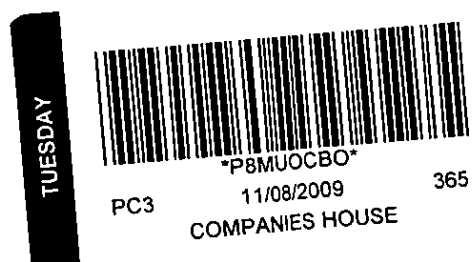


Registered number: 04546827

THE MUSIC GROUP INTERNATIONAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008



THE MUSIC GROUP INTERNATIONAL LIMITED

COMPANY INFORMATION

DIRECTORS

N Morrill
A Jamieson
B Slatter

COMPANY SECRETARY

Auker Hutton Limited

COMPANY NUMBER

04546827

REGISTERED OFFICE

The Stables
Little Coldharbour Farm
Tong Lane
Lamberhurst
Tunbridge Wells
Kent TN3 8AD

THE MUSIC GROUP INTERNATIONAL LIMITED

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The following pages do not form part of the statutory financial statements:

THE MUSIC GROUP INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and the financial statements for the year ended 31 December 2008.

PRINCIPAL 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.

DIRECTORS

The directors who served during the year were:

N Morrill
A Jamieson
B Slatter

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Auker Hutton, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on

28 July 2009

and signed on its behalf.

Director



THE MUSIC GROUP INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2008

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- 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 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 SHAREHOLDERS OF THE MUSIC GROUP INTERNATIONAL LIMITED

We have audited the financial statements of The Music Group International Limited for the year ended 31 December 2008, set out on pages 5 to 11. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2007).

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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

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.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 December 2008 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.

THE MUSIC GROUP INTERNATIONAL LIMITED

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

Auker Hutton

AUKER HUTTON

Chartered Accountants

The Stables
Little Coldharbour Farm
Tong Lane
Lamberhurst
Tunbridge Wells
Kent TN3 8AD

Date: 6 August 2009

THE MUSIC GROUP INTERNATIONAL LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £	2007 £
Administrative expenses		<u>(201,616)</u>	<u>(182,674)</u>
OPERATING LOSS	2	(201,616)	(182,674)
EXCEPTIONAL ITEMS			
Other exceptional items	5	<u>4,967,135</u>	<u>1,276,223</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		4,765,519	1,093,549
Amounts written off investment	6	(8,033,614)	-
Interest receivable		234,704	191,987
Interest payable	4	<u>(883,280)</u>	<u>(746,609)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,916,671)	538,927
Tax on (loss)/profit on ordinary activities	7	<u>-</u>	<u>-</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	13	<u>(3,916,671)</u>	<u>538,927</u>

The notes on pages 7 to 11 form part of these financial statements.

THE MUSIC GROUP INTERNATIONAL LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Note	£	2008 £	£	2007 £
FIXED ASSETS					
Fixed asset investments	8		1		1
CURRENT ASSETS					
Debtors: amounts falling due after more than one year	9	1,957,793		5,097,909	
Debtors: amounts falling due within one year	9	4,126,440		2,702,298	
Cash at bank		121,617		679,947	
		<u>6,205,850</u>		<u>8,480,154</u>	
CREDITORS: amounts falling due within one year	10	<u>(5,122,432)</u>		<u>(4,262,013)</u>	
NET CURRENT ASSETS			<u>1,083,418</u>		<u>4,218,141</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>1,083,419</u>		<u>4,218,142</u>
CREDITORS: amounts falling due after more than one year	11		<u>(3,910,980)</u>		<u>(3,129,032)</u>
NET (LIABILITIES)/ASSETS			<u><u>(2,827,561)</u></u>		<u><u>1,089,110</u></u>
CAPITAL AND RESERVES					
Called up share capital	12		960,001		960,001
Profit and loss account	13		<u>(3,787,562)</u>		<u>129,109</u>
SHAREHOLDERS' (DEFICIT)/FUNDS			<u><u>(2,827,561)</u></u>		<u><u>1,089,110</u></u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to small companies, and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

28 July 2009



Director

The notes on pages 7 to 11 form part of these financial statements.

THE MUSIC GROUP INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The company is exempt from the requirement to prepare group accounts by virtue of section 248 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

1.2 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

1.3 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.4 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and loss account.

