

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2007**

**Country of incorporation** : South Africa

**Directors:** : Mr. S. Selota  
Mr. M E Malesa  
Dr. T P M Masemola  
Mr. R F Masevhe  
Mr. G D Gilfillan  
Mr. LT Luthuli

**Registered Office** : 606 Heerengracht  
87 De Korte Street  
BRAAMFONTEIN  
2001

**Business Address** : 606 Heerengracht  
87 De Korte Street  
BRAAMFONTEIN  
2001

**Postal Address** : P O Box 31091  
BRAAMFONTEIN  
2017

**Bankers** : First National Bank of South Africa Limited

**Attorneys** : Routledge Modise Moss Morris

**Auditors** : Meintjes, Retief and Partners  
Registered Auditors

**Company Registration** : 1963/001301/09

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2007**

The reports and statements set out below comprise the annual financial statements presented to members:

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**Declaration of Company Secretary**

I declare that, to the best of my knowledge, for the year ended 31 December 2007, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

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**Company Secretary**  
**24 November 2008**

## CHAIRMAINS REPORT

SARRAL has the great pleasure of reverting to its members and stakeholders in its business affairs.

SARRAL, like any other global organization has been faced with great challenges both domestically and externally. As an international organization we have been challenged by the slow decline in mechanical rights reproduction. To overcome this global challenge we have strategically diversified to other rights including performance rights, needle time and other related rights to bolster our members' income. We have taken this decision after we have gone through vigorous research and identified this as an opportunity for our members needs. We understand how the future can be uncertain to any organisation and by this uncertainty we hold a strong strategic view to ensure that SARRAL overcomes this challenge, to see the future as thus far achieved. Our corporate ambition radiates within the success SARRAL has managed to accomplish until today.

As we live in a challenging economy where the demand for knowledge capital has become a blood line for any company this demand has basically ensured that SARRAL concomitantly advances the value of our members and our stakeholders locally and abroad.

Our **mission** is to represent the best interests of our members using the best practice to achieve and maintain a sustainable relationship with stake holders. This will be achieved through strategic alliances with our stakeholders, government, international affiliates and users.

One of our key **objectives** is to improve the quality of life and maximizing the protection of our members' rights through education and technological advancement to monitor music usage and the exploitation of their repertoire.

## LEGAL & LITIGATION MATTERS

SARRAL has been faced with a legal challenge for the past 6 years and this has enormously compromised our members' income. As this matter is still pending we anticipate that this legal battle will come to an end sooner so that our members income shall not be diverted to a wrong cause.

As the Chairman of the Board, I deeply regret that the organisation has to go through this unwarranted attack. We also appreciate our members' support during these trying times as SARRAL and its legal team will do everything in its power to protect your organization and fulfil its mandate.

## FUTURE VALUE PROPOSITION

As the world economy is facing market turbulences SARRAL will ensure that its members' repertoire is closely guarded and the exploitation of our members music is fairly compensated without it being compromised.

SARRAL will always strive to bridge the socio-economic gap by advancing the knowledge capital of our members by insuring that they survive the rough terrain of the music industry.

As part of our turnaround strategy SARRAL is looking forward to increasing its distributable income to its members. This was confirmed by the signing of agreements with WASPA affiliates for the download of ringtone revenues.

SARRAL as the biggest supporter of local content is therefore initiating discussion with relevant departments and stakeholders to support the quota system introduced by the users of music. This alignment is instrumental to the socio-economic imbalances of the past and transformation in the industry.

## MEMBERSHIP GROWTH

Regardless of the evident challenges the industry is confronted with, both at macro and micro level the membership view has reflected an increasing commitment to SARRAL. This commitment is in both the brand loyalty and membership increase SARRAL has witnessed. A growth indicator of a continuous service level has been embedded to the organizations business strategy. SARRAL currently represents

- 4 455 South African composers, an increase of 8%
- 1 085 South African publishers, an increase of 16%
- 2 359 South African performers, an increase of 10%
- 114 South African labels

On behalf of the SARRAL Board of Directors, management and Staff we wish to thank you for your continued support and wish you safe holidays! We look forward to the 2008/2009 season.

SARRAL will always be at your service.

# MEINTJES, RETIEF & VENNOTE/PARTNERS

GEOKTROOIEERDE REKENMEESTERS/CHARTERED ACCOUNTANTS

DATUM/DATE

U VERW./YOUR REF.

ONS VERW./OUR REF.

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FLORIDA 1710  
POSBUS/P.O. BOX 1408  
FLORIDA 1710  
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PRAKTYK NR./PRACTICE NO.: 915440A

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SOUTH AFRICAN RECORDING RIGHTS LIMITED (LIMITED BY GUARANTEE)

We have audited the accompanying financial statements of South African Recording Rights Limited (Limited by Guarantee), which comprise the directors' report, balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, 1973 This responsibility includes: designing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with South African Standards of Generally Accepted Accounting Practice. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from any misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION


In our opinion the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa of 1973.

