

THE MUSIC GROUP INTERNATIONAL LIMITED

Report and Financial Statements

31 December 2007

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THE MUSIC GROUP INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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THE MUSIC GROUP INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

N Morrill
A Jamieson
B Slatter

SECRETARY

Auker Hutton Limited

REGISTERED OFFICE

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

AUDITORS

Auker Hutton
Chartered Accountants
MLS Business Centre
Century Place
Lamberts Road
Tunbridge Wells
Kent TN2 3EH

THE MUSIC GROUP INTERNATIONAL LIMITED

DIRECTORS' REPORT

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

The directors have taken the decision not to produce consolidated financial statements for the direct parent company, The Music Group Limited, or the company, as the structure of the group had fundamentally changed during the previous 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 to provide funding for the ongoing operations of The Music Group companies along with management of the company's loan investments

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 5 January 2007, the indirect wholly owned subsidiary, The Music Group External Affairs Limited, disposed of its investment in a trading subsidiary, Besson Musical Instruments Pvt Limited. The total consideration was £150,000

On 6 November 2007, The Music Group External Affairs Limited was dissolved as a company

On 31 August 2007, the direct wholly owned subsidiary, The Music Group Holdings Limited, disposed of its investment in a trading subsidiary, Schreiber & Keilwerth Musikinstrumente GmbH. The total consideration was €1

The company will continue to provide funding for its former subsidiary undertaking, Schreiber & Keilwerth Musikinstrumente GmbH for the foreseeable future

RESULTS AND DIVIDENDS

The results of the company for the period are set out in detail on page 7

The directors do not propose the payment of a dividend. Profits for the year amounted to £538,927 (2006 £550,183)

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 (2006 £Nil)

THE MUSIC GROUP INTERNATIONAL LIMITED

DIRECTORS' REPORT (continued)

INFORMATION PROVIDED TO AUDITORS

With regard to the preparation of this Annual Report and the financial statements, so far as each Director is aware, there is no relevant audit information of which the company's auditors are unaware and all steps have been taken by the Directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Approved by the Board of Directors and signed on behalf of the Board on 2 May 2008

Director

A handwritten signature in black ink, appearing to be 'M. P.', written over a horizontal line.

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.

THE MUSIC GROUP INTERNATIONAL LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MUSIC GROUP INTERNATIONAL LIMITED

We have audited the financial statements of The Music Group International Limited for the year ended 31 December 2007 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 16. 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 whether it is consistent with the audited financial statements. 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 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 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.

THE MUSIC GROUP INTERNATIONAL LIMITED

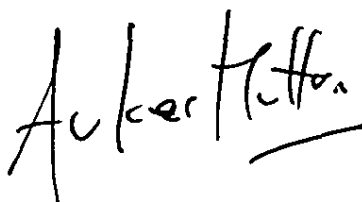
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MUSIC GROUP INTERNATIONAL LIMITED (continued)

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 2007 and of its result 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.
- The information in the Directors' Report is consistent with the financial statements.



2 May 2008

Chartered Accountants and Registered Auditors

MLS Business Centre
Century Place
Lamberts Road
Tunbridge Wells
Kent
TN2 3EH

THE MUSIC GROUP INTERNATIONAL LIMITED

PROFIT & LOSS ACCOUNT

Year ended 31 December 2007

	Note	2007	2006
		Total £	Total £
Administrative income and expenses		(182,674)	(46,549)
OPERATING LOSS	3	(182,674)	(46,549)
Interest receivable	4	191,987	364,513
Interest payable and similar charges	5	(746,609)	(795,581)
Exceptional items	6	1,276,223	1,027,800
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		538,927	550,183
Tax on profit on ordinary activities	7	-	-
RETAINED PROFIT FOR THE YEAR	13,14	538,927	550,183

All activities during the period were derived from continuing operations

There were no recognised gains or losses other than the profit or loss for the financial periods. Accordingly no statement of total recognised gains and losses has been given

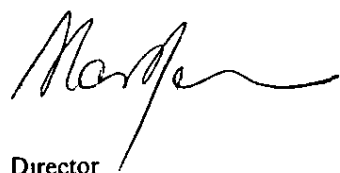
THE MUSIC GROUP INTERNATIONAL LIMITED

BALANCE SHEET

31 December 2007

	Note	£	2007	£	£	2006	£
FIXED ASSETS							
Investments	8			1			1
CURRENT ASSETS							
Debtors amounts falling due within one year	9	2,702,298			2,614,099		
Debtors amounts falling after more than one year	9	5,097,911			2,109,082		
Cash at bank and in hand		679,947			2,434,662		
			8,480,156		7,157,843		
CREDITORS: amounts falling due within one year	10	(4,262,013)			(3,523,734)		
NET CURRENT ASSETS				4,218,143			3,634,109
TOTAL ASSETS LESS CURRENT LIABILITIES				4,218,144			3,634,110
CREDITORS: amounts falling due after more than one year	11			(3,129,033)			(3,083,927)
NET ASSETS				1,089,111			550,183
CAPITAL AND RESERVES							
Called up share capital	12,14			960,001			960,001
Profit and loss account	13,14			129,110			(409,818)
EQUITY SHAREHOLDERS' FUNDS				1,089,111			550,183