2. OPERATING LOSS

The operating loss is stated after charging:

	2008 £	2007 £
Auditors' remuneration	3,000	10,000

3. STAFF COSTS

The company had no employees during the year.

Consulting fees totalling £185,785 (2007 : £138,787) were paid to an entity controlled by a director.

THE MUSIC GROUP INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

4. INTEREST PAYABLE

	2008	2007
	£	£
Loan notes	849,961	708,578
Amortisation of finance costs	33,319	38,031
	<hr/> 883,280 <hr/>	<hr/> 746,609 <hr/>

5. EXCEPTIONAL ITEMS

	2008	2007
	£	£
Unrealised exchange gains on loans to third parties	4,914,973	1,276,223
Other exceptional items	52,162	-
	<hr/> 4,967,135 <hr/>	<hr/> 1,276,223 <hr/>

6. AMOUNTS WRITTEN OFF INVESTMENT

	2008	2007
	£	£
Write down of unrealisable amounts owed by Schreiber & Keilwerth Musikinstrumente GmbH	(8,033,614)	-
	<hr/> (8,033,614) <hr/>	<hr/> - <hr/>

7. TAXATION

A deferred tax asset of £376,606 (2007 : £381,826) 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.

THE MUSIC GROUP INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

8. FIXED ASSET INVESTMENTS

	Shares in group undertakings £
Cost or valuation	
At 1 January 2008 and 31 December 2008	1

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding
The Music Group Holdings Limited	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2008 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(loss) £
The Music Group Holdings Limited	26,600	27,652

9. DEBTORS

	2008 £	2007 £
Due after more than one year		
Amounts owed by group undertakings: Loans	538,605	620,155
Amounts owed by Schreiber & Keilwerth Musikinstrumente GmbH: Loans	1,419,188	4,477,754
	1,957,793	5,097,909
Due within one year		
Amounts owed by Schreiber & Keilwerth Musikinstrumente GmbH	3,679,091	2,559,906
Amounts owed by Mawlaw 673 Limited (formerly Besson Musical Instruments Limited)	293,994	88,411
VAT repayable	151,337	51,356
Prepayments	2,018	2,625
	4,126,440	2,702,298

THE MUSIC GROUP INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

10. CREDITORS:
Amounts falling due within one year

	2008	2007
	£	£
Trade creditors	1,762	-
Accruals	46,715	38,021
Other creditors	5,073,955	4,223,992
	<u>5,122,432</u>	<u>4,262,013</u>

11. CREDITORS:
Amounts falling due after more than one year

		2008	2007
		£	£
Loan notes - unsecured	1-2 years	3,137,027	3,103,708
Amounts owed to group undertakings		23,953	25,324
Other loans - unsecured		750,000	-
		<u>3,910,980</u>	<u>3,129,032</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 15%.

Other loans includes an unsecured, on demand loan provided by Rutland Fund A. Interest is accruing at 2% per annum above the HBOS base rate.

12. SHARE CAPITAL

	2008	2007
	£	£
Authorised		
1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
960,001 Ordinary shares of £1 each	<u>960,001</u>	<u>960,001</u>

13. RESERVES

	Profit and loss account £
At 1 January 2008	129,109
Loss for the year	(3,916,671)
At 31 December 2008	<u>(3,787,562)</u>

THE MUSIC GROUP INTERNATIONAL LIMITED

31 DECEMBER 2008

14. RELATED PARTY TRANSACTIONS

	Transaction value		Balance receivable/(payable) at 31 December	
	2008 £	2007 £	2008 £	2007 £
Loan Balances				
The Music Group Limited	(81,550)	606,785	538,605	620,155
The Music Group Holdings Limited	1,371	(25,324)	(23,953)	(25,324)

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

Other material related party transactions are as follows:

Related Party	Transaction Type	Transaction value		Balance receivable/(payable) at 31 December	
		2008 £	2007 £	2008 £	2007 £
Rutland Fund I	Unsecured loan notes	(750,000)	(18,250)	(3,956,750)	(3,206,750)
	Interest on loan notes	(849,961)	(708,578)	(5,073,953)	(4,223,992)
Schreiber & Keilwerth	Loan balances (net of provisions)	(3,058,568)	-	1,419,187	4,477,755
	Interest receivable	1,075,112	362,864	3,610,018	2,534,906
	Management charges	44,073	25,000	69,073	25,000

15. 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.