**EMPHASIS OF MATTER**

We draw your attention to the note on going concern in the directors' statement of responsibility, as well as the note in the directors' report that there is an application pending for the liquidation of the company as well as various summonses and claims which are being defended by the company.

**SUPPLEMENTARY INFORMATION**

The supplementary schedules set out on page 14 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly do not express an opinion on them.

  
**MEINTJES, RETIEF & PARTNERS**  
**CHARTERED ACCOUNTANTS (SA)**  
**REGISTERED AUDITORS**

**24 November 2008**  
**FLORIDA**

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)  
FINANCIAL STATEMENTS - 31 DECEMBER 2007**

**DIRECTORS' RESPONSIBILITIES AND APPROVAL**

The directors are required by the South African Companies, 1973, to maintain adequate accounting records and are responsible for the integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion of the financial statements.

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the company sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These highest critical standards is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company, while operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal control or loss can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2008 and, in the light of this review and the current financial position, they are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements which appear on pages 4 to 14 were approved by the Board on 24 November 2008 and signed on their behalf by:



Mr. Lesley Luthuli

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)  
REPORT OF THE DIRECTORS  
for the year ended 31 December 2007**

The directors present their report for the year ended 31 December 2007. This report forms part of the audited financial statements.

**1. Business and operations**

In accordance with advice obtained by your Board from various legal and accounting experts the financial statements are prepared in a format the Board believes complies with the Sarral constitution which format was approved in principle by the accounting experts. This format is also consistent with that used by a similar type of company in the Music Industry.

The principal activities of your company during the accounting period were the protection, enhancement and enforcement of the members' copyrights and the collection and distribution of royalties emanating therefrom.

**2. Financial results**

The results of the company and the state of its affairs are set out in the attached financial statements and do not, in our opinion, require further comments.

**3. Fixed assets**

There have been no major changes in the fixed assets during the period or any changes in the policy relating to their use.

**4. Events subsequent to the year end**

The application for liquidation of the company is being vigorously opposed by Sarral. Other claims against the company are still being opposed and negotiated.

**5. International Financial Reporting Standards**

The Board has decided not to adopt the principles of International Financial Reporting Standards (IFRS) for the foreseeable future.

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**BALANCE SHEET**  
as at 31 December 2007

	2007 R	2006 R
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Fixed Assets	644,048	675,584
<b>Current Assets</b>		
Accounts Receivable	160,278	187,178
Cash on Call Deposit	396,463	3,051,836
Cash at Bank and Cash on Hand	535,223	1,085,743
<b>TOTAL ASSETS</b>	<b>1,736,012</b>	<b>5,000,341</b>
<b>CAPITAL AND LIABILITIES</b>		
<b>Reserves</b>		
Accumulated Funds	966,711	3,952,314
<b>Current Liabilities</b>		
Accounts Payable	728,894	1,048,027
Bank Overdraft	40,407	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,736,012</b>	<b>5,000,341</b>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**INCOME STATEMENT**  
for the year ended 31 December 2007

	2007 R	2006 R
<b>Income</b>		
Revenue:		
Royalties	8,727,281	11,943,079
Interest Received	161,433	208,660
	<u>8,888,714</u>	<u>12,151,739</u>
Less: Operating Expenditure	5,049,931	5,797,748
	<u>3,838,783</u>	<u>6,353,991</u>
Less: Taxation	-	358,813
	<u>3,838,783</u>	<u>5,995,178</u>
Available for Distribution	3,838,783	5,995,178
Distribution:	(6,824,386)	(8,534,129)
Royalties (less commission)	<u>(6,824,386)</u>	<u>(8,534,129)</u>
(Excess)/Surplus Distribution Transferred to Accumulated Funds	<u><u>(2,985,603)</u></u>	<u><u>(2,538,951)</u></u>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**STATEMENT OF CHANGES IN EQUITY**  
**at 31 December 2007**

	<b>2007</b>	<b>2006</b>
	<b>R</b>	<b>R</b>
<b>Accumulated funds</b>		
Opening Balance	3,952,314	6,491,265
(Excess)/Surplus Distributions in current period	(2,985,603)	(2,538,951)
Surplus Retained in Company	<u><u>966,711</u></u>	<u><u>3,952,314</u></u>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**CASH FLOW STATEMENT**  
**for the year ended 31 December 2007**

	Notes	2007 R	2006 R
<b>Cash flows from operating activities</b>		(3,193,116)	944,605
Cash utilised in operating activities	8 - 1	(3,354,549)	
Interest received		161,433	208,660
Taxation		-	(358,813)
<b>Cash flows from investing activities</b>			
Expenditure to maintain operating capacity			
Fixed assets acquired		(53,184)	(97,144)
		<hr/>	<hr/>
		(3,246,300)	847,461
Decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		4,137,579	3,290,118
		<hr/>	<hr/>
Cash and cash equivalents at end of the year		891,279	4,137,579
		<hr/> <hr/>	<hr/> <hr/>

## **ACCOUNTING POLICIES**

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### **1. Presentation of Financial Statements**

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and the Companies Act of South Africa, 1973. The financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. These accounting policies are consistent with the previous period.

