)

Qualified opinion arising from disagreement about accounting treatment

As explained in note 1, the financial statements of the company do not include consolidated financial statements for its group as required by s227 Companies Act 1985 and Financial Reporting Standard 2 Accounting for subsidiary undertakings. As a consequence, the financial statements do not give the information required by UK generally accepted accounting practice about the economic activities of the group of which the company is the parent. It is not practicable to quantify the effects of this departure. Accordingly, in our opinion, a true and fair view of the group is not given.

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 at 31 December 2005 and of its loss for the year then ended.
- Except for the fact that the consolidated financial statements have not been prepared, the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Reading, United Kingdom

27 October 2006

THE MUSIC GROUP HOLDINGS LIMITED

PROFIT & LOSS ACCOUNT

Year ended 31 December 2005

	Note	Before Exceptional items £	2005 Exceptional items £	Total £	2004 Total £
Turnover		538,957	-	538,957	-
Cost of sales		(538,957)	-	(538,957)	-
Gross Profit		-	-	-	-
Administrative expenses (exceptional items 2004 : £183,852)	4	(1,039,497)	(136,243)	(1,175,740)	(1,137,470)
Other operating income		57,451	-	57,451	95,080
OPERATING LOSS	3	(982,046)	(136,243)	(1,118,289)	(1,042,390)
Amounts written off investment	9			(2,762,574)	(3,259,961)
Loss on disposal of subsidiary undertakings	5			(2,307,533)	-
Bank Interest payable				(148)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(6,188,544)	(4,302,351)
Tax on loss on ordinary activities	6			-	-
RETAINED LOSS FOR THE PERIOD	16			(6,188,544)	(4,302,351)

All activities during the period were derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2005

	2005 £	2004 £
Loss for the financial year	(6,188,544)	(4,302,351)
Currency translation differences on foreign currency net investments	276,943	(28,778)
Total recognised gains and losses relating to the year	(5,911,601)	(4,331,129)

THE MUSIC GROUP HOLDINGS LIMITED

BALANCE SHEET

31 December 2005

	Note	2005 £	£	2004 £	£
FIXED ASSETS					
Intangible assets	7	-		1,042,829	
Tangible assets	8	-		45,053	
Investments	9	-		7,289,928	
			-		8,377,810
CURRENT ASSETS					
Stock	10	15,000		-	
Debtors	11	956,626		1,147,467	
Cash at bank and in hand		241,524		9,027	
		1,213,150		1,156,494	
CREDITORS: amounts falling due within one year	12	(451,074)		(592,832)	
NET CURRENT ASSETS			762,076		563,662
TOTAL ASSETS LESS CURRENT LIABILITIES			762,076		8,941,472
LONG TERM LIABILITIES					
Creditors: amounts falling due after more than one year	13	(10,307,938)		(14,485,733)	
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,910,000)		-	
NET LIABILITIES			(11,455,862)		(5,544,261)
CAPITAL AND RESERVES					
Called up share capital	15,17		1		1
Profit and loss account	16,17	(11,455,863)		(5,544,262)	
EQUITY SHAREHOLDERS' DEFICIT			(11,455,862)		(5,544,261)

These financial statements were approved by the Board of Directors on 25 October 2006
Signed on behalf of the Board of Directors



A Jamieson
Director

CASH FLOW STATEMENT
Year ended 31 December 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	(i)	(1,130,779)	(237,148)
Returns on investments and servicing of finance	(ii)	(148)	75037
Taxation		-	-
Capital expenditure and financial investment	(ii)	<u>5,264,276</u>	<u>(27,808)</u>
Cash inflow / (outflow) before use of liquid resources and financing		4,133,349	(189,919)
Financing		<u>(3,900,852)</u>	<u>185,272</u>
Increase / (decrease) in cash in the period	(iii)	<u>232,497</u>	<u>(4,647)</u>

	2005 £	2004 £
Reconciliation of net cash flow to movement in net debt		
Increase / (decrease) in cash in the period	232,497	(4,647)
Cash outflow / (inflow) from change in debt financing	<u>3,900,852</u>	<u>(185,272)</u>
Change in net debt resulting from cash flows	4,133,349	(189,919)
Translation difference	<u>276,943</u>	<u>(28,778)</u>
Movement in net debt in the period	4,410,292	(218,697)
Net debt at start of period	<u>(14,476,706)</u>	<u>(14,258,009)</u>
Net debt at end of period	<u>(10,066,414)</u>	<u>(14,476,706)</u>

THE MUSIC GROUP HOLDINGS LIMITED

CASH FLOW STATEMENT (continued)