These financial statements were approved by the Board of Directors on 2 May 2008
Signed on behalf of the Board of Directors


Director

THE MUSIC GROUP INTERNATIONAL LIMITED

CASH FLOW STATEMENT Year ended 31 December 2007

	Notes	2007 £	2006 £
Net cash (outflow) / inflow from operating activities	(i)	(2,841,812)	11,488,352
Returns on investments and servicing of finance	(ii)	(170,877)	140,214
Taxation		-	-
Capital expenditure and financial investment	(ii)	<u>1,276,223</u>	<u>1,027,800</u>
Cash (outflow) / inflow before use of liquid resources and financing		(1,736,466)	12,656,366
Financing	(ii)	<u>(18,250)</u>	<u>(12,849,572)</u>
Decrease in cash in the period	(iii)	<u>(1,754,716)</u>	<u>(193,206)</u>

	2007 £	2006 £
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the period	(1,754,716)	(193,206)
Cash outflow from change in debt financing	<u>18,250</u>	<u>12,849,572</u>
Change in net debt resulting from cash flows	(1,736,466)	12,656,366
Amortisation of finance costs	<u>(38,031)</u>	<u>(35,268)</u>
Movement in net debt in the period	(1,774,497)	12,621,098
Net debt at start of period	<u>(649,264)</u>	<u>(13,270,362)</u>
Net debt at end of period	<u>(2,423,761)</u>	<u>(649,264)</u>

THE MUSIC GROUP INTERNATIONAL LIMITED

CASH FLOW STATEMENT (continued) Year ended 31 December 2007

(i) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2007 £	2006 £
Operating loss	(182,674)	(46,549)
(Increase) / decrease in debtors	(2,714,163)	11,527,221
Increase in creditors	55,025	7,680
Net cash (outflow) / inflow from operating activities	<u>(2,841,812)</u>	<u>11,488,352</u>

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

	2007 £	2006 £
Returns on investments and servicing of finance		
Bank interest paid	-	(59)
Interest paid to other group companies	-	(7,224)
Bank interest received	43,611	92,973
Interest receivable from other group companies	(214,488)	54,524
	<u>(170,877)</u>	<u>140,214</u>
Capital expenditure and financial investment		
Exceptional items	1,276,223	1,027,800
	<u>1,276,223</u>	<u>1,027,800</u>
Financing		
Increase / (decrease) in loans from group undertakings	-	(11,349,572)
Repayment of unsecured loan notes	(18,250)	(1,500,000)
	<u>(18,250)</u>	<u>(12,849,572)</u>

(iii) ANALYSIS OF NET DEBT

	At 31 December 2006 £	Non- cash movements £	Cash flow £	Exchange movement £	At 31 December 2007 £
Cash in hand and at bank	2,434,663	-	(1,754,716)	-	679,947
Debt due after one year	(3,083,927)	(38,031)	18,250	-	(3,103,708)
Total	<u>(649,264)</u>	<u>(38,031)</u>	<u>(1,736,466)</u>	<u>-</u>	<u>(2,423,761)</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

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 direct parent company, The Music Group Limited, or the company, as the structure of the group had fundamentally changed during the previous 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.

Investments

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

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.

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

2. STAFF COSTS

The company had no employees during the year.

Consulting fees totalling £138,787 (2006: £Nil) were paid to an entity controlled by a director.

3. OPERATING LOSS

Operating loss is stated after charging

	2007 £	2006 £
Auditors' remuneration	10,000	-

4. INTEREST RECEIVABLE

	2007 £	2006 £
Bank interest	43,611	92,973
Group loans	148,376	271,540
	<u>191,987</u>	<u>364,513</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Bank loans and overdrafts	-	59
Loan notes	708,578	760,254
Amortisation of finance costs	38,031	35,268
	<u>746,609</u>	<u>795,581</u>

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

6. EXCEPTIONAL ITEMS

	2007 £	2006 £
Write off irrecoverable inter-company loans	-	(10,065,654)
Write down of loan	-	(153,815)
Waiver of inter-company loan by subsidiary undertaking	-	11,499,293
Unrealised exchange gains/(losses) on loans to third parties	1,276,223	(252,024)
	<u>1,276,223</u>	<u>1,027,800</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