#### **1.1 Financial Instruments**

##### **Initial Recognition**

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

##### **Trade and Other Receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition.

##### **Trade and Other Payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### **1.2 Equity**

An equity instrument is any contract that evidences a residual interest in the assets of any entity after deducting all of its liabilities.

#### **1.3 Revenue**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue comprises royalties collected, interest received and other income. Royalties and other income are recognised in profit or loss.

Interest is recognised, in profit or loss, using the effective interest rate method.

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2007**

**1. Fixed assets**

All fixed assets are initially recorded at cost and adjusted for any impairment in value.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives. The depreciation rates applicable to each category of fixed assets are as follows:

- Furniture and fittings	10%
- Office equipment	15%
- Computer equipment	10%

**2. Fixed assets**

	2007			2006		
	Cost / valuation	Accumulated depreciation	Carrying value	Cost / valuation	Accumulated depreciation	Carrying value
Owned assets						
Furniture and fittings	138,037	65,011	73,026	128,326	57,169	71,157
Office equipment	499,745	255,613	244,132	472,324	214,137	258,187
Computer Software	468,955	142,065	326,890	452,903	106,663	346,240
	<u>1,106,737</u>	<u>462,689</u>	<u>644,048</u>	<u>1,053,553</u>	<u>377,969</u>	<u>675,584</u>

The carrying amounts of fixed assets can be reconciled as follows:

2007	Carrying value at beginning of year	Additions	Disposals	Depreciation	Carrying value at end of year
<i>Owned assets</i>					
Furniture and fittings	71,157	9,711	-	(7,842)	73,026
Office equipment	258,187	27,421	-	(41,476)	244,132
Computer software	346,240	16,052	-	(35,402)	326,890
	<u>675,584</u>	<u>53,184</u>	<u>-</u>	<u>(84,720)</u>	<u>644,048</u>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2007

	2007 R	2006 R
<b>3 Directors' Emoluments</b>		
<i>Emoluments Received</i>		
Directors - executive		
- Fringe benefits	-	-
- Bonuses and salaries	-	-
Directors - non-executive		
- For services as directors	39,600	42,900
	<hr/>	<hr/>
	39,600	42,900
	<hr/> <hr/>	<hr/> <hr/>
<b>4 Interest received</b>		
Interest income		
- interest received	161,433	208,660
	<hr/> <hr/>	<hr/> <hr/>
<b>5 Taxation</b>		
No provision has been made for 2007 taxation as the company did not have any taxable income (2006 - no taxable income.)		
<b>6 Contingent liabilities</b>		
Various claims lodged against the company are being contested and negotiated and in one case a counter claim was lodged by the company. The directors are unable to estimate the possible loss in the event of the claims being valid.		
<b>7 Commitments</b>		
Future hire charges	325,471	337,514
	<hr/> <hr/>	<hr/> <hr/>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2007**

	2007 R	2006 R
<b>8 Notes to the cash flow statement</b>		
8.1 Cash utilised in operating capacity		
Net (Loss) /surplus	(2,985,603)	(2,180,138)
Adjustments for:		
Impairment losses	84,720	83,367
Interest received	(161,433)	(208,660)
	<hr/>	<hr/>
	<b>(3,062,316)</b>	<b>(2,305,431)</b>
Movements in working capital		
Decrease in accounts receivable	26,900	3,247,828
	(319,133)	152,361
(Decrease)/Increase in accounts payable	<hr/>	<hr/>
	<b>(3,354,549)</b>	<b>1,094,758</b>
	<hr/> <hr/>	<hr/> <hr/>

**SOUTH AFRICAN RECORDING RIGHTS ASSOCIATION LIMITED (LIMITED BY GUARANTEE)**  
**EXPENDITURE**  
for the year ended 31 December 2007

	Notes	2007 R	2006 R
<b>Expenditure</b>		5,049,931	5,797,748
Advertising and Promotions		7,790	1,800
Bank Charges		22,973	24,696
Communication Costs		358,714	221,129
Auditors' Remuneration		59,420	53,722
Computer Expenses		434,122	503,657
Consulting Fees		40,327	300,398
Depreciation		84,720	83,367
Directors' Emoluments	3	39,600	42,900
Forensic Costs		-	1,017,450
Hire Charges		143,515	164,462
Insurance		52,374	43,852
Legal Fees		751,396	766,121
Member's Funeral Scheme		235,773	246,301
Office Equipment Maintenance		5,993	5,316
Other Administration Costs		346,724	370,472
Rent and Maintenance		242,147	208,819
Printing and Stationery		46,969	12,302
Staff Costs and Associated Expenditure		1,773,522	1,555,636
Subscriptions		15,266	5,249
Travelling Expenses		388,586	170,099