Year ended 31 December 2005

(i) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2005 £	2004 £
Operating loss	(1,118,289)	(1,042,390)
Depreciation	6,350	7,565
Amortisation of intangibles	72,420	205,185
Loss on sale of tangible fixed assets	35,159	-
Increase in stock	(15,000)	-
Decrease in debtors	258,504	712,744
Increase in creditors	(369,923)	(120,252)
Net cash outflow from operating activities	<u>(1,130,779)</u>	<u>(237,148)</u>

(ii) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2005 £	2004 £
Returns on investments and servicing of finance		
Bank interest paid	(148)	-
Group interest received	-	75,037
	<u>(148)</u>	<u>75,037</u>
Capital expenditure and financial investment		
Purchase of tangibles fixed assets		(27,808)
Sale of tangible fixed assets	3,544	-
Sale of intangible fixed assets	1,350,805	-
Sale of fixed asset investments	3,909,927	-
	<u>5,264,276</u>	<u>(27,808)</u>

(iii) ANALYSIS OF NET DEBT

	At 31 December 2004 £	Cash flow £	Exchange movement £	At 31 December 2005 £
Cash in hand and at bank	9,027	232,497	-	241,524
Debt due after one year	(14,485,733)	3,900,852	276,943	(10,307,938)
Total	<u>(14,476,706)</u>	<u>4,133,319</u>	<u>276,943</u>	<u>(10,066,414)</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES

With the exception of the requirement to present consolidated financial statements the financial statements have been prepared in accordance with United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of preparation

In prior years the Company has taken advantage of the exemption to produce consolidated financial statements as allowed under section 228 of the Companies Act 1985, as the results of the Company were included in the consolidated financial statements of the ultimate parent company, The Music Group Limited.

The directors have taken the decision not to produce consolidated financial statements for the ultimate parent company, The Music Group Limited, the direct parent company, The Music Group International Limited, or the Company, as the structure of the Group has fundamentally changed during the year and the directors consider consolidated financial statements would not provide useful information about the group in its present form and believe that the production of consolidated financial statements would involve unnecessary expense out of proportion with the usefulness of the information produced.

As a consequence these financial statements have been presented for the company only accounting for wholly owned subsidiaries as fixed asset investments. Details of the subsidiary undertakings are disclosed in note 8.

Turnover

Turnover is the amount derived from the provision of goods and services falling within the company's ordinary activities after deduction of trade discounts and value added tax.

Intangible fixed assets

The distribution rights were included at cost and depreciated on a straight line basis over the period of the agreement up to the date of disposal. Income from the distribution rights is included within other operating income.

Tangible fixed assets

Depreciation is provided on a straight line basis calculated at annual rates estimated to write off the costs less estimated residual value of each asset over the term of its useful life. The rates generally in use are as follows:

Other equipment	3 – 10 years
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Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value.

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and attributable overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and relevant selling and distribution costs.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

No deferred tax asset has been provided for on the basis that it is unlikely that it will be recovered

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at 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 rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

2. STAFF COSTS

	2005 No	2004 No
Average number of persons employed		
Administrative staff	7	10
	<u>7</u>	<u>10</u>
	£	£
Staff costs during the period (including directors)		
Wages and salaries	777,524	758,192
Social security costs	22,236	45,458
Pension costs	23,702	(37,975)
	<u>823,462</u>	<u>765,675</u>
Directors' emoluments		
	£	£
Management remuneration	603,637	350,774
Increase in pension costs	-	18,807
Compensation for loss of office	-	20,000
	<u>603,637</u>	<u>389,581</u>
Highest paid director:	£	£
Remuneration	418,851	172,899
Accrued pension benefit	-	168,000

Note that highest paid director is different for 2004 and 2005.

3. OPERATING LOSS

	2005 £	2004 £
Operating loss is stated after charging/(crediting):		
Depreciation		
Owned assets	6,350	7,565
Amortisation of distribution rights	72,420	205,185
Auditors' remuneration:		
Audit services	52,500	10,000
Non-audit services	88,910	5,000
Distribution rights	<u>(57,451)</u>	<u>(95,080)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

4. EXCEPTIONAL ITEMS

	2005 £	2004 £
Redundancy & other restructuring	136,243	183,852

5. LOSS ON DISPOSAL OF SUBSIDIARY UNDERTAKINGS

	2005 £	2004 £
Restructuring costs	332,794	-
Croxley Green rent provision	1,910,000	-
Provision against other group company balances	64,739	-
	<u>2,307,533</u>	<u>-</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

No tax charge arises on the results for the year.