No tax charge arises on the results for the period

The difference between this and the amount calculated by applying the standard rate of UK Corporation tax to the loss before tax is as follows

	2007 £	2006 £
Profit on ordinary activities before tax	538,927	550,183
Tax on profit on ordinary activities at standard UK corporation tax rate of 30%	161,678	165,055
Effect of:		
Expenses / income not deductible / (taxable) for tax purposes	-	(383,947)
Other reversing/originating of timing differences	212,574	228,076
Tax losses carried forward	(374,252)	(9,184)
Current tax charge for the year	<u>-</u>	<u>-</u>

A deferred tax asset of £381,826 (2006 £754,850) has not been recognised in respect of interest deductible in later periods, as it is not anticipated that there will be suitable taxable profits in the immediate future

8. FIXED ASSET INVESTMENTS

The company owns 100% of the issued share capital in The Music Group Holdings Limited, a company registered in England and Wales. The principal activity of this company is that of a dormant company

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

9. DEBTORS

	2007 £	2006 £
Amounts due within one year		
Amounts owed by Schreiber & Keilwerth Musikinstrumente GmbH	2,559,906	2,172,042
Amounts owed by Mawlaw 673 Limited (formerly Besson Musical Instruments Limited)	88,411	442,057
Other debtors	51,356	-
Prepayments and accrued income	2,625	-
	<u>2,702,298</u>	<u>2,614,099</u>
 Amounts due after more than one year	 2007 £	 2006 £
Amounts owed by group undertakings		
Loans	620,156	13,370
Amounts owed by Schreiber & Keilwerth Musikinstrumente GmbH		
Loans	4,477,755	2,095,712
	<u>5,097,911</u>	<u>2,109,082</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Accruals	38,021	8,320
Other creditors	4,223,992	3,515,414
	<u>4,262,013</u>	<u>3,523,734</u>

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

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

		2007 £	2006 £
Loan notes – unsecured	2- 5 years	3,103,708	3,083,927
Amounts owed to group undertakings		25,325	-
		<u>3,129,033</u>	<u>3,083,927</u>

The unsecured loan notes are repayable on 31 December 2010. Interest is charged at 15% per annum in total, 10% per annum is payable in arrears on 28 February each year. The remainder is due on redemption of the loan notes and is equal to the amount required to give a total internal rate of return of 15%.

12. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised 1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued 960,001 Ordinary shares of £1 each	<u>960,001</u>	<u>960,001</u>

13. PROFIT AND LOSS ACCOUNT

	2007 £	2006 £
Balance at 1 January	(409,818)	(960,001)
Retained profit for the year	<u>538,927</u>	<u>550,183</u>
At 31 December	<u>129,110</u>	<u>(409,818)</u>

14. STATEMENT OF RESERVES AND RECONCILIATION OF SHAREHOLDERS' FUNDS

	Share Capital £	Profit and Loss Account £	Total £
At 1 January 2006	960,001	(960,001)	-
Profit for year ended 31 December 2006	-	550,183	550,183
At 1 January 2007	960,001	(409,818)	550,183
Profit for year ended 31 December 2007	-	<u>538,927</u>	<u>538,927</u>
At 31 December 2007	<u>960,001</u>	<u>129,110</u>	<u>1,089,111</u>

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

15. RELATED PARTY TRANSACTIONS

Previously the company has taken advantage of 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 2007 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 receivable / (payable) at 31 December	
	2007 £	2006 £	2007 £	2006 £
Loan balances				
The Music Group Limited	606,785	-	620,155	13,370
The Music Group Holdings Limited	(25,325)	(10,306,076)	(25,325)	-

The loans to other UK companies are non-interest bearing.

Other material related party transactions are set out below.

Related Party	Transaction Type	Transaction value		Balance receivable / (payable) at 31 December	
		2007 £	2006 £	2007 £	2006 £
Rutland Fund 1	Unsecured loan notes	(18,250)	(1,500,000)	(3,206,750)	(3,225,000)
	Interest on loan notes	(708,578)	(760,254)	(4,223,992)	(3,515,414)
Schreiber & Keilwerth	Loan balances (net of provisions)	-	(739,466)	4,477,755	2,095,712
	Interest receivable	362,864	271,540	2,534,906	2,172,042
	Management charges	25,000	-	25,000	-

On 31 August 2007, the direct wholly owned subsidiary, The Music Group Holdings Limited, disposed of its investment in Schreiber & Keilwerth Musikinstrumente GmbH. Therefore, the related party transactions during the financial year have been separately disclosed as a non-group company.

16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company is a wholly owned 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.