The difference between a nil charge and the amount calculated by applying the standard UK rate of UK corporation tax to the loss before tax is as follows:

	2005 £	2004 £
Loss on ordinary activities before tax	(6,188,544)	(4,302,351)
Tax on loss on ordinary activities at standard UK corporation tax rate of 30%	(1,856,563)	(1,290,705)
Effect of:		
Expenses / income not deductible / (taxable) for tax purposes	693,035	681,510
Losses not recognised	200,145	417,552
Other originating of timing differences	573,000	-
Excess of capital allowances over depreciation	(9,316)	(3,341)
Group relief	399,699	194,984
Current tax charge for the year	<u>-</u>	<u>-</u>

A deferred tax asset of £1,256,000 (2004 : £686,000) has not been recognised in respect of the tax losses of the company, as it is not anticipated that there will be suitable taxable profits in the immediate future.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

7. INTANGIBLE FIXED ASSETS

	Distribution Rights £
Cost	
As at 1 January 2005	1,361,470
Disposed of in the year	(1,361,470)
	<hr/>
As at 31 December 2005	-
	<hr/>
Accumulated amortisation	
As at 1 January 2005	318,641
Charge for the year	72,420
On disposals	(391,061)
	<hr/>
As at 31 December 2005	-
	<hr/>
Net book value	
At 31 December 2005	-
	<hr/>
At 31 December 2004	1,042,829
	<hr/>

The distribution rights were sold for a cash consideration of €2,000,000 (£1,350,805) as part of the Buffet Crampon business disposal in June 2005.

8. TANGIBLE FIXED ASSETS

	Other Equipment £
Cost	
As at 1 January 2005	56,093
Disposed of in the year	(56,093)
	<hr/>
As at 31 December 2005	-
	<hr/>
Accumulated depreciation	
As at 1 January 2005	11,040
Charge for the year	6,350
On disposals	(17,390)
	<hr/>
As at 31 December 2005	-
	<hr/>
Net book value	
At 31 December 2005	-
	<hr/>
At 31 December 2004	45,053
	<hr/>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

9. FIXED ASSET INVESTMENTS

	Shares in Group companies at cost £
Cost	
At 1 January 2005	10,549,889
Disposed of in the year	(4,527,354)
At 31 December 2005	<u>6,022,535</u>
Provisions for impairment	
At 1 January 2005	3,259,961
Impairment in year	2,762,574
At 31 December 2005	<u>6,022,535</u>
Net Book Value	
At 31 December 2005	<u>-</u>
At 31 December 2004	<u>7,289,928</u>

The company owns the entire issued share capital and exerts control over the following subsidiaries.

Subsidiary	Country of registration	Principal activity
Schreiber & Keilwerth Musikinstrumente GmbH	Germany	Manufacture & Distribution of Musical Instruments
The Music Group External Affairs Ltd	UK	Holding Company
The Music Group Offshore Management Limited	UK	Dormant Company

The Company indirectly owns 51% of Besson Musical Instruments Pvt, a manufacturer of Musical Instruments in India. The investment in The Music Group External Affairs Ltd, has been fully written down.

In prior years the Company has taken advantage of the exemption to produce consolidated financial statements as allowed under section 228 of the Companies Act 1985, as the results of the Company were included in the consolidated financial statements of the ultimate parent company, The Music Group Limited.

The directors have taken the decision not to produce consolidated financial statements for the ultimate parent company, The Music Group Limited, the direct parent company, The Music Group International Limited, or the Company, as the structure of the Group has fundamentally changed during the year and the directors consider consolidated financial statements would not provide useful information about the group in its present form. As a consequence these financial statements have been presented for the company only accounting for wholly owned subsidiaries as fixed asset investments.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

10. STOCK

	2005 £	2004 £
Goods held for resale	15,000	-

11. DEBTORS

	2005 £	2004 £
Amounts due within one year		
Amounts owed by group undertakings	72,749	1,046,182
Amounts owed by Besson Musical Instruments	15,185	-
Secured loan owed by Besson Musical Instruments	600,000	-
Other debtors	263,007	89,055
Prepayments and accrued income	5,685	12,230
	<u>956,626</u>	<u>1,147,467</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Amounts owed to group undertakings	-	20,497
Other creditors	264,903	10,113
Accruals and deferred income	186,171	562,222
	<u>451,074</u>	<u>592,832</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £	2004 £
Amounts owed to group undertakings:		
Loans	10,307,938	14,485,733

The loans are repayable on final settlement of the unsecured loan notes held by The Music Group International Limited, the parent company. The unsecured loan notes are due to be fully repaid in 2010.

The company does not account for interest on the loan from the other group undertakings as they are non-interest bearing.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous lease £
At 1 January 2005	-
Charged to profit and loss account	1,910,000
At 31 December 2005	<u>1,910,000</u>

The provision relates to the leasehold property held by the former wholly owned UK subsidiary Besson Musical Instruments Limited that was put in to administration on 6 December 2005. The Company has a guarantee obligation for the lease on the property. An option to break the lease can be exercised in March 2011.

15. CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Issued:		
1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

16. PROFIT AND LOSS ACCOUNT

	2005 £	2004 £
Balance at 1 January	(5,544,262)	(1,213,133)
Loss retained for the period	(6,188,544)	(4,302,351)
Currency Translation differences	276,943	(28,778)
At 31 December	<u>(11,455,863)</u>	<u>(5,544,262)</u>

17. STATEMENT OF RESERVES AND RECONCILIATION OF SHAREHOLDERS' FUNDS

	Share Capital £	Profit and Loss Account £	Total £
At 1 January 2004	1	(1,213,133)	(1,213,132)
Profit and loss account	-	(4,302,351)	(4,302,351)
Exchange translation differences	-	276,943	276,943
At 1 January 2005	1	(5,544,262)	(5,544,261)
Profit and loss account	-	(6,188,544)	(6,188,544)
Exchange translation adjustments	-	276,943	(276,943)
At 31 December 2005	<u>1</u>	<u>(11,455,863)</u>	<u>(11,455,862)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

18. FINANCIAL COMMITMENTS

The company has no foreign exchange commitments as at 31 December 2005 (2004: £2,232,244). The company had no other financial commitments at that date (2004: £Nil).

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as follows:

	31 December 2005 £	31 December 2004 £
Expiry date:		
Within one year	-	-
Between one and two years	-	-
Between two and five years	437,500	-
	<u>437,500</u>	<u>-</u>

19. DISPOSAL NOTE

During the year the company sold the following investments.

Net assets disposed of and the related sale proceeds were as follows:

	BC Holdings £	BC Japan £	US Holdings £	Distribution Rights £	General £	Besson Musical Instruments £	Total £
Investment	4,525,187	1	1				4,525,189
Distribution rights				970,408			970,408
Net disposals	4,525,187	1	1	970,408	-	-	5,495,597
Proceeds	2,870,458	2,658,866		1,350,804	294,485		7,174,613
Total costs					(1,938,579)	(73,231)	(2,011,809)
Net proceeds	2,870,458	2,658,866	-	1,350,804	(1,644,094)	(73,231)	5,162,804
Provisions						(1,974,739)	(1,974,739)
Net profit/(loss) on disposal	(1,654,729)	2,658,865	1	380,396	(1,644,094)	(2,047,970)	(2,307,533)
Satisfied by:-							
Cash consideration	2,928,469	2,658,866	-	1,350,804	(1,604,176)	(73,231)	5,260,732
Deferred consideration	(58,011)				(39,917)		(97,928)
	<u>2,870,458</u>	<u>2,658,866</u>	<u>-</u>	<u>1,350,804</u>	<u>(1,644,093)</u>	<u>(73,231)</u>	<u>5,162,804</u>

THE MUSIC GROUP HOLDINGS LIMITED

20. RELATED PARTY TRANSACTIONS

Previously the company has taken advantage the exemption under FRS8 not to disclose intra group transactions which cancel out on consolidation in the group financial statements. As no group financial statements are being produced for the year ended 31 December 2005 this exemption is no longer applicable. The intra group transactions with directly or indirectly owned subsidiaries and parent companies that would previously have been cancelled out on consolidation are set out below:

	Transaction value		Balance payable at 31 December	
	2005 £	2004 £	2005 £	2004 £
Management charges				
Schreiber Keilwerth	284,827	405,430	67,034	43,646
Besson Musical Instruments	79,525	146,300	17,867	146,300
The Music Group Inc	40,290	93,498	-	88,757
Buffet Crampon SAS	113,139	250,720	-	257,416
Buffet Crampon Limited	38,441	53,445	-	53,474
Rico International	-	7,792	-	-
Karl Höfner GmbH	-	81,913	-	-
Jakob Winter GmbH	-	51,713	-	-
Purchase of stock				
The Music Group Inc	(526,389)	-	-	-
Buffet Crampon Limited	(224,804)	-	-	-
Buffet Crampon SAS	(73,923)	-	-	-
Other services				
Besson Musical Instruments - Rent	(31,700)	(18,039)		(3,170)
Loan balances				
The Music Group International Limited	-	-	(10,306,076)	(14,485,733)
The Music Group Limited	-	-	(1,862)	-

Other material related party transactions are set out below:-

Related Party Transaction Type	Transaction value		Balance payable at 31 December	
	2005 £	2004 £	2005 £	2004 £
Rutland Fund Management Ltd Management charges	-	125,000	-	-
Rutland Partners LLP Management charges	137,498	83,333	-	62,500
Advice in connection with disposal of investments	-	40,000	-	40,000

These services were invoiced to the company, and are in respect of management services provided to the company and other group companies.

21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company is a wholly owned subsidiary of The Music Group International Limited, which is a subsidiary of The Music Group Limited, registered in England and Wales.

The results of the company are only of itself and not of its